

CITY OF UNIVERSITY HEIGHTS, OHIO

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2006



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the City of University Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2006 through December 31, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 2, 2007

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**CITY OF UNIVERSITY HEIGHTS, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Statement of Net Assets	10
Statement of Activities	11
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 - 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 Balances - 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 Special Revenue Fund	17
Statement of Assets and Liabilities - Agency Funds	18
Notes to the Basic Financial Statements	19-48
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>	49-50
Schedule of Findings	51
Status of Prior Audit Findings	52

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

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Members of City Council
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, 2006, 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, 2006, 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.

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 negative 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 July 17, 2007 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.

James G. Zupka, CPA, Inc.
July 17, 2007

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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, 2006. 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 2006 are as follows:

- The assets of the City of University Heights exceeded its liabilities at the close of the most recent fiscal year by \$7.3 million. Of this amount, \$2.9 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The net assets increased by \$2 million from prior year due to an increase in income tax revenue collection and capital asset additions.
- The unreserved fund balance for the general fund was \$(0.2) million, an increase of \$0.3 million from prior year. The general fund revenues decreased by \$.2 million or 1.56 percent due to a decrease in estate tax collections. The general fund expenditures increased by \$0.6 million or 6.34 percent from prior year. However, transfers from the general fund to other funds decreased by \$2.1 million or 77.65 percent mainly due to limited funds availability.

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

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
Unaudited**

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

Fund Financial Statements

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

Governmental Funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of 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.

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 \$5.3 million to \$7.3 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.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
Unaudited**

Table 1-Net Assets (in Millions)

	2006 *	2005 *
Assets		
Current and Other Assets	\$ 10.8	\$ 8.1
Capital Assets, Net	<u>8.4</u>	<u>7.8</u>
Total Assets	<u><u>19.2</u></u>	<u><u>15.9</u></u>
Liabilities		
Current and Other Liabilities	\$ 5.8	\$ 5.5
Long-Term Liabilities		
Due Within One Year	3.6	2.8
Due in More Than One Year	<u>2.5</u>	<u>2.3</u>
Total Liabilities	<u><u>11.9</u></u>	<u><u>10.6</u></u>
Net Assets		
Invested in Capital Assets Net of Debt	4.0	4.0
Restricted:		
Capital Projects	0.1	0.0
Debt Service	0.3	0.2
Other Purposes	0.0	0.1
Unrestricted	<u>2.9</u>	<u>1.0</u>
Total Net Assets	<u><u>\$ 7.3</u></u>	<u><u>\$ 5.3</u></u>

The City's net assets increased \$2.0 million or 37.74 percent.

Table 2-Changes in Net Assets (in Millions)

	2006	2005*
Revenues		
Program Revenues:		
Charges for Services	\$ 1.0	\$ 1.6
Operating Grants and Contributions	0.5	0.1
Capital Grants and Contributions	4.6	3.0
General Revenues:		
Property Taxes	2.8	3.3
Income Taxes	6.9	5.7
Grant and Entitlements	1.8	2.5
Other	<u>0.2</u>	<u>0.2</u>
Total Revenues	<u><u>17.8</u></u>	<u><u>16.4</u></u>
Program Expenses		
General Government	\$ 1.4	\$ 1.3
Security of Persons and Property	7.2	7.2
Transportation	2.1	1.7
Community Environment	2.7	3.7
Public Works	1.6	1.5
Leisure Time Activities	0.4	0.4
Public Health Services	0.1	0.0
Interest and Fiscal Charges	<u>0.2</u>	<u>0.1</u>
Total Program Expenses	<u><u>15.7</u></u>	<u><u>15.9</u></u>
Increase (Decrease) in Net Assets	<u><u>\$ 2.1</u></u>	<u><u>\$ 0.5</u></u>

*As restated - see Note 3

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
Unaudited**

Total revenues increased \$1.4 million, or 8.54 percent, due to the receipt of monies for the University Square Tax Increment Financing project which is, in turn, submitted to the Trustees, Bank of New York, to pay the debt service of bonds issued by the Cleveland Cuyahoga Port Authority. The City's largest revenue source is income tax. The City's income tax rate is 1.50 percent on gross income and has not changed since 1976, when the tax was originally instituted. City Council passed Ordinance 2004-40 eliminating the credit given as a measure to help the City generate more revenue. This measure would not be realized until mid-fiscal year 2006. The City's collection agency is the Regional Income Tax Agency, located in Brecksville, Ohio. During 2006, the income tax collected was approximately \$6.9 million, up \$1.2 million or 2.6 percent, from prior year. The second largest revenue source is property taxes. The full voted tax rate for 2006 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, the City of University Heights, the Cleveland Heights-University Heights School District, and the Cleveland Heights-University Heights Public Library. During 2006, the property tax collected was around \$2.8 million, down \$0.5 million or 15.16 percent, from prior year. The decrease was due to the 10 percent rollbacks for commercial property no longer being reimbursed by the State of Ohio but instead being paid directly by the commercial property owner and distributed based on the property tax rate of each subdivision.

