

CITY OF HIGHLAND HEIGHTS, OHIO

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2010**

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



Dave Yost • Auditor of State

Members of Council
City of Highland Heights
5827 Highland Road
Highland Heights, Ohio 44143

We have reviewed the *Independent Auditor's Report* of the City of Highland Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2010 through December 31, 2010. 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 Highland Heights is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 26, 2012

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CITY OF HIGHLAND HEIGHTS, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010

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

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Members of City Council
City of Highland Heights, 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 Highland Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2010, 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 Highland 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 Highland Heights, Ohio, as of December 31, 2010, and the respective changes in financial position, thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2012, on our consideration of the City of Highland 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 9 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.

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

May 15, 2012

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2010

The discussion and analysis of the City of Highland Heights' financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2010. 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 INFORMATION

Key financial highlights for 2010 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$48,175,362. Of this amount, \$7,185,893 may be used to meet the City's ongoing obligations to citizens and creditors.
- The net assets slightly decreased by \$73,126 from the prior year.
- Total liabilities decreased by \$821,689 from prior year.
- The unreserved fund balance for the General Fund was \$6,578,605, or 68.51 percent of the General Fund expenditures (not including other financing uses).

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 of Highland Heights'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 event giving rise to the change occurs, 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 Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2010

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, transportation, basic utility services, 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 these 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 be 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 one 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 a 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 net assets slightly decreased from \$48,248,488 in 2009 to \$48,175,362 in 2010 or 0.15 percent from the prior year. 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 Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2010

Table 1 - Net Assets

	Governmental Activities	
	2010	2009
<u>Assets</u>		
Current and Other Assets	\$ 18,581,161	\$ 17,997,756
Capital Assets	46,420,382	47,898,602
Total Assets	65,001,543	65,896,358
<u>Liabilities</u>		
Long-term Liabilities	14,384,837	15,373,139
Other Liabilities	2,441,344	2,274,731
Total Liabilities	16,826,181	17,647,870
<u>Net Assets</u>		
Invested in Capital Assets Net of Debt	33,218,194	33,595,689
Restricted	7,771,275	8,256,937
Unrestricted	7,185,893	6,395,862
Total Net Assets	\$ 48,175,362	\$ 48,248,488

Table 2 - Change in Net Assets

	Governmental Activities	
	2010	2009
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 1,340,314	\$ 1,463,937
Operating Grants and Contributions	450,416	443,832
Capital Grants and Contributions	2,793	486,198
General Revenues:		
Property Taxes	1,489,379	1,491,706
Income Taxes	9,883,105	8,721,333
Other Taxes	44,671	131,244
Grants and Entitlements	875,690	1,025,909
Other	25,411	45,878
Total Revenues	14,111,779	13,810,037
<u>Program Expenses</u>		
Security of Persons and Property	6,243,865	6,147,689
Public Health Services	37,892	39,947
Leisure Time Activities	599,631	735,516
Community Environment	100,919	141,667
Basic Utility Services	2,622,046	2,398,005
Transportation	1,489,402	1,092,914
General Government	2,512,030	2,299,901
Interest and Fiscal Charges	579,120	626,076
Total Program Expenses	14,184,905	13,481,715
Increase in Net Assets	(73,126)	328,322
Net Assets, Beginning of Year	48,248,488	47,920,166
Net Assets, End of Year	\$ 48,175,362	\$ 48,248,488

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2010

Total revenues increased in 2010. This is primarily due to an increase in income tax revenues, offset mostly by a decrease in capital grants and contributions. The City's largest revenue source is income tax. The income tax rate is 2.00 percent on gross income and net profits. This rate has been in effect since January 1, 2007, when the tax was increased by .50 percent by a vote of the residents. Residents of the City who work in another community and pay the withholding tax for that community receive a 100 percent tax credit on their city tax for Highland Heights. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2010, income tax revenue was \$9,883,105. There was an increase of \$1,161,772 compared to prior year's collections mainly attributable to strong net profits from employer withholdings. The City's second largest revenue source is property taxes. The full voted tax rate for 2010 was 103.22 mills. A mill is \$1.00 for every \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by Cuyahoga County, City of Highland Heights, Mayfield City School District, Cleveland Metro Parks, Cuyahoga County Library System, Cuyahoga Community College and Cleveland-Cuyahoga Port Authority. During 2010, property taxes revenue was \$1,489,379. The next largest revenue source is charges for services. Charges for services decreased by \$123,623 or 8.44 percent.

Total expenses increased in 2010. This is primarily due to increases in the areas of transportation, basic utility services, and general government and decreases in leisure time activities and interest and fiscal charges. These increases are mainly due to the City's annual depreciation expense exceeding capital outlay along with a street maintenance project that was not capitalized. Other expenses remained relatively stable compared to prior years. Expenses are categorized by programs. The largest program, security of persons and property, which includes Police, Fire, Police and Fire Communications, and Public Safety, represent 44.02 percent of the governmental expenses. The Police Department is made up of 1 chief, 21 full-time sworn officers, 2 part-time, and 8 auxiliary officers, 3 full-time and 4 part-time dispatchers, and 3 secretaries. The Fire Department is composed of 1 chief, and 16 full-time and 8 part-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 next largest programs are basic utility services, \$2,622,046 at 18.48 percent, general government, \$2,512,030 at 17.71 percent, transportation, \$1,489,402 at 10.50 percent, and leisure time activities, \$599,631 at 4.23 percent. General Government is composed of the Mayor's Office, Council, Finance, Law, and General Administration. The City has an annual road program which entails major and minor resurfacing of the various streets in the City. For the major resurfacing projects, the City has actively pursued obtaining grants and financial assistance from the Ohio Public Works Commission, and Ohio Water Development Authority. In addition, the City has borrowed on the open market by way of general obligation bonds and notes.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2010

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 resources. 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 period, the City's governmental funds reported combined ending fund balances of \$9,421,620. Of this amount, \$9,024,890 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of prior periods(s) and for a variety of other restricted purposes.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$6,578,605, while the total General Fund balance was \$6,733,239. 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. Unreserved General Fund balance represents 68.51 percent of General Fund expenditures (not including other financing uses), while total General Fund balance represents 70.12 percent of the same amount.

