

CITY OF UNIVERSITY HEIGHTS, OHIO

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2009

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



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of University Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2009 through December 31, 2009. 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

August 6, 2010

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**CITY OF UNIVERSITY HEIGHTS, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2009**

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To Members of City Council
City of University Heights, Ohio

The Honorable Mary Taylor
Auditor of State
State of Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of University Heights, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 of University Heights, Ohio, as of December 31, 2009, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, the Sewer Maintenance "A" Fund, and the Urban Redevelopment Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2010, on our consideration of the City of University Heights, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


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

June 16, 2010

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
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, 2009. 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 2009 are as follows:

- The assets of the City of University Heights exceeded its liabilities at the close of the most recent fiscal year by \$7,204,310. Of this amount, \$4,709,609 may be used to meet the City's ongoing obligations to citizens and creditors.
- The net assets decreased by \$674,920 from prior year. Assets decreased by \$1,197,410, and liabilities decreased by \$522,490.
- The unreserved fund balance for the general fund was \$948,660, an increase of \$418,716 from prior year. The general fund revenues increased by \$298,072 or 2.3 percent mainly due to higher income tax collections. The general fund expenditures decreased by \$728,216 or 6.2 percent from prior year. Transfers from the general fund to the other funds increased by \$875,190 million or 99.8 percent.

USING THIS ANNUAL REPORT

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

Government-Wide Statements

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

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
Unaudited**

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

Fund Financial Statements

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

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

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

Notes to the Financial Statements

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

THE CITY AS A WHOLE

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets decreased from a year ago - decreasing from \$7,879,230 to \$7,204,310. 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, 2009
Unaudited**

Table 1-Net Assets

	2009	2008 Restated
Assets		
Current and Other Assets	\$11,687,762	\$12,291,437
Capital Assets, Net	6,546,921	7,140,656
Total Assets	<u>\$18,234,683</u>	<u>\$19,432,093</u>
Liabilities		
Long-Term Liabilities	\$ 6,245,873	\$ 6,464,629
Other Liabilities	4,784,500	5,088,234
Total Liabilities	<u>11,030,373</u>	<u>11,552,863</u>
Net Assets		
Invested in Capital Assets, Net of Debt	2,108,085	2,371,695
Restricted	386,616	539,336
Unrestricted	4,709,609	4,968,199
Total Net Assets	<u>\$ 7,204,310</u>	<u>\$ 7,879,230</u>

The City's net assets decreased \$674,920 or 8.6 percent.

Table 2-Changes in Net Assets

	2009	2008 Restated
Revenues		
Program Revenues:		
Charges for Services	\$ 1,300,808	\$ 920,618
Operating Grants and Contributions	125,989	29,569
Capital Grants and Contributions	1,833,228	2,848,780
General Revenues:		
Property Taxes	3,292,276	3,269,242
Income Taxes	7,777,904	8,174,969
Payments in Lieu of Taxes	4,131,516	4,031,788
Grant and Entitlements	1,786,221	1,908,242
Investment Earnings	6,181	48,726
Miscellaneous	66,348	89,315
Total Revenues	<u>20,320,471</u>	<u>21,321,249</u>
Program Expenses		
Security of Persons and Property	7,630,618	8,362,494
Public Health Services	52,340	50,926
Leisure Time Activities	374,608	397,991
Community Environment	5,084,921	5,238,704
Public Works	3,558,956	2,797,336
Transportation	1,891,848	1,685,186
General Government	1,566,591	1,774,913
Interest and Fiscal Charges	123,112	245,486
Total Program Expenses	<u>20,282,994</u>	<u>20,553,036</u>
Special Item	(712,397)	0
Increase (Decrease) in Net Assets	<u>\$ (674,920)</u>	<u>\$ 768,213</u>

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
Unaudited**

Total revenues decreased \$1,000,778 or 4.7 percent mainly due to the receipt of funds in 2008 from the City of Cleveland Water Department for two projects to repair waterlines at University Parkway, Silsby Road, Charney Road, and Bushnell Road estimated at \$1.8 million. The City's largest revenue source is income tax. The City's income tax rate is 2.5 percent on gross income. There is a credit of 1.0 percent for those residents who work in another municipality/subdivision where income tax is withheld. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2009 the income tax revenue was approximately \$7,777,904 which was a decrease of \$397,065 or 4.9 percent from prior year. Another major revenue source is property taxes. The effective tax rate for 2009 was \$13.2 per \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by the City, Cuyahoga County, Cleveland-Heights-University Heights City School District, and Cleveland Heights-University Heights Public Library. During 2009, the property tax revenue was approximately \$3,292,276, up \$23,034 or 0.7 percent from prior year. The City received \$4,131,516 in payment in lieu of taxes from the University Square Tax Increment Financing Project. This was the second year in which revenue was generated from the project.

Total program expenses decreased \$270,042 or 1.0 percent mainly due to the Cleveland Water Department funding two projects to repair waterlines at University Parkway, Silsby Road, Charney Road, and Bushnell Road. Special items increased by \$712,397 due to the disposal of waterlines per an agreement with the City of Cleveland. See Notes 8 and 19 for further detail. Expenses are categorized by functions. The largest program, security of persons and property which includes police, fire, police and fire communications, traffic control, animal control, and public safety was around 36.7 percent of the governmental expenses. The police department is made up of 1 chief, 1 deputy chief; 28 full-time sworn officers, 3 full-time dispatchers, and 2 secretaries. The fire department is composed of 1 chief; 1 executive captain; and 27 full-time fire fighters/paramedics. Training plays a crucial role in keeping up with the rapidly changing laws, practices and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The second largest program is community environment which is made up of the building department, community services, and urban redevelopment tax increment financing and was approximately 24.4 percent of the governmental expenses. The City is a labor intensive industry and the expenses of the governmental activities are mainly salaries, wages, and benefits. The City does have an annual road program which entails major and minor resurfacing of the various streets in University Heights. For the major resurfacing projects, the City has actively pursued obtaining grants and financial assistance from the Ohio Public Works Commission and the Ohio Water Development Authority. In addition, the City borrows on the open market by way of general obligation notes issued and rolled over year to year until paid down.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
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 \$3,121,322. Of this amount, \$2,795,909 constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various restricted purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$948,660, while the total general fund balance was \$1,152,653. 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 8.6 percent of total general fund expenditures. The total general fund balance represents 10.4 percent of total general fund expenditures. The general fund balance increased by \$514,195 during the current fiscal year. Key factors for this are as follows:

- The general fund revenues increased by \$298,072 million or 2.3 percent from prior year.
- The general fund expenditures in total decreased \$728,216 or 6.2 percent from prior year. However, transfers to other funds increased \$875,190 or 99.8 percent. During 2009 the net change in fund balance was \$514,195.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

For the general fund, budgeted basis revenue was \$436,263 below the revised budget estimate of \$12,765,496.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
Unaudited**

The original appropriation of \$12,649,860 was increased to \$12,950,776. With these adjustments, the actual charges to appropriations (expenditures) were \$76,463 above the final budgeted amounts for the general fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the City had \$6,546,921 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, swimming pool, roads, and water and sewer lines. (See Table 3 below.) This amount represents a net decrease (including additions and deductions) of approximately \$593,735, or 8.3 percent over last year.