Total expenses decreased \$0.1 million or .63 percent, mainly due to the reduced debt payment made by the City to the Trustees for the TIF Project. The City's expenses are categorized by programs. The largest program, Security of Persons and Property, which includes police, fire, police and fire communications, traffic control, animal control, and public safety, was around 45.57 percent of the governmental expenses. The Police Department is made up of 1 chief, 1 deputy chief, 26 full-time sworn officers, 3 full-time dispatchers, and 2 secretaries. The Fire Department is composed of 1 chief, 1 executive captain, and 26 full-time fire fighters/paramedics. Training plays a crucial role in keeping up with the rapidly changing laws, practices, and technologies. 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 17.01 percent of the governmental expenses. The City is a labor intensive industry and the expenditures of the governmental activities are mainly salaries, wages, and benefits. The City does have an annual Road Program, which entails major and minor resurfacing of the various streets in the City. For the major resurfacing projects, the City has actively pursued obtaining grants and financial assistance from the Ohio Public Works Commissions and the Ohio Water Development Authority. In addition, the City borrows on the open market by way of general obligation notes issued and rolled over year to year until they are paid down. In 2006, the City expended \$0.5 million in major and minor resurfacing of roads within the City.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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 \$1.3 million. Of this amount, \$1.1 million constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 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 \$(0.2) million, while the total general fund balance was \$(0.1) 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 2.04 percent of total general fund expenditures. The general fund balance increased by \$0.3 million during the current fiscal year. A key factor for this is that transfers from the general fund to the other funds decreased by \$2.1 million due to limited funds availability.

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 revenue was \$1.4 million below the revised budget estimate of \$12.6 million.

The original appropriation of \$10.2 million was increased to \$10.7 million. Even with these adjustments, the actual charges to appropriations (expenditures) were \$0.5 million below the final budgeted amounts for the general fund.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
Unaudited**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the City had \$8.4 million invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, swimming pool, roads, and water and sewer lines. (See Table 3 below.) This amount represents a net increase, including additions and deductions, of approximately \$0.6 million, or 7.70 percent over prior year.

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

	2006	2005
Land	\$ 0.2	\$ 0.2
Buildings and Improvements	0.8	0.6
Equipment	0.5	0.5
Vehicles	0.5	0.4
Infrastructure	5.6	5.2
Construction in Progress	0.8	0.9
Total Capital Assets	<u>\$ 8.4</u>	<u>\$ 7.8</u>

The City purchased equipment for the various departments approximating \$0.4 million and building and improvements for \$0.2 million. The City purchased three police vehicles for the Police Department; one used rubbish truck for the Sanitation Department, two rubbish scooters for the Sanitation Department, one ambulance for the Fire Department, software for the Finance Department, and various other equipment. For infrastructure, the City performed Phase I of the Meadowbrook Blvd. Rehab project for sewers and paving. The City expended \$0.2 million in costs for this project, with total project costs of \$0.6 million. The remainder was funded by Issue II funds through the Ohio Public Works Commission.

Debt

At year-end, the City had \$4.2 million in bonds and notes outstanding versus \$3.6 million last year - an increase of 16.67 percent - as shown in Table 4.

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

	Governmental Activities	
	2006	2005
General obligation bonds (backed by the City)	\$ 1.0	\$ 1.1
General obligation notes (backed by the City)	2.7	2.0
Short-Term General obligation notes (backed by the City)	0.5	0.5
OWDA loans	0.2	0.2
OPWC loans	0.5	0.4
Accrued Police Pension	0.3	0.3
Totals	<u>\$ 5.2</u>	<u>\$ 4.5</u>

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
Unaudited**

The City paid \$0.1 million on principal for general obligation bonds on streets and Purvis Park Pool. New general obligations notes were issued mainly for street programs in the amount of \$2.2 million, and motorized equipment in the amount of \$0.4 million.

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that the City will charge activities. The general fund 2007 budget is \$12.4 million, which is \$0.5 million or 4.21 percent higher than the final 2006 budget of \$11.9 million. The City initiated a number of cuts to help lower the budget. Our major cut was to limit the amount of capital expenditures for each department and cut overtime budgets mainly in the Police, Fire, and Service departments. Contract negotiations are in process with the four unions of the City and is anticipated that the impact of the first six months of the contracts taking effect July 1st will have minimal or no effect on the 2007 budget. The City has added no major new programs or initiatives to the 2007 budget. With more cuts anticipated from the State of Ohio, the City's budget could be in jeopardy. If these estimates are realized, the City's budgetary general fund balance is expected to increase modestly by the close of 2007. More importantly, however, this will be accomplished without selling capital assets or restructuring long-term debt to alleviate cash flow pressures, both actions needed in the current year.

