

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

*Basic
Financial Statements*
(Audited)

For The Year Ended
December 31, 2004

MR. ARMAN R. OCHOA, DIRECTOR OF FINANCE



**Auditor of State
Betty Montgomery**

Members of Council, Mayor and Finance Director
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 Julian & Grube, Inc., for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

August 18, 2005

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

TABLE OF CONTENTS

	<u>PAGE</u>
Table of Contents	i
Independent Auditor’s Report	1
Management’s Discussion and Analysis.....	2 - 8
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities.....	10
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund.....	15
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - Street Maintenance Fund.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – Urban Redevelopment	17
Statement of Fiduciary Net Assets - Agency Funds	18
Notes to the Basic Financial Statements	19 - 46
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	47 - 48
Schedule of Findings.....	49 - 50
Status of Prior Audit Findings	51

JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

333 County Line Road West
Westerville, Ohio 43082

Telephone 614.846.1899
Facsimile 614.846.2799

Independent Auditor's Report

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

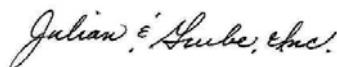
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, (the “City”), as of and for the year ended December 31, 2004, which collectively comprise the City’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City’s management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2004, and the respective changes in financial position and the respective budgetary comparison for the General Fund, Street Maintenance Fund and Urban Redevelopment Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2005 on our consideration of the City’s internal control over financial reporting and 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



Julian & Grube, Inc.
June 10, 2005

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

The discussion and analysis of the City of University Heights' financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2004. 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 2004 are as follows:

- The assets of the City of University Heights exceeded its liabilities at the close of the most recent fiscal year by \$5.1 million. Of this amount, \$0.7 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The net assets decreased by \$0.5 million from prior year. There were a couple of major projects that increased the expenditures in our Transportation program expense such as the base repairs and new light poles for the Warrensville Center Road Project and engineering costs for the upcoming Cedar Road Rehabilitation Project which will commence in the near future.
- The unreserved fund balance for the general fund was \$(0.6) million, a decrease of \$(0.5) million from prior year. Decreasing revenues and increasing expenditures were the main cause of this fluctuation. The City did not receive any revenues for estate tax in 2004, which averaged around \$0.5 million a year. The City also issued tax anticipation notes in the amount of \$0.6 million to help stabilize the cash flow for the first half of the fiscal year. More and more changes are being made by the State Legislature to cut state funding, especially to the Local Government Funds.

USING THIS ANNUAL REPORT

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

Government-Wide Statements

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

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

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

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

Fund Financial Statements

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

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

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

Notes to the Financial Statements

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

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

THE CITY AS A WHOLE

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets decreased from a year ago—decreasing from \$5.7 million to \$5.1 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental type activities.

Table 1-Net Assets (in Millions)

	2004	2003
Assets		
Current and Other Assets	\$ 8.3	\$ 7.2
Capital Assets, Net	7.8	7.5
Total Assets	<u>16.1</u>	<u>14.7</u>
Liabilities		
Current and Other Liabilities	6.1	4.5
Long-Term Liabilities		
Due Within One Year	2.4	1.9
Due in More Than One Year	2.5	2.6
Total Liabilities	<u>11.0</u>	<u>9.0</u>
Net Assets		
Invested in Capital Assets Net of Debt	4.3	4.4
Restricted		
Debt Service	0.1	0.2
Other Purposes	0.0	0.2
Unrestricted	0.7	0.9
Total Net Assets	<u>\$ 5.1</u>	<u>\$ 5.7</u>

The City's net assets decreased \$0.6 million or 10.53 percent.