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

	2009	2008 Restated
Land	\$ 217,056	\$ 217,056
Construction in Progress	575,845	727,392
Buildings and Improvements	839,561	873,404
Vehicles	684,045	909,632
Equipment	373,178	338,445
Infrastructure:		
Pavement	2,523,575	2,721,790
Storm Sewers	188,995	192,833
Sanitary Sewers	1,144,666	1,160,104
Total Capital Assets	<u>\$ 6,546,921</u>	<u>\$ 7,140,656</u>

The City purchased equipment and vehicles for the various departments in the amount of \$154,071. The City purchased one (1) vehicle, five (5) body armor and seven (7) Digital Systems for police vehicles for the police department; one (1) City watch system for the fire department; one (1) Digital Recording Sound System for Council Chambers and one (1) Yard Leaf Collector for the tree improvement department.

More detailed information about the City's capital assets is presented in Note 8 to the financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
Unaudited**

Debt

At year-end, the City had \$4,717,515 in outstanding debt versus \$5,053,627 last year- a decrease of 6.7 percent - as shown in Table 4.

Table 4-Outstanding Debt at Year-end

	Governmental Activities	
	2009	2008
General Obligation Bonds	\$ 630,000	\$ 735,000
OWDA loans	47,338	77,494
OPWC loans	465,362	481,151
Accrued Police Pension	278,679	284,666
Capital Leases	382,136	461,316
General Obligation Notes	<u>2,914,000</u>	<u>3,014,000</u>
Totals	<u>\$ 4,717,515</u>	<u>\$ 5,053,627</u>

The City paid \$105,000 on principal for general obligation bonds on the Purvis Park Pool. General obligation notes were issued mainly for street programs in the amount of \$2,914,000.

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 13 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 2010 budget, tax rates, and fees that will be charged for activities. One main, continuing factor is the economy. In preparing estimates for General Fund revenues, the City anticipates decreased revenues in several areas. Of particular interest are anticipated reduced collections of property taxes and municipal income taxes in 2010 over 2009 revenues. The City is continuing with prior years cuts to help maintain the integrity of the budget, including limited capital expenditures and cutting of overtime budgets as well as maintaining current levels of staffing with no new hires. The City has added no major programs or initiatives; however, the City will continue to pursue grants for projects. If these estimates are realized, the City's General Fund balance is expected to increase modestly by the close of 2010.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
Unaudited**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	<u>Governmental Activities</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 2,970,231
Materials and Supplies Inventory	120,369
Accounts Receivable	213,018
Project Receivable	330,000
Intergovernmental Receivable	849,699
Prepaid Items	42,374
Taxes Receivable	6,374,707
Special Assessments Receivable	787,364
Nondepreciable Capital Assets	792,901
Depreciable Capital Assets, Net	<u>5,754,020</u>
Total Assets	<u>18,234,683</u>
<u>Liabilities</u>	
Accounts Payable	393,591
Accrued Wages and Benefits	402,736
Contracts Payable	292,813
Intergovernmental Payable	496,043
Accrued Interest Payable	31,175
Retainage Payable	65,038
Deferred Revenue	3,103,104
Long-Term Liabilities:	
Due within One Year	4,001,469
Due in More Than One Year	<u>2,244,404</u>
Total Liabilities	<u>11,030,373</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	2,108,085
Restricted for:	
Debt Service	345,044
Capital Projects	41,572
Unrestricted	<u>4,709,609</u>
Total Net Assets	<u><u>\$ 7,204,310</u></u>

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

		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	\$7,630,618	\$ 590,226	\$ 114,642	\$ 0	\$ (6,925,750)	
Public Health Services	52,340	0	0	0	(52,340)	
Leisure Time Activities	374,608	85,764	0	0	(288,844)	
Community Environment	5,084,921	268,440	0	0	(4,816,481)	
Public Works	3,558,956	165,186	0	1,833,228	(1,560,542)	
Transportation	1,891,848	0	11,347	0	(1,880,501)	
General Government	1,566,591	191,192	0	0	(1,375,399)	
Interest and Fiscal Charges	123,112	0	0	0	(123,112)	
Total Governmental Activities	<u>\$20,282,994</u>	<u>\$1,300,808</u>	<u>\$ 125,989</u>	<u>\$ 1,833,228</u>	<u>(17,022,969)</u>	
General Revenues:						
Property Taxes Levied for:						
General Purposes					2,636,589	
Special Revenue					145,708	
Debt Service					509,979	
Payment in Lieu of Taxes					4,131,516	
Income Taxes Levied for:						
General Purposes					7,777,904	
Grants and Entitlements not						
Restricted to Special Programs					1,786,221	
Investment Earnings					6,181	
Miscellaneous					66,348	
Total General Revenues					<u>17,060,446</u>	
Special Item					<u>(712,397)</u>	
Total General Revenues and Special Item					<u>16,348,049</u>	
Change in Net Assets					(674,920)	
Net Assets Beginning of Year, Restated					<u>7,879,230</u>	
Net Assets End of Year					<u>\$ 7,204,310</u>	