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 several times to prevent budget overruns.

For the General Fund, actual revenue (including other financing sources) was \$11,591,446. This was \$1,132,813 over the original budgeted revenues of \$10,458,633.

The original appropriation (including other financing uses) of \$10,394,301 was increased to \$11,068,301. Even with these adjustments, the actual charges to appropriations (expenditures) were \$359,376 below the final budgeted amounts for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the City had \$46,420,382 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 \$1,478,220, or 3.09 percent over last year.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2010

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

	Governmental Activities	
	2010	2009
Land and Land Improvements	\$ 3,374,737	\$ 3,365,824
Buildings	2,906,593	3,099,087
Machinery and Equipments	1,302,860	1,354,371
Furniture and Fixtures	52,786	57,040
Vehicles	383,936	411,132
Infrastructures	38,399,470	39,611,148
Total Capital Assets, Net	\$ 46,420,382	\$ 47,898,602

The City continued to purchase equipment in 2010 for various departments, including: \$62,727 for 3 new cruisers in the Police Department, \$26,286 for a new vehicle in the Fire Department, \$61,558 for various fire equipment, \$88,758 for new Service Department vehicles, and several other outlays for various capital assets.

See Note 9 to the financial statements for more detailed information on capital assets.

Debt

The City had \$13,138,274 in outstanding debt at December 31, 2010, compared to \$14,234,919 at December 31, 2009, as shown in Table 4.

Table 4 - Outstanding Debt at December 31

	Governmental Activities	
	2010	2009
General Obligation Bonds	\$ 7,459,296	\$ 8,103,061
Special Assessment Bonds	3,260,703	3,541,938
OPWC Loans	2,418,275	2,589,920
Total Outstanding Debt	\$ 13,138,274	\$ 14,234,919

The City paid \$643,765 on principal for general obligation bonds, \$281,235 on principal for special assessment bonds, and \$171,645 on principal for OPWC loans. The majority of projects funded through long term debt deal directly with infrastructure improvements. All OPWC loans are at a zero percent interest rate.

The City's general obligation bond rating continues to carry an AA3 rating, assigned by Moody's Investor Services rating agency to the City's debt since 2001, which was reaffirmed on December 18, 2009. 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 well below the state-imposed limit.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2010

Other obligations include accrued vacation and sick leave and unamortized bond premium. More detailed information about the City's long-term liabilities is presented in Note 13 to the financial statements.

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 Anthony L. Ianiro, Finance Director, at 5827 Highland Road, Highland Heights, Ohio 44143.

City of Highland Heights, Ohio

Statement of Net Assets December 31, 2010

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Equity in Pooled Cash and Investments	\$ 8,115,175
Materials and Supplies Inventory	165,304
Accounts Receivable	85,077
Intergovernmental Receivable	481,474
Prepaid Items	61,146
Income Taxes Receivable	2,126,473
Property Taxes Receivable	1,494,650
Special Assessments Receivable	5,993,034
Unamortized Bond Issuance Costs	58,828
Nondepreciable Capital Assets	3,374,737
Depreciable Capital Assets	43,045,645
Total Assets	<u>65,001,543</u>
<u>LIABILITIES</u>	
Accounts Payable	218,019
Contracts Payable	93,527
Accrued Wages and Benefits	373,388
Intergovernmental Payable	378,306
Accrued Interest Payable	59,827
Deferred Revenue	1,318,277
Long-term Liabilities:	
Due within one year	1,590,476
Due in more than one year	12,794,361
Total Liabilities	<u>16,826,181</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	33,218,194
Restricted for:	
Debt Services	6,735,172
Capital Projects	26,898
Street Construction, Maintenance and Repairs	461,975
Other Purposes	547,230
Unrestricted	7,185,893
Total Net Assets	<u>\$ 48,175,362</u>

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

City of Highland Heights, Ohio

Statement of Activities For the Year Ended December 31, 2010

<u>Functions</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating	Capital	Governmental Activities
			Grants and Contributions	Grants and Contributions	
Governmental Activities:					
Security of Persons and Property	\$ 6,243,865	\$ 422,826	\$ 10,930	\$ 2,793	\$ (5,807,316)
Public Health Services	37,892	-	-	-	(37,892)
Leisure Time Activities	599,631	251,829	-	-	(347,802)
Community Environment	100,919	174,922	-	-	74,003
Basic Utility Services	2,622,046	-	-	-	(2,622,046)
Transportation	1,489,402	224,872	439,486	-	(825,044)
General Government	2,512,030	265,865	-	-	(2,246,165)
Interest and Fiscal Charges	579,120	-	-	-	(579,120)
Total Governmental Activities	\$ 14,184,905	\$ 1,340,314	\$ 450,416	\$ 2,793	(12,391,382)
 General Revenues:					
Property Taxes levied for:					
General Purposes					809,141
Debt Service Purpose					104,407
Other Purposes					575,831
Income Taxes levied for:					
General Purposes					9,141,872
Debt Service Purpose					741,233
Other Taxes					44,671
Grants & Entitlements not restricted to specific programs					875,690
Investment Income					14,298
Gain on Sale of Capital Assets					2,070
All Other Revenues					9,043
Total General Revenues and Transfers					12,318,256
Change in Net Assets					(73,126)
Net Assets - Beginning of Year					48,248,488
Net Assets - End of Year					\$ 48,175,362

