

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

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2013**

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



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of University Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

May 27, 2014

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

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INDEPENDENT AUDITOR'S REPORT

To Members of City Council
City of University Heights, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Ohio, as of December 31, 2013, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, the Sewer Maintenance A Fund, and the Urban Redevelopment Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2014, on our consideration of the City of University Heights, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of University Heights, Ohio's internal control over financial reporting and compliance.

James G. Zupka
CPA, President

Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President,
o=James G. Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2014.05.14 08:56:58 -04'00'

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

April 10, 2014

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City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2013

The discussion and analysis of the City of University Heights's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2013. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2013 are as follows:

- The assets of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$15,712,786. Of this amount, \$6,888,092 may be used to meet the City's on-going obligations to citizens and creditors.
- The net position increased by \$4,748,782 from the prior year. Assets increased by \$4,400,425 and liabilities and deferred inflows of resources decreased by \$348,357.
- The total fund balance for the General Fund was \$3,778,603, an increase of \$220,449 from prior year.

Using this Annual Financial Report

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

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

Statement of Net Position and the Statement of Activities

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

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

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2013

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Fiduciary Funds

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

Notes to the Basic Financial Statements

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

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2013

Government-wide Financial Analysis – The City as a Whole

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

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

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

Table 1 provides a summary of the City's net position for 2013 as compared to 2012.

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012 *</u>
<u>Assets</u>		
Current and Other Assets	\$ 17,760,993	\$ 13,849,470
Capital Assets	<u>7,156,521</u>	<u>6,667,619</u>
Total Assets	<u>24,917,514</u>	<u>20,517,089</u>
<u>Liabilities</u>		
Long-term Liabilities	5,150,701	5,793,316
Other Liabilities	<u>1,386,705</u>	<u>1,011,449</u>
Total Liabilities	<u>6,537,406</u>	<u>6,804,765</u>
<u>Deferred Inflows of Resources</u>		
Property Taxes	2,397,322	2,463,320
Project	<u>270,000</u>	<u>285,000</u>
Total Deferred Inflows of Resources	<u>2,667,322</u>	<u>2,748,320</u>
<u>Net Position</u>		
Net Investment in Capital Assets	3,397,562	2,166,091
Restricted	5,427,132	3,012,017
Unrestricted	<u>6,888,092</u>	<u>5,785,896</u>
Total Net Position	<u>\$ 15,712,786</u>	<u>\$ 10,964,004</u>

* Restated

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2013

Total assets increased \$4,400,425. The majority of the increase was due to increases in equity in pooled cash and cash equivalents, income and property taxes receivable, special assessment receivable and Capital Assets. Total liabilities and deferred inflows of resources decreased by \$348,357, mainly due to debt payments. This decrease was offset by an increase in accounts payable.

A portion of the City's net position (21.62 percent) reflects the investments in capital assets less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (34.54 percent) represents resources that have been restricted on how they may be used. The remaining balance of unrestricted net position \$6,888,092 may be used to meet the government's on-going obligations to its citizens and creditors.

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City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2013

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

Table 2 - Change in Net Position

	Governmental Activities	
	2013	2012
Revenues		
Program Revenues:		
Charges for Services	\$ 2,140,037	\$ 1,710,953
Operating Grants and Contributions	459,085	479,820
Capital Grants and Contributions	2,639,105	3,152,608
General Revenues:		
Property Taxes	3,234,297	2,688,646
Income Taxes	9,673,350	9,095,313
Payments in lieu of taxes	1,586,553	1,505,490
Other Taxes	160,563	145,968
Grants and Entitlements	1,008,995	1,324,869
Investment earnings	(3,094)	8,518
Other	50,557	59,733
Total Revenues	20,949,448	20,171,918
Program Expenses		
Security of Persons and Property	7,646,142	7,645,672
Public Health and Welfare	51,990	51,950
Leisure Time Activities	345,052	314,947
Community Development	2,611,262	4,126,733
Basic Utility Services	2,787,996	2,114,107
Transportation	1,310,913	1,321,913
General Government	1,305,691	1,727,894
Interest and Fiscal Charges	141,620	93,502
Total Program Expenses	16,200,666	17,396,718
Increase in Net Position	4,748,782	2,775,200
Net Position, Beginning of Year, Restated	10,964,004	8,188,804
Net Position, End of Year	\$ 15,712,786	\$ 10,964,004

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2013

Total revenues increased \$777,530 or 3.85 percent mainly due to increases in property and income taxes in 2013 and offset by the decrease in capital grants and contributions. The City's largest revenue source is income tax. The City's income tax rate is 2.5 percent of gross income. There is a credit of 1.0 percent for those residents who work in another municipality/subdivision where income tax is withheld. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2013, the income tax revenue was \$9,673,350. Another major revenue source is property taxes. The effective tax rate for 2013 was \$13.20 per \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by the City, Cuyahoga County, Cleveland Heights-University Heights City School District and Cleveland Heights-University Heights Public Library. During 2013, the property tax revenue was \$3,234,297. The City received \$1,586,553 in payments in lieu of taxes from the University Square Tax Increment Financing Project. This was the fourth year in which revenue was generated from the project.

Total program expenses decreased by \$1,196,052 or 6.88 percent in 2013 when compared to 2012. This decrease can be attributed mainly to a decrease in community development expense of \$1,515,471 due to the non-payment of assessments which the City would then forward to the Trustee related to the University Square Parking Garage. This decrease can also be attributed to a decrease in general government expense of \$422,203 and is offset by an increase in the basic utility expense of \$673,889.

Expenses are categorized by functions. The largest program expense, security of persons and property which includes police, fire, police and fire communications, traffic control, animal control, and public safety, was 47.20 percent of the total governmental expenses. Training plays a crucial role in keeping up with the rapidly changing laws, practices and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The second largest program expense is basic utility service and represents 17.21 percent of the total governmental expenses. This program expense is made up of the sanitation department and the sewer maintenance. The City is a labor intensive industry and the expenses of the governmental activities are mainly salaries, wages and benefits. The City does have an annual road program which entails major and minor resurfacing of the various streets in University Heights. For the major resurfacing projects, the City has actively pursued grants and financial assistance from the Ohio Public Works Commission and the Ohio Water Development Authority. In addition, the City borrows on the open market by way of general obligation notes issued, which are rolled over year to year until paid down.