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, 2006

	<u>Governmental Activities</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 2,299,743
Cash and Cash Equivalents:	
With Fiscal Agents	5,977
Accounts Receivable	15,029
Intergovernmental Receivable	882,740
Materials and Supplies Inventory	80,438
Prepaid Items	65,179
Taxes Receivable	6,023,264
Special Assessments Receivable	1,050,667
Interest Receivable	9,060
Project Receivable	375,000
Nondepreciable Capital Assets	1,000,258
Depreciable Capital Assets, Net	<u>7,371,348</u>
Total Assets	<u>19,178,703</u>
 <u>Liabilities</u>	
Accounts Payable	328,533
Accrued Wages	293,474
Intergovernmental Payable	1,055,741
Matured Compensated Absences Payable	31,439
Accrued Interest Payable	16,239
Retainage Payable	5,977
Note Payable	469,000
Deferred Revenue	3,573,310
Long-Term Liabilities:	
Due within One Year	3,609,241
Due in More Than One Year	<u>2,476,816</u>
Total Liabilities	<u>11,859,770</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	3,781,131
Restricted for:	
Capital Projects	117,231
Debt Service	204,353
Unrestricted	<u>3,216,218</u>
Total Net Assets	<u>\$ 7,318,933</u>

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

		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	\$7,204,198	\$ 393,779	\$ 38,687	\$ 1,735	\$ (6,769,997)	
Public Health Services	47,389	0	0	0	(47,389)	
Leisure Time Activities	410,690	74,485	0	0	(336,205)	
Community Environment	2,711,714	390,948	15,000	4,014,113	1,708,347	
Public Works	1,566,719	62,724	0	562,636	(941,359)	
Transportation	2,191,506	0	491,108	0	(1,700,398)	
General Government	1,450,560	112,508	0	0	(1,338,052)	
Interest and Fiscal Charges	187,816	0	0	0	(187,816)	
Total Governmental Activities	<u>\$15,770,592</u>	<u>\$1,034,444</u>	<u>\$ 544,795</u>	<u>\$ 4,578,484</u>	<u>(9,612,869)</u>	
General Revenues:						
Property Taxes Levied for:						
					2,246,152	
					127,430	
					445,132	
Income Taxes Levied for:						
					6,868,937	
					9,027	
Grants and Entitlements not						
					1,773,752	
					1,650	
					60,844	
					78,792	
					<u>11,611,716</u>	
					1,998,847	
					<u>5,320,086</u>	
					<u>\$ 7,318,933</u>	

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General	Urban Redevelopment Special Revenue	General Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 0	\$ 2,188,362	\$ 0	\$ 111,380	\$ 2,299,742
Cash with Fiscal Agent	0	0	0	5,977	5,977
Receivables:					
Taxes	5,325,207	0	542,933	155,124	6,023,264
Accounts	15,029	0	0	0	15,029
Accrued Interest	8,926	0	0	134	9,060
Special Assessments	16,409	0	0	1,034,258	1,050,667
Project Receivable	375,000	0	0	0	375,000
Due from Governments	647,931	0	28,213	206,596	882,740
Due from Other Funds	0	0	0	296,386	296,386
Advances to Other Funds	46,000	0	0	0	46,000
Inventory	56,736	0	0	23,702	80,438
Prepaid Items	65,179	0	0	0	65,179
Total Assets	<u>6,556,417</u>	<u>2,188,362</u>	<u>571,146</u>	<u>1,833,557</u>	<u>11,149,482</u>
Liabilities					
Accounts Payable	178,569	0	0	149,964	328,533
Retainage Payable	0	0	0	5,977	5,977
Accrued Wages and Benefits	280,826	0	0	12,648	293,474
Compensated Absences Payable	31,439	0	0	0	31,439
Advances from Other Funds	0	0	0	46,000	46,000
Due to Other Funds	220,000	0	0	76,386	296,386
Due to Governments	525,885	0	0	529,856	1,055,741
Deferred Revenue	5,407,608	0	571,146	1,349,717	7,328,471
Notes Payable	0	0	0	469,000	469,000
Total Liabilities	<u>6,644,327</u>	<u>0</u>	<u>571,146</u>	<u>2,639,548</u>	<u>9,855,021</u>
Fund Balances					
Reserved for Inventory	65,179	0	0	23,702	88,881
Reserved for Encumbrances	0	0	0	4,440	4,440
Reserved for Advances	56,736	0	0	0	56,736
Unreserved:					
Undesignated (Deficits) Reported in:					
General Fund	(209,825)	0	0	0	(209,825)
Special Revenue Funds	0	2,188,362	0	(1,036,949)	1,151,413
Debt Service Funds	0	0	0	85,585	85,585
Capital Projects Funds	0	0	0	117,231	117,231
Total Fund Balances (Deficits)	<u>(87,910)</u>	<u>2,188,362</u>	<u>0</u>	<u>(805,991)</u>	<u>1,294,461</u>
Total Liabilities and Fund Balances	<u>\$ 6,556,417</u>	<u>\$ 2,188,362</u>	<u>\$ 571,146</u>	<u>\$ 1,833,557</u>	<u>\$11,149,482</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, 2006

