

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

*Basic
Financial Statements*
(Audited)

For The Year Ended
December 31, 2005

MR. ARMAN R. OCHOA, DIRECTOR OF FINANCE



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditors' Report* of the City of University Heights, Cuyahoga County, prepared by Julian and Grube, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

November 21, 2006

This Page is Intentionally Left Blank.

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

TABLE OF CONTENTS

	<u>PAGE</u>
Table of Contents	i
Independent Auditors’ Report	1
Management’s Discussion and Analysis.....	2 - 9
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities.....	11
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balances/(Deficits) - Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - Urban Redevelopment	17
Statement of Fiduciary Net Assets - Agency Funds	18
Notes to the Basic Financial Statements	19 - 49
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	50 - 51
Schedule of Findings.....	52 - 53
Status of Prior Audit Findings	54

This Page is Intentionally Left Blank.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, (the "City"), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2005, and the respective changes in financial position and the respective budgetary comparison for the General Fund and Urban Redevelopment Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/expenses and Liabilities by Cost-Sharing Employers" for the year ended December 31, 2005. In addition, the City had prior period adjustments to correct interfund balances, restate homestead and rollback receivable and capital assets.

The accompanying basic financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 20 to the financial statements, the City has suffered a declining fund balance in the general fund which raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to this matter is also described in Note 20. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Julian & Grube, Inc.
June 12, 2006

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

The Management's Discussion and Analysis of the City of University Heights' financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. 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 2005 are as follows:

- The assets of the City of University Heights exceeded its liabilities at the close of the most recent fiscal year by \$5.3 million. Of this amount, \$1.0 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The net assets increased by \$0.5 million from prior year.
- The unreserved fund balance for the general fund was \$(0.5) million, an increase of \$0.3 million from prior year. The general fund revenues increased by \$1.7 million or 17.58 percent due to changes in the income tax credit, and ambulance billings. The general fund expenditures increased by \$0.1 million or 1.06 percent from prior year. However, transfers from the general fund to other funds increased by \$1.3 million or 99.65 percent mainly due to transfers to the Bond Retirement Fund, Capital Improvement Fund, Community Development Block Grant Fund, and Purvis Park Improvement Fund.

USING THIS ANNUAL REPORT

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

Government-Wide Statements

The government-wide statements are designed to provide readers with a broad overview of the City's finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net assets present information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of related cash flows.

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

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

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

Fund Financial Statements

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

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

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

Notes to the Financial Statements

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

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

THE CITY AS A WHOLE

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets increased from a year ago - increasing from \$4.8 million to \$5.3 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental type activities.

Table 1-Net Assets (in Millions)

	2005	2004*
Assets		
Current and Other Assets	\$ 8.1	\$ 8.4
Capital Assets, Net	7.8	7.8
Total Assets	<u>15.9</u>	<u>16.2</u>
Liabilities		
Current and Other Liabilities	\$ 5.5	\$ 6.5
Long-Term Liabilities		
Due Within One Year	2.8	2.4
Due in More Than One Year	2.3	2.5
Total Liabilities	<u>10.6</u>	<u>11.4</u>
Net Assets		
Invested in Capital Assets Net of Debt	4.0	4.3
Restricted		
Debt Service	0.2	0.1
Other Purposes	0.1	0.0
Unrestricted	1.0	0.4
Total Net Assets	<u>\$ 5.3</u>	<u>\$ 4.8</u>

The City's net assets increased \$.5 million or 10.42 percent.

Table 2-Changes in Net Assets (in Millions)

	2005	2004*
Revenues		
Program Revenues:		
Charges for Services	\$ 1.6	\$ 1.4
Operating Grants and Contributions	0.1	0.2
Capital Grants and Contributions	3.0	2.5
General Revenues:		
Property Taxes	3.3	3.0
Income Taxes	5.7	4.8
Grant and Entitlements	2.5	2.2
Other	0.2	0.2
Total Revenues	<u>16.4</u>	<u>14.3</u>
Program Expenses		
General Government	\$ 1.3	\$ 1.3
Security of Persons and Property	7.2	6.8
Transportation	1.7	1.6
Community Environment	3.7	3.5
Public Works	1.5	1.4
Leisure Time Activities	0.4	0.4
Interest and Fiscal Charges	0.1	0.2
Total Program Expenses	<u>15.9</u>	<u>15.2</u>
Increase (Decrease) in Net Assets	<u>\$ 0.5</u>	<u>\$ (0.9)</u>

*As restated see Note 3.

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

Total revenues increased \$2.1 million or 14.69 percent mainly due to the change in the income tax credit given to residents who worked outside the City. The income tax revenues are the City's largest revenue source. The City's income tax rate is 1.50 percent on gross income and has not changed since 1976 when the tax was originally instituted. Residents of the City who work in another community and pay the withholding tax for that community received a 50 percent tax credit on their City tax for University Heights. Council passed Ordinance 2004-40 eliminating the credit given as a measure to help the City generate more revenue. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2005 the income tax collected was approximately \$5.7 million, up \$0.9 or 18.75 percent from prior year. The second largest revenue source is property taxes. The full voted tax rate for 2005 was 158.20 mills. A mill is 1.00 for every \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by Cuyahoga County, City of University Heights, Cleveland Heights-University Heights School District, and Cleveland Heights-University Heights Public Library. During 2005 the property tax collected was around \$3.3 million, up 10.00 percent from prior year.

Total expenses increased \$0.7 million or 4.61 percent mainly due to increases in security of persons and property and community environment expenses. Expenses are categorized by functions. The largest program, security of persons and property which included police, fire, police and fire communications, traffic control, animal control, and public safety was around 45.28 percent of the governmental expenses. The police department is made up of 1 chief, 1 deputy chief; 27 full-time sworn officers, 3 full-time dispatchers, and 2 secretaries. The fire department is composed of 1 chief; 1 executive captain; and 27 full-time fire fighters/paramedics. Training plays a crucial role in keeping up with the rapidly changing laws, practices and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The second largest program is community environment which is made up of the building department, community services, and urban redevelopment tax increment financing was around 23.27 percent of the governmental expenses. The City is a labor intensive industry and the expenditures of the government activities are mainly salaries, wages, and benefits. The City does have an annual road program which entails major and minor resurfacing of the various streets in University Heights. For the major resurfacing projects, the City has actively pursued obtaining grants and financial assistance for the Ohio Public Works Commission, and Ohio Water Development Authority. In addition, the City borrows on the open market by way of general obligation notes issued and rolled over year to year until paid down. In 2005, the City had expended \$0.6 million in major and minor resurfacing of roads.