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	<u>General</u>	<u>Sewer Maintenance "A" Special Revenue</u>	<u>Urban Redevelopment Special Revenue</u>	<u>General Bond Retirement Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>						
Equity in Pooled Cash and Cash						
Equivalents	\$ 199,548	\$ 125,169	\$ 1,996,927	\$ 32,869	\$ 615,718	\$ 2,970,231
Receivables:						
Taxes	5,756,228	0	0	481,039	137,440	6,374,707
Accounts	213,018	0	0	0	0	213,018
Special Assessments	22,721	354,250	0	0	410,393	787,364
Project Receivable	330,000	0	0	0	0	330,000
Due from Governments	617,353	0	0	37,738	194,608	849,699
Advances to Other Funds	46,000	0	0	0	0	46,000
Inventory	60,295	0	0	0	60,074	120,369
Prepaid Items	42,374	0	0	0	0	42,374
Total Assets	<u>7,287,537</u>	<u>479,419</u>	<u>1,996,927</u>	<u>551,646</u>	<u>1,418,233</u>	<u>11,733,762</u>
<u>Liabilities</u>						
Accounts Payable	171,420	74,239	0	0	147,932	393,591
Contracts Payable	0	236,468	0	0	56,345	292,813
Retainage Payable	0	65,038	0	0	0	65,038
Accrued Wages and Benefits	385,383	5,392	0	0	11,961	402,736
Advances from Other Funds	0	0	0	0	46,000	46,000
Due to Governments	211,603	3,785	0	0	280,655	496,043
Deferred Revenue	5,366,478	354,250	0	518,777	676,714	6,916,219
Total Liabilities	<u>6,134,884</u>	<u>739,172</u>	<u>0</u>	<u>518,777</u>	<u>1,219,607</u>	<u>8,612,440</u>
<u>Fund Balances</u>						
Reserved for Prepaid Items	42,374	0	0	0	0	42,374
Reserved for Encumbrances	101,324	9,572	0	0	51,774	162,670
Reserved for Inventory	60,295	0	0	0	60,074	120,369
Unreserved:						
Undesignated (Deficits) Reported in:						
General Fund	948,660	0	0	0	0	948,660
Special Revenue Funds	0	(269,325)	1,996,927	0	(106,811)	1,620,791
Debt Service Funds	0	0	0	32,869	152,017	184,886
Capital Projects Funds	0	0	0	0	41,572	41,572
Total Fund Balances (Deficits)	<u>1,152,653</u>	<u>(259,753)</u>	<u>1,996,927</u>	<u>32,869</u>	<u>198,626</u>	<u>3,121,322</u>
Total Liabilities and Fund Balances	<u>\$ 7,287,537</u>	<u>\$ 479,419</u>	<u>\$ 1,996,927</u>	<u>\$ 551,646</u>	<u>\$ 1,418,233</u>	<u>\$11,733,762</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, 2009

Total Governmental Funds Balance \$ 3,121,322

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. 6,546,921

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

Property Taxes	\$ 250,568	
Grants and Entitlements	714,690	
Income Tax	2,060,493	
Special Assessments	787,364	
Total	3,813,115	3,813,115

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	(630,000)	
Bond Anticipation Notes	(2,914,000)	
OWDA Loans	(47,338)	
OPWC Loans	(465,362)	
Accrued Police Pension	(278,679)	
Capital Leases	(382,136)	
Compensated Absences	(1,528,358)	
Accrued Interest Payable	(31,175)	
Total	(6,277,048)	(6,277,048)

Net Assets of Governmental Activities \$ 7,204,310

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General	Sewer Maintenance "A" Special Revenue	Urban Redevelopment Special Revenue	General Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues						
Local Taxes - Income Tax	\$ 8,254,523	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,254,523
Local Taxes - Property Tax	2,618,452	0	0	506,430	144,694	3,269,576
Other Taxes	0	0	4,131,516	0	0	4,131,516
Intergovernmental Revenue	1,299,678	1,365,246	0	75,476	553,122	3,293,522
Special Assessments	31,844	403,869	0	0	489,095	924,808
Charges for Services	563,033	0	0	0	0	563,033
Fines, Licenses, and Permits	473,809	0	0	0	0	473,809
Interest Income	6,131	0	0	0	50	6,181
Miscellaneous	63,127	0	0	0	1,000	64,127
Total Revenues	<u>13,310,597</u>	<u>1,769,115</u>	<u>4,131,516</u>	<u>581,906</u>	<u>1,187,961</u>	<u>20,981,095</u>
Expenditures						
Security of Persons and Property	6,733,832	0	0	0	762,937	7,496,769
Public Health Services	52,340	0	0	0	0	52,340
Leisure Time Activities	372,523	0	0	0	0	372,523
Community Environment	777,343	0	4,131,516	0	165,741	5,074,600
Public Works	993,045	2,876,358	0	0	202,722	4,072,125
Transportation	461,242	0	0	0	924,429	1,385,671
General Government	1,552,030	0	0	0	1,060	1,553,090
Capital Outlay	50,306	0	0	0	103,764	154,070
Debt Service:						
Principal Retirement	45,124	0	0	3,119,000	85,988	3,250,112
Interest and Fiscal Charges	8,922	0	0	117,103	20,610	146,635
Total Expenditures	<u>11,046,707</u>	<u>2,876,358</u>	<u>4,131,516</u>	<u>3,236,103</u>	<u>2,267,251</u>	<u>23,557,935</u>
Excess of Revenues Over (Under) Expenditures	<u>2,263,890</u>	<u>(1,107,243)</u>	<u>0</u>	<u>(2,654,197)</u>	<u>(1,079,290)</u>	<u>(2,576,840)</u>
Other Financing Sources (Uses)						
Sale of Capital Assets	2,222	0	0	0	0	2,222
Proceeds from Sale of Notes	0	300,000	0	0	2,614,000	2,914,000
Transfers In	0	750,000	0	2,650,000	1,001,917	4,401,917
Transfers Out	<u>(1,751,917)</u>	<u>(300,000)</u>	<u>0</u>	<u>0</u>	<u>(2,350,000)</u>	<u>(4,401,917)</u>
Total Other Financing Sources (Uses)	<u>(1,749,695)</u>	<u>750,000</u>	<u>0</u>	<u>2,650,000</u>	<u>1,265,917</u>	<u>2,916,222</u>
Net Change in Fund Balances	514,195	(357,243)	0	(4,197)	186,627	339,382
Fund Balances Beginning of Year	<u>638,458</u>	<u>97,490</u>	<u>1,996,927</u>	<u>37,066</u>	<u>11,999</u>	<u>2,781,940</u>
Fund Balances (Deficits) -End of Year	<u>\$ 1,152,653</u>	<u>\$ (259,753)</u>	<u>\$ 1,996,927</u>	<u>\$ 32,869</u>	<u>\$ 198,626</u>	<u>\$ 3,121,322</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, 2009**