The City's Funds

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

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

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2013

As of the end of the year, the City's governmental funds reported combined ending fund balances of \$6,842,360, an increase of \$1,599,656 in comparison with the prior year. \$3,667,604 of the ending combined fund balance for 2013 constitutes *assigned and unassigned fund balance* combined, which is available for spending at the governments discretion. The remainder of fund balance is *nonspendable, restricted, or committed* to indicate that it is not available for new spending because it is not in spendable form or it has already been restricted or committed by external or internal constraints.

The General Fund is the main operating fund of the City. At the end of 2013, total fund balance for the General Fund was \$3,778,603. The General Fund balance increased by \$220,449 during the current fiscal year.

General Fund Budgeting Highlights

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

The original and final appropriations, including other financing uses were the same in the amount of \$15,435,715. The actual charges to appropriations (expenditures) were \$1,417,170 below the final budgeted amount for the General Fund mostly due to the operating efficiencies and lower than expected retirements from police and fire personnel.

Capital Assets and Debt Administration

Capital Assets

At the end of 2013, the City of University Heights had \$6,911,525 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, furniture and fixtures and vehicles.

Table 3 shows fiscal 2013 balances of capital assets as compared to 2012:

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

	Governmental Activities	
	2013	2012
Land	\$ 985,954	\$ 985,954
Construction-in-progress	244,996	-
Buildings and Improvements	919,337	936,166
Vehicles	433,188	401,459
Equipment	281,288	216,521
Infrastructures:		
Pavement	3,039,800	2,856,671
Storm Sewers	172,899	176,660
Sanitary Sewers	1,079,059	1,094,188
Total Capital Assets	\$ 7,156,521	\$ 6,667,619

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2013

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

During 2013, the City purchased vehicles and equipment for \$277,991. The City paid for the demolition of the Fuchs-Mizarchi school at a cost of 229,901. The City also reconditioned the Tennis Courts at Purvis Park at a cost of \$74,495 and street pavement of Washington from Cedar to Silsby, East Carroll from Washington to Green, and Silsby from Warrensville Center to Miramar. More detailed information about the City's capital assets is presented in Note 8 to the financial statements.

Debt

At December 31, 2013, the City of University Heights had \$4,011,103 in outstanding debt, of which \$2,420,000 was in general obligation bonds. Table 4 summarizes the outstanding debt obligations of the City.

Table 4 - Outstanding Debt at December 31

	Governmental Activities	
	2013	2012 *
General Obligation Bonds	\$ 2,420,000	\$ 275,000
General Obligation Bond Anticipation Notes	-	2,280,000
OPWC Loans	718,888	750,467
SIB Loan	459,402	528,302
Promissory Note	100,000	300,000
Accrued Police Pension	252,144	259,228
Capital leases	60,669	160,759
Total Outstanding Debt	\$ 4,011,103	\$ 4,553,756

* Restated

The City paid \$135,000 on principal for general obligation bonds on the Purvis Park Pool and paid off the existing general obligation bond anticipation notes of \$2,487,000 with the issuance of general obligation bonds in the amount of \$2,280,000.

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

The City paid \$68,900 on principal for the State Infrastructure Bank Loan for reconstruction of University Parkway.

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2013

On June 14, 2012 the City purchased Fuchs Mizrachi school property. A promissory note of \$600,000 was issued with payments of \$300,000 in 2012, \$200,000 in 2013 and \$100,000 in 2014 with an interest rate of 0%.

Other obligations include accrued police pension liability, accrued compensated absences, OPWC loans, and capital leases. More detailed information about the City's long-term liabilities is presented in Notes 11 and 13 to the basic financial statements.

Current Related Financial Activities

In preparing for the budget for 2014, the City recognizes the economic downturn as a factor still affecting operations. Budget projections include no increase in income tax collections and stable wage costs. The City expects its budgetary constraints to continue based upon decisions made by the State including the elimination of estate tax revenues. To maintain the integrity of the budget in 2014, the City will continue to control spending, continue applying for grant funding to finance capital projects and continue a policy of "pay as you go" for capital expenditures. With no unforeseen impacts to revenue or expenses, the City anticipates the General Fund balance to remain consistent in 2014.

Contacting the City of University Heights's Finance Department

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

Basic Financial Statements

City of University Heights, Ohio
Statement of Net Position
December 31, 2013

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 6,353,683
Materials and Supplies Inventory	88,974
Accounts Receivable	293,755
Accrued Interest Receivable	3,499
Intergovernmental Receivable	552,045
Project Loan receivable	270,000
Prepaid Items	60,371
Income Taxes Receivable	4,733,235
Property and Other Taxes Receivable	3,144,669
Special Assessments Receivable	2,260,762
Nondepreciable Capital Assets	1,230,950
Depreciable Capital Assets	5,925,571
Total Assets	24,917,514
LIABILITIES	
Accounts Payable	671,590
Accrued Wages and Benefits	180,443
Intergovernmental Payable	365,466
Matured Compensated Absences Payable	33,950
Accrued Interest Payable	11,630
Retainage Payable	42,940
Unearned Revenue	80,686
Long-term Liabilities:	
Due within one year	1,234,482
Due in more than one year	3,916,219
Total Liabilities	6,537,406
DEFERRED INFLOWS OF RESOURCES	
Property Taxes	2,397,322
Project Loan Revenue	270,000
Total Deferred Inflows of Resources	2,667,322
NET POSITION	
Net Investment in Capital Assets	3,397,562
Restricted for:	
Debt Services	1,115,708
Capital Projects	303,509
Sewer Maintenance	1,780,790
Community Development	894,510
Street Maintenance and Lighting	1,086,626
Other Purposes	245,989
Unrestricted	6,888,092
Total Net Position	\$ 15,712,786

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

City of University Heights, Ohio
Statement of Activities
For the Year Ended December 31, 2013