Total Governmental Funds Balance \$ 1,294,461

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. 8,371,606

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

Property Taxes	\$ 214,414	
Grants and Entitlements	589,094	
Income Tax	1,900,986	
Special Assessments	<u>1,050,667</u>	
Total		3,755,161

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	(990,000)	
Bond Anticipation Notes	(2,715,000)	
OWDA Loan	(191,751)	
OPWC Loans	(544,309)	
Accrued Police Pension	(295,911)	
Capital Leases	(149,415)	
Compensated Absences	(1,199,670)	
Accrued Interest Payable	<u>(16,239)</u>	
Total		<u>(6,102,295)</u>

Net Assets of Governmental Activities \$ 7,318,933

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General	Urban Redevelopment Special Revenue	General Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Local Taxes - Income Tax	\$ 6,414,623	\$ 0	\$ 0	\$ 0	\$ 6,414,623
Local Taxes - Property Tax	2,322,665	0	458,688	139,532	2,920,885
Other Taxes	0	4,014,113	0	0	4,014,113
Intergovernmental Revenue	1,449,622	0	58,465	935,467	2,443,554
Special Assessments	7,153	0	0	556,599	563,752
Charges for Services	325,730	0	0	0	325,730
Fines, Licenses, and Permits	481,131	0	0	2,292	483,423
Interest Income	68,416	0	0	1,455	69,871
Miscellaneous	86,927	0	0	1,000	87,927
Total Revenues	<u>11,156,267</u>	<u>4,014,113</u>	<u>517,153</u>	<u>1,636,345</u>	<u>17,323,878</u>
Expenditures					
Security of Persons and Property	6,315,325	0	0	807,740	7,123,065
Public Health Services	47,389	0	0	0	47,389
Leisure Time Activities	405,972	0	0	0	405,972
Community Environment	748,687	1,825,751	0	123,539	2,697,977
Public Work Expenditures	983,854	0	0	867,662	1,851,516
Transportation	352,726	0	0	1,662,806	2,015,532
General Government	1,438,936	0	17,221	1,978	1,458,135
Capital Outlay	0	0	0	536,371	536,371
Debt Service:					
Principal Retirement	0	0	2,110,000	97,742	2,207,742
Interest and Fiscal Charges	0	0	158,869	25,794	184,663
Total Expenditures	<u>10,292,889</u>	<u>1,825,751</u>	<u>2,286,090</u>	<u>4,123,632</u>	<u>18,528,362</u>
Excess of Revenues Over (Under) Expenditures	<u>863,378</u>	<u>2,188,362</u>	<u>(1,768,937)</u>	<u>(2,487,287)</u>	<u>(1,204,484)</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	1,650	0	0	0	1,650
Proceeds from Sale of Notes	0	0	0	2,715,000	2,715,000
OPWC Loan Proceeds	0	0	0	167,775	167,775
Capital Lease	0	0	0	149,415	149,415
Transfers In	0	0	1,779,213	745,038	2,524,251
Transfers Out	(603,251)	0	0	(1,921,000)	(2,524,251)
Total Other Financing Sources (Uses)	<u>(601,601)</u>	<u>0</u>	<u>1,779,213</u>	<u>1,856,228</u>	<u>3,033,840</u>
Net Change in Fund Balances	261,777	2,188,362	10,276	(631,059)	1,829,356
Fund Balances (Deficits)-Beginning of Year	(341,686)	0	(10,276)	(178,635)	(530,597)
Increase (Decrease) in Reserve for Inventory	(8,001)	0	0	3,703	(4,298)
Fund Balances (Deficits) -End of Year	<u>\$ (87,910)</u>	<u>\$ 2,188,362</u>	<u>\$ 0</u>	<u>\$ (805,991)</u>	<u>\$ 1,294,461</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, 2006**

Net Change in Fund Balances - Total Governmental Funds **\$ 1,829,356**

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. 582,452

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

Grants and Entitlements	\$ (129,255)	
Income Tax	495,724	
Special Assessments	173,626	
Property Tax	<u>(96,186)</u>	
Total		443,909

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. (3,032,190)

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. 2,207,742

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. (3,153)

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	(24,971)	
Change in Inventory	<u>(4,298)</u>	
Total		<u>(29,269)</u>