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

THE CITY'S FUNDS

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$(0.5) million. Of this amount, \$(0.8) million constitutes unreserved fund balance. This deficit was caused by the general funds deficit balance due to stabilizing revenues and increasing expenditures. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of prior period(s), to pay debt service, and for a variety of other restricted purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$(0.5) million, while the total general fund balance was \$(0.3) million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The unreserved general fund balance represents a negative 5.39 percent of total general fund expenditures. The general fund balance increased by \$0.3 million during the current fiscal year as opposed to a decrease of \$0.7 million in 2004. Key factors for this are as follows:

- The general fund revenues increased by \$1.7 million or 17.58 percent from prior year. The main increase was due to the change in the income tax credit implemented October 2004 and the ambulance billing implemented May 2004.
- The general fund expenditures in total increased \$0.1 million or 1.60 percent from prior year. However, transfers to other funds increased \$1.3 million or 99.65 percent, which brought the net change in fund balance to \$0.3 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

For the general fund, budgeted basis revenue was \$0.8 million below the revised budget estimate of \$12.0 million primarily due to an underestimate of tax revenues.

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

The original appropriation of \$9.8 million was increased to \$10.1 million. Even with these adjustments, the actual charges to appropriations (expenditures) were \$0.2 million below the final budgeted amounts for the general fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the City had \$7.8 million invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, swimming pool, roads, and water and sewer lines. (See Table 3 below.) This amount represents minimal change over last year.

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

	<u>2005</u>	<u>2004</u>
Land	\$ 0.2	\$ 0.2
Buildings and Improvements	0.6	0.6
Equipment	0.5	0.4
Vehicles	0.4	0.5
Infrastructure	5.2	5.4
Construction in Progress	<u>0.9</u>	<u>0.7</u>
Total Capital Assets	<u>\$ 7.8</u>	<u>\$ 7.8</u>

The City purchased equipment for the various departments approximately \$0.2 million. The City purchased one police vehicle for the police department; asphalt crack sealer, asphalt roller machinery for the street department; two rubbish scooters for the sanitation department, and various other equipment.

For infrastructure construction in progress, Cuyahoga County is preparing to resurface, widen the road in some areas, perform some base repairs, installing new traffic poles and lights on Cedar Road from South Taylor to Green Road. The City has expended \$0.4 million in engineering costs which of this amount the City of South Euclid paid \$0.1 million for the Cedar Road Project. In addition, the City has received Ohio Public Works Commission funding for the Meadowbrook Boulevard Sanitary Sewer Improvement Project in the amount of \$0.4 million in grants and zero percent loans. The total project cost is estimated at \$0.6 million. The City has expended \$0.2 million in engineering costs and construction costs for this project.

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

Debt

At year-end, the City had \$3.6 million in bonds and notes outstanding versus \$3.4 million last year - an increase of 7.28 percent - as shown in Table 4.

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

	Governmental Activities	
	2005	2004
General obligation bonds (backed by the City)	\$ 1.1	\$ 1.3
General obligation notes (backed by the City)	2.0	1.6
Short-Term General obligation notes (backed by the City)	0.5	0.5
OWDA loans	0.2	0.3
OPWC loans	0.4	0.3
Accrued Police Pension	0.3	0.3
Totals	<u>\$ 4.5</u>	<u>\$ 4.3</u>

The City paid \$0.1 million on principal for general obligation bonds on streets, and Purvis Park Pool. General obligations notes were issued mainly for street programs in the amount of \$3.2 million (of this amount \$1.6 million pertains to prior year notes rolled over), and motorized equipment in the amount of \$0.5 million (of this amount \$0.5 million pertains to prior year notes rolled over).

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged activities. The general fund 2006 budget is \$10.1 million, which is the same as the final 2005 budget of \$10.1 million. The City has added no major new programs or initiatives to the 2006 budget. With more cuts anticipated from the State of Ohio, the City's budget could be in jeopardy. The City is currently studying the effects of changes to the income tax rate and re-establishing the income tax credit. If these estimates are realized, the City's budgetary general fund balance is expected to increase modestly by the close of 2006. More importantly, however, this will have been accomplished without selling capital assets or restructuring long-term debt to alleviate cash flow pressures, both actions needed in the current year.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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

	<u>Governmental Activities</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 195,156
Accounts Receivable	74,885
Intergovernmental Receivable	1,306,626
Materials and Supplies Inventory	84,736
Prepaid Items	56,715
Taxes Receivable	5,163,880
Special Assessments Receivable	877,041
Interest Receivable	33
Project Receivable	390,000
Nondepreciable Capital Assets	1,110,960
Depreciable Capital Assets, Net	<u>6,656,041</u>
Total Assets	<u>15,916,073</u>
 <u>Liabilities</u>	
Accounts Payable	640,735
Accrued Wages	276,629
Intergovernmental Payable	802,039
Accrued Interest Payable	13,086
Note Payable	494,000
Deferred Revenue	3,155,015
Long-Term Liabilities:	
Due within One Year	2,854,655
Due in More Than One Year	<u>2,360,855</u>
Total Liabilities	<u>10,597,014</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	4,027,379
Restricted for:	
Capital Projects	96,252
Debt Service	272,953
Unrestricted	<u>922,475</u>
Total Net Assets	<u>\$ 5,319,059</u>

See accompanying notes to the basic financial statements.