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in Net</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Position</u>
					<u>Governmental</u>
					<u>Activities</u>
Primary Government:					
Governmental Activities:					
Security of Persons and Property	\$ 7,646,142	\$ 532,083	\$ 7,700	\$ 40,000	\$ (7,066,359)
Public Health and Welfare	51,990	-	-	-	(51,990)
Leisure Time Activities	345,052	88,448	-	-	(256,604)
Community Development	2,611,262	988,994	21,368	-	(1,600,900)
Basic Utility Services	2,787,996	370,676	-	2,599,105	181,785
Transportation	1,310,913	-	430,017	-	(880,896)
General Government	1,305,691	159,836	-	-	(1,145,855)
Interest and Fiscal Charges	141,620	-	-	-	(141,620)
Total Governmental Activities	<u>\$ 16,200,666</u>	<u>\$ 2,140,037</u>	<u>\$ 459,085</u>	<u>\$ 2,639,105</u>	<u>(10,962,439)</u>
General Revenues:					
Property Taxes levied for:					
General Purposes					2,577,654
Debt Service Purpose					509,793
Special Revenue					146,850
Payments in Lieu of taxes					1,586,553
Income Taxes levied for:					
General Purposes					9,673,350
Other Taxes					160,563
Grants & Entitlements not restricted to specific programs					1,008,995
Investment Income					(3,094)
All Other Revenues					50,557
Total General Revenues					<u>15,711,221</u>
Change in Net Position					4,748,782
Net Position - Beginning of Year, Restated					10,964,004
Net Position - End of Year					<u>\$ 15,712,786</u>

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

City of University Heights, Ohio
Balance Sheet – Governmental Funds
December 31, 2013

	General Fund	Sewer Maintenance A	General Bond Retirement	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in Pooled Cash and Cash Equivalents	\$ 2,712,726	\$ 1,224,205	\$ 417,462	\$ 1,999,290	\$ 6,353,683
Materials and Supplies Inventory	51,334	-	-	37,640	88,974
Accrued Interest Receivable	3,499	-	-	-	3,499
Accounts Receivable	292,955	-	-	800	293,755
Intergovernmental Receivable	318,203	-	33,111	200,731	552,045
Prepaid Items	59,229	82	-	1,060	60,371
Income Taxes Receivable	4,733,235	-	-	-	4,733,235
Property and Other Taxes Receivable	2,524,138	-	478,461	142,070	3,144,669
Special Assessments Receivable	82,575	1,012,324	-	1,165,863	2,260,762
Project Loan Receivable	270,000	-	-	-	270,000
Total Assets	\$ 11,047,894	\$ 2,236,611	\$ 929,034	\$ 3,547,454	\$ 17,760,993
LIABILITIES					
Accounts Payable	\$ 128,466	\$ 450,024	\$ -	\$ 93,100	\$ 671,590
Accrued Wages and Benefits	174,288	1,758	-	4,397	180,443
Intergovernmental Payable	275,427	4,039	-	86,000	365,466
Matured Compensated Absences Payable	33,950	-	-	-	33,950
Retainage Payable	-	-	-	42,940	42,940
Unearned Revenue	80,686	-	-	-	80,686
Total Liabilities	692,817	455,821	-	226,437	1,375,075
DEFERRED INFLOWS OF RESOURCES					
Property Taxes and Project Revenue	2,188,892	-	368,778	109,652	2,667,322
Unavailable Revenue - Delinquent Property Taxes	567,325	-	109,683	32,418	709,426
Unavailable Revenue - Income Taxes	3,243,370	-	-	-	3,243,370
Unavailable Revenue - Special Assessments	82,575	1,012,324	-	1,165,863	2,260,762
Unavailable Revenue - Other	494,312	-	33,111	135,255	662,678
Total Deferred Inflows of Resources	6,576,474	1,012,324	511,572	1,443,188	9,543,558
FUND BALANCES					
Nonspendable	110,563	82	-	38,700	149,345
Restricted	-	768,384	417,462	1,839,129	3,024,975
Committed	436	-	-	-	436
Assigned	2,609,730	-	-	-	2,609,730
Unassigned	1,057,874	-	-	-	1,057,874
Total Fund Balances	3,778,603	768,466	417,462	1,877,829	6,842,360
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 11,047,894	\$ 2,236,611	\$ 929,034	\$ 3,547,454	\$ 17,760,993

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

City of University Heights, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2013

Total Governmental Fund Balances		\$ 6,842,360
<i>Amounts reported for Governmental Activities in the Statement of Net Position are different because:</i>		
Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds.		7,156,521
Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable revenue in the funds:		
Property taxes	709,426	
Income taxes	3,243,370	
Special assessments	2,260,762	
Intergovernmental	499,639	
Charges for services	163,039	
Total		6,876,236
In the Statement of Activities, interest is accrued on outstanding debt, whereas in Governmental funds, an interest expenditure is reported when due.		(11,630)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	(2,420,000)	
OPWC loans	(718,888)	
Promissory Note	(100,000)	
SIB Loan	(459,402)	
Accrued police pension	(252,144)	
Capital leases	(60,669)	
Compensated absences	(1,139,598)	
Total		(5,150,701)
Net Position of Governmental Activities		\$ 15,712,786

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

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended December 31, 2013

	General Fund	Sewer Maintenance A	Urban Redevelopment	General Bond Retirement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 2,169,181	\$ -	\$ -	\$ 431,880	\$ 123,510	\$ 2,724,571
Income Taxes	8,994,150	-	-	-	-	8,994,150
Payments in lieu of taxes	-	-	1,586,553	-	-	1,586,553
Other Taxes	160,563	-	-	-	-	160,563
Intergovernmental	1,109,875	1,135,694	-	66,222	517,536	2,829,327
Interest	(3,103)	-	-	-	9	(3,094)
Fines, Licenses and Permits	657,494	-	-	-	70,411	727,905
Charges for Services	517,381	-	-	-	-	517,381
Special Assessments	51,713	417,374	413,421	-	476,577	1,359,085
All Other Revenues	50,557	-	-	-	-	50,557
Total Revenues	13,707,811	1,553,068	1,999,974	498,102	1,188,043	18,946,998
EXPENDITURES						
Security of Persons and Property	6,743,570	-	-	-	1,007,220	7,750,790
Public Health and Welfare	51,990	-	-	-	-	51,990
Leisure Time Activities	272,538	-	-	-	-	272,538
Community Development	530,622	-	1,984,006	-	91,407	2,606,035
Basic Utility Services	1,037,719	1,509,821	-	-	193,769	2,741,309
Transportation	398,838	-	-	-	418,017	816,855
General Government	1,287,678	-	15,968	-	913	1,304,559
Capital Outlay	-	-	-	-	1,110,834	1,110,834
Debt Service:						
Principal Retirement	56,723	-	-	2,483,900	282,030	2,822,653
Interest and Fiscal Charges	4,826	-	-	98,439	14,514	117,779
Bond Issuance Costs	-	-	-	17,000	15,000	32,000
Total Expenditures	10,384,504	1,509,821	1,999,974	2,599,339	3,133,704	19,627,342
Excess of Revenues Over (Under) Expenditures	3,323,307	43,247	-	(2,101,237)	(1,945,661)	(680,344)
OTHER FINANCING SOURCES (USES)						
General Obligation Bond Issued	-	-	-	2,280,000	-	2,280,000
Transfer In	46,500	-	-	265,000	2,884,358	3,195,858
Transfer Out	(3,149,358)	-	-	-	(46,500)	(3,195,858)
Total Other Financing Sources (Uses)	(3,102,858)	-	-	2,545,000	2,837,858	2,280,000
Net Change in Fund Balances	220,449	43,247	-	443,763	892,197	1,599,656
Fund Balances - Beginning of Year	3,558,154	725,219	-	(26,301)	985,632	5,242,704
Fund Balances - End of Year	\$ 3,778,603	\$ 768,466	\$ -	\$ 417,462	\$ 1,877,829	\$ 6,842,360