Table 2-Changes in Net Assets (in Millions)

	2004	2003
Revenues		
Program Revenues:		
Charges for Services	\$ 1.4	\$ 1.0
Operating Grants and Contributions	0.2	0.1
Capital Grants and Contributions	2.5	4.1
General Revenues:		
Property Taxes	3.0	2.7
Income Taxes	4.8	4.9
Grant and Entitlements	2.5	1.9
Other	0.2	0.0
Total Revenues	<u>\$ 14.6</u>	<u>\$ 14.7</u>
Program Expenses		
General Government	\$ 1.3	\$ 1.5
Security of Persons and Property	6.8	6.5
Transportation	1.6	0.4
Community Environment	3.5	2.0
Basic Utility Services	1.4	1.4
Leisure Time Activities	0.4	1.4
Interest and Fiscal Charges	0.1	0.2
Total Program Expenses	<u>\$ 15.1</u>	<u>\$ 13.4</u>
Increase (Decrease) in Net Assets	<u>\$ (0.5)</u>	<u>\$ 1.3</u>

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

Total revenues decreased \$0.1 million or 0.68 percent. The City's largest revenue source is income tax. The City's income tax rate is 1.50 percent on gross income and has not changed since 1976 when the tax was originally instituted. Residents of the City who work in another community and pay the withholding tax for that community received a 50 percent tax credit on their City tax for University Heights, the credit limit being 1 percent up until the end of the third quarter of 2004. Council passed Ordinance 2004-40 eliminating the credit given as a measure to help the City generate more revenue. This measure would not be realized until mid fiscal year 2005. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2004 the income tax collected was approximately \$4.8 million, down \$0.1 or 2.04 percent from prior year. The second largest revenue source is property taxes. The full voted tax rate for 2004 was 158.20 mills. A mill is \$1.00 for every \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by Cuyahoga County, City of University Heights, Cleveland Heights-University Heights School District, and Cleveland Heights-University Heights Public Library. During 2004 the property tax collected was around \$3.0 million, up 11.11 percent from prior year. The increase was due to an increase in the assessed values of property by the Cuyahoga County Auditor's Office also known as the "triennial update". Although collections increased, there was a 6.0 percent delinquency rate among the properties within the City in the collections of this amount.

Total expenses increased \$1.7 million or 12.69 percent. The major increase was mainly due to the recognition of two (2) tax increment financing payments to the trustee in fiscal year 2004, as opposed to only one (1) tax increment financing payment to the trustee in fiscal year 2003. Without the recognition of the tax increment financing, expenses would have only increased, \$0.5 million or 3.73 percent. Expenses are categorized by programs. The largest program, security of persons and property which includes police, fire, police and fire communications, traffic control, animal control, and public safety was around 45.0 percent of the governmental expenses. The police department is made up of 1 chief, 1 deputy chief; 28 full-time sworn officers, 3 full-time dispatchers, and 3 secretaries. The fire department is composed of 1 chief; 1 executive captain; and 27 full-time fire fighters/paramedics. Training plays a crucial role in keeping up with the rapidly changing laws, practices and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The second largest program is community environment which is made up of the building department, community services, and urban redevelopment tax increment financing was around 23.2 percent of the governmental expenses. The City is a labor intensive industry and the expenditures of the government activities are mainly salaries, wages, and benefits. The City does have an annual road program which entails major and minor resurfacing of the various streets in University Heights. For the major resurfacing projects, the City has actively pursued obtaining grants and financial assistance for the Ohio Public Works Commission, and Ohio Water Development Authority. In addition, the City borrows on the open market by way of general obligation notes issued and rolled over year to year until paid down. In 2004, the City had expended \$0.5 million in major and minor resurfacing of roads.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

THE CITY'S FUNDS

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$(0.6) million. Of this amount, \$(1.4) million constitutes unreserved fund balance. This deficit was caused by the general funds deficit balance due to stabilizing revenues and increasing expenditures. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of prior period(s), to pay debt service, and for a variety of other restricted purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$(0.6) million, while the total general fund balance was \$(0.5) million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The unreserved general fund balance represents a negative 6.4 percent of total general fund expenditures, while the total general fund balance represents a negative 5.3 percent of the same amount. The general fund balance decreased by \$0.6 million during the current fiscal year as opposed to a decrease of \$1.2 million in 2003. Key factors for this are as follows:

- The general fund revenues increased by \$0.4 million or 4.40 percent from prior year. The main increase was due to the increase in property tax collections resulting from the "triennial update" by the County Auditor's Office. Although there was an increase in revenues, the City is anticipating revenues to stabilize over the next fiscal period due to continuing State budget cuts. The increase in revenues helped offset total expenditure without transfers.
- The general fund expenditures in total decreased \$0.1 million or 1.05 percent from prior year. However, transfers to other funds increased \$0.4 million or 44.69 percent, which brought the net change in fund balance to \$(0.6) million.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