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

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions			
Governmental Activities:						
Security of Persons and Property	\$7,208,380	\$ 433,886	\$ 31,429	\$ 0	\$ (6,743,065)	
Public Health Services	47,389	0	0	0	(47,389)	
Leisure Time Activities	402,069	78,580	0	0	(323,489)	
Community Environment	3,685,718	272,100	54,769	2,902,690	(456,159)	
Public Works	1,471,371	681,746	0	60,364	(729,261)	
Transportation	1,676,222	0	16,775	62,760	(1,596,687)	
General Government	1,362,170	146,027	0	0	(1,216,143)	
Interest and Fiscal Charges	131,363	0	0	0	(131,363)	
Total Governmental Activities	<u>\$15,984,682</u>	<u>\$1,612,339</u>	<u>\$ 102,973</u>	<u>\$ 3,025,814</u>	<u>(11,243,556)</u>	
General Revenues:						
Property Taxes Levied for:						
					2,590,521	
					148,030	
					517,231	
Income Taxes Levied for:						
					5,744,742	
Grants and Entitlements not						
					2,570,626	
					11,000	
					28,075	
					166,052	
					<u>11,776,277</u>	
					532,721	
					<u>4,786,338</u>	
					<u>\$ 5,319,059</u>	

See accompanying notes to the basic financial statements.

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

	<u>General</u>	<u>General Bond Retirement Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 0	\$ 1,621	\$ 193,535	\$ 195,156
Receivables:				
Taxes	4,531,708	491,690	140,482	5,163,880
Accounts	74,885	0	0	74,885
Interest	33	0	0	33
Special Assessments	15,520	0	861,521	877,041
Project	390,000	0	0	390,000
Due from Governments	916,813	52,908	336,905	1,306,626
Due from Other Funds	0	0	911,647	911,647
Advances to Other Funds	46,000	0	0	46,000
Inventory	64,737	0	19,999	84,736
Prepaid Items	56,715	0	0	56,715
Total Assets	<u>\$ 6,096,411</u>	<u>\$ 546,219</u>	<u>\$ 2,464,089</u>	<u>\$ 9,106,719</u>
Liabilities				
Accounts Payable	\$ 152,153	\$ 11,897	\$ 476,685	\$ 640,735
Accrued Wages and Benefits	264,852	0	11,777	276,629
Advances from Other Funds	0	0	46,000	46,000
Due to Other Funds	911,647	0	0	911,647
Due to Governments	309,439	0	492,600	802,039
Deferred Revenue	4,800,006	544,598	1,121,662	6,466,266
Notes Payable	0	0	494,000	494,000
Total Liabilities	<u>6,438,097</u>	<u>556,495</u>	<u>2,642,724</u>	<u>9,637,316</u>
Fund Balances				
Reserved for Inventory	64,737	0	19,999	84,736
Reserved for Prepaid Items	56,715	0	0	56,715
Reserved for Encumbrances	12,090	0	38,279	50,369
Reserved for Advances	46,000	0	0	46,000
Unreserved:				
Undesignated (Deficits) Reported in:				
General Fund	(521,228)	0	0	(521,228)
Special Revenue Funds	0	0	(460,445)	(460,445)
Debt Service Funds	0	(10,276)	127,280	117,004
Capital Projects Funds	0	0	96,252	96,252
Total Fund Balances				
(Deficits)	<u>(341,686)</u>	<u>(10,276)</u>	<u>(178,635)</u>	<u>(530,597)</u>
Total Liabilities and Fund Balances	<u>\$ 6,096,411</u>	<u>\$ 546,219</u>	<u>\$ 2,464,089</u>	<u>\$ 9,106,719</u>

See accompanying notes to the basic financial statements.

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

Total Governmental Funds Balances \$ (530,597)

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 7,767,001

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

Property Taxes	\$ 310,600	
Grants and Entitlements	718,349	
Income Tax	1,405,261	
Special Assessments	<u>877,041</u>	
Total		3,311,251

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

General Obligation Bonds	(1,135,000)	
Bond Anticipation Notes	(1,965,000)	
OWDA Loan	(242,148)	
OPWC Loans	(380,131)	
Accrued Police Pension	(301,189)	
Capital Leases	(17,343)	
Compensated Absences	(1,174,699)	
Accrued Interest Payable	<u>(13,086)</u>	
Total		<u>(5,228,596)</u>

Net Assets of Governmental Activities \$ 5,319,059

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES (DEFICITS) -
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	General	Urban Redevelopment Special Revenue	General Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Local Taxes - Income Tax	\$ 5,653,824	\$ 0	\$ 0	\$ 0	\$ 5,653,824
Local Taxes - Property Tax	2,514,009	0	500,180	153,350	3,167,539
Tax Increment Financing	0	2,902,690	0	0	2,902,690
Intergovernmental Revenue	2,104,223	0	72,218	619,669	2,796,110
Special Assessments	4,854	0	0	649,646	654,500
Charges for Services	432,019	0	0	0	432,019
Fines, Licenses, and Permits	451,488	0	0	2,488	453,976
Interest Income	27,130	0	0	945	28,075
Miscellaneous	145,762	0	0	53,862	199,624
Total Revenues	<u>11,333,309</u>	<u>2,902,690</u>	<u>572,398</u>	<u>1,479,960</u>	<u>16,288,357</u>
Expenditures					
Security of Persons & Property	5,976,330	0	0	1,044,878	7,021,208
Public Health Services	47,389	0	0	0	47,389
Leisure Time Activities	394,113	0	0	0	394,113
Community Environment	680,901	2,902,690	0	86,462	3,670,053
Public Work Expenditures	930,883	0	0	588,708	1,519,591
Transportation	359,070	0	0	1,088,749	1,447,819
General Government	1,262,318	0	52,209	1,229	1,315,756
Capital Outlay	27,866	0	0	304,061	331,927
Debt Service:					
Principal Retirement	0	0	3,000,000	95,692	3,095,692
Interest and Fiscal Charges	0	0	122,390	29,962	152,352
Total Expenditures	<u>9,678,870</u>	<u>2,902,690</u>	<u>3,174,599</u>	<u>3,239,741</u>	<u>18,995,900</u>
Excess of Revenues Over (Under) Expenditures	<u>1,654,439</u>	<u>0</u>	<u>(2,602,201)</u>	<u>(1,759,781)</u>	<u>(2,707,543)</u>
Other Financing Sources (Uses)					
Sale of Fixed Assets	11,000	0	0	0	11,000
OPWC Loan Proceeds	0	0	0	85,298	85,298
Proceeds from Sale of Notes	1,300,000	0	0	1,965,000	3,265,000
Transfers In	0	0	2,591,925	1,597,237	4,189,162
Transfers Out	(2,699,162)	0	0	(1,490,000)	(4,189,162)
Total Other Financing Sources (Uses)	<u>(1,388,162)</u>	<u>0</u>	<u>2,591,925</u>	<u>2,157,535</u>	<u>3,361,298</u>
Net Change in Fund Balances	<u>266,277</u>	<u>0</u>	<u>(10,276)</u>	<u>397,754</u>	<u>653,755</u>
Fund Balances (Deficits) - Beginning of Year, as Restated	(606,320)	0	0	(572,383)	(1,178,703)
Increase (Decrease) in Reserve for Inventory	<u>(1,643)</u>	<u>0</u>	<u>0</u>	<u>(4,006)</u>	<u>(5,649)</u>
Fund Balances (Deficits) - End of Year	<u>\$ (341,686)</u>	<u>\$ 0</u>	<u>\$ (10,276)</u>	<u>\$ (178,635)</u>	<u>\$ (530,597)</u>