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

City of University Heights, Ohio
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 1,599,656

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

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

Capital outlay	\$ 1,062,386	
Depreciation	<u>(501,388)</u>	
Total		560,998

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. (72,096)

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

Property taxes	509,726	
Income taxes	679,200	
Special assessments	1,005,123	
Intergovernmental	(105,753)	
Charges for services	<u>(85,846)</u>	
Total		2,002,450

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of general obligation bonds. (2,280,000)

Repayment of various debt principal are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 2,822,653

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	99,962	
Accrued interest	<u>15,159</u>	
Total		115,121

Change in Net Position of Governmental Activities \$ 4,748,782

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

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP Budgetary Basis) – General Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over (Under)
REVENUES:				
Property and other local taxes	\$ 2,298,883	\$ 2,424,245	\$ 2,331,195	\$ (93,050)
Income Taxes	8,250,108	8,700,000	9,143,769	443,769
Intergovernmental	1,091,276	1,150,785	1,066,834	(83,951)
Charges for Services	591,272	623,515	612,687	(10,828)
Licenses, permits and fees	615,932	649,520	661,822	12,302
Special Assessments	58,794	62,000	51,713	(10,287)
Investment Income	11,379	12,000	12,219	219
Miscellaneous	49,548	52,250	44,856	(7,394)
Total Revenues	<u>12,967,192</u>	<u>13,674,315</u>	<u>13,925,095</u>	<u>250,780</u>
EXPENDITURES:				
Current:				
General Government	1,836,281	1,836,281	1,755,831	80,450
Security of Persons and Property	7,706,626	7,706,626	6,682,944	1,023,682
Basic Utility Services	1,170,367	1,170,367	1,051,049	119,318
Transportation	464,932	464,932	421,451	43,481
Public Health and Welfare	52,800	52,800	51,990	810
Community Development	713,788	713,788	602,676	111,112
Leisure Time Activities	319,666	319,666	281,759	37,907
Principal Repayment	56,723	56,723	56,723	-
Interest and Fiscal Charges	4,826	4,826	4,826	-
Total Expenditures	<u>12,326,009</u>	<u>12,326,009</u>	<u>10,909,249</u>	<u>1,416,760</u>
Excess of Revenues over Expenditures	<u>641,183</u>	<u>1,348,306</u>	<u>3,015,846</u>	<u>1,667,540</u>
OTHER FINANCING SOURCES (USES):				
Sale of Capital Assets	1,500	1,500	5,206	3,706
Transfers In	297,987	297,987	46,500	(251,487)
Transfers Out	(3,109,706)	(3,109,706)	(3,109,706)	-
Total Other Financing Sources and Uses	<u>(2,810,219)</u>	<u>(2,810,219)</u>	<u>(3,058,000)</u>	<u>(247,781)</u>
Net Change in Fund Balance	(2,169,036)	(1,461,913)	(42,154)	1,419,759
Fund Balances, Beginning of Year	2,056,277	2,056,277	2,056,277	-
Prior Year Encumbrances Appropriated	161,931	161,931	161,931	-
Fund Balances, End of Year	<u>\$ 49,172</u>	<u>\$ 756,295</u>	<u>\$ 2,176,054</u>	<u>\$ 1,419,759</u>

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

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP Budgetary Basis) – Sewer Maintenance A Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over (Under)
REVENUES:				
Special Assessments	\$ 510,000	\$ 510,000	\$ 417,374	\$ (92,626)
Intergovernmental	-	1,043,068	1,135,694	92,626
Total Revenues	<u>510,000</u>	<u>1,553,068</u>	<u>1,553,068</u>	<u>-</u>
EXPENDITURES:				
Current:				
Basic Utility Services	1,055,310	2,175,310	1,505,477	669,833
Total Expenditures	<u>1,055,310</u>	<u>2,175,310</u>	<u>1,505,477</u>	<u>669,833</u>
Net Change in Fund Balance	(545,310)	(622,242)	47,591	669,833
Fund Balances, Beginning of Year	596,397	596,397	596,397	-
Prior Year Encumbrances Appropriated	138,979	138,979	138,979	-
Fund Balances, End of Year	<u>\$ 190,066</u>	<u>\$ 113,134</u>	<u>\$ 782,967</u>	<u>\$ 669,833</u>

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

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP Budgetary Basis) – Urban Redevelopment Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over (Under)
REVENUES:				
Payment In Lieu of Taxes	\$ 1,192,500	\$ 1,586,553	\$ 1,586,553	-
Special Assessments	2,400,000	413,421	413,421	-
Total Revenues	<u>3,592,500</u>	<u>1,999,974</u>	<u>1,999,974</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	15,968	15,968	15,968	-
Community Development	<u>3,576,532</u>	<u>3,576,532</u>	<u>1,984,006</u>	<u>1,592,526</u>
Net Change in Fund Balance	-	(1,592,526)	-	1,592,526
Fund Balances, Beginning of Year	-	-	-	-
Fund Balances (Deficit), End of Year	<u>\$ -</u>	<u>\$ (1,592,526)</u>	<u>\$ -</u>	<u>\$ 1,592,526</u>

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

City of University Heights, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2013

	<u>Agency Funds</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 346,306
Total Assets	<u>\$ 346,306</u>
LIABILITIES	
Deposits Held and Due to Others	\$ 346,306
Total Liabilities	<u>\$ 346,306</u>

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

City of University Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

NOTE 1: **The Reporting Entity**

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

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

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

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

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

A. **Basis of Presentation**

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

Government-Wide Financial Statements

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

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

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

Fund Financial Statements

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

B. **Fund Accounting**

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

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

B. Fund Accounting (Continued)

Urban Redevelopment Special Revenue Fund - The Urban Redevelopment Tax Increment Equivalent Special Revenue Fund is used to collect service payments made in lieu of taxes and distributed to the Cleveland-Cuyahoga County Port Authority and Cleveland Heights-University Heights City School District.