For the general fund, budgeted basis revenue was \$0.1 million below the revised budget estimate of \$9.5 million primarily due to decreases that were noted in licenses and permits.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

The original appropriation of \$9.2 million was increased to \$9.7 million. Even with these adjustments, the actual charges to appropriations (expenditures) were \$0.5 million below the final budgeted amounts for the general fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the City had \$7.8 million invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, swimming pool, roads, and water and sewer lines. (See Table 3 below.) This amount represents a net increase (including additions and deductions) of approximately \$0.3 million, or 4.00 percent under last year.

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

	<u>2004</u>	<u>2003</u>
Land	\$ 0.2	\$ 0.2
Buildings and Improvements	0.7	0.8
Equipment	0.1	0.2
Vehicles	0.7	0.6
Infrastructure	5.4	5.6
Construction in Progress	<u>0.7</u>	<u>0.1</u>
Total Capital Assets	<u>\$ 7.8</u>	<u>\$ 7.5</u>

The City purchased equipment for the various departments approximately \$0.2 million. The City purchased one police vehicle for the police department; four used rubbish trucks for the sanitation department; one rubbish scooter for the sanitation department; and various other equipments. For infrastructure, Cuyahoga County is preparing to resurface, widen the road in some areas, perform some base repairs, installing new traffic poles and lights on Cedar Road from South Taylor to Green Road. The City has expended \$0.4 in engineering costs of which the City of South Euclid has paid \$0.1 million.

Debt

At year-end, the City had \$2.9 million in general obligation bonds and notes outstanding versus \$2.6 million last year- an increase of 11.5 percent - as shown in Table 4.

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

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
General obligation bonds (backed by the City)	\$ 1.3	\$ 1.4
General obligation notes (backed by the City)	1.6	1.2
OWDA loans/OPWC loans/Other Obligations	<u>2.0</u>	<u>2.0</u>
Totals	<u>\$ 4.9</u>	<u>\$ 4.6</u>

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

The City paid \$0.1 million on principal for general obligation bonds on streets, and Purvis Park Pool. New general obligation notes were issued mainly for street programs in the amount of \$1.7 million, and motorized equipment in the amount of \$0.4 million.

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged activities. The general fund 2005 budget is \$9.7 million, which is \$0.1 million or 1.02 percent lower than the final 2004 budget of \$9.8 million. The City initiated a number of cuts to help lower the budget. One major cut was to limit the amount of capital expenditures for each department, and cut overtime budgets mainly in the police, fire, and service departments. Currently, negotiations are in process with the four unions of the City and it is anticipated that the impact of the first six months of the contracts taking effect July 1st will have minimal or no effect on the 2005 budget. The City has added no major new programs or initiatives to the 2005 budget. With more cuts anticipated from the State of Ohio, the City's budget could be in jeopardy. If these estimates are realized, the City's budgetary general fund balance is expected to increase modestly by the close of 2005. More importantly, however, this will have been accomplished without selling capital assets or restructuring long-term debt to alleviate cash flow pressures, both actions needed in the current year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	<u>Governmental Activities</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 108,996
Accounts Receivable	21,811
Intergovernmental Receivable	1,476,411
Materials and Supplies Inventory	90,385
Prepaid Items	53,437
Taxes Receivable	5,715,186
Special Assessments Receivable	838,767
Nondepreciable Capital Assets	840,377
Depreciable Capital Assets, Net	<u>6,965,146</u>
Total Assets	<u>16,110,516</u>
<u>Liabilities</u>	
Accounts Payable	899,017
Accrued Wages	271,551
Intergovernmental Payable	736,012
Accrued Interest Payable	34,075
Note Payable	515,000
Deferred Revenue	3,597,690
Long-Term Liabilities:	
Due within One Year	2,365,158
Due in More Than One Year	<u>2,557,668</u>
Total Liabilities	<u>10,976,171</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	4,325,567
Restricted for:	
Capital Projects	24,525
Debt Service	128,097
Unrestricted	<u>656,156</u>
Total Net Assets	<u>\$ 5,134,345</u>