Net Change in Fund Balances - Total Governmental Funds \$ 339,382

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. (593,735)

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

Grants and Entitlements	\$	91,824	
Income Tax		(476,619)	
Special Assessments		(300,751)	
Property Tax		<u>22,700</u>	
Total			(662,846)

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. (2,914,000)

Repayment of bond, note, loan, accrued police pension and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 3,250,112

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. 23,523

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

Compensated Absences		<u>(117,356)</u>	
Total			<u>(117,356)</u>

Change in Net Assets of Governmental Activities \$ (674,920)

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 -
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$ 2,530,091	\$ 2,619,617	\$ 2,618,452	\$ (1,165)
Income Taxes	7,559,998	7,827,504	7,827,502	(2)
Intergovernmental	1,351,482	1,399,304	1,399,559	255
Licenses and Permits	285,557	295,661	300,987	5,326
Fines and Forfeitures	178,374	184,686	185,733	1,047
Special Assessments	30,804	31,894	31,844	(50)
Charges for Services	377,211	390,558	391,575	1,017
Interest Earnings	1,932	2,000	6,131	4,131
Miscellaneous	13,784	14,272	19,359	5,087
Total Revenues	<u>12,329,233</u>	<u>12,765,496</u>	<u>12,781,142</u>	<u>15,646</u>
Expenditures				
Current:				
General Government	1,488,611	1,446,960	1,598,442	(151,482)
Security of Persons and Property	7,148,069	6,943,528	6,939,864	3,664
Public Works	1,097,927	1,039,000	1,002,883	36,117
Transportation	442,921	442,950	462,668	(19,718)
Public Health Services	52,451	52,454	52,340	114
Community Environment	819,921	789,975	779,675	10,300
Leisure Time Activities	404,343	409,370	393,810	15,560
Principal Repayment	66,518	66,522	37,540	28,982
Interest and Fiscal Charges	8,099	8,100	8,100	0
Total Expenditures	<u>11,528,860</u>	<u>11,198,859</u>	<u>11,275,322</u>	<u>(76,463)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>800,373</u>	<u>1,566,637</u>	<u>1,505,820</u>	<u>(60,817)</u>
Other Financing Sources (Uses)				
Transfers Out	<u>(1,121,000)</u>	<u>(1,751,917)</u>	<u>(1,751,917)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(1,121,000)</u>	<u>(1,751,917)</u>	<u>(1,751,917)</u>	<u>0</u>
Net Change in Fund Balance	(320,627)	(185,280)	(246,097)	(60,817)
Fund Balance (Deficit)-Beginning of Year	<u>282,470</u>	<u>282,470</u>	<u>282,470</u>	<u>0</u>
Fund Balance (Deficit)-End of Year	<u>\$ (38,157)</u>	<u>\$ 97,190</u>	<u>\$ 36,373</u>	<u>\$ (60,817)</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 -
SEWER MAINTENANCE "A" FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special Assessments	\$ 280,000	\$ 407,225	\$ 403,869	\$ (3,356)
Grants	0	1,364,000	1,365,246	1,246
Total Revenues	<u>280,000</u>	<u>1,771,225</u>	<u>1,769,115</u>	<u>(2,110)</u>
Expenditures				
Public Works	364,500	2,634,887	2,657,513	(22,626)
Total Expenditures	<u>364,500</u>	<u>2,634,887</u>	<u>2,657,513</u>	<u>(22,626)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(84,500)</u>	<u>(863,662)</u>	<u>(888,398)</u>	<u>(24,736)</u>
Other Financing Sources (Uses)				
Sale of Notes	300,000	300,000	300,000	0
Transfers In	0	747,775	750,000	2,225
Transfers Out	<u>(300,000)</u>	<u>(300,000)</u>	<u>(300,000)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>747,775</u>	<u>750,000</u>	<u>2,225</u>
Net Change in Fund Balance	(84,500)	(115,887)	(138,398)	(22,511)
Fund Balance-Beginning of Year	<u>229,783</u>	<u>229,783</u>	<u>229,783</u>	<u>0</u>
Fund Balance-End of Year	<u>\$ 145,283</u>	<u>\$ 113,896</u>	<u>\$ 91,385</u>	<u>\$ (22,511)</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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive
				(Negative)
<u>Revenues</u>				
Payment in Lieu of Taxes	\$ 3,200,000	\$ 4,131,500	\$ 4,131,516	\$ 16
Total Revenues	<u>3,200,000</u>	<u>4,131,500</u>	<u>4,131,516</u>	<u>16</u>
<u>Expenditures</u>				
Community Environment	4,300,000	4,300,000	4,131,516	168,484
Total Expenditures	<u>4,300,000</u>	<u>4,300,000</u>	<u>4,131,516</u>	<u>168,484</u>
Net Change in Fund Balance	(1,100,000)	(168,500)	0	168,500
Fund Balance-Beginning of Year	<u>1,996,927</u>	<u>1,996,927</u>	<u>1,996,927</u>	<u>0</u>
Fund Balance-End of Year	<u>\$ 896,927</u>	<u>\$ 1,828,427</u>	<u>\$ 1,996,927</u>	<u>\$ 168,500</u>

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2009**

Assets

Equity in Pooled Cash and Cash Equivalents \$ 296,385

Total Assets **\$ 296,385**

Liabilities

Deposits Held and Due to Others \$ 296,385

Total Liabilities **\$ 296,385**

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 1: **REPORTING ENTITY**

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

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

A. **Basis of Presentation**

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

Government-wide Financial Statements

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

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

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

Fund Financial Statements

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

B. **Fund Accounting**

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

Governmental Funds

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

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

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

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

B. **Fund Accounting** (Continued)

Governmental Funds (Continued)

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

Fiduciary Funds

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

C. **Measurement Focus**

Government-wide Financial Statements

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

Fund Financial Statements

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

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

C. **Measurement Focus** (Continued)

Fund Financial Statements (Continued)

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

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

D. **Basis of Accounting**

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

Revenues - Exchange and Non-exchange Transactions

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(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, 2009, but which were levied to finance year 2010 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(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 2009, the portfolio was limited to the State Treasury Asset Reserve of Ohio (STAROhio).