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

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

C. **Measurement Focus** (Continued)

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

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

D. **Basis of Accounting**

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

Revenues - Exchange and Non-Exchange Transactions

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

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

D. Basis of Accounting (Continued)

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, there were no deferred outflows of resources in 2013.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, project revenue and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2013, but which were levied to finance year 2014 operations and project revenue represents imposed nonexchange revenues. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, and other. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

Expenses/Expenditures

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

E. Budgetary Process

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

E. **Budgetary Process** (Continued)

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

F. **Cash and Cash Equivalents**

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

During 2013, the portfolio was limited to a money market mutual fund, negotiable certificates of deposits, federal agencies and State Treasury Asset Reserve of Ohio (STAR Ohio).

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2013.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2013 amounted to (\$3,103), which includes \$(1,854) assigned from other funds. GASB Statement No. 31 requires the change in fair value to be reported as revenue. During 2013, the change in fair value decreased the City's total investments by \$17,285. This decrease of the change in fair value resulted in the City presenting a negative amount in interest income on the financial statements.

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

G. **Inventory**

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2013, are recorded as prepaid items using the allocation method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

I. Capital Assets

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

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

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

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

J. Interfund Balances

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

K. Accrued Liabilities and Long-Term Obligations

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

K. Accrued Liabilities and Long-Term Obligations (Continued)

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

L. Compensated Absences

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

The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at December 31, 2013.

M. Fund Balance

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

M. **Fund Balance** (Continued)

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

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

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

N. **Net Position**

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

The government-wide statement of net position reports \$5,427,132 of the restricted component of net position, none of which is restricted by enabling legislation. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

O. **Interfund Activity**

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

P. 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 2013.

Q. Estimates

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

NOTE 3: **Change in Accounting Principles and Restatement of Prior Period's Net Position**

A. Change in Accounting Principles

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012 and have been implemented by the City.

GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented by the City.

B. Restatement of Prior Period's Net Position

A restatement of prior period's governmental activities' net position was necessary to record the OPWC Meadowbrook Rehabilitation Phase II Loan. The restatement is as follows:

	Governmental Activities
Net Position, December 31, 2012	\$11,343,845
Restatement:	
OPWC Loan	(379,841)
Restated Net Position, December 31, 2012	\$ 10,964,004

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

NOTE 4: Fund Balances

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

	General	Sewer Maintenance A	General Bond Retirement	Other Governmental Funds	Total
Components of Fund Balance:					
<i>Nonspendable</i>					
Prepaid Items	\$ 59,229	\$ 82	\$ -	\$ 1,060	\$ 60,371
Inventories	51,334	-	-	37,640	88,974
<i>Total Nonspendable</i>	<u>110,563</u>	<u>82</u>	<u>-</u>	<u>38,700</u>	<u>149,345</u>
<i>Restricted</i>					
Streets and Highways	-	-	-	544,695	544,695
Law Enforcement	-	-	-	132,083	132,083
Sewers	-	768,384	-	-	768,384
Street Lighting	-	-	-	15,153	15,153
Tree Improvement	-	-	-	396,328	396,328
Recycling	-	-	-	10,000	10,000
Community	-	-	-	51,924	51,924
Energy Projects	-	-	-	51,487	51,487
General Bond Retirement	-	-	417,462	-	417,462
Sewer Bond Retirement	-	-	-	333,950	333,950
Capital Improvements	-	-	-	303,509	303,509
<i>Total Restricted</i>	<u>-</u>	<u>768,384</u>	<u>417,462</u>	<u>1,839,129</u>	<u>3,024,975</u>
<i>Committed to</i>					
Sick Leave Benefits	436	-	-	-	436
<i>Total Committed</i>	<u>436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>436</u>
<i>Assigned</i>					
Fiscal Year 2014 Appropriations	2,172,949	-	-	-	2,172,949
Purchases on Order	436,385	-	-	-	436,385
Off street parking	396	-	-	-	396
<i>Total Assigned</i>	<u>2,609,730</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,609,730</u>
<i>Unassigned</i>					
	<u>1,057,874</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,057,874</u>
Total Fund Balance	<u>\$ 3,778,603</u>	<u>\$ 768,466</u>	<u>\$ 417,462</u>	<u>\$ 1,877,829</u>	<u>\$6,842,360</u>

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

NOTE 5: Budgetary Basis of Accounting

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

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

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

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

Net Change in Fund Balance		
	General	Sewer Maintenance A
GAAP Basis	\$ 220,449	\$ 43,247
Increase (Decrease) Due to:		
Revenue Accruals	113,685	-
Expenditure Accruals	177,247	445,581
Net Impact of Encumbrances	<u>(553,125)</u>	<u>(441,237)</u>
Budgetary Basis	<u>\$ (41,744)</u>	<u>\$ 47,591</u>

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

NOTE 6: **Deposits and Investments**

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

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

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

Deposits

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

At year-end, the carrying amount of the City's deposits was \$3,606,385 and the bank balance was \$3,734,896. Of the bank balance, \$1,086,739 was covered by Federal depository insurance and \$2,648,157 was uninsured and collateralized with securities held by the pledging institution's trust department, not in the City's name.