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities
Governmental Activities:						
Security of Persons and Property	\$6,811,737	\$ 291,836	\$ 22,156	\$ 27,000		\$ (6,470,745)
Public Health Services	43,853	0	0	0		(43,853)
Leisure Time Activities	360,458	70,613	0	0		(289,845)
Community Environment	3,511,943	214,594	114,231	2,411,096		(772,022)
Basic Utility Services	1,382,426	662,717	0	36,276		(683,433)
Transportation	1,542,697	0	23,611	12,170		(1,506,916)
General Government	1,319,089	114,893	0	0		(1,204,196)
Interest and Fiscal Charges	166,776	0	0	0		(166,776)
Total Governmental Activities	\$15,138,979	\$1,354,653	\$ 159,998	\$ 2,486,542		(11,137,786)
General Revenues:						
Property Taxes Levied for:						
						2,410,285
						137,729
						481,178
Income Taxes Levied for:						
						4,813,861
Grants and Entitlements not						
						2,547,552
						3,950
						4,095
						195,627
						10,594,277
						(543,509)
						5,677,854
						\$ 5,134,345

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	General	Street Maintenance Special Revenue	Urban Redevelopment Special Revenue	General Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 27,667	\$ 46,736	\$ 0	\$ 0	\$ 34,593	\$ 108,996
Receivables:						
Taxes	4,875,667	0	0	652,217	187,301	5,715,185
Accounts	21,711	0	0	0	100	21,811
Special Assessments	15,236	0	0	0	823,531	838,767
Due from Governments	1,214,746	159,352	0	67,816	34,497	1,476,411
Advances to Other Funds	0	140,000	0	14,791	461,000	615,791
Inventory	66,380	24,005	0	0	0	90,385
Prepaid Items	53,437	0	0	0	0	53,437
Total Assets	<u>6,274,844</u>	<u>370,093</u>	<u>0</u>	<u>734,824</u>	<u>1,541,022</u>	<u>8,920,783</u>
Liabilities						
Accounts Payable	557,413	150,076	0	0	191,528	899,017
Accrued Wages and Benefits	256,677	10,215	0	0	4,659	271,551
Compensated Absences Payable	14,314	0	0	0	0	14,314
Advances From to Other Funds	601,000	0	0	0	14,791	615,791
Due to Governments	123,798	4,477	0	0	1,701	129,976
Deferred Revenue	5,198,878	99,637	0	720,033	1,029,253	7,047,801
Notes Payable	0	515,000	0	0	0	515,000
Total Liabilities	<u>6,752,080</u>	<u>779,405</u>	<u>0</u>	<u>720,033</u>	<u>1,241,932</u>	<u>9,493,450</u>
Fund Balances						
Reserved for Inventory	66,380	24,005	0	0	0	90,385
Reserved for Prepaid Items	53,437	0	0	0	0	53,437
Reserved for Encumbrances	39,578	52,772	0	0	2,081	94,431
Reserved for Advances	0	140,000	0	14,791	461,000	615,791
Unreserved:						
Undesignated (Deficits) Reported in:						
General Fund	(636,631)	0	0	0	0	(636,631)
Special Revenue Funds	0	(626,089)	0	0	(173,762)	(799,851)
Debt Service Funds	0	0	0	0	37	37
Capital Projects Funds	0	0	0	0	9,734	9,734
Total Fund Balances (Deficits)	<u>(477,236)</u>	<u>(409,312)</u>	<u>0</u>	<u>14,791</u>	<u>299,090</u>	<u>(572,667)</u>
Total Liabilities and Fund Balances	<u>\$ 6,274,844</u>	<u>\$ 370,093</u>	<u>\$ 0</u>	<u>\$ 734,824</u>	<u>\$ 1,541,022</u>	<u>\$ 8,920,783</u>