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net Change in Fund Balances - Total Governmental Funds \$ 653,755

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (47,422)

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

Grants and Entitlements	\$ (7,334)	
Income Tax	90,920	
Special Assessments	38,274	
Property Tax	<u>96,186</u>	
Total		218,046

Proceeds from debt issues are in other financing sources in the funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. (3,350,298)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 3,095,692

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. 20,989

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

Compensated Absences	(52,392)	
Change in Inventory	<u>(5,649)</u>	
Total		<u>(58,041)</u>

Change in Net Assets of Governmental Activities \$ 532,721

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				<u>Over (Under)</u>
<u>Revenues</u>				
Property Taxes	\$ 3,419,117	\$ 3,665,142	\$ 2,514,009	\$(1,151,133)
Income Taxes	5,824,000	5,743,000	5,574,559	(168,441)
Intergovernmental Revenue	1,333,394	1,381,996	2,018,529	636,533
Licenses and Permits	265,710	311,710	260,737	(50,973)
Fines and Forfeitures	196,800	226,800	195,034	(31,766)
Special Assessments	1,500	11,500	4,854	(6,646)
Charges for Services	295,400	422,800	387,880	(34,920)
Grants	15,000	19,100	19,061	(39)
Interest Earnings	3,500	28,500	27,097	(1,403)
Miscellaneous	29,500	44,000	65,666	21,666
Total Revenues	<u>11,383,921</u>	<u>11,854,548</u>	<u>11,067,426</u>	<u>(787,122)</u>
<u>Expenditures</u>				
Current:				
General Government	1,350,054	1,376,704	1,323,468	53,236
Security of Persons and Property	6,075,565	6,222,765	6,104,249	118,516
Public Works	911,514	947,514	946,910	604
Transportation	364,100	399,000	388,411	10,589
Public Health Services	47,389	47,389	47,389	0
Community Environment	725,215	708,235	687,018	21,217
Leisure Time Activities	325,345	387,445	398,796	(11,351)
Total Expenditures	<u>9,799,182</u>	<u>10,089,052</u>	<u>9,896,241</u>	<u>192,811</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>1,584,739</u>	<u>1,765,496</u>	<u>1,171,185</u>	<u>(594,311)</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds of Tax Anticipation Notes	650,000	1,300,000	1,300,000	0
Sale of Fixed Assets	10,000	11,000	11,000	0
Other Sources	72,000	133,107	65,413	(67,694)
Transfers Out	(1,483,747)	(2,495,616)	(2,699,162)	(203,546)
Advances In	0	250,000	0	(250,000)
Advances Out	0	(138,261)	(20,000)	118,261
Total Other Financing Sources (Uses)	<u>(751,747)</u>	<u>(939,770)</u>	<u>(1,342,749)</u>	<u>(402,979)</u>
Net Change in Fund Balance	832,992	825,726	(171,564)	(997,290)
Fund Balance, Beginning of Year, as Restated	(955,074)	(955,074)	(955,074)	0
Prior Year Encumbrances Appropriated	<u>137,978</u>	<u>137,978</u>	<u>137,978</u>	<u>0</u>
Fund Balance, End of Year	<u>\$ 15,896</u>	<u>\$ 8,630</u>	<u>\$ (988,660)</u>	<u>\$ (997,290)</u>

See accompanying notes to the basic financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Payment in Lieu of Taxes	<u>\$ 2,500,000</u>	<u>\$ 2,905,000</u>	<u>\$ 2,902,690</u>	<u>\$ (2,310)</u>
Total Revenues	<u>2,500,000</u>	<u>2,905,000</u>	<u>2,902,690</u>	<u>(2,310)</u>
<u>Expenditures</u>				
Community Environment	<u>(2,500,000)</u>	<u>(2,905,000)</u>	<u>(2,902,690)</u>	<u>2,310</u>
Total Expenditures	<u>(2,500,000)</u>	<u>(2,905,000)</u>	<u>(2,902,690)</u>	<u>2,310</u>
Net Change in Fund Balance	0	0	0	0
Fund Balance, Beginning of Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements.

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

Assets

Equity in Pooled Cash and Cash Equivalents \$ 276,812

Total Assets **\$ 276,812**

Liabilities

Deposits Held and Due to Others \$ 276,812

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1: REPORTING ENTITY

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

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

Fund Financial Statements

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

B. **Fund Accounting**

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

Governmental Funds

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

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

B. **Fund Accounting** (Continued)

Governmental Funds (Continued)

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

Fiduciary Funds

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

C. **Measurement Focus**

Government-wide Financial Statements

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared.