Change in Net Assets of Governmental Activities **\$ 1,998,847**

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Property Taxes	\$ 2,721,542	\$ 3,031,542	\$ 2,322,665	\$ (708,877)
Income Taxes	6,023,000	6,683,000	6,408,517	(274,483)
Other Taxes	1,465,245	1,895,245	1,547,780	(347,465)
Licenses and Permits	281,010	280,710	276,323	(4,387)
Fines and Forfeitures	216,000	216,300	201,132	(15,168)
Special Assessments	5,000	5,000	7,153	2,153
Charges for Services	355,050	355,050	313,353	(41,697)
Grants	20,000	20,000	25,487	5,487
Interest Earnings	27,500	27,500	59,523	32,023
Miscellaneous	75,600	53,600	53,584	(16)
Total Revenues	<u>11,189,947</u>	<u>12,567,947</u>	<u>11,215,517</u>	<u>(1,352,430)</u>
<u>Expenditures</u>				
Current:				
General Government	1,396,679	1,513,298	1,409,554	103,744
Security of Persons and Property	6,335,277	6,515,720	6,212,995	302,725
Public Works	884,398	1,038,609	987,058	51,551
Transportation	357,631	361,526	364,162	(2,636)
Public Health Services	47,389	47,389	47,389	0
Community Environment	764,835	807,768	754,682	53,086
Leisure Time Activities	403,504	421,766	405,966	15,800
Total Expenditures	<u>10,189,713</u>	<u>10,706,076</u>	<u>10,181,806</u>	<u>524,270</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,000,234</u>	<u>1,861,871</u>	<u>1,033,711</u>	<u>(828,160)</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Fixed Assets	10,000	10,000	1,650	(8,350)
Other Sources	72,000	92,000	88,809	(3,191)
Transfers Out	(1,078,161)	(1,078,161)	(603,251)	474,910
Total Other Financing Sources (Uses)	<u>(996,161)</u>	<u>(976,161)</u>	<u>(512,792)</u>	<u>463,369</u>
Net Change in Fund Balance	4,073	885,710	520,919	(364,791)
Fund Balance (Deficit)-Beginning of Year, as Restated	(912,082)	(912,082)	(912,082)	0
Prior Year Encumbrances Appropriated	0	0	0	0
Fund Balance, End of Year	<u>\$ (908,009)</u>	<u>\$ (26,372)</u>	<u>\$ (391,163)</u>	<u>\$ (364,791)</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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Payment in Lieu of Taxes	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 4,014,113</u>	<u>\$ 1,014,113</u>
Total Revenues	<u>3,000,000</u>	<u>3,000,000</u>	<u>4,014,113</u>	<u>1,014,113</u>
Total Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	<u>3,000,000</u>	<u>3,000,000</u>	<u>4,014,113</u>	<u>1,014,113</u>
<u>Other Financing Sources (Uses)</u>				
Other Uses	<u>(3,000,000)</u>	<u>(3,000,000)</u>	<u>(1,825,751)</u>	<u>1,174,249</u>
Total Other Financing Sources (Uses)	<u>(3,000,000)</u>	<u>(3,000,000)</u>	<u>(1,825,751)</u>	<u>1,174,249</u>
Net Change in Fund Balance	<u>0</u>	<u>0</u>	<u>2,188,362</u>	<u>2,188,362</u>
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>\$ 2,188,362</u>	<u>\$ 2,188,362</u>

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2006**

Assets

Equity in Pooled Cash and Cash Equivalents	\$ 126,921
Due from Other Funds	<u>170,728</u>

Total Assets	<u>\$ 297,649</u>
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Liabilities

Deposits Held and Due to Others	<u>\$ 297,649</u>
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Total Liabilities	<u>\$ 297,649</u>
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See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

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, 2006
(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, 2006
(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, 2006
(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, 2006
(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, 2006, but which were levied to finance year 2007 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, 2006
(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 2006, 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, 2006.

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 2006 amounted to \$68,416, which includes \$68,416 from other City funds.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(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, 2006 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, 2006
(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, 2006.

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, 2006, 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, 2006
(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, 2006
(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 2006.

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 2006, the City implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements that amount of net assets restricted by enabling legislation. The implementation of GASB Statement No. 46 did not have an effect on the financial statements of the City.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)

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

GASB Statement No. 47 provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. The implementation of GASB Statement No. 47 did not have an effect on the financial statements of the City.

Understatement of debt and overstatement of depreciation expense had the following effects on net assets at December 31, 2006:

	<u>Governmental Activities</u>
Net assets, December 31, 2005	\$5,319,059
Restatement of Debt	(21,126)
Restatement of Capital Assets	<u>22,153</u>
Restated Net Assets, December 31, 2005	<u>\$ 5,320,086</u>

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CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)

NOTE 4: **COMPLIANCE AND ACCOUNTABILITY**

A. **Fund Deficits**

Fund balances at December 31, 2006, included the following individual fund deficits:

General Fund	\$	87,190
Special Revenue Funds:		
Street Maintenance Fund		483,387
Street Lighting		20,554
Tree Improvement		114,765
Police Pension		220,116
Fire Pension		277,937
CDBG		1,335