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

City of Highland Heights, Ohio

Balance Sheet – Governmental Funds December 31, 2010

	General Fund	Special Assessment Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Equity in Pooled Cash and Investments	\$ 5,445,469	\$ 470,244	\$ 2,199,462	\$ 8,115,175
Materials and Supplies Inventory	18,286	-	147,018	165,304
Accounts Receivable	85,077	-	-	85,077
Intergovernmental Receivable	231,877	-	249,597	481,474
Prepaid Items	61,146	-	-	61,146
Income Taxes Receivable	1,966,988	-	159,485	2,126,473
Property Taxes Receivable	809,355	-	685,295	1,494,650
Special Assessments Receivable	616	5,737,539	254,879	5,993,034
Total Assets	\$ 8,618,814	\$ 6,207,783	\$ 3,695,736	\$ 18,522,333
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts Payable	\$ 134,353	\$ -	\$ 83,666	\$ 218,019
Accrued Wages and Benefits	373,388	-	-	373,388
Contracts Payable	-	-	93,527	93,527
Intergovernmental Payable	217,211	-	161,095	378,306
Deferred Revenue	1,160,623	5,737,539	1,139,311	8,037,473
Total Liabilities	1,885,575	5,737,539	1,477,599	9,100,713
Fund Balances:				
Reserved for:				
Encumbrances	75,202	-	95,078	170,280
Inventory	18,286	-	147,018	165,304
Prepaid Items	61,146	-	-	61,146
Unreserved:				
Undesignated, Reported in:				
General Fund	6,578,605	-	-	6,578,605
Special Revenue Funds	-	-	818,260	818,260
Debt Service Funds	-	470,244	480,686	950,930
Capital Projects Funds	-	-	677,095	677,095
Total Fund Balance	6,733,239	470,244	2,218,137	9,421,620
Total Liabilities and Fund Balance	\$ 8,618,814	\$ 6,207,783	\$ 3,695,736	\$ 18,522,333

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

City of Highland Heights, Ohio

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities December 31, 2010

Total Governmental Funds Balance		\$ 9,421,620
<i>Amounts reported for Governmental Activities in the Statement of Net Assets are different because:</i>		
Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds.		46,420,382
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:		
Property taxes	\$ 152,964	
Municipal income taxes	140,203	
Special assessments	5,993,034	
Intergovernmental	360,581	
Charges for services	49,177	
Other taxes	23,237	
Total	6,719,196	6,719,196
Unamortized bond issuance costs are included in the governmental activities in the statement of net assets.		58,828
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	(7,459,296)	
Special assessment bonds	(3,260,703)	
OPWC loans	(2,418,275)	
Unamortized Bond Premium	(63,914)	
Compensated absences	(1,182,649)	
Accrued interest payable	(59,827)	
Total	(14,444,664)	(14,444,664)
Net Assets of Governmental Activities		\$ 48,175,362

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

City of Highland Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended December 31, 2010

	<u>General Fund</u>	<u>Special Assessment Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>				
Property Taxes	\$ 758,573	\$ -	\$ 658,018	\$ 1,416,591
Income Taxes	9,254,887	-	750,396	10,005,283
Other Taxes	35,579	-	49,098	84,677
Intergovernmental	799,945	-	541,503	1,341,448
Interest	4,444	-	9,854	14,298
Fees, Licenses and Permits	376,288	-	1,519	377,807
Charges for Services	332,111	-	254,179	586,290
Contributions and Donations	10,664	-	200	10,864
Special Assessments	2,005	736,904	233,756	972,665
All Other Revenues	145,051	-	6,384	151,435
Total Revenues	<u>11,719,547</u>	<u>736,904</u>	<u>2,504,907</u>	<u>14,961,358</u>
<u>EXPENDITURES</u>				
Security of Persons and Property	5,211,183	-	678,688	5,889,871
Public Health Services	37,892	-	-	37,892
Leisure Time Activities	19,703	-	482,288	501,991
Community Environment	90,003	-	4,692	94,695
Basic Utility Services	1,816,333	-	-	1,816,333
Transportation	-	-	669,147	669,147
General Government	2,426,662	7,242	-	2,433,904
Capital Outlay	-	-	630,074	630,074
Debt Service:				
Principal Retirement	-	510,383	586,262	1,096,645
Interest and Fiscal Charges	-	265,421	318,993	584,414
Total Expenditures	<u>9,601,776</u>	<u>783,046</u>	<u>3,370,144</u>	<u>13,754,966</u>
Excess of Revenues Over (Under) Expenditures	<u>2,117,771</u>	<u>(46,142)</u>	<u>(865,237)</u>	<u>1,206,392</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Sale of Capital Assets	9,404	-	-	9,404
Transfers In	-	-	1,236,174	1,236,174
Transfers Out	(1,136,174)	-	(100,000)	(1,236,174)
Total Other Financing Sources (Uses)	<u>(1,126,770)</u>	<u>-</u>	<u>1,136,174</u>	<u>9,404</u>
Net Change in Fund Balances	991,001	(46,142)	270,937	1,215,796
Fund Balances - Beginning of Year	5,742,597	516,386	1,895,410	8,154,393
Increase (Decrease) in Reserve for Inventory	(359)	-	51,790	51,431
Fund Balances - End of Year	<u>\$ 6,733,239</u>	<u>\$ 470,244</u>	<u>\$ 2,218,137</u>	<u>\$ 9,421,620</u>

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

City of Highland Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual – General Fund For the Year Ended December 31, 2010

Net Change in Fund Balances-Total Governmental Funds \$ 1,215,796

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.

Capital Outlay	\$	295,977	
Depreciation		(1,766,863)	
Total			(1,470,886)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (7,334)

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

Property taxes		49,379	
Municipal income taxes		(122,178)	
Special assessments		(745,788)	
Intergovernmental		(12,549)	
Charges for services		(3,916)	
Other taxes		(16,597)	
Total			(851,649)

Repayment of bond principal is an expenditure in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 1,096,645

In the statement of activities, interest is accrued on outstanding bonds, whereas, in governmental funds an interest expenditure is reported when due. 4,969

Bond premiums will be amortized over the life of the bond on the Statement of Activities. 4,080

Bond issuance costs are recognized as expenditures in the governmental funds; however, they are amortized over the life of issuance in the Statement of Activities (3,755)

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

Compensated absences		(112,423)	
Change in Inventory		51,431	
Total			(60,992)

Change in Net Assets of Governmental Activities \$ (73,126)