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

C. **Measurement Focus** (Continued)

Fund Financial Statements (Continued)

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

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

D. **Basis of Accounting**

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

Revenues - Exchange and Non-exchange Transactions

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

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

Revenues - Exchange and Non-exchange Transactions (Continued)

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

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

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

Expenses/Expenditures

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

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

Expenses/Expenditures (Continued)

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

E. **Cash and Investments**

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

During 2005, the portfolio was limited to non-participating investment contracts and the State Treasury Asset Reserve of Ohio (STAROhio). Non-participating investment contracts such as repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2005.

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

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$27,130, which includes \$23,867 from other City funds.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

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

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

F. **Inventory**

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

G. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

H. **Capital Assets**

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

H. **Capital Assets** (Continued)

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

I. **Interfund Balances**

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

J. **Compensated Absences**

In conformity with GASB Statement No. 16, the City accrues vacation and sick leave benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at December 31, 2005.

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

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated leave are paid. At December 31, 2005, the balance of “Compensated Absences Payable” is \$0. The noncurrent portion of the liability is not reported.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

Bonds, capital leases, and long-term loans are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances, prepaids, advances and inventories are recorded as a reservation of fund balance.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

N. **Interfund Activity**

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

O. **Extraordinary and Special Items**

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

P. **Estimates**

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

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR'S BALANCE**

For 2005, the City has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefits Expenditures/Expenses and Liability by Cost-Sharing Employers*.

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditures/expense and as a liability each period by employers participating in a cost sharing multiple-employer pension and other postemployment benefit (OPEB) plan.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF PRIOR YEAR'S BALANCES (Continued)

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the City; however, additional note disclosure can be found in Note 6. The implementation of GASB Technical Bulletin No. 2004-2 and the correction of interfund balances had the following effect on fund balances:

	<u>General Fund</u>	General Bond Retirement Debt <u>Service Fund</u>	Other Governmental <u>Funds</u>
Fund Balance at December 31, 2004 as reported	\$ (477,236)	\$ 14,791	\$ (110,222)
Correction of Accounting Error for Interfund Balances	26,000	(14,791)	(11,209)
Implementation of GASB Technical Bulletin 2004-2	<u>(155,084)</u>	<u>0</u>	<u>(450,952)</u>
Fund Balance at December, 2004 as Restated	<u>\$ (606,320)</u>	<u>\$ 0</u>	<u>\$ (572,383)</u>

Overstatement of homestead and rollback receivable and overstatement of depreciation expense had the following effects on net assets at December 31, 2004:

Net assets, December 31, 2004	\$ 5,134,345
Restatement of homestead and rollback receivable	(356,907)
Restatement of capital assets	<u>8,900</u>
Restated net assets, December 31, 2004	<u>\$ 4,786,338</u>

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)- General Fund - The general fund unencumbered fund balance at the beginning of the year has been restated from (\$110,748) to (\$955,074) due to fund reclassifications to properly reflect their intended purpose in accordance with GASB Statement No. 34 and disallowed advances in prior years.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

NOTE 4: COMPLIANCE AND ACCOUNTABILITY

A. Fund Deficits

Fund balances at December 31, 2005 included the following individual fund deficits:

General Fund	\$	341,686
Special Revenue Funds:		
Street Maintenance Fund	\$	213,725
Street Lighting		4,682
Tree Improvement		32,279
Police Pension		207,756
Fire Pension		257,480
Debt Service Fund:		
General Bond Retirement Fund	\$	10,276

The City is in the process of reducing expenditures and increasing revenue sources to eliminate the fund deficit in the general fund. See Note 20 regarding the City's going concern.

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

B. Compliance

- The following line items had expenditures in excess of appropriations for the fiscal year ended December 31, 2005 at the legal level of control, in noncompliance with Ohio Revised Code Section 5705.41(B):

<u>Fund</u>	<u>Function</u>	<u>Excess</u>
General	Leisure Time Activities	\$ 11,351
General	Transfers Out	203,546

- The following fund had a negative cash balance at December 31, 2005, in noncompliance with Ohio Revised Code Section 5705.10:

<u>Fund</u>	<u>Amount</u>
General	\$ 912,082

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

NOTE 5: **BUDGETARY**

A. **Budgetary Information**

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

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

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

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

B. **Budgetary Basis of Accounting**

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

NOTE 5: **BUDGETARY** (Continued)

B. Budgetary Basis of Accounting (Continued)

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

	Net Change in Fund Balance Major Governmental Funds	
	Urban	
	General	Redevelopment
GAAP Basis	\$ 266,277	\$ 0
Net Adjustment for Revenue Accruals	(200,470)	2,902,690
Net Adjustment for Expenditure Accruals	(140,358)	(2,902,690)
Advances Out	(20,000)	0
Encumbrances	(77,013)	0
Budget Basis	\$ (171,564)	\$ 0

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

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

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

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

Legislation permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be directly issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds or other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasury Asset Reserve of Ohio (STAROhio).

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

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

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

A. Deposits

At December 31, 2005 the carrying amount of the City's deposits was \$50,266. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2005, \$136,236 of the City's bank balance was covered by Federal Depository Insurance.

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

B. Investments

The City has a formal investment policy. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. At December 31, 2005, fair value of \$421,702 equals the City's net cost for investments. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

C. Interest Rate Risk

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

D. Credit Risk

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

E. Custodial Credit Risk

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

F. Concentration of Credit Risk

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

F. **Concentration of Credit Risk** (Continued)

Cash and investments at year-end were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturities (in Years)</u>
STAROhio	\$ 31,476	Aaa/AAA	\$ 31,476
Repurchase Agreement	<u>390,226</u>	Aaa/AAA	<u>390,226</u>
Total Investments	421,702		<u>\$ 421,702</u>
Carrying Amount of Deposits	<u>50,266</u>		
Total	<u>\$ 471,968</u>		

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

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2005 consist primarily of taxes, special assessments, accounts, and money due from other governments. All receivables are considered fully collectible.

A. **Property Taxes**

Real property taxes were levied on assessed values which equal 25 percent of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last appraisal was completed for tax year 2000.