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 funds had a negative cash balance at December 31, 2006, in noncompliance with Ohio Revised Code Section 5705.10:

<u>Fund</u>	<u>Amount</u>
General	\$ 390,728
Tree Improvement Fund	76,386

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(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, 2006
(CONTINUED)

NOTE 5: **BUDGETARY** (Continued)

B. Budgetary Basis of Accounting (Continued)

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

	Net Change in Fund Balance Major Governmental Funds	
	General	Urban Redevelopment
	GAAP Basis	\$ 261,777
Net Adjustment for Revenue Accruals	798,060	0
Net Adjustment for Expenditure Accruals	(538,918)	0
Budget Basis	\$ 520,919	\$ 2,188,362

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

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

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

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)

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

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

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)

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

A. Deposits

At December 31, 2006, the carrying amount of the City's deposits was \$(28,721) and the bank balance was \$160,917. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2006, \$155,000 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, 2006, fair value of \$2,455,385 equals the City's net cost for investments. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

C. Interest Rate Risk

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

D. Credit Risk

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)

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

E. Custodial Credit Risk

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

F. Concentration of Credit Risk

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

Investments at year-end were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturities (in Years)</u>
STAROhio	\$ 33,047	Aaa/AAA	\$ 33,047
Repurchase Agreement	<u>2,422,338</u>	Aaa/AAA	<u>2,422,338</u>
Total Investments	<u>\$ 2,455,385</u>		<u>\$ 2,455,385</u>

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)

NOTE 7: RECEIVABLES

Receivables at December 31, 2006, 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.

The full tax rate applied to real property for the fiscal year ended December 31, 2006, 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, 2006, was \$13.2 per \$1000 of assessed valuation.

Real Estate - 2006 Valuation

Residential/Agricultural	\$ 247,669,150
Commercial/Industrial	28,609,820
Public Utilities	3,055,890
General Tangible Personal Property - 2006 Valuation	<u>5,497,220</u>
	<u>\$ 284,832,080</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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, 2006. 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 2007 operations. The receivable is offset by deferred revenue.

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, 2006 follows:

	<u>Amounts</u>
Estate Tax	\$ 75,233
Local Government	429,410
Homestead and Rollback	177,329
Gasoline Tax and Auto Registration	193,224
Prisoner Fees	713
Permissive Tax	5,322
Liquor Permits	1,509
Total	\$ 882,740

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, 2006, \$375,000 is outstanding.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)

NOTE 8: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	Restated Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006
Governmental Activities				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 164,942	\$ 0	\$ 0	\$ 164,942
Construction in Progress	<u>946,018</u>	<u>532,056</u>	<u>642,758</u>	<u>835,316</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,110,960</u>	<u>532,056</u>	<u>642,758</u>	<u>1,000,258</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	1,486,027	201,640	0	1,687,667
Vehicles	2,345,549	295,127	67,880	2,572,796
Equipment	1,338,587	67,776	76,463	1,329,900
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>642,758</u>	<u>0</u>	<u>1,235,057</u>
<i>Total Capital Assets Being Depreciated</i>	<u>11,328,880</u>	<u>1,207,301</u>	<u>144,343</u>	<u>12,391,838</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	852,820	61,689	0	914,509
Vehicles	1,961,761	160,599	76,463	2,045,897
Equipment	882,807	63,858	67,880	878,785
Infrastructure:				
Pavement	746,836	198,215	0	945,051
Storm Sewers	27,840	3,838	0	31,678
Water Lines	138,928	13,857	0	152,785
Sanitary Sewers	<u>39,694</u>	<u>12,091</u>	<u>0</u>	<u>51,785</u>
<i>Total Accumulated Depreciation</i>	<u>4,650,686</u>	<u>514,147</u>	<u>144,343</u>	<u>5,020,490</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>6,678,194</u>	<u>693,154</u>	<u>0</u>	<u>7,371,348</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$7,789,154</u>	<u>\$ 1,225,210</u>	<u>\$ 642,758</u>	<u>\$ 8,371,606</u>

* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 76,013
Leisure Time Activities	4,718
Community Environment	6,553
Basic Utility Services	51,902
Transportation	346,128
General Government	28,833
<i>Total Depreciation Expense</i>	<u>\$ 514,147</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)

NOTE 9: INTERFUND RECEIVABLES AND PAYABLES

At December 31, 2006, interfund balances were as follows:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Advances to Other Funds</u>	<u>Advances From Other Funds</u>
General	\$ 0	\$ 220,000	\$ 46,000	\$ 0
Nonmajor Governmental	296,386	76,386	0	46,000
Total	<u>\$ 296,386</u>	<u>\$ 296,386</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, 2006
(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 2006, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 9.0 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City was 13.70 percent of covered payroll. The City's required contributions to OPERS for the years ended December 31, 2006, 2005, and 2004 were \$324,053, \$323,753, and \$332,791, respectively. The full amount has been contributed for 2005 and 2004. 43.65 percent has been contributed for 2006.