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Total Governmental Funds Balances	\$ (572,667)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,805,523
Other long-term assets are not available to pay for current-period expenditures and therefore are not deferred in the funds:	
Property Taxes	\$ 214,414
Grants and Entitlements	1,082,590
Income Tax	1,314,341
Special Assessments	<u>838,767</u>
Total	3,450,112
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(606,036)
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(1,270,000)
Bond Anticipation Notes	(1,565,000)
OWDA Loan	(292,707)
OPWC Loan	(312,702)
Accrued Police Pension	(306,249)
Capital Leases	(39,547)
Compensated Absences	(1,122,307)
Accrued Interest Payable	<u>(34,075)</u>
Total	<u>(4,942,587)</u>
Net Assets of Governmental Activities	<u>\$ 5,134,345</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	General	Street Maintenance Special Revenue	Urban Redevelopment Special Revenue	General Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues						
Local Taxes - Income Tax	\$ 4,875,347	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,875,347
Local Taxes - Property Tax	2,410,285	0	0	479,430	136,980	3,026,695
Tax Increment Financing	0	0	2,411,096	0	0	2,411,096
Intergovernmental Revenue	1,588,800	386,123	0	69,564	184,878	2,229,365
Special Assessments	3,614	0	0	0	648,251	651,865
Charges for Services	273,990	0	0	0	2,100	276,090
Fines, Licenses, and Permits	387,397	0	0	0	2,496	389,893
Interest Income	3,837	249	0	0	0	4,086
Miscellaneous	40,011	0	0	0	0	40,011
Total Revenues	<u>9,583,281</u>	<u>386,372</u>	<u>2,411,096</u>	<u>548,994</u>	<u>974,705</u>	<u>13,904,448</u>
Expenditures						
Security of Persons and Property	5,777,415	0	0	0	861,464	6,638,879
Public Health Services	43,853	0	0	0	0	43,853
Leisure Time Activities	350,921	0	0	0	0	350,921
Community Environment	715,535	32,937	2,429,154	0	340,417	3,518,043
Basic Utilities Expenditures	892,947	10,215	0	0	501,161	1,404,323
Transportation	367,679	1,401,859	0	0	92,464	1,862,002
General Government	1,273,823	0	0	61	2,267	1,276,151
Capital Outlay	0	0	0	0	116,666	116,666
Debt Service:						
Principal Retirement	0	0	0	1,911,500	86,836	1,998,336
Interest and Fiscal Charges	0	0	0	132,552	32,162	164,714
Total Expenditures	<u>9,422,173</u>	<u>1,445,011</u>	<u>2,429,154</u>	<u>2,044,113</u>	<u>2,033,437</u>	<u>17,373,888</u>
Excess of Revenues Over (Under) Expenditures	<u>161,108</u>	<u>(1,058,639)</u>	<u>(18,058)</u>	<u>(1,495,119)</u>	<u>(1,058,732)</u>	<u>(3,469,440)</u>
Other Financing Sources (Uses)						
Sale of Fixed Assets	3,950	0	0	0	0	3,950
Other Proceeds	0	0	0	0	135,002	135,002
Proceeds from Sale of Notes	611,500	1,155,000	0	0	410,000	2,176,500
Transfers In	0	0	0	1,493,752	702,211	2,195,963
Transfers Out	(1,351,963)	(554,000)	0	0	(290,000)	(2,195,963)
Other Sources	25,436	158,256	0	0	0	183,692
Total Other Financing Sources (Uses)	<u>(711,077)</u>	<u>759,256</u>	<u>0</u>	<u>1,493,752</u>	<u>957,213</u>	<u>2,499,144</u>
Net Change in Fund Balances	<u>(549,969)</u>	<u>(299,383)</u>	<u>(18,058)</u>	<u>(1,367)</u>	<u>(101,519)</u>	<u>(970,296)</u>
Fund Balances (Deficits) - Beginning of Year	77,240	(112,119)	18,058	16,158	400,609	399,946
Increase (Decrease) in Reserve for Inventory	<u>(4,507)</u>	<u>2,190</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,317)</u>
Fund Balances (Deficits) - End of Year	<u>\$ (477,236)</u>	<u>\$ (409,312)</u>	<u>\$ 0</u>	<u>\$ 14,791</u>	<u>\$ 299,090</u>	<u>\$ (572,667)</u>

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net Change in Fund Balances - Total Governmental Funds **\$ (970,296)**

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 outlays exceeded depreciation in the current period. 269,247

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

Grants and Entitlements	\$ 519,509	
Income Tax	(61,486)	
Special Assessments	65,222	
Property Tax	<u>0</u>	
Total		523,245

Proceeds from debt issues are in other financing sources in the funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. (535,002)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 221,836