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, 2009.

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 2009 amounted to \$5,459, which includes \$5,025 from other City funds.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(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, 2009 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, and sanitary sewers. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

**CITY OF UNIVERSITY HEIGHTS, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2009
 (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, 2009.

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(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, 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, and inventories are recorded as a reservation of fund balance.

M. Net Assets

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(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. No extraordinary items occurred in 2009. See Note 19 for further explanation on the Special Item transaction in 2009.

P. **Estimates**

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

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2009, the City implemented GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

Implementation of GASB Statement No. 52 did not affect the presentation of the financial statements of the City.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

NOTE 4: **COMPLIANCE AND ACCOUNTABILITY**

Fund balances at December 31, 2009, included the following individual fund deficits:

Special Revenue Funds:

Street Lighting	\$	22,011
Tree Improvement		25,318
Police Pension		128,092
Fire Pension		144,929
CDBG		19,959
Sewer Maintenance "A"		259,753

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

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CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(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 fund, department, personal services and other expenses level for all funds, which is the legal level of control. Contrary to Ohio Revised Code, the City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. Expenditures may not exceed appropriations at the legal level of control.

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

NOTE 5: **BUDGETARY** (Continued)

B. Budgetary Basis of Accounting

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	Sewer Maintenance "A" Fund	Urban Redevelopment
GAAP Basis	\$ 514,195	\$ (357,243)	\$ 0
Net Adjustment for Revenue Accruals	(531,677)	0	0
Net Adjustment for Expenditure Accruals	(85,937)	252,629	0
Encumbrances	(142,678)	(33,784)	0
Budget Basis	\$ (246,097)	\$ (138,398)	\$ 0

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

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

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

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

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

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

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

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

A. **Deposits**

At December 31, 2009, the carrying amount of the City's deposits was \$3,230,874 and the bank balance was \$3,215,069. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2009, \$500,000 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, 2009, fair value of \$35,742 equals the City's net cost for investments. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

C. **Interest Rate Risk**

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

D. **Credit Risk**

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

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

E. **Custodial Credit Risk**

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

F. **Concentration of Credit Risk**

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

Investments at year-end were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturities (in Years)</u>
STAROhio	\$ 35,742	AAA/Aaa	<1
Total Investments	<u>\$ 35,742</u>		<u>\$ 35,742</u>

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

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2009, consist primarily of taxes, special assessments, accounts, and money due from other governments. All receivables are considered fully collectible.

A. **Property Taxes**

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

**CITY OF UNIVERSITY HEIGHTS, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2009
 (CONTINUED)**

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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

The full tax rate applied to real property for the fiscal year ended December 31, 2009, 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, 2009, was \$13.2 per \$1000 of assessed valuation.

<u>Real Estate</u>	
Residential/Agricultural	\$ 247,042,580
Commercial/Industrial	29,795,980
Public Utilities	2,336,290
General Tangible Personal Property	<u>2,347,040</u>
	<u>\$ 281,521,890</u>

The Cuyahoga County Treasurer collects property tax on behalf of all taxing districts within the County. The Cuyahoga County Auditor periodically remits to the taxing districts their portions of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2009. 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 2010 operations. The receivable is offset by deferred revenue.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

B. Income Taxes

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

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

C. Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2009 follows:

	<u>Amounts</u>
Estate Tax	\$ 65,746
Local Government	362,266
Homestead and Rollback	237,210
Gasoline Tax and Auto Registration	177,166
Liquor Tax	651
Permissive Tax	5,660
Grants	1,000
Total	<u>\$ 849,699</u>

D. Long-Term Receivables

The City has a long-term project development agreement accounts receivable due in annual installments on the first business day of January through 2032 in the amount of \$15,000. As of December 31, 2009, \$330,000 is outstanding.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

NOTE 8: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

	Restated Balance 12/31/2008	Additions	Deletions	Balance 12/31/2009
Governmental Activities				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 217,056	\$ 0	\$ 0	\$ 217,056
Construction in Progress	727,392	575,845	727,392	575,845
<i>Total Capital Assets Not Being Depreciated</i>	<u>944,448</u>	<u>575,845</u>	<u>727,392</u>	<u>792,901</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	1,687,667	0	0	1,687,667
Vehicles	2,990,797	31,091	0	3,021,888
Equipment	1,461,407	137,975	0	1,599,382
Subtotal	<u>6,139,871</u>	<u>169,066</u>	<u>0</u>	<u>6,308,937</u>
Infrastructure:				
Pavement	3,964,303	0	0	3,964,303
Storm Sewers	230,271	0	0	230,271
Sanitary Sewers	1,235,057	0	0	1,235,057
Total Infrastructure	<u>5,429,631</u>	<u>0</u>	<u>0</u>	<u>5,429,631</u>
<i>Total Capital Assets Being Depreciated</i>	<u>11,569,502</u>	<u>169,066</u>	<u>0</u>	<u>11,738,568</u>
Less Accumulated Depreciation:				
Buildings and Improvements	814,263	33,843	0	848,106
Vehicles	2,081,165	256,678	0	2,337,843
Equipment	1,122,962	103,242	0	1,226,204
Subtotal	<u>4,018,390</u>	<u>393,763</u>	<u>0</u>	<u>4,412,153</u>
Infrastructure:				
Pavement	1,242,513	198,215	0	1,440,728
Storm Sewers	37,438	3,838	0	41,276
Sanitary Sewers	74,953	15,438	0	90,391
Subtotal	<u>1,354,904</u>	<u>217,491</u>	<u>0</u>	<u>1,572,395</u>
Total Accumulated Depreciation	<u>5,373,294</u>	<u>611,254*</u>	<u>0</u>	<u>5,984,548</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>6,196,208</u>	<u>(442,188)</u>	<u>0</u>	<u>5,754,020</u>
Governmental Activities Capital Assets, Net	<u>\$7,140,656</u>	<u>\$ 133,657</u>	<u>\$ 727,392</u>	<u>\$6,546,921</u>

* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 33,599
Leisure Time Activities	2,085
Community Environment	2,897
Basic Utility Services	58,422
Transportation	501,507
General Government	12,744
Total Depreciation Expense	<u>\$ 611,254</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

NOTE 8: **CAPITAL ASSETS** (Continued)

The City of University Heights entered into a Joint Economic Development Zone Agreement with the City of Cleveland, whereas, the City of Cleveland owns and controls a water distribution system of the City of University Heights as of May 21, 2007. Therefore, the City had disposed of \$1.2 million in waterlines in 2007. In 2009, an additional \$.7 million in waterlines were completed, deleted from construction in progress, and are reported on the Statement of Activities as a Special Item.