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

City of Highland Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual – General Fund For the Year Ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Property and Other Taxes	\$ 738,633	\$ 795,075	\$ 795,075	\$ -
Income Taxes	8,278,428	8,941,438	8,941,438	-
Intergovernmental	461,172	961,067	961,067	-
Interest	20,000	4,964	4,964	-
Fees, Licenses and Permits	346,000	380,892	380,892	-
Charges for Services	372,800	339,267	339,267	-
Contributions and Donations	2,500	14,664	14,664	-
Special Assessments	73,600	2,005	2,005	-
All Other Revenues	165,000	141,224	142,670	1,446
Total Revenues	10,458,133	11,580,596	11,582,042	1,446
<u>Expenditures</u>				
Current:				
Security of Persons & Property	5,290,394	5,306,394	5,170,599	135,795
Public Health Services	38,239	43,239	39,753	3,486
Leisure Time Activates	16,309	27,309	24,861	2,448
Community Environment	125,473	127,473	110,152	17,321
Basic Utility Services	1,910,018	1,950,018	1,837,996	112,022
General Government	2,338,868	2,438,868	2,389,390	49,478
Total Expenditures	9,719,301	9,893,301	9,572,751	320,550
Excess of Revenues Over (Under) Expenditures	738,832	1,687,295	2,009,291	321,996
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	500	9,404	9,404	-
Transfers Out	(675,000)	(1,175,000)	(1,136,174)	38,826
Total Other Financing Sources (Uses)	(674,500)	(1,165,596)	(1,126,770)	38,826
Net Change in Fund Balance	64,332	521,699	882,521	360,822
Fund Balance - Beginning of Year	4,399,287	4,399,287	4,399,287	0
Prior Year Encumbrances Appropriated	63,652	63,652	63,652	0
Fund Balance - End of Year	\$ 4,527,271	\$ 4,984,638	\$ 5,345,460	\$ 360,822

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

City of Highland Heights, Ohio

Statement of Fiduciary Net Assets Fiduciary Funds December 31, 2010

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Investments	\$ 331,194
Total Assets	<u>\$ 331,194</u>
Liabilities	
Deposits Held and Due to Others	331,194
Total Liabilities	<u>\$ 331,194</u>

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 1: **REPORTING ENTITY**

The City of Highland Heights, Ohio (the City) was incorporated as a Village in 1920 after it separated from Mayfield Township. In October 1966, the electors of Highland Heights approved a charter that established home rule under a Council-Mayor form of government. In 1969, Highland Heights became a City upon attaining a population of 5,000.

The City, in order to provide the necessary services to its citizens, is segmented into many different departments. Among these are the police, fire fighting, street maintenance, planning and zoning, emergency medical technicians, parks and recreation system, public improvements department, and general administrative staff to provide support to these service groups. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. All are responsible to the citizens of Highland Heights and are included as part of the primary government.

A legally separate organization is a component unit of the primary government if **1)** the primary government is financially accountable for the organization; **2)** the nature and significance of the relationship between the primary government and the organization are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete; or **3)** the organization is closely related to or financially integrated with the primary government. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The Mayfield City School District is located partially within the City's boundaries, but is excluded from the City's financial statements based on the above criteria. The City has no component units.

The City is associated with three organizations which are defined as jointly governed organizations. The jointly governed organizations are the Eastern Suburban Regional Council of Governments, the Northeast Ohio Public Energy Council, and the Mayfield Union Cemetery as presented in Note 18 to the basic financial statements. The City is also associated with Northern Ohio Risk Management Association which has been defined as risk sharing pool (Note 14) and Tri-City Consortium on Aging Council of Governments which has been defined as a joint venture (Note 17).

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

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

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 are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods and services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues 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 program is self-financing or draws from the general revenues of the City.

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

B. **Fund Accounting**

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

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

B. **Fund Accounting** (Continued)

Governmental Funds

Governmental funds are those through which most governmental functions 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 purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the Charter of the City of Highland Heights and/or the general laws of Ohio.

Special Assessment Bond Retirement Fund – The Special Assessment Bond Retirement Fund accounts for special assessments levied to pay principal and interest on debt issued to finance the benefitted property owners' share of the cost of various projects.

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, investments 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 has no trust fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for deposits held for contractors and developers.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

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

C. **Measurement Focus**

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total 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 current 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. Government fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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; fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and the presentation of expense versus expenditures.

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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

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

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, 2010, but which were levied to finance year 2011 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.

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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

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

E. **Equity in Pooled Cash and Investments**

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Cash balances of all City funds are pooled and invested. 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 Investments". Investments consist of STAROhio and a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices.

Nonparticipating investment contracts such as non-negotiable certificates of deposit and repurchase agreements are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2010. The allocation of interest earnings from investments to the City's funds is governed by the City Charter. Interest revenue credited to the General Fund during 2010 amounted to \$4,444.

F. **Materials and Supplies Inventory**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first in, first out basis. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

Inventory consists of expendable supplies held for consumption.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

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

G. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2010, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. **Capital Assets**

The City's only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,500. The City's infrastructure consists of roads, water mains, sanitary sewers, storm sewers, culverts, bridges, and traffic signals. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is not capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Building and Improvement	20 - 40 years
Machinery and Equipment	5 - 20 years
Furniture and Fixtures	15 years
Vehicles	4 - 8 years
Infrastructure	50 years

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “due to/from other funds”. These amounts are eliminated in the governmental activities column of the statement of net assets.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year-end, taking into consideration any limits specified in the City’s termination policy.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “Matured Compensated Absences Payable” in the fund or funds which the employees who have accumulated the leave are paid.

K. Accrued Liabilities and Long-Term Obligations

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

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

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. Fund balance reserves have been established for encumbrances, inventories, and prepaid items.

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 constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of governments.

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

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/expenses to the funds that initially paid for them are not presented on the financial statements.

O. **Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2010.

P. **Estimates**

The preparation of 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.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

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

Q. **Budgetary Data**

An annual budget is prepared for all funds of the City. The City's budgetary process, which is governed by State law, is described below:

Tax Budget - The City must submit a budget of estimated cash receipts and disbursements for all funds to the County Budget Commission by July 20 of each year for the following calendar year.

Estimated Resources - The County Budget Commission certifies its actions to the City by September 1 and issues a "Certificate of Estimated Resources" limiting the maximum amount the City may appropriate from a given fund during the year.

On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. The City must prepare its appropriations so that the total appropriations from each fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources.