Investments

Investments are reported at fair value. As of December 31, 2013, the city had the following investments:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			<1	1-3	3-5
<u>Investment Type:</u>					
Money Market Mutual Fund	\$ 67,154	N/A	\$ 67,154	\$ -	\$ -
Negotiable CD's	1,493,665	N/A	-	999,158	494,507
U.S. Agencies	1,532,785	Aaa/AA+	-	-	1,532,785
Total Investments	<u>3,093,604</u>		<u>\$ 67,154</u>	<u>\$ 999,158</u>	<u>\$ 2,027,292</u>

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

Investments (Continued)

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

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

NOTE 7: **Receivables**

A. **Property Taxes**

Property taxes include amounts levied against all real property and public utility tangible personal property located in the City. Property tax revenue received during 2013 for real and public utility property taxes represents collections for 2012 taxes. Property tax payments received during 2013 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

Real property taxes (other than public utility property) are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by the Cuyahoga County Auditor at 35 percent of the appraised market value, and reappraisal of all property is required every six years with a triennial update. The last reappraisal was completed for tax year 2012 affecting collections beginning in 2013.

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

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

Tangible personal property used in business (except for public utilities) was phased out – the assessment percentage for all property including inventory for 2010 is zero. Amounts for prior year unpaid tangible personal property taxes may still be collected. Under Ohio law, personal property taxes do not attach as a lien on the personal property.

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

NOTE 7: **Receivables** (Continued)

The tax rate levied to finance the City's services for the year ended December 31, 2013 was \$13.20. The assessed values of real and public utility property upon which 2013 property tax receipts were based are as follows:

Property Category	Assessed Value
Residential/agricultural	\$ 213,489,440
Commerical/industrial	27,462,400
Public Utility	2,866,190
Total	\$ 243,818,030

B. Income Taxes

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

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

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Revenue Description	Amount
Local Government	\$ 152,649
Homestead and Rollback	208,125
Gasoline and Auto Registration tax	185,815
Permissive tax and Liquor Permits	5,456
Total	\$ 552,045

D. Project Loan Receivables

The City has a long-term project development agreement related to the City's TIF Project. Accounts receivable for the project is due in annual installments on the first business day of January through 2032 in the amount of \$15,000. As of December 31, 2013, \$270,000 is outstanding.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

NOTE 8: **Capital Assets**

Capital asset activity for government the year ended December 31, 2013, was as follows:

	Balance 12/31/2012	Additions	Deletions	Balance 12/31/2013
<u>Governmental Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 985,954	\$ -	\$ -	\$ 985,954
Construction in progress	-	244,996	-	244,996
Total non-depreciable assets	<u>985,954</u>	<u>244,996</u>	<u>-</u>	<u>1,230,950</u>
Capital Assets, being depreciated:				
Buildings and Improvements	2,016,824	98,165	(77,810)	2,037,179
Vehicles	3,193,764	149,712	(176,801)	3,166,675
Equipment	1,281,190	128,279	(17,299)	1,392,170
Infrastructure:				
Pavement	5,046,827	441,234	-	5,488,061
Storm Sewers	230,271	-	-	230,271
Sanitary Sewers	1,235,057	-	-	1,235,057
Total Capital Assets, being depreciated	<u>13,003,933</u>	<u>817,390</u>	<u>(271,910)</u>	<u>13,549,413</u>
Less Accumulated depreciation:				
Buildings and Improvements	(1,080,658)	(46,780)	9,596	(1,117,842)
Vehicles	(2,792,305)	(114,447)	173,265	(2,733,487)
Equipment	(1,064,669)	(63,166)	16,953	(1,110,882)
Infrastructure:				
Pavement	(2,190,156)	(258,105)	-	(2,448,261)
Storm Sewers	(53,611)	(3,761)	-	(57,372)
Sanitary Sewers	(140,869)	(15,129)	-	(155,998)
Total Accumulated depreciation	<u>(7,322,268)</u>	<u>(501,388)</u>	<u>199,814</u>	<u>(7,623,842)</u>
Total Capital Assets being depreciated, net	<u>5,681,665</u>	<u>316,002</u>	<u>(72,096)</u>	<u>5,925,571</u>
Governmental Activities Capital Assets, net	<u>\$ 6,667,619</u>	<u>\$ 560,998</u>	<u>\$ (72,096)</u>	<u>\$ 7,156,521</u>

Depreciation expense was charged to governmental activities as follows:

Security of Persons and Property	\$ 6,733
Leisure Time Activities	418
Community Development	581
Basic Utility Services	38,176
Transportation	452,926
General Government	2,554
	<u>\$ 501,388</u>

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

NOTE 9: **Pension Plans**

A. Ohio Public Employees Retirement System

The City of University Heights participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional 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 the 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, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Plan Benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.html>, writing to OPERS, 277 E. Town St., 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 2013, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only with the Traditional Pension Plan. For the year ended December 31, 2013, members in state and local classifications contributed 10.00 percent of covered payroll while public safety and law enforcement members contributed 12.00 percent and 12.60 percent, respectively; however, no police or fire officers of the City are members of OPERS.

The City's required contributions for pension obligations, excluding the health care portion, to all three plans for the years ended December 31, 2013, 2012, and 2011 were \$281,977, \$235,880, and \$240,980, respectively; 91.06 percent has been contributed for 2013 and 100 percent for 2012 and 2011.

In June 2012, the Governmental Accounting Standards Board (GASB) issue GASB Statement No. 68, Accounting and Financial Reporting for Pensions. This accounting standard replaces GASB Statement 27, and it is effective for employer fiscal years beginning after June 15, 2014. OPERS recommends employers begin a dialog with their external auditors to determine the impact this standard will have on employer financial statements.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

B. Ohio Police and Fire Pension Fund

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

From Jan. 1, 2013 thru July 1, 2013, plan members are required to contribute 10.00 percent of their annual covered salary. From July 2, 2013 thru Dec. 31, 2013, plan members were required to contribute 10.75 percent of their annual covered salary. Throughout 2013, Employers were required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. The City's contributions to the OP&F for police and firefighters were \$356,697 and \$443,208, respectively, for the year ended December 31, 2013, \$297,057 and \$392,577, respectively, for the year ended December 31, 2012, and \$280,672 and \$403,768, respectively, for the year ended December 31, 2011. The full amount has been contributed for 2012 and 2011. For 2013, 91.50 percent for police and 92.67 percent for firefighters has been contributed, with the remainder being reported as a liability.