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. (2,062)

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

Compensated Absences	(40,626)	
Pension Obligation	(7,534)	
Change in Inventory	<u>(2,317)</u>	
Total		<u>(50,477)</u>

Change in Net Assets of Governmental Activities **\$ (543,509)**

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Property Taxes	\$ 2,565,513	\$ 2,404,613	\$ 2,410,285	\$ 5,672
Income Taxes	5,381,000	4,925,000	4,915,165	(9,835)
Intergovernmental Revenue	1,184,200	1,415,200	1,463,916	48,716
Licenses and Permits	246,500	261,400	197,517	(63,883)
Fines and Forfeitures	232,000	239,300	193,303	(45,997)
Special Assessments	1,500	3,700	3,614	(86)
Charges for Services	115,175	206,275	187,481	(18,794)
Grants	12,000	12,000	9,556	(2,444)
Interest Earnings	10,000	10,000	3,837	(6,163)
Miscellaneous	<u>112,000</u>	<u>36,300</u>	<u>40,011</u>	<u>3,711</u>
Total Revenues	<u>9,859,888</u>	<u>9,513,788</u>	<u>9,424,685</u>	<u>(89,103)</u>
<u>Expenditures</u>				
Current:				
General Government	1,268,920	1,371,935	1,357,789	14,146
Security of Persons and Property	5,826,111	6,016,111	5,749,057	267,054
Basic Utility	786,499	886,499	913,813	(27,314)
Transportation	331,366	376,366	357,942	18,424
Public Health Services	45,000	45,000	43,853	1,147
Community Environment	663,798	754,298	708,448	45,850
Leisure Time Activities	<u>253,408</u>	<u>348,408</u>	<u>353,188</u>	<u>(4,780)</u>
Total Expenditures	<u>9,175,102</u>	<u>9,798,617</u>	<u>9,484,090</u>	<u>314,527</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>684,786</u>	<u>(284,829)</u>	<u>(59,405)</u>	<u>225,424</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds of Tax Anticipation Notes	0	611,500	611,500	0
Sale of Fixed Assets	10,000	10,000	3,950	(6,050)
Other Sources	0	105,700	25,436	(80,264)
Transfers In	0	400,400	206,946	(193,454)
Transfers Out	(836,000)	(995,985)	(1,412,963)	(416,978)
Advances In	<u>0</u>	<u>0</u>	<u>359,761</u>	<u>359,761</u>
Total Other Financing Sources (Uses)	<u>(826,000)</u>	<u>131,615</u>	<u>(205,370)</u>	<u>(336,985)</u>
Net Change in Fund Balance	(141,214)	(153,214)	(264,775)	(111,561)
Fund Balance, Beginning of Year	3,854	3,854	3,854	0
Prior Year Encumbrances Appropriated	<u>150,173</u>	<u>150,173</u>	<u>150,173</u>	<u>0</u>
Fund Balance, End of Year	<u>\$ 12,813</u>	<u>\$ 813</u>	<u>\$ (110,748)</u>	<u>\$ (111,561)</u>

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL -
STREET MAINTENANCE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Other Taxes	\$ 337,000	\$ 367,000	\$ 376,719	\$ 9,719
Interest Earnings	600	600	258	(342)
Miscellaneous	<u>60,000</u>	<u>160,000</u>	<u>210,406</u>	<u>50,406</u>
Total Revenues	<u>397,600</u>	<u>527,600</u>	<u>587,383</u>	<u>59,783</u>
<u>Expenditures</u>				
Current:				
Transportation	<u>698,143</u>	<u>1,528,943</u>	<u>1,507,611</u>	<u>21,332</u>
Total Expenditures	<u>698,143</u>	<u>1,528,943</u>	<u>1,507,611</u>	<u>21,332</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(300,543)</u>	<u>(1,001,343)</u>	<u>(920,228)</u>	<u>81,115</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Notes	800,000	1,670,000	1,670,000	0
Transfers Out	(554,000)	(723,200)	(754,000)	(30,800)
Advances Out	<u>0</u>	<u>0</u>	<u>(140,000)</u>	<u>(140,000)</u>
Total Other Financing Sources (Uses)	<u>246,000</u>	<u>946,800</u>	<u>776,000</u>	<u>(170,800)</u>
Net Change in Fund Balance	(54,543)	(54,543)	(144,228)	(89,685)
Fund Balance, Beginning of Year	68,145	68,145	68,145	0
Prior Year Encumbrances Appropriated	<u>55,644</u>	<u>55,644</u>	<u>55,644</u>	<u>0</u>
Fund Balance, End of Year	<u>\$ 69,246</u>	<u>\$ 69,246</u>	<u>\$ (20,439)</u>	<u>\$ (89,685)</u>