Appropriations - A temporary appropriation ordinance may be passed to control expenditures for the period January 1 through March 31. Before April 1, an annual appropriation ordinance must be passed for the period January 1 to December 31. The appropriation ordinance, which controls expenditures at the major object level, may be amended or supplemented by Council during the year as required. The major object level is further defined by grouping level. The administration may move budgeted amounts within each object grouping level. During 2010, there were few significant amendments to the appropriations. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Budgeted Level of Expenditure - Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, Council appropriations are made by department and major object levels, which include salaries and fringe benefits, other expenditures, which include materials and supplies and purchased services, capital outlay, and transfers, along with individual accounts for bond and note principal retirement, and interest and fiscal charges

Encumbrances - Encumbrances outstanding at year end represent the estimated amount of expenditures that will ultimately result if unperformed contracts in process (for example, purchase orders and contracted services) are completed. Encumbrances outstanding at year end are reported as reservations of fund balances for subsequent year expenditures in the governmental funds.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

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

Q. **Budgetary Data** (Continued)

Lapsing of Appropriations - At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

NOTE 3: **ACCOUNTABILITY**

Fund Deficit

Fund balance at December 31, 2010, included the following individual fund deficits:

Special Revenue

Police Pension Fund	\$ 44,462
Fire Pension Fund	35,763

The deficits in the Police Pension and Fire Pension funds are due to accrued liabilities. The deficit does not exist under the budgetary basis of accounting. The General Fund provides transfers when cash is required, not when accruals occur.

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING**

While the City is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual presented for the General 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:

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the related liabilities are incurred (GAAP basis).
- c. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING** (Continued)

- d. Advances-in and Advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
- e. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statement for the General Fund.

Net Change in Fund Balance	
GAAP Basis	\$ 991,001
Increase (Decrease) Due to:	
Revenue Accruals	(137,505)
Expenditure Accruals	129,034
Adjustment for Encumbrances	(100,009)
Budgetary Basis	<u>\$ 882,521</u>

NOTE 5: **CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2010, the City implemented GASB Statements No. 51, *Accounting and Financial Reporting for Intangible Assets*, No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

GASB Statement No. 51 improves the quality of financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets.

GASB Statement No. 53 improves the quality of financial reporting by requiring governments to measure derivative instruments, with the exception of synthetic guaranteed investment contract that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements.

GASB Statement No. 58 improves the quality of financial reporting by providing more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy.

The implementation of the aforementioned GASB Statements did not affect the presentation of the financial statements of the City.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal 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 direct issuances of Federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provide 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 and other obligations of the State of Ohio;

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons.
2. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

A. **Cash on Hand**

At December 31, 2010, the City had \$700 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Investments".

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

B. **Deposits**

At December 31, 2010, the carrying amount of the City's deposits was \$5,439,198. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2010, \$1,501,379 of the City's bank balance was covered by Federal Depository Insurance, and \$4,157,733 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

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

C. **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, 2010, fair value equaled the City's net cost for investments. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

D. **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.

E. **Credit Risk**

The credit risks of the City's investments are in the table below. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that would further limit its investment choices.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

F. Custodial Credit Risk

For an investment, custodial credit risk is the 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 repurchase agreement is exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the City's name. 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 treasurer or qualified trustee.

G. Concentration of Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City's investment in a repurchase agreement represents 76.8 percent of the City's total investments. The remaining investment of the City, STAROhio, represents the 23.2 percent of the City's total investments.

Cash and investments at year-end were as follows:

Cash and Investment Type	Fair Value	Credit Rating (*)	Investment maturity (in years) <1
STAROhio	\$ 696,471	AAA	\$ 696,471
Repurchase Agreement	2,310,000	AAA	2,310,000
Total Investments	3,006,471		\$ 3,006,471
 Carrying Amount of Deposits	 5,439,198		
Petty Cash	700		
Total Cash and Investments	\$ 8,446,369		

* Credit rating was obtained from Standard & Poor's for all investments.

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2010, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments, and accounts (billing for rental and permits, etc.). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 7: RECEIVABLES (Continued)

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2010 for real and public property taxes represents collections of 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) are for 2010 taxes.

2010 real property taxes are levied after October 1, 2010, on the assessed value as of January 1, 2010, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2010 real property taxes are collected in and intended to finance 2011.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2010 public utility property taxes which became a lien at December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes.

2010 tangible personal property taxes are levied after October 1, 2009, on the value as of December 31, 2009. Collections are made in 2010. Tangible personal property assessments are being phased out over future periods. The assessed percentage for 2010 is zero percent.

The full tax rate for all City operations for the year ended December 31, 2010, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

Real Property	\$ 390,972,370
Public Utility Tangible Property	<u>2,644,940</u>
Total	<u>\$ 393,617,310</u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due by September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Highland Heights. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2010, and for which there is an enforceable legal claim. In the General, Police Pension nonmajor special revenue fund, Fire Pension nonmajor special revenue fund, Parks and Recreation nonmajor special revenue fund, and General Obligation Bond Retirement nonmajor debt service fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2010 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. **Municipal Income Taxes**

Effective January 1, 2007, an income tax of 2.0 percent is levied on substantially all income earned within the City. In addition, residents of the City are required to pay City income taxes on income earned outside the City; however, credit is allowed for income taxes paid to other municipalities up to 100 percent of the City's current tax rate. The allocation of income tax revenue to the City's various funds is determined by City Ordinance.

Employers within the City are required to withhold income tax on employee compensation and remit this tax to the City's collection agency at least quarterly. Major employers are required to remit withholdings to the City's collection agency at least monthly. Corporations and self-employed individual taxpayers are required to pay estimated taxes quarterly and file a declaration annually. The Regional Income Tax Agency administers and collects income taxes for the City. Payments are remitted monthly, net of collection fees of 3 percent.

C. **Special Assessments**

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 7: **RECEIVABLES** (Continued)

C. **Special Assessments** (Continued)

The City's service assessments include street lighting, sidewalk repair, sewer maintenance, and sewer rehabilitation which are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the combined balance sheet.

At December 31, 2010, special assessments expected to be collected in more than one year amount to \$5,993,034, including delinquent special assessments of \$136,956.

D. **Other Local Taxes**

With certain exceptions, a tax of 3 percent is levied by the City on individuals, companies and organizations which collect an admission charge and is reported in the General Obligation Bond Retirement nonmajor debt service fund.

E. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Funds</u>	<u>Amount</u>
Gasoline Tax	\$ 153,605
Local Government	110,258
Homestead and Rollback Reimbursement	92,855
Utility Property Tax Loss Reimbursement	33,184
CAT Reimbursement	16,547
Auto Registration	33,959
Permissive Tax	5,211
Estate Tax	24,612
Lyndhurst Municipal Court	11,243
Total Intergovernmental Receivables	<u>\$ 481,474</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 8: INTERFUND TRANSFERS AND BALANCES

The City had the following interfund transactions as of December 31, 2010.

	<u>Transfers Out</u>	<u>Transfers In</u>
General		\$ 1,136,174
Nonmajor Governmental Funds		100,000
Total		<u>\$ 1,236,174</u>

The General Fund transferred \$230,670 to the Police Pension Fund and \$187,194 to the Fire Pension Fund for pension obligation payments. In addition, the General Fund transferred \$718,310 to the Capital Improvement Fund for the purposes of capital improvement purchases. The Park and Recreation Fund transferred \$50,000 to the Capital Improvement Fund to assist with the payments of debt in relation to pool investments, as authorized by City Ordinance. The related debt is paid out of the General Bond Retirement Fund. Therefore, the Capital Improvement Fund transferred \$50,000 to the General Bond Retirement Fund for payment of the pool improvement debt.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2010 follows:

	Balance 12/31/2009	Additions	Disposals	Balance 12/31/2010
<u>Governmental Activities</u>				
<i>Capital Assets, not being depreciated:</i>				
Land & Land Improvement	\$ 3,365,824	\$ 8,913	\$ -	\$ 3,374,737
Total Capital Assets Not Being Depreciated	3,365,824	8,913	-	3,374,737
<i>Capital Assets, being depreciated:</i>				
Buildings	6,919,283	-	-	6,919,283
Machinery and Equipments	3,173,226	109,293	(135,966)	3,146,553
Furniture and Fixtures	99,967	-	-	99,967
Vehicles	1,772,586	177,771	(63,896)	1,886,461
Infrastructures				
Roads	22,992,711	-	-	22,992,711
Water Mains	11,399,753	-	-	11,399,753
Sanitary Sewers	13,440,785	-	-	13,440,785
Storm Sewers	15,992,277	-	-	15,992,277
Culverts	222,342	-	-	222,342
Bridges	216,549	-	-	216,549
Traffic Signals	84,068	-	-	84,068
Totals at Historical Cost	76,313,547	287,064	(199,862)	76,400,749
<i>Less Accumulated Depreciation:</i>				
Buildings	(3,820,196)	(192,494)	-	(4,012,690)
Machinery and Equipments	(1,818,855)	(160,213)	135,375	(1,843,693)
Furniture and Equipment	(42,927)	(4,254)	-	(47,181)
Vehicles	(1,361,454)	(198,224)	57,153	(1,502,525)
Infrastructures				
Roads	(8,354,359)	(422,952)	-	(8,777,311)
Water Mains	(5,152,327)	(201,588)	-	(5,353,915)
Sanitary Sewers	(4,707,140)	(263,092)	-	(4,970,232)
Storm Sewers	(6,338,013)	(313,945)	-	(6,651,958)
Culverts	(95,358)	(4,089)	-	(99,447)
Bridges	(38,979)	(4,331)	-	(43,310)
Traffic Signals	(51,161)	(1,681)	-	(52,842)
Total Accumulated Depreciation	(31,780,769)	(1,766,863)	192,528	(33,355,104)
<i>Total Capital Assets, being Depreciated, Net</i>	<i>44,532,778</i>	<i>(1,479,799)</i>	<i>(7,334)</i>	<i>43,045,645</i>
Governmental Activities Capital Assets, Net	\$ 47,898,602	\$(1,470,886)	\$ (7,334)	\$ 46,420,382

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 9: **CAPITAL ASSETS** (Continued)

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 53,781
Security of Persons and Property	254,561
Basic Utilities	782,714
Community Environment	2,598
Leisure Time Activities	102,624
Transportation	570,585
Total Depreciation Expense	<u><u>\$ 1,766,863</u></u>

NOTE 10: **COMPENSATED ABSENCES**

Sick leave for City employees is accrued at the rate of 4.6 hours for every 80 hours worked. Employees who retire or terminate service after 20 years may convert 50 percent of accumulated sick leave days into a lump sum payment, within certain limitations. A maximum of 960 hours of sick leave may be converted by each employee, with the exception of firemen, who can convert 1,345 hours.

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Current policy does not permit vacation leave to be carried forward unless authorized by the Mayor or department head. City employees are paid for earned unused vacation leave at the time of termination of employment.

NOTE 11: **PENSION PLAN**

A. **Ohio Public Employees Retirement System**

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan 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 in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

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

A. Ohio Public Employees Retirement System (Continued)

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2010, 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 was allocated to fund pension benefits for members of: the Traditional Plan was 8.50 percent from January 1 through February 28, 2010 and 9.00 percent from March 1 through December 31, 2010; the Combined Plan was 9.27 percent from January 1 through February 28, 2010 and 9.77 percent from March 1 through December 31, 2010. The City's required contributions to OPERS for the years ended December 31, 2010, 2009, and 2008 were \$337,804, \$344,352, and \$330,769, respectively; 92.65 percent has been contributed for 2010 and 100 percent has been contributed for 2009 and 2008. The unpaid contribution to fund pension obligations for 2010, in the amount of \$24,845, is recorded as a liability within the respective funds.

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. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 E. Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.00 percent of their annual covered salary, while the City is required to contribute 19.50 percent and 24.0 percent for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 12.75 percent for police officers and 17.25 percent for firefighters. The City's required contributions to OP&F for the years ended December 31, 2010, 2009, and 2008 were \$662,279, \$647,876 and \$632,412, respectively; 76.71 percent has been contributed for 2010 and 100 percent for 2009 and 2008. The unpaid contribution to fund pension obligations for 2010, in the amount of \$154,311, is recorded as a liability within the respective funds.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 12: POST-EMPLOYMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

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

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

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. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. The 2010 local government employer contribution rate was 14.00 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for local government employers. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

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

The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.50 percent from January 1 through February 28, 2010 and 5.00 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010 and 4.23 percent from March 1 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's required employer contributions to fund post-employment benefits for 2010, 2009 and 2008 were \$123,690, \$144,323, and \$165,384, respectively; 92.65 percent has been contributed for 2010 and 100 percent has been contributed for 2009 and 2008.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees 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.