NOTE 9: **INTERFUND RECEIVABLES AND PAYABLES**

At December 31, 2009, interfund balances were as follows:

Fund	Advances To Other Funds	Advances From Other Funds
General	\$ 46,000	\$ 0
Nonmajor Governmental	0	46,000
Total	\$ 46,000	\$ 46,000

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

NOTE 10: **COMPENSATED ABSENCES**

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

NOTE 11: **PENSION PLANS**

A. **Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of both the Traditional Pension and Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2009, the members of all three plans were required to contribute 10.00 percent of their annual covered salaries. The City's contribution rate of 14.00 percent that was allocated to fund pension benefits was 7.00 percent from January 1 through March 31, 2009 and 8.50 percent from April 1 through December 31, 2009. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to all three plans for the years ended December 31, 2009, 2008, and 2007 were \$212,398, \$181,648, and \$212,157, respectively, equal to the required contributions for each year. The full amount has been contributed for 2008 for 2007. 93.32 percent has been contributed for 2009, with the remainder being reported as a liability.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

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

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.00 percent of their annual covered salary, while employers are required to contribute 19.50 percent for police officers and 24.00 percent for firefighters. Contributions are authorized by state statute. The City's contributions to the OP&F for police and firefighters were \$300,571 and \$388,210 for the year ended December 31, 2009, \$293,880 and \$402,047 for the year ended December 31, 2008, and \$277,569 and \$383,728 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. 72.14 percent for police and 73.17 percent for firefighters has been contributed for 2009, with the remainder being reported as a liability.

NOTE 12: **POST-EMPLOYMENT BENEFITS**

A. Ohio Public Employees Retirement System

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

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

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

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. The 2009 local government employer contribution rate was 14.00 percent of covered payroll.

OPERS Post-employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 7.00 percent from January 1 through March 31, 2009 and 5.50 percent from April through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's actual employer contributions for 2009, 2008 and 2007, which were used to fund post-employment benefits were \$151,426, \$181,648, and \$140,607, respectively.

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

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

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. 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 2/3 basis. The health care coverage provided by OP&F meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

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

B. Ohio Police and Fire Pension Fund (Continued)

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

The Board of Trustees is authorized to allocate a portion of the total employer contribution made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2009, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of the Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police and firefighters were \$159,126 and \$151,908 for the year ended December 31, 2009, \$155,615 and \$157,340 for the year ended December 31, 2008 and \$146,948 and \$172,400 for the year ended December 31, 2007. The full amount has been contributed for 2008 and 2007. 72 percent has been contributed for police and 73 percent has been contributed for firefighters for 2009.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

NOTE 13: LONG-TERM OBLIGATIONS

Changes in bonds and other long-term obligations of the City during 2009 were as follows:

	<u>Interest Rate</u>	<u>Principal Outstanding 12/31/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Principal Outstanding 12/31/09</u>	<u>Amounts Due in One Year</u>
<u>Governmental Activities</u>						
General Obligation Bonds:						
1995 Purvis Park Improvement Series A & B	6.25%	\$ 735,000	0	105,000	630,000	110,000
Total General Obligation Bonds		<u>735,000</u>	<u>0</u>	<u>105,000</u>	<u>630,000</u>	<u>110,000</u>
<u>Other Long-Term Obligations</u>						
OWDA Loan - Baintree	5.77%	47,730	0	15,460	32,270	32,270
OWDA Loan - Sewer Project	5.06%	29,764	0	14,696	15,068	15,068
OPWC Issue II Loan	0.00%	241,226	0	8,934	232,292	17,869
OPWC Meadowbrook		239,925	0	6,855	233,070	13,710
Accrued Police Pension		284,666	0	5,987	278,679	6,145
Capital Lease -						
National City Bank Leasing		93,714	0	29,821	63,893	31,216
Capital Lease - Commerce Bank		112,430	0	20,815	91,615	21,538
Capital Lease - Kansas State Bank Leasing		41,824	0	13,241	28,583	13,930
Capital Lease - 1 st Source Bank Leasing		104,480	0	15,303	89,177	16,091
Capital Lease - 1 st Source Bank Leasing		108,868	0	0	108,868	15,961
Various Purpose General Obligation Notes	2.50%	2,595,000	0	2,595,000	0	0
Various Purpose General Obligation Notes	4.40%	419,000	0	419,000	0	0
Various Purpose General Obligation Notes, Due 5/4/11	2.50%	0	2,914,000	0	2,914,000	2,914,000
Compensated Absences		<u>1,411,002</u>	<u>905,117</u>	<u>787,761</u>	<u>1,528,358</u>	<u>793,671</u>
Total Other Long-Term Obligations		<u>5,729,629</u>	<u>3,819,117</u>	<u>3,932,873</u>	<u>5,615,873</u>	<u>3,891,469</u>
Total Governmental Activities		<u>\$6,464,629</u>	<u>\$3,819,117</u>	<u>\$4,037,873</u>	<u>\$6,245,873</u>	<u>\$4,001,469</u>

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CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

Debt service requirements to maturity are as follows:

Year Ended 12/31	General Obligation Bonds		OWDA Loan - Baintree		OWDA Loan - Sewer Project		OPWC Loan Intercommunity Sewer	
	Principal	Interest	Principal	Interest	Principal	Interest*	Principal	Interest
2010	\$ 110,000	\$ 39,060	\$ 32,270	\$ 1,403	\$ 15,068	\$ 381	\$ 17,869	\$ 0
2011	115,000	32,240	0	0	0	0	17,869	0
2012	130,000	25,110	0	0	0	0	17,869	0
2013	135,000	17,050	0	0	0	0	17,869	0
2014	140,000	8,680	0	0	0	0	17,869	0
2015-2019	0	0	0	0	0	0	89,345	0
2020-2024	0	0	0	0	0	0	53,602	0
2025-2029	0	0	0	0	0	0	0	0
2030-2034	0	0	0	0	0	0	0	0
2035	0	0	0	0	0	0	0	0
Totals	<u>\$ 630,000</u>	<u>\$ 122,140</u>	<u>\$ 32,270</u>	<u>\$ 1,403</u>	<u>\$ 15,068</u>	<u>\$ 381</u>	<u>\$ 232,292</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
2010	\$ 13,710	\$ 0	\$ 6,145	\$ 11,778	\$ 98,736	\$ 16,149	\$293,798	\$ 68,771
2011	13,710	0	6,513	11,510	103,476	11,407	256,568	55,157
2012	13,710	0	6,793	11,230	58,820	7,020	227,192	43,360
2013	13,710	0	7,084	10,938	61,475	4,213	235,138	32,201
2014	13,710	0	7,389	10,634	39,151	1,836	218,119	21,150
2015-2019	68,550	0	41,985	48,130	20,478	85	220,358	48,215
2020-2024	68,550	0	51,810	38,304	0	0	173,962	38,304
2025-2029	27,420	0	63,935	26,178	0	0	91,355	26,178
2030-2034	0	0	78,896	10,687	0	0	78,896	10,687
2035	0	0	8,129	171	0	0	8,129	171
Totals	<u>\$ 233,070</u>	<u>\$ 0</u>	<u>\$ 278,679</u>	<u>\$ 179,560</u>	<u>\$ 382,136</u>	<u>\$ 40,710</u>	<u>\$1,803,515</u>	<u>\$ 344,194</u>

*Not Available

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

NOTE 13: **LONG-TERM OBLIGATIONS** (Continued)

On May 5, 2009, the City issued various purpose General Obligation Bond Anticipation Notes of \$2,914,000 with an interest rate of 2.5 percent in anticipation of the issuance of bonds for the purpose of acquiring motorized equipment and for resurfacing streets and repairing curbs.

The accrued police pension liability will be paid from the police pension fund. See Note 16 for further detail on capital leases. Compensated absences will be paid by the fund from which the employee's salary is paid.

NOTE 14: **INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2009 consisted of the following:

Fund	Transfer To	Transfer From
General Fund	\$ 0	\$ 1,751,917
Sewer Maintenance "A" Fund	750,000	300,000
General Bond Retirement Debt Service Fund	2,650,000	0
Nonmajor Governmental Funds	1,001,917	2,350,000
Total Interfund Transfers	\$ 4,401,917	\$ 4,401,917

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

NOTE 15: **CLAIMS AND JUDGMENTS**

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

NOTE 16: CAPITAL LEASE

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

The asset acquired through the capital lease is as follows:

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

See Note 13 for the future minimum lease obligations as of December 31, 2009.

NOTE 17: RISK MANAGEMENT

A. Property and Liability

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. In October 2008, the City joined the Northern Ohio Risk Management Agency (NORMA), a not-for-profit corporation, for the purpose of obtaining property, liability and vehicle insurance and providing for a formalized, jointly administered self insurance fund. The City pays an annual premium to NORMA for its insurance coverage. The agreement of formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement. This coverage is paid from the general fund.

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(CONTINUED)

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

B. Worker's Compensation

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

C. Other

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

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

NOTE 18: **SHARED RISK POOL**

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

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

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

**CITY OF UNIVERSITY HEIGHTS, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2009
 (CONTINUED)**

NOTE 18: **SHARED RISK POOL** (Continued)

In 2009, the City of University Heights paid \$88,755 in premiums from the general fund, which represents 5.91 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Bedford Heights, 5661 Perkins Road, Bedford, Ohio, 44146.

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

NOTE 19: **SPECIAL ITEM**

The City entered into an agreement with the City of Cleveland pertaining to the waterlines of the City being taken over by the City of Cleveland Water Department in exchange for a non-poaching agreement pertaining to jobs moving from the respective Cities. The City moved the waterlines from the financial statements in 2009 in the amount of \$712,397 which represent the waterline costs.

NOTE 20: **RESTATEMENT OF PRIOR YEAR'S NET ASSETS**

In the prior year, construction in progress was overstated due to a recording error. In 2009, the City retroactively implemented a policy of recording salvage values of 2 percent on all depreciable capital assets. These immaterial restatements had the following effect on net assets as of December 31, 2008:

	<u>Governmental Activities</u>
Net Assets, December 31, 2008	\$ 8,035,259
Construction in Progress	(363,677)
Salvage Values	<u>207,648</u>
Restated Net Assets, December 31, 2008	<u>\$7,879,230</u>

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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**

Members of City Council
City of University Heights, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2009, which collectively comprise the City of University Heights, Ohio's basic financial statements and have issued our report thereon dated June 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of University Heights, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of University Heights, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of University Heights, Ohio's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider **Finding 2009-2** and **Finding 2009-3** described in the accompanying Schedule of Findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider **Finding 2009-1** and **Finding 2009-4** described in the accompanying Schedule of Findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of University Heights, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as **Item 2009-5**.

We noted certain matters that we reported to the management of the City of University Heights, Ohio, in a separate letter dated June 16, 2010.

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

This report is intended solely for the information and use of management, members of City Council, the Audit Committee, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.



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

June 16, 2010

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2009**

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

Finding No. 2009-1: Significant Deficiency - Bank Reconciliation and Deposit Process

Statement of Condition/Criteria

Based on our audit of the cash function for the City of University Heights, we noted that the monthly bank reconciliations are not being done timely. The reconciliations in total had an irreconcilable difference of \$30,303 for December 2009. Also the reconciliations prepared by the City contained reconciling items from prior years and several checks which have been outstanding for over six months. In addition, the same City employee prepares the bank deposit forms and makes the deposits with the bank.

Cause/Effect

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

Recommendation

We recommend the City reconcile its bank accounts in a timely manner. Also any reconciling items should be investigated and corrected timely. Checks that are over six months old should be investigated and removed from the bank reconciliation and transferred to an unclaimed monies fund until these funds are claimed. In addition, the City can strengthen its internal control procedures by the segregation of duties in preparing the bank deposits and depositing the funds.

In 2010, the City continues to work with RITA to resolve this bank reconciliation issue. We noted that significant progress has been made in the reconciliation process of the City's bank accounts.

City's Response

Beginning in 2010, the City is reconciling all accounts on a monthly basis and is actively working with the Regional Income Tax Agency's Municipal Government Department to resolve any reconciliation issues.