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL -
URBAN DEVELOPMENT - SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Payment in Lieu of Taxes	\$ 0	\$ 2,500,000	\$ 2,411,096	\$ (88,904)
Total Revenues	<u>0</u>	<u>2,500,000</u>	<u>2,411,096</u>	<u>(88,904)</u>
<u>Expenditures</u>				
Excess (Deficiency) of Revenues Over Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>0</u>	<u>2,500,000</u>	<u>2,411,096</u>	<u>(88,904)</u>
<u>Other Financing Sources (Uses)</u>				
Other Uses	<u>0</u>	<u>(2,500,000)</u>	<u>(2,411,096)</u>	<u>88,904</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>(2,500,000)</u>	<u>(2,411,096)</u>	<u>88,904</u>
Net Change in Fund Balance	0	0	0	0
Fund Balance, Beginning of Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2004

Assets

Equity in Pooled Cash and Cash Equivalents	\$ 1,990
Accounts Receivable	230,000
Due from Other Governments	<u>13,761</u>
Total Assets	<u>\$ 245,751</u>

Liabilities

Deposits Held and Due to Others	<u>\$ 245,751</u>
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See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1: **REPORTING ENTITY**

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

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

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

A. **Basis of Presentation**

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

Government-wide Financial Statements

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

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

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

Fund Financial Statements

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

B. **Fund Accounting**

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

Governmental Funds

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

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

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

Street Maintenance Special Revenue Fund - The street maintenance special revenue fund is used to account for state gasoline tax, motor vehicle registration fees, and motor vehicle permissive tax designated for maintenance and repair of dedicated streets within the City.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

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

B. **Fund Accounting** (Continued)

Governmental Funds (Continued)

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 to a particular purpose.

Fiduciary Funds

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

C. **Measurement Focus**

Government-wide Financial Statements

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

Fund Financial Statements

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

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

C. **Measurement Focus** (Continued)

Fund Financial Statements (Continued)

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

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

D. **Basis of Accounting**

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

Revenues - Exchange and Non-exchange Transactions

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

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

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

Revenues - Exchange and Non-exchange Transactions (Continued)

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003 but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

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

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

Expenses/Expenditures (Continued)

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

E. **Cash and Investments**

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

During 2004, the portfolio was limited to non-participating investment contracts and the State Treasury Asset Reserve of Ohio (STAROhio). Non-participating investment contracts such as repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2004.

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

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$3,837, which includes \$2,816 from other City funds.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

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

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

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

F. **Inventory**

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

G. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2004 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

H. **Capital Assets**

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

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

H. **Capital Assets** (Continued)

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

I. **Interfund Balances**

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

J. **Compensated Absences**

In conformity with GASB Statement No. 16, the City accrues vacation and sick leave benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at December 31, 2004.

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

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

K. Accrued Liabilities and Long-Term Obligations

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

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

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

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

N. **Interfund Activity**

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

O. **Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred in 2004.

P. **Estimates**

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

NOTE 3: **COMPLIANCE AND ACCOUNTABILITY**

A. **Fund Deficits**

Fund balances at December 31, 2004 included the following individual fund deficits:

General Fund	\$ 477,236
Special Revenue Fund:	
Street Maintenance Fund	\$ 409,312

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 3: **COMPLIANCE AND ACCOUNTABILITY** (Continued)

B. Compliance

The following line items had expenditures in excess of appropriations for the fiscal year ended December 31, 2004 at the legal level of control, in noncompliance with Ohio Revised Code Section 5705.41(B):

<u>Fund Type</u>	<u>Fund/Function</u>	<u>Excess</u>
General	Leisure Time Activities	\$ 4,780
General	Basic Utilities	27,314
General	General Government	402,832
Special Revenue	Street Maintenance	9,468
Special Revenue	Community Development Block Grant	36,699
Special Revenue	Local Law Enforcement	670
Capital Projects	Public Works - Issue II	133,196
Capital Projects	Sewer Replacement "A"	41,268

The City had a negative cash fund balance in the Community Development Block Grant nonmajor governmental fund, contrary to Ohio Revised Code Section 5705.10. The City will monitor funds and make the necessary transfers in a timely manner.