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

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

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

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

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, 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).

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

The City's contributions for 2010, 2009, and 2008 that were used to fund post-employment benefits were \$120,060 for police and \$88,717 for firefighters, \$116,503 for police and \$87,557 for firefighters, and \$112,015 for police and \$86,853 for firefighters, respectively; 76.71 percent has been contributed for 2010 and 100 percent for 2009 and 2008.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 13: LONG-TERM OBLIGATIONS

Changes in the debt of the City for the year ended December 31, 2010, are as follows:

	Principal Outstanding 12/31/09	Additions	Deletions	Principal Outstanding 12/31/2010	Amounts Due in One Year
<u>Governmental Activities</u>					
<u>General Obligation Bonds</u>					
1992 \$1,440,000 Various Purpose Improvement Bonds, 4.0-6.2%	\$ 250,000	\$ -	\$ (75,000)	\$ 175,000	\$ 85,000
1997 \$6,495,000 Various Purpose Improvement Bonds, 3.75-5.25%	3,435,000	-	(300,000)	3,135,000	320,000
1999 \$177,920 Various Purpose Improvement Bonds, 5.2-6.5%	113,061	-	(8,765)	104,296	9,641
2001 \$4,065,000 Various Purpose Improvement Bonds, 3.0-4.8%	2,755,000	-	(195,000)	2,560,000	200,000
2007 \$1,710,000 Aberdeen Business Park Improvement Bonds, 4.0-5.0%	1,550,000	-	(65,000)	1,485,000	65,000
Total General Obligation Bonds	8,103,061	-	(643,765)	7,459,296	679,641
<u>Special Assessment Bonds (a)</u>					
1999 \$837,080 Alpha Improvement Assessment, 5.2-6.5%	531,938	-	(41,235)	490,703	45,359
1999 \$1,280,000 Refunding of Special Assessment (Whiteford & Alpha), 5.2-6.5%	-	-	-	-	-
1999 \$4,460,000 Street Improvement (Aberdeen Boulevard) Bonds, 4.1-5.7%	2,975,000	-	(205,000)	2,770,000	215,000
1990 \$380,000 Street Improvement (Bishop Road) Bonds, 7.357%	35,000	-	(35,000)	-	-
Total Special Assessment Bonds	3,541,938	-	(281,235)	3,260,703	260,359
<u>Ohio Public Works Commission</u>					
1997 \$1,640,626 Highland Road Sanitary Sewer, 0%	902,346	-	(82,031)	820,315	82,031
1998 \$960,310 Miner and Bishop Roads Sanitary Sewers, 0%	552,176	-	(48,015)	504,161	48,015
1998 \$145,238 Millridge Water Main Replacement, 0%	76,249	-	(7,262)	68,987	7,262
1999 \$686,733 Sanitary Sewer Selected Locations, 0%	429,207	-	(34,337)	394,870	34,337
2008 \$629,941 Highland-Bishop Intersection Improvement, 0%	629,942	-	-	629,942	15,749
Total Ohio Public Works Commission	2,589,920	-	(171,645)	2,418,275	187,394

(Continued)

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

	Principal Outstanding 12/31/09	Additions	Deletions	Principal Outstanding 12/31/2010	Amounts Due in One Year
<u>Governmental Activities</u> (Continued)					
<i><u>Other Long-term Liabilities</u></i>					
Unamortized Bond Premium	67,994	-	(4,080)	63,914	-
Compensated Absences	1,070,226	580,841	(468,418)	1,182,649	463,082
<i>Total Other Long-term Liabilities</i>	<u>1,138,220</u>	<u>580,841</u>	<u>(472,498)</u>	<u>1,246,563</u>	<u>463,082</u>
Total Governmental Long-Term Liabilities	<u>\$ 15,373,139</u>	<u>\$ 580,841</u>	<u>\$ (1,569,143)</u>	<u>\$ 14,384,837</u>	<u>\$ 1,590,476</u>

(a) Includes only the portion of the bonds expected to be paid from special assessments. The remaining portion (City's share) of the bonds is to be paid from general City revenues and is included under the "General Obligation Bonds" caption.

The 1992 bonds were issued to improve the municipal sewerage system by constructing storm sewers and culverts. The 1997 bonds were a consolidated issue for the construction and improvement of streets, sewer systems, water mains and storm water retention facilities, and the acquisition of a pumper truck. The 1999 bonds were for the City's portion of the improvement of Alpha Street. The 2001 bonds were issued for the improvement of streets, acquiring and installing communications equipment for the Dispatch Center, and installing a roof on the City's municipal complex. The 2007 bonds were issued for the construction of Aberdeen Business Park.

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from both voted and unvoted general property taxes levied on all taxable property located within the City. Tax monies will be received in, and the debt will be retired from, the General Obligation Bond Retirement Fund.

Special assessments bonds are payable from the proceeds of assessments against the specific property owners who primarily benefitted from the project. Special assessment monies will be received in, and the debt will be retired from, the Special Assessment Bond Retirement Fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

The Ohio Public Works Commission (OPWC) loans will be paid by revenues transferred from the General Fund. Compensated absences will be paid from the General Fund, the Street Construction, Maintenance, and Repair Fund, and the Parks and Recreation Fund.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

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

Legal Debt Margin

Under the Uniform Bond Act of the Ohio Revised Code, at December 31, 2010, the City's overall debt margin was \$34,351,208 with an unvoted debt margin of \$14,670,342.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2010, from the general resources of the City are as follows:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2011	\$ 679,641	\$ 361,797	\$ 260,359	\$ 178,061
2012	709,641	329,778	275,359	164,584
2013	645,517	296,173	289,483	149,992
2014	675,517	265,667	304,483	134,525
2015	716,394	233,541	318,606	118,137
2016-2020	2,807,586	672,772	1,812,413	308,010
2021-2025	1,095,000	173,455	-	-
2026-2030	130,000	6,500	-	-
Totals	\$ 7,459,296	\$ 2,339,683	\$ 3,260,703	\$ 1,053,309