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, 2006
(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 \$404,720 and \$503,537 for the year ended December 31, 2006, \$404,551 and \$494,102 for the year ended December 31, 2005, and \$343,684 and \$368,316 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. 45.61 percent and 44.80 percent, respectively, have been contributed for 2006.

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 2006 employer contribution rate was 13.70 percent of covered payroll, 4 percent was the portion that was used to fund health care for 2006.

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, 2005, include a rate of return on investments of 6.5 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 .50 percent to 6 percent for the next 9 years. In subsequent years (10 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, 2006
(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, 2006, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,214. The City's annual contributions for 2006 used to fund postemployment benefits were \$106,441. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 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 and January 1, 2007, 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, 2006
(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 2006 and 2005. 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, 2006, was 13,922 for police and 10,537 for firefighters.

The City's annual contributions for 2006 that were used to fund postemployment benefits were \$160,850 for police and \$162,600 for fire. OP&F's total health care expenses for the year ended December 31, 2004 (the latest information available) were \$108,039,449, which was net of member contributions of \$55,271,881.

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, 2005	Issued	Retired	Balance December 31, 2006
3.95% Bond Anticipation Notes, Series 2006	2007	\$ 0	\$ 469,000	\$ (494,000)	\$ 469,000
Tax Anticipation Notes	2006	0	650,000	(650,000)	0
Total Notes Payable		<u>\$ 0</u>	<u>\$ 1,119,000</u>	<u>\$(1,144,000)</u>	<u>\$ 469,000</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)

NOTE 14: LONG-TERM OBLIGATIONS

Changes in bonds and other long-term obligations of the City during 2006 were as follows:

	Interest Rate	Restated Principal Outstanding 12/31/05	Additions	Deletions	Principal Outstanding 12/31/06	Amounts Due in One Year
Governmental Activities						
General Obligation Bonds:						
1997 Street Resurfacing	4%-4.95%	\$ 120,000	\$ 0	\$ (60,000)	\$ 60,000	\$ 60,000
1995 Purvis Park Improvement Series A & B	6.25%	1,015,000	0	(85,000)	930,000	80,000
Total General Obligation Bonds		<u>1,135,000</u>	<u>0</u>	<u>(145,000)</u>	<u>990,000</u>	<u>140,000</u>
Other Long-Term Obligations						
OWDA Loan - Baintree	5.77%	132,723	0	(26,444)	106,279	27,992
OWDA Loan - Sewer Project	5.06%	109,425	0	(23,953)	85,472	26,933
OPWC Issue II Loan	0.00%	294,833	0	(17,869)	276,964	17,869
OPWC Meadowbrook		106,424	167,775	(6,855)	267,345	13,710
Accrued Police Pension		301,189	0	(5,278)	295,911	5,504
Capital Lease -						
National City Bank Leasing		0	149,415	0	149,415	27,214
Capital Lease - Bank One Leasing		17,343	0	(17,343)	0	0
Various Purpose General Obligation Notes	4.00%	1,965,000	2,715,000	(1,965,000)	2,715,000	2,715,000
Compensated Absences		1,174,699	1,199,670	(1,174,699)	1,199,671	635,018
Total Other Long-Term Obligations		<u>4,101,636</u>	<u>4,231,860</u>	<u>(3,237,441)</u>	<u>5,096,057</u>	<u>3,469,241</u>
Total Governmental Activities		<u>\$5,236,636</u>	<u>\$4,231,860</u>	<u>\$(3,382,441)</u>	<u>\$6,086,057</u>	<u>\$3,609,241</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
2007	\$ 140,000	\$ 60,630	\$ 27,992	\$ 6,466	\$ 26,933	\$ 0	\$ 17,869	\$ 0
2008	100,000	51,770	29,631	4,873	28,313	0	17,869	0
2009	105,000	45,570	31,365	3,188	30,226	0	17,869	0
2010	110,000	39,060	17,291	1,403	0	0	17,869	0
2011	115,000	45,570	0	0	0	0	17,869	0
2012-2016	420,000	37,510	0	0	0	0	89,345	0
2017-2021	0	0	0	0	0	0	89,345	0
2022-2026	0	0	0	0	0	0	8,929	0
2027-2031	0	0	0	0	0	0	0	0
2032-2035	0	0	0	0	0	0	0	0
Totals	<u>\$ 990,000</u>	<u>\$ 280,110</u>	<u>\$ 106,279</u>	<u>\$ 15,930</u>	<u>\$ 85,472</u>	<u>\$ 0</u>	<u>\$ 276,964</u>	<u>\$ 0</u>