NOTE 4: **BUDGETARY**

A. Budgetary Information

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

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 4: **BUDGETARY** (Continued)

B. Budgetary Basis of Accounting

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

and Actual presented for the general and major special revenue fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
5. Debt service payments on short-term notes are made in General Bond Retirement fund as opposed to the funds where the notes payable were recorded as fund liability on GAAP basis. Transfers in/out are used to reflect the retirement in the respective funds.
6. The transfers in the General Fund of \$16,837 and Street Maintenance Fund of \$19,259 were made on the budgetary statements and not the GAAP statements because these amounts were for cash corrections based on 2002 audit adjustments not made by the City until 2004.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 4: **BUDGETARY** (Continued)

B. Budgetary Basis of Accounting (Continued)

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

	Net Change in Fund Balance Major Governmental Funds		
	<u>General</u>	<u>Street Maintenance</u>	<u>Urban Redevelopment</u>
GAAP Basis	\$ (549,969)	\$ (299,383)	\$ (18,058)
Net Adjustment for Revenue Accruals	(158,596)	42,755	0
Net Adjustment for Expenditure Accruals	(61,917)	(62,600)	2,429,154
Other Uses	0	0	(2,411,096)
Transfers In	206,946	0	0
Transfers Out	(61,000)	(200,000)	0
Advances In	359,761	0	0
Advances Out	0	(140,000)	0
Sale of Bond Anticipation Notes	0	515,000	0
Budget Basis	<u>\$ (264,775)</u>	<u>\$ (144,228)</u>	<u>\$ 0</u>

NOTE 5: **EQUITY IN POOLED CASH AND CASH EQUIVALENTS AND INVESTMENTS**

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

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 5: EQUITY IN POOLED CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 5: **EQUITY IN POOLED CASH AND CASH EQUIVALENTS AND INVESTMENTS**
(Continued)

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

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

Deposits

The Governmental Accounting Standards Board has established risk categories for deposits as follows:

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralize with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging institution or its trust department or agent but not in the City's name.

All deposits are carried at cost. At year end, the carrying amount of the City's cash and deposits was \$(73,720) and the bank balance was \$77,044. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero balance" nature of the City's bank accounts. The bank balance was fully insured as of December 31, 2004.

Investments

The Governmental Accounting Standards Board has established risk categories for investments as follows:

Category 1 - Investments that are insured or registered or for which the securities are held by the City or its agent in the City's name.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 5: **EQUITY IN POOLED CASH AND CASH EQUIVALENTS AND INVESTMENTS**
(Continued)

Investments (Continued)

Category 2 - Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

The City's investments (as defined by GASB 3) at December 31, 2004 were as follows:

	Carrying Value	Fair Value
STAROhio (Uncategorized)	\$ 30,526	\$ 30,526
Repurchase Agreement (Category 3)	154,180	154,180
Total Investments	\$ 184,706	\$ 184,706

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalent	Investment
GASB Statement No. 9	\$ 110,986	\$ 0
STAROhio	(30,526)	30,526
Repurchase Agreement	(154,180)	154,180
GASB Statement No. 3	\$ (73,720)	\$ 184,706

NOTE 6: **RECEIVABLES**

Receivables at December 31, 2004 consist primarily of taxes, special assessments, accounts, and money due from other governments. All receivables are considered fully collectible.

A. **Property Taxes**

Real property taxes were levied on assessed values which equal 35 percent of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last appraisal was completed for tax year 2000.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 6: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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

The full tax rate applied to real property for the fiscal year ended December 31, 2004 was \$13.2 per \$1000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$13.2 per \$1000 of assessed valuation of real property classified as residential/agricultural and \$13.2 per \$1000 of assessed evaluation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2004