NOTE 10: **Post-Employment Benefits**

A. Ohio Public Employees Retirement System

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

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care 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-retirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor 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. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.html>, writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling 614-222-5601 or 800-222-7377.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care coverage 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 coverage. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, the City's contribution rate was 14.0 percent of covered payroll for local employees and 18.1 percent of covered payroll for law enforcement and public safety employees; no police or fire officers of the City are members of OPERS. 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 the post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 1.0 percent during calendar year 2013. Effective January 1, 2014, the portion of the employer contributions allocated to healthcare was raised to 2 percent as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care for the years ended December 31, 2013, 2012, and 2011 were \$21,691, \$94,352, and \$96,392, respectively; 91.06 percent has been contributed for 2013 and 100 percent for 2012 and 2011.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions towards the health care fund after the end of the transition period.

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

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or 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.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

B. Ohio Police and Fire Pension Fund (Continued)

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

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

The Ohio Revised Code provides for contribution requirements of the participating employers and of the 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, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of the covered payroll for police employer units and 24.0 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, 2012, the employer contribution allocated to the health care plan was 4.69 percent of covered payroll from January 1, 2013 thru May 31, 2013 and 2.85 percent of covered payroll from June 1, 2013 thru December 31, 2013. The amount of employer contribution 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 Sections 115 and 401(h).

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

The City's contributions to OP&F for police and fire for the years ending December 31, 2013, 2012, and 2011 were \$80,782 and \$78,995, \$157,265 and \$153,617, and \$148,591 and \$157,996, respectively. For 2013, 91.50 percent for police and 92.67 percent for firefighters has been contributed, with the remainder being reported as a liability. The full amount has been contributed for 2012 and 2011.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

NOTE 11: Long-Term Obligations

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2013 was as follows:

	Restated Balance 12/31/2012	Additions	Retired	Balance 12/31/2013	Due Within One Year
General Obligation Bonds					
6.25% 1995 Purvis Park Improvement Series A & B	\$ 275,000	\$ -	\$ 135,000	\$ 140,000	\$ 140,000
2.40% 2013 Various Purpose Bonds		2,280,000		2,280,000	225,000
Total General Obligation Bonds	<u>275,000</u>	<u>2,280,000</u>	<u>135,000</u>	<u>2,420,000</u>	<u>365,000</u>
General Obligation Notes					
1.125% Various Purpose General Obligation Bond Anticipation Notes	2,280,000	-	2,280,000	-	-
Total General Obligation Notes	<u>2,280,000</u>	<u>-</u>	<u>2,280,000</u>	<u>-</u>	<u>-</u>
OPWC Loans					
0.00% Issue II Loan	178,686	-	17,869	160,817	17,869
0.00% Meadowbrook Sanitary Sewer	191,940	-	13,710	178,230	13,710
0.00% Meadowbrook Rehabilitation Phase II	379,841	-	-	379,841	18,992
Total OPWC Loans	<u>750,467</u>	<u>-</u>	<u>31,579</u>	<u>718,888</u>	<u>50,571</u>
Other Obligations					
SIB Loan	528,302	-	68,900	459,402	70,982
Promissory Note	300,000	-	200,000	100,000	100,000
Accrued Police Pension	259,228	-	7,084	252,144	7,389
Capital leases payable	160,759	-	100,090	60,669	40,191
Accrued Compensated Absences	1,239,560	479,223	579,185	1,139,598	600,349
Total Other Obligations	<u>2,487,849</u>	<u>479,223</u>	<u>955,259</u>	<u>2,011,813</u>	<u>818,911</u>
Total Long-Term Liabilities	<u>\$ 5,793,316</u>	<u>\$2,759,223</u>	<u>\$3,401,838</u>	<u>\$ 5,150,701</u>	<u>\$1,234,482</u>

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

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

Principal and interest requirement to retire the long-term debt obligations outstanding at December 31, 2013 were as follows:

Year	Governmental Activities						
	General Obligation Bonds		OPWC Loans	SIB Loan		Accrued Pension Liability	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest
2014	\$ 365,000	\$ 63,400	\$ 50,571	\$ 70,982	\$ 13,254	\$ 7,389	\$ 10,634
2015	235,000	49,320	50,571	73,128	11,108	7,706	10,317
2016	245,000	43,680	50,571	75,338	8,898	8,037	9,986
2017	245,000	37,800	50,571	77,615	6,621	8,382	9,641
2018	250,000	31,920	50,571	79,961	4,275	8,742	9,281
2019-2023	1,080,000	65,520	234,982	82,378	1,858	49,677	40,438
2024-2028	-	-	136,090	-	-	61,302	28,811
2029-2033	-	-	94,961	-	-	75,647	13,966
2034-2035	-	-	-	-	-	25,262	1,030
Totals	<u>\$ 2,420,000</u>	<u>\$ 291,640</u>	<u>\$ 718,888</u>	<u>\$ 459,402</u>	<u>\$ 46,014</u>	<u>\$ 252,144</u>	<u>\$ 134,104</u>

General obligation bonds are direct obligations of the City and will be paid from the General Bond Retirement Fund using property tax revenues. In 1995, the City issued \$1,660,000 of bonds improving Purvis Park.

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

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

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

On June 14, 2012, the City purchased Fuchs Mizrachi school property. A promissory note of \$600,000 was issued with payments of \$300,000 in 2012, \$200,000 in 2013 and \$100,000 in 2014 with an interest rate of 0 percent.

The accrued police pension liability will be paid from the Police Pension Fund. See Note 13 for detail on capital leases. Compensated absences will be paid by the fund from which the employee's salary is paid.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

NOTE 12: **Note Debt**

\$207,000 of the \$2,487,000 various improvement bond anticipation notes issued on May 1, 2012 at 1.125 percent with a maturity date of April 30, 2013 were considered short term.

<u>Types/Issues</u>	<u>Balance 12/31/2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/2013</u>
2012 Bond Anticipation Notes	\$ 207,000	\$ -	\$ 207,000	\$ -

NOTE 13: **Capital Leases**

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

	<u>Governmental Activities</u>
Assets:	
Buildings and Improvements	\$ 146,427
Vehicles	401,008
Equipment	53,323
Less: accumulated depreciation	(435,274)
Total	<u>\$ 165,484</u>

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments.