Year Ended 12/31	OPWC Loan Meadowbrook		Accrued Police Pension Liability		Capital Lease Obligations		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 13,710	\$ 0	\$ 5,504	\$ 12,518	\$ 27,214	\$ 6,408	\$ 259,222	\$ 86,022
2008	13,710	0	5,741	12,282	28,487	5,135	223,751	74,060
2009	13,710	0	5,987	12,035	29,821	3,801	233,978	64,594
2010	13,710	0	6,245	11,778	31,216	2,406	196,331	54,647
2011	13,710	0	6,513	11,510	32,677	945	185,769	58,025
2012-2016	68,550	0	37,008	32,802	0	0	614,903	70,312
2017-2021	68,550	0	45,719	48,130	0	0	203,614	48,130
2022-2026	61,695	0	56,357	38,304	0	0	126,981	38,304
2027-2031	0	0	69,545	26,178	0	0	69,545	26,178
2032-2035	0	0	8,528	11,217	0	0	57,292	11,217
Totals	<u>\$ 267,345</u>	<u>\$ 0</u>	<u>\$ 295,911</u>	<u>\$ 216,754</u>	<u>\$ 149,415</u>	<u>\$ 18,695</u>	<u>\$2,171,386</u>	<u>\$ 531,489</u>

*Not Available

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(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.

On May 1, 2006, the City issued various purpose General Obligation Bond Anticipation Notes of \$2,715,000 with an interest rate of 7 percent in anticipation of the issuance of bonds for the purpose of improving the City's Sanitary Sewer System.

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, 2006 consisted of the following:

<u>Fund</u>	<u>Transfer To</u>	<u>Transfer From</u>
General Fund	\$ 0	\$ 603,251
General Bond Retirement Debt Service Fund	1,779,213	0
Nonmajor Governmental Funds	<u>745,038</u>	<u>1,921,000</u>
Total Interfund Transfers	<u>\$ 2,524,251</u>	<u>\$ 2,524,251</u>

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, 2006
(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 and the 2006 Roof Repairs project. These lease agreements qualify as a capital lease for accounting purposes and, therefore, they have been recorded at the present value of their future minimum lease payments as of the inception date.

The asset acquired through the capital lease is as follows:

	<u>Governmental Activities</u>
Buildings and Improvements	\$ 149,415
Vehicle	104,195
Less: Accumulated Depreciation	<u>78,986</u>
Total	<u>174,624</u>
Total Assets	<u>\$ 174,624</u>

See Note 14 for the future minimum lease obligations as of December 31, 2006.

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 2006, 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, 2006
(CONTINUED)

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

		<u>Deductible</u>
Ohio Casualty Ins. Co.	Bond-Public Employees	\$ 0
Travelers Insurance	Public Officials Liability	\$ 10,000
Travelers Insurance	Law Enforcement Liability	\$ 10,000
Travelers Insurance	Commercial Property	\$ 1,000
Travelers Insurance	Boiler & Machinery	\$ 1,000
Travelers Insurance	Inland Marine	\$ 1,000
Travelers Insurance	Automobile Liability	\$ 1,000
Travelers Insurance	Automobile Collision	\$ 1,000
Travelers Insurance	General Liability	\$ 2,500
Travelers Insurance	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 9, 2007 for \$2,815,000 for the acquisition of motorized equipment and for resurfacing streets and repairing curbs. Interest rate on these notes are 4.05 percent with a maturity date of May 8, 2008.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)

NOTE 20: **GOING CONCERN**

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. At December 31, 2006, total liabilities exceeded total assets by \$87,910 in the General Fund. Continued operations are dependent upon the City's ability to meet financing requirements and current obligations.

In November 2006, the City passed an income tax increase from 1 percent to 2.5 percent, which affects employees who work in the City and also residents who work in the City. The City also created an internal policy which puts a freeze on rehiring employees and a limit to overtime. These changes were effective January 1, 2007. This resulted in a significant decreased deficit in the General Fund and a projected positive balance by the end of fiscal year 2007.

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

Certified Public Accountants

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

To the Members of City Council
City of University Heights
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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 17, 2007. 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, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of University Heights, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of University Heights, Ohio's internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 one instance 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 2006-CUH-001. 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 July 17, 2007.

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.

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

July 17, 2007

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2006**

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

2006-CUH-001

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, 2006, the City had a negative cash balance in the following fund:

<u>Major Fund</u>	<u>Amount</u>
General	\$ 391,164
Tree Improvement Fund	76,387

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
 STATUS OF PRIOR AUDIT FINDINGS
 DECEMBER 31, 2006**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Action Taken; or No <u>Longer Valid;</u> <u>Explain:</u>
2005-CUH-001	Ohio Revised Code Section 5704.41 (B) requires that no subdivision is to expend money unless it has been appropriated.	Yes	N/A
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.	No	Finding repeated as 2006-CUH-001



Mary Taylor, CPA
Auditor of State

CITY OF UNIVERSITY HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 16, 2007**