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

The full tax rate applied to real property for the fiscal year ended December 31, 2005 was \$13.2 per \$1000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$13.2 per \$1000 of assessed valuation of real property classified as residential/agricultural and \$13.2 per \$1000 of assessed evaluation for all other real property. Real property owner's tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2005 was \$13.2 per \$1000 of assessed valuation.

Real Estate - 2005 Valuation

Residential/Agricultural	\$ 222,526,430
Commercial/Industrial	28,657,700
Public Utilities	3,061,500
General Tangible Personal Property - 2004 Valuation	<u>7,325,645</u>
	<u>\$ 261,571,275</u>

The Cuyahoga County Treasurer collects property tax on behalf of all taxing districts within the County. The Cuyahoga County Auditor periodically remits to the taxing districts their portions of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2005. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2006 operations. The receivable is offset by deferred revenue.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

B. Income Taxes

The City levies a municipal income tax of 1.5 percent on all salaries, wages, commissions, and other compensation, and net profits earned within the City, as well as incomes of residents earned outside the City. In the later case, the City does not allow a credit of income tax paid to another municipality.

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

C. Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2005 follows:

	<u>Amounts</u>
Estate Tax	\$ 237,087
Local Government	410,902
Homestead and Rollback	332,564
Gasoline Tax and Auto Registration	170,284
OPWC Grant	145,662
Permissive Tax	5,843
Liquor Permits	<u>4,284</u>
Total	<u>\$ 1,306,626</u>

D. Long-Term Receivables

The City has a long-term project development agreement accounts receivable due in annual installments on the first business day of January through 2032 in the amount of \$15,000. As of December 31, 2005, \$390,000 is outstanding.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

NOTE 8: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	Restated Balance 12/31/04	Additions	Deletions	Balance 12/31/05
<u>Governmental Activities</u>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 164,942	\$ 0	\$ 0	\$ 164,942
Construction in Progress	<u>675,435</u>	<u>270,583</u>	<u>0</u>	<u>946,018</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>840,377</u>	<u>270,583</u>	<u>0</u>	<u>1,110,960</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	1,486,027	0	0	1,486,027
Vehicles	2,479,241	20,936	(154,628)	2,345,549
Equipment	1,189,443	149,144	0	1,338,587
Infrastructure:				
Pavement	3,964,303	0	0	3,964,303
Storm Sewers	230,271	0	0	230,271
Water Lines	1,371,844	0	0	1,371,844
Sanitary Sewers	<u>592,299</u>	<u>0</u>	<u>0</u>	<u>592,299</u>
<i>Total Capital Assets Being Depreciated</i>	<u>11,313,428</u>	<u>170,080</u>	<u>(154,628)</u>	<u>11,328,880</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	823,608	29,212	0	852,820
Vehicles	1,950,578	165,510	(154,628)	1,961,460
Equipment	812,757	70,050	0	882,807
Infrastructure:				
Pavement	529,946	157,281	0	687,227
Storm Sewers	23,823	7,070	0	30,893
Water Lines	168,559	50,026	0	218,585
Sanitary Sewers	<u>30,111</u>	<u>8,936</u>	<u>0</u>	<u>39,047</u>
<i>Total Accumulated Depreciation</i>	<u>4,339,382</u>	<u>488,085</u>	<u>(154,628)</u>	<u>4,672,839</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>6,974,046</u>	<u>(318,005)</u>	<u>0</u>	<u>6,656,041</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 7,814,423</u>	<u>\$ (47,422)</u>	<u>\$ 0</u>	<u>\$ 7,767,001</u>

* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 128,186
Leisure Time Activities	7,956
Community Environment	11,051
Basic Utility Services	71,781
Transportation	220,488
General Government	48,623
<i>Total Depreciation Expense</i>	<u>\$ 488,085</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

NOTE 9: INTERFUND RECEIVABLES AND PAYABLES

At December 31, 2005, interfund balances were as follows:

<u>Fund</u>	Due from Other Funds	Due to Other Funds	Advances to Other Funds	Advances From Other Funds
General	\$ 0	\$ 911,647	\$ 46,000	\$ 0
Nonmajor Governmental	911,647	0	0	46,000
Total	<u>\$ 911,647</u>	<u>\$ 911,647</u>	<u>\$ 46,000</u>	<u>\$ 46,000</u>

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

NOTE 10: COMPENSATED ABSENCES

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

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

NOTE 11: PENSION PLAN

A. Ohio Public Employees Retirement System

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

- The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan;
- The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings;

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

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

- The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City was 13.55 percent of covered payroll. The City's required contributions to OPERS for the years ended December 31, 2005, 2004, and 2003 were \$323,753, \$332,791, and \$354,899, respectively. The full amount has been contributed for 2004 and 2003. 45.69 percent has been contributed for 2005.

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

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. The OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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

B. Ohio Police and Fire Pension Fund (Continued)

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police and 24 percent for firefighters. The City's contributions to the OP&F for police and firefighters were \$404,551 and \$494,102 for the year ended December 31, 2005, \$343,684 and \$368,316 for the year ended December 31, 2004, and \$359,566 and \$441,065 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 48.61 percent and 47.86 percent, respectively, have been contributed for 2005.

NOTE 12: **POST-EMPLOYMENT BENEFITS**

A. Ohio Public Employees Retirement System

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

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

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

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

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

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

At December 31, 2004, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,109. The City's annual contributions for 2005 used to fund postemployment benefits were \$95,574. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

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

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

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

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

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

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

B. Ohio Police and Fire Pension Fund (Continued)

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the OP&F's Board of Trustees to provide health care coverage and states that health care costs paid from the OP&F fund shall be included in the employer's contribution rate. Health care funding and accounting are on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 was 13,812 for police and 10,528 for firefighters.

The City's annual contributions for 2005 that were used to fund postemployment benefits were \$160,783 for police and \$159,554 for fire. OP&F's total health care expenses for the year ended December 31, 2004 (the latest information available) were \$102,173,796, which was net of member contributions of \$55,665,341.