<u>Year</u>	<u>Governmental Activities</u>
2014	\$ 42,434
2015	20,563
Total minimum lease payments	62,997
Less: Amount representing interest	(2,328)
Present value of minimum lease payments	<u>\$ 60,669</u>

Lease payments are made from the General Fund and Street Maintenance Fund.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

NOTE 14: **Risk Management**

A. **Property and Liability**

The City is exposed to various risk of loss related to torts, theft, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. In October 2008, the City joined the Northern Ohio Risk Management Agency (NORMA), a not-for-profit corporation, for the purpose of obtaining property, liability, and vehicle insurance and providing for a formalized, jointly administered self insurance fund. The City pays an annual premium to NORMA for its insurance coverage. The agreement of formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement. This coverage is paid from the General Fund. There has not been a significant reduction in coverage from the prior year and claims have not exceeded coverage provided by NORMA.

B. **Workers' Compensation**

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

C. **Other**

The City also purchases insurance coverage to provide employee health benefits and pays unemployment claims to the State of Ohio as incurred. The City continues to carry commercial insurance for other risks of loss, including employees' health and life insurance. Settled claims resulting from these risks, have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 15: **Compensated Absences**

Vacation leave is earned at rates which vary depending upon length of service and standard work week. All fulltime employees may carry over 40 vacation hours for use during the first three months of the following year. City employees are paid for earned, unused vacation leave at the time of termination of employment if the employees have acquired at least one year of service to the City.

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

NOTE 16: **Contingencies/Pending Litigation**

A. **Grants**

The City has received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and a condition specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2013.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

NOTE 16: **Contingencies/Pending Litigation** (Continued)

B. Litigation

A few claims and lawsuits are pending against the City. The amount of liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material effect on the overall position of the City at December 31, 2013.

NOTE 17: **Interfund Transfers**

Interfund transfers for the year ended December 31, 2013, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 46,500	\$ 3,149,358
General Bond Retirement Fund	265,000	-
Nonmajor Governmental Funds	2,884,358	46,500
Total	<u>\$ 3,195,858</u>	<u>\$ 3,195,858</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed. The City had no transfers that either do not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer. A transfer from the Municipal Energy Program to the General Fund was to close out the fund. During 2013, the City's interfund loans of \$12,000 and \$27,652 between the General Fund and the County MEP Energy and NOPEC Grant funds were not to be paid back and were converted to a transfer through City ordinance.

NOTE 18: **Shared Risk Pool**

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2013

NOTE 18: **Shared Risk Pool** (Continued)

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.

NOTE 19: **Compliance**

Contrary to Ohio Revised Code Section 5705.39 the Urban Redevelopment Fund had Final Appropriations exceed Final Estimated Resources by \$1,592,526.

Contrary to Ohio Revised Code Section 5705.36(A)(4) and 5705.36(A)(5) the Urban Redevelopment Fund had Final Appropriations exceed Total Actual Resources by \$1,592,526.

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

Certified Public Accountants

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Ohio Society of Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of University Heights, Ohio's basic financial statements, and have issued our report thereon dated April 10, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of University Heights, Ohio's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items **2013-001 and 2013-002**.

City of University Heights' Responses to Findings

The City of University Heights, Ohio's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City of University Heights, Ohio's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

James G. Zupka,
CPA, President

Digitally signed by James G. Zupka,
CPA, President
DN: cn=James G. Zupka, CPA,
President, o=James G. Zupka, CPA, Inc.,
ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2014.05.14 08:58:50 -04'00'

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

April 10, 2014

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Item 2013-001 Final Appropriations in Excess of Estimated Revenue and Carryover Balances

Condition

Ohio Revised Code § 5705.39 requires that the total appropriations from each fund shall not exceed the total estimated resources available for expenditures therefrom as certified by the budget commission. During our review, we noted that the following funds had final appropriations exceeding estimated revenues and carryover balances:

<u>Special Revenue Fund</u>	<u>Estimated Revenue Plus Carryover Balances</u>	<u>Final Appropriations</u>	<u>Excess</u>
Urban Redevelopment	\$ 1,999,974	\$ 3,592,500	\$(1,592,526)

Criteria

The City's fund should not have final appropriations that exceed estimated revenues and carryover balances as of December 31, 2013.

Cause

Management failed to either amend the City's certificate of estimated resources or adjust the City's final appropriations to ensure compliance with Ohio Revised Code § 5705.39.

Effect

The City was in noncompliance with Ohio Revised Code § 5705.39.

Recommendation

We recommend that the City carefully review appropriations throughout the year and amend the certificate of estimated resources accordingly if there will be additional appropriations. This will ensure compliance with Ohio Revised Code § 5705.39.

Corrective Action Plan

The City will make every effort in the future to be compliant with Ohio Revised Code § 5705.39.

**CITY OF UNIVERSITY HEIGHTS, OHIO
 SCHEDULE OF COMPLIANCE FINDINGS AND RESPONSES
 FOR THE YEAR ENDED DECEMBER 31, 2013
 (CONTINUED)**

Item 2013-002 Final Appropriations in Excess of Actual Resources

State of Condition/Criteria

Ohio Revised Code §5705.36(A)(5) provides that the total appropriations made during the fiscal year from any fund shall not exceed the amount set forth as available for expenditure from such fund in the official certificate of estimated resources, or any amendment thereof, certified prior to the making of the appropriation or supplemental appropriation. In addition, Ohio Revised Code §5705.36(A)(4) provides that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency. During our review, we discovered one fund in which final appropriations were greater than actual resources (actual revenue plus beginning unencumbered balances) as follows:

<u>Special Revenue Fund</u>	<u>Total Actual</u>	<u>Final</u>	
Urban Redevelopment	<u>Resources</u>	<u>Appropriations</u>	<u>Excess</u>
	\$ 1,999,974	\$ 3,592,500	\$(1,592,526)

Cause

The City failed to either amend the City's certificate of estimated resources or adjust the City's final appropriations to ensure compliance with Ohio Revised Code § 5705.36(A)(4) and 5705.36(A)(5).

Effect

The City failed to comply with Ohio Revised Code § 5705.36(A)(4) and 5705.36(A)(5).

Recommendation

We recommend that the City certify these amounts of deficiency to the Budget Commission, and request that the Commission certify an amended certificate reflecting the deficiency.

Corrective Action Plan

The City will make every effort in the future to be compliant with Ohio Revised Code §5705.36(A)(4) and 5705.36(A)(5).

**CITY OF UNIVERSITY HEIGHTS, OHIO
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Finding Number	Finding Summary	Fully Corrected?
2012-001	Receipts Exceeding Bank Deposits	Yes

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

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Dave Yost • Auditor of State

CITY OF UNIVERSITY HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 10, 2014**