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2009
(CONTINUED)**

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

Finding 2009-2: Material Weakness - Payroll

Statement of Condition/Criteria

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

1. Payroll bank accounts were not being reconciled in a timely manner.
2. Lack of segregation of duties.
3. Employees have taken on new responsibilities without the proper training (bank reconciliations).
4. Lack of cross training in payroll, disbursements, and reconciliation process.
5. Sick and vacation leave balances are not being reconciled between the system reports and the Finance Department's records. In addition, sick and vacation leave postings do not reflect effective policies in place.
6. A few minor payments were made to OPERS in 2009 that are not identified by purpose totaling \$3,680. Also, payments made to OPERS for 3rd quarter 2008 were properly paid in 2009, but were not posted to the City's expense report.
7. Manual payroll adjustments were made directly to the payroll computer system rather than being corrected on subsequent paychecks. These adjustments totaled \$4,378.

Cause/Effect

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

Recommendation

We recommend the following:

1. We recommend that the payroll account be reconciled each month and that any unusual items be investigated in a timely manner by management.
2. Within the Finance Department, we noted a lack of segregation of duties and lack of a clear payroll process with adequate and effective internal controls. This lack of segregation of duties and payroll procedures combines to weaken internal control, and we believe that the opportunity exists for continued unauthorized payroll disbursements of City funds.
3. We recommend that the Finance Department employees be given proper training, not only in their current positions and responsibilities, but also for the new responsibilities they have taken on during the absence of a full time finance director. We feel with the proper training and a clearer understanding of their job responsibilities, these employees will perform their duties more appropriately and accurately and with greater due diligence.

CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2009
(CONTINUED)

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

Finding 2009-2: Material Weakness - Payroll (Continued)

Recommendation (Continued)

4. We recommend that the City make a greater effort to cross train their finance department employees so that every position is backed up in the event of an unexpected absence. This type of training allows employees to better fulfill their responsibilities, as well as make recommendations for improvement in other areas as well.
5. We recommend that sick and vacation policies be modified to reflect postings made to sick and vacation activity. Also, sick and vacation balances should be reconciled between system reports and the Finance Department records.
6. We recommend that all payments made to OPERS be properly identified prior to payment and properly posted to the respective expense accounts upon payment.
7. We recommend that adjustments be made only through proper payroll computer access to avoid fraudulent payroll transactions.

City's Response

The City understands these concerns and has begun addressing many of these issues in 2010. Accounts are being reconciled on a monthly basis, and only authorized adjustments to payroll are being recorded following the correct procedure within the software package to accurately reflect the changes on all software generated reports and within the employee file. The Finance Director has added an additional level of quality control by reviewing all payroll checks (live checks, direct deposit checks, tax checks, and deduction checks) against proper documentation (timesheets and software generated reports) before manually signing each check to ensure accuracy and a proper segregation of duties within the department.

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2009
(CONTINUED)**

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

Finding 2009-3: Material Weakness - Finance Director Time Sheets

Statement of Condition/Criteria

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

Cause/Effect

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

Recommendation

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

In June 2009, the Finance Director was removed from his position and an Interim Finance Director was contracted by the City. Time sheets were properly being used to document the contractual services of the Interim Finance Director. A full-time Finance Director was hired in March 2010.

City's Response

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

CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2009
(CONTINUED)

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

Finding 2009-4: Significant Deficiency - Proper Approval of Journal Entries

Statement of Condition/Criteria

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

Cause

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

Effect

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

Recommendation

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

City's Response

Beginning in 2010, all journal entries are only posted by the Finance Director after a thorough review of the proper back-up documentation to ensure only accurate and authorized accounting information is posted. All journal entry audit trail reports and supporting documentation are kept by the Finance Director to identify all transactions and are available for auditor review.

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2009
(CONTINUED)**

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

Finding 2009-5: Non-Compliance - Expenditures Exceeding Appropriations

Statement of Condition/Criteria

Ohio Revised Code Section 5705.41(b) prohibits a city from expending money unless it has been appropriated. The following funds had expenditures that exceeded appropriations for the year ending December 31, 2009.

	<u>Final</u> <u>Appropriations</u>	<u>Actual</u> <u>Expenditures</u>	<u>Variance</u>
General Fund	\$12,950,776	\$13,027,239	\$ (76,463)
Sewer Maintenance "A" Fund	2,934,887	2,957,513	(22,626)
Capital Improvement Fund	650,500	681,091	(30,591)

Recommendation

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

Effect

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

City's Response

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

**CITY OF UNIVERSITY HEIGHTS, OHIO
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Finding Number	Finding Summary	Fully Corrected:	Not Corrected, Partially Corrected; Significant Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2008-1	Bank accounts were not reconciled to the City's books.	No	Partially corrected. The City is making progress in reconciling the books to the bank accounts. Finding repeated as 2009-1.
2008-2	Personnel files were not updated, 941s were not being filed in a timely manner, 1099s were not being issued by the City, insufficient cross-training within the payroll, disbursement, and reconciliation process, lack of segregation of duties, unauthorized payroll disbursements and unauthorized leave reimbursement.	No	Partially corrected. The City had no issues with personnel files or 941s in 2009. The City issued 1099s for contractual services in 2009; however, there is still insufficient segregation of duties and cross-training within the Finance Department. The issue with unauthorized payroll disbursements and leave reimbursements discontinued in 2009 due to the termination of the Finance Director. Finding repeated as 2009-2.
2008-3	Finance Director was being paid at an hourly rate for contractual services; however, no time sheet was turned in to verify the hours worked.	No	Partially corrected. The City's Interim Finance Director used time sheets; however, no time sheets were available for the previous Finance Director from January 2009 through June 2009. Finding repeated as 2009-3.
2008-4	A wire transfer from the Auditor of State was not posted to the City's records.	Yes	
2008-5	The City has a few employees generating miscellaneous and/or manual journal entries	No	Corrective action taken. The City's new Finance Director (hired March 2010) reviews all posting prior to entering them that are recorded into the accounting system. Finding repeated as 2009-4.
2008-6	The City had two funds that were not in compliance with Ohio Revised Code Section 5705.41(b).	No	Partially corrected. In 2009, the City's General Fund, Sewer Maintenance "A" Fund, and Capital Improvement Fund were not in compliance with Ohio Revised Code Section 5705.41(b). Finding repeated as 2009-5.

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



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
AUGUST 19, 2010