NOTE 13: **NOTES PAYABLE**

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

	Maturity Date	Balance December 31, 2004	Issued	Retired	Balance December 31, 2005
2.05% Bond Anticipation Notes, Series 2004	2005	\$ 515,000	\$ 0	\$ (515,000)	\$ 0
3.25% Bond Anticipation Notes, Series 2005	2006	0	494,000	0	494,000
Tax Anticipation Notes	2005	0	1,300,000	(1,300,000)	0
Total Notes Payable		<u>\$ 515,000</u>	<u>\$ 1,794,000</u>	<u>\$(1,815,000)</u>	<u>\$ 494,000</u>

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

NOTE 14: LONG-TERM OBLIGATIONS

Changes in bonds and other long-term obligations of the City during 2005 were as follows:

	Interest Rate	Principal Outstanding 01/01/05	Additions	Deletions	Principal Outstanding 12/31/05	Amounts Due in One Year
Governmental Activities						
General Obligation Bonds:						
1997 Street Resurfacing	4-4.95%	\$ 175,000	\$ 0	\$ (55,000)	\$ 120,000	\$ 60,000
1995 Purvis Park Improvement Series A & B	6.25%	<u>1,095,000</u>	<u>0</u>	<u>(80,000)</u>	<u>1,015,000</u>	<u>85,000</u>
Total General Obligation Bonds		<u>1,270,000</u>	<u>0</u>	<u>(135,000)</u>	<u>1,135,000</u>	<u>145,000</u>
Other Long-Term Obligations						
*Bond Anticipation Notes Series 2005	1.60%	1,565,000	1,965,000	(1,565,000)	1,965,000	1,965,000
OWDA Loan - Sewer Project	5.06%	135,002	0	(25,577)	109,425	27,000
OWDA Loan - Baintree	5.77%	157,705	0	(24,982)	132,723	26,444
OPWC Loan - Intercommunity Sewer	-	312,702	0	(17,869)	294,833	17,869
OPWC Loan - Meadowbrook Blvd.	-	0	85,298	0	85,298	0
Accrued Police Pension	4.25%	306,249	0	(5,060)	301,189	5,278
Capital Lease - Banc One	4.66%	39,547	0	(22,204)	17,343	17,343
Compensated Absences	-	<u>1,136,621</u>	<u>650,721</u>	<u>(612,643)</u>	<u>1,174,699</u>	<u>650,721</u>
Total Other Long-Term Obligations		<u>3,652,826</u>	<u>2,701,019</u>	<u>(2,273,335)</u>	<u>4,080,510</u>	<u>2,709,655</u>
Total Governmental Activities		<u>\$4,922,826</u>	<u>\$2,701,019</u>	<u>\$(2,408,335)</u>	<u>\$5,215,510</u>	<u>\$2,854,655</u>

*The Bond Anticipation notes were used for the acquisition of motorized equipment and resurfacing streets.

Debt service requirements to maturity are as follows:

Year Ended 12/31	General Obligation Bonds		OWDA Loan - Baintree		OWDA Loan - Sewer Project		OPWC Loan Intercommunity Sewer	
	Principal	Interest	Principal	Interest	Principal	Interest*	Principal	Interest
2006	\$ 145,000	\$ 68,840	\$ 26,444	\$ 7,229	\$ 27,000	\$ 0	\$ 17,869	\$ 0
2007	155,000	60,630	27,992	5,681	27,000	0	17,869	0
2008	100,000	51,770	29,631	4,042	27,001	0	17,869	0
2009	105,000	45,570	31,365	2,308	28,424	0	17,869	0
2010	110,000	39,060	17,291	472	0	0	17,869	0
2011-2015	520,000	83,080	0	0	0	0	89,345	0
2016-2020	0	0	0	0	0	0	89,345	0
2021-2025	0	0	0	0	0	0	26,798	0
2026-2030	0	0	0	0	0	0	0	0
2031-2035	0	0	0	0	0	0	0	0
Totals	<u>\$ 1,135,000</u>	<u>\$ 348,950</u>	<u>\$ 132,723</u>	<u>\$ 19,732</u>	<u>\$ 109,425</u>	<u>\$ 0</u>	<u>\$ 294,833</u>	<u>\$ 0</u>

Year Ended 12/31	Accrued Police Pension Liability		Capital Lease Obligations		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 5,278	\$ 12,745	\$ 17,343	\$ 406	\$238,934	\$ 89,220
2007	5,504	12,518	0	0	233,365	78,829
2008	5,741	12,282	0	0	180,242	68,094
2009	5,987	12,035	0	0	188,645	59,913
2010	6,245	11,778	0	0	151,405	51,310
2011-2015	35,485	54,629	0	0	644,830	137,709
2016-2020	43,789	46,327	0	0	133,134	46,327
2021-2025	54,036	36,078	0	0	80,834	36,078
2026-2030	66,681	23,432	0	0	66,681	23,432
2031-2035	72,443	7,846	0	0	72,443	7,846
Totals	<u>\$ 301,189</u>	<u>\$ 229,670</u>	<u>\$ 17,343</u>	<u>\$ 406</u>	<u>\$1,990,513</u>	<u>\$ 598,758</u>

*Not Available

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

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

General obligation bonds are the direct obligation of the City and will be paid from the general bond retirement fund using property tax revenues. In 1995, the City issued \$1,660,000 of bonds for improving Purvis Park; and in 1997, the City issued \$500,000 of general obligation bonds for resurfacing streets and curb repair.

The Ohio Water Development Authority (OWDA) loans will be paid from the sewer replacement "A" fund. The Baintree loan was issued in 2000 for \$253,170. The sewer project loan was issued in 2004 for \$135,002. The Ohio Public Works Commission (OPWC) intercommunity sewer project will be paid from the sewer replacement "A" fund. This loan was issued in 2001 for \$330,270 and an additional \$27,105 in 2002. The OPWC Meadowbrook Boulevard loan will be paid from the Issue II fund. This loan was issued in 2005 for \$85,298 and has not yet been fully disbursed, therefore, no repayment terms have been confirmed.