Year	OPWC Loans		Total	
	Principal	Interest	Principal	Interest
2011	\$ 187,394	\$ -	\$ 1,127,394	\$ 539,858
2012	203,142	-	1,188,142	494,362
2013	203,142	-	1,138,142	446,165
2014	203,142	-	1,183,142	400,192
2015	203,142	-	1,238,142	351,678
2016-2020	1,012,081	-	5,632,080	980,782
2021-2025	232,997	-	1,327,997	173,455
2026-2030	157,485	-	287,485	6,500
2031	15,750	-	15,750	-
Totals	\$ 2,418,275	\$ -	\$ 13,138,274	\$ 3,392,992

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 14: **NORTHERN OHIO RISK MANAGEMENT ASSOCIATION**

The Northern Ohio Risk Management Association is a shared risk pool comprised of the Cities of Bedford Heights, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon, South Euclid, University Heights, and the Village of Chagrin Falls for the purpose of enabling its members to obtain property and liability insurance, including vehicle, 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 its initial entry date. After the initial three years, each City may extend its term by an additional three years.

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.

In 2010, the City of Highland Heights paid \$73,637 in premiums from the General Fund, which represents 4.87 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 Heights, Ohio, 44146.

NOTE 15: **RISK MANAGEMENT**

NORMA provides a pool of self-insurance for liability and property damage, vehicles, boiler and machinery, theft, bonding of city employees, and public officials' errors and omissions. The City's share of NORMA's claims and expenses are accounted among General Fund departments and other funds in proportion to the protection provided for the assets in those General Fund departments and other funds. 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.

Settled claims have not exceeded commercial coverage in any of the past three years. Also, there have been no significant reductions in the limits of liability.

All employees of the City are covered by a blanket bond, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage.

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

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 15: **RISK MANAGEMENT** (Continued)

The City provides medical, dental, and prescription benefits for all full-time employees. All payments are made from the General Fund based on amounts needed to pay prior and current year claims. Costs are based on actuarial estimations, demographics, and the City's claim history.

The medical and prescription benefits are provided through Anthem Blue Cross and Blue Shield from January 1 through December 31, 2010. Dental benefits are provided through Assurant. Payments are made from the General Fund on a monthly basis. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits through Anthem is \$327.90 for single coverage and \$981.08 for family coverage. The monthly premium for dental benefits is \$34.42 for single coverage and \$108.14 for family coverage.

NOTE 16: **CONTINGENT LIABILITIES**

The City is a defendant in a number of lawsuits. City management, after consultation with the City's Director of Law, is of the opinion that the ultimate disposition of such lawsuits will not result in a material adverse effect on the City's financial position.

NOTE 17: **JOINT VENTURE**

Tri-City Consortium on Aging Council of Governments

The Tri-City Consortium on Aging (Consortium) is a joint venture among the cities of Highland Heights, Lyndhurst, and South Euclid, formed for the purpose of coordinating among the cities all matters related to assistance and programs for the aged. Consortium revenues consist of contributions from the member cities and Federal grants. The governing board of the Consortium is a Council of Governments composed of the mayors of Highland Heights, Lyndhurst, and South Euclid, with the advice of a nine-member commission. Continued existence of the Consortium is dependent on the City; however, the City has no explicit and measurable equity interest in the Consortium. The Consortium is not accumulating financial resources or experiencing fiscal stress which would cause additional financial benefit to, or burden on, the City. In 2010, the City contributed \$89,612, which represents 17.2 percent of total revenue. To obtain a copy of the Consortium's financial statements, write to the Tri-City Consortium on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 18: **JOINTLY GOVERNED ORGANIZATION**

Eastern Suburban Regional Council of Governments

The Eastern Suburban Regional Council of Governments (ESCOG) was formed in 1972 to foster cooperation between member municipalities through sharing of facilities for mutual benefit. The governing body of ESCOG is a council comprised of one representative from each of the six participating municipalities. The Council operates in accordance with a written agreement establishing ESCOG pursuant to Ohio Revised Code Chapter 167.

The Council established one subsidiary organization, the Suburban Police Anti-Crime Network (SPAN), which provides for the mutual interchange and sharing of police personnel and police equipment to be utilized by all participating members.

The Council adopts a budget for ESCOG annually. Each member municipality's degree of control is limited to its representation on the Council. In 2010, the City contributed \$14,000, which represents 16.7 percent of the total contributions.

Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council ("NOPEC"). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each County then elect one person to serve on the eight-member NOPEC Board of Directors. The Board of Directors oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board of Directors. The City did not contribute to NOPEC in 2010. Financial information can be obtained by contacting NOPEC at 583 East Aurora Road, Macedonia, Ohio 44056.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 18: **JOINTLY GOVERNED ORGANIZATION** (Continued)

Mayfield Union Cemetery

The Mayfield Union Cemetery is a jointly governed organization among three local communities (the Village of Mayfield, the City of Highland Heights, and the City of Mayfield Heights). The jointly governed organization was formed based on the boundaries in relation to the cemetery. Each of the communities contributes a nominal fee for the maintenance of the cemetery. The Village of Mayfield assumes the daily accounting and reporting of the cemetery finances. The Cemetery Board consists of three Board members, with one council member appointed from each of the three communities. Financial information can be obtained by contacting the Director of Finance at the Village of Mayfield, 6621 Wilson Mills Road, Mayfield Village, Ohio 44143.

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

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

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

To the Members of City Council
City of Highland 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 Highland Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2010, which collectively comprise the City of Highland Heights, Ohio's basic financial statements and have issued our report thereon dated May 15, 2012. 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

Management of the City of Highland Heights, Ohio, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Highland 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 Highland Heights, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Highland Heights, Ohio's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Highland 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Highland Heights, Ohio, in a separate letter dated May 15, 2012.

This report is intended solely for the information and use of management, members of City Council, members of 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

May 15, 2012

**CITY OF HIGHLAND HEIGHTS, OHIO
STATUS OF PRIOR YEAR CITATIONS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2010**

The prior audit report, as of December 31, 2009 and 2008, included no citations. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



Dave Yost • Auditor of State

CITY OF HIGHLAND HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 10, 2012