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

NOTE 15: **INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2005 consisted of the following:

Fund	Transfer To	Transfer From
General Fund	\$ 0	\$ 2,699,162
General Bond Retirement Debt Service Fund	2,591,925	0
Nonmajor Governmental Funds	1,597,237	1,490,000
Total Interfund Transfers	\$ 4,189,162	\$ 4,189,162

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

NOTE 16: CLAIMS AND JUDGMENTS

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

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

NOTE 17: CAPITAL LEASE

The City has financed the acquisition of a City street sweeper. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The asset acquired through the capital lease is as follows:

	<u>Governmental</u> <u>Activities</u>
Vehicle	\$ 104,195
Less: Accumulated Depreciation	<u>63,261</u>
Total	<u>40,934</u>
Total Assets	<u>\$ 40,934</u>

See Note 14 for the future minimum lease obligations as of December 31, 2005.

NOTE 18: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the City contracted with several companies for various types of insurance as follows:

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

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

		<u>Deductible</u>
Ohio Casualty Ins. Co.	Bond-Public Employees	\$ 0
St. Paul Ins. Co.	Public Officials Liability	\$ 10,000
St. Paul Ins. Co.	Law Enforcement Liability	\$ 10,000
St. Paul Ins. Co.	Commercial Property	\$ 1,000
St. Paul Ins. Co.	Boiler & Machinery	\$ 1,000
St. Paul Ins. Co.	Inland Marine	\$ 1,000
St. Paul Ins. Co.	Automobile Liability	\$ 1,000
St. Paul Ins. Co.	Automobile Collision	\$ 1,000
St. Paul Ins. Co.	General Liability	\$ 2,500
St. Paul Ins. Co.	Umbrella Liability	\$ 10,000
VFIS	Fire Department/Paramedic Liability	\$ 0
Ohio Casualty Ins. Co.	Bond-Finance Director	\$ 0

The contracts listed above reflect no significant reduction in insurance coverage as compared to prior year.

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

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

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

NOTE 19: **SUBSEQUENT EVENTS**

The City issued bond anticipation notes on May 10, 2006 for \$2,715,000 for the acquisition of motorized equipment and for resurfacing streets and repairing curbs. Interest rate on these notes are 4.00 percent with a maturity date of May 10, 2007.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

NOTE 20: **GOING CONCERN**

The accompanying basic financial statements have been prepared in accordance with GAAP, which requires an assessment of the City's ability to continue as a going concern. The City has sustained a decrease in the General fund balance in recent years. At December 31, 2005, total liabilities exceeded total assets by \$341,686 in the General fund. Continued operations are dependent upon the City's ability to meet financing requirements and current obligations.

Management believes that actions currently being undertaken to increase the City's income tax rate on the November 2006 ballot will provide adequate funding to allow the City to continue as a going concern. Should the proposed income tax rate increase fail, the City has a plan for significant cuts in services which will provide the funding necessary for it to continue as a going concern.



Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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*

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 12, 2006. As disclosed in Note 3 to the financial statements, the City of University Heights implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/expenses and Liabilities by Cost-Sharing Employers" for the year ended December 31, 2005. In addition, the City of University Heights had prior period adjustments to correct interfund balances, restate homestead and rollback receivable and capital assets. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of University Heights' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of University Heights in a separate letter dated June 12, 2006.

Members of Council and Mayor
City of University Heights

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of University Heights' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2005-CUH-001, 2005-CUH-002 and 2005-CUH-003. We also noted certain immaterial instances of noncompliance that we have reported to the management of the City of University Heights in a separate letter dated June 12, 2006.

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



Julian & Grube, Inc.
June 12, 2006

**CITY OF UNIVERSITY HEIGHTS
CUYAHOGA COUNTY, OHIO
DECEMBER 31, 2005**

SCHEDULE OF FINDINGS

FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2005-CUH-001

Ohio Revised Code Section 5705.41 (B) requires that no subdivision is to expend money unless it has been appropriated.

It was noted during the audit that for the year ended December 31, 2005 the City had expenditures exceeding appropriations at the legal level of control as follows:

<u>Fund</u>	<u>Function</u>	<u>Excess</u>
General	Leisure Time Activities	\$ 11,351
General	Transfers Out	203,546

With expenditures exceeding appropriations, the City is expending monies that have not been appropriated and approved by Council. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

We recommend that the City comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.

Client Response: The Director of Finance noted that total general fund expenditures did not exceed appropriations. The Director of Finance will monitor more closely expenditures versus appropriations by the legal level of control.

Finding Number	2005-CUH-002
----------------	--------------

Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.

It was noted during the audit that at December 31, 2005, the City had a negative cash balance in the following fund:

<u>Major Fund</u>	<u>Amount</u>
General	\$ 912,082

The City has spent monies not available to that fund and thus causing noncompliance. No fund should have a negative cash fund balance throughout the year or at year end.

We recommend that the City take actions to generate funds for operations.

Client Response: The City is taking action to propose an income tax increase on the November 2006 ballot and is formulating a plan to significantly cut services and related costs.

**CITY OF UNIVERSITY HEIGHTS
CUYAHOGA COUNTY, OHIO
DECEMBER 31, 2005**

SCHEDULE OF FINDINGS

FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2005-CUH-003

Ohio Revised Code Section 5705.10 in part addresses interfund advances and the restriction on the purpose for which funds may be used. In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash for the same purpose for which the fund receiving the cash was established.

It was noted during the audit that the City advanced monies to the general fund from other funds whose purposes are other than general fund purposes.

The City has advanced monies to its general fund from other funds against statutory authority. The audited financial statements and client fund balances have been adjusted to properly reflect this adjustment.

We recommend the City monitor its fund balances and anticipated revenues and expenditures to ensure funds maintain a positive balance. In addition, we recommend the City follow the guidelines of 5705.10 when advancing monies and Auditor of State Bulletin 97-003.

Client Response: These advances were made in 2003 and 2004 without exception. Thus, the City felt it was in compliance. The City will comply in future years with ORC Section 5705.10.

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

**STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-CUH-001	Ohio Revised Code Section 5705.41 (B) requires that no subdivision is to expend money unless it has been appropriated.	No	Finding repeated as 2005-CUH-001
2004-CUH-002	Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.	Yes	N/A



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
DECEMBER 5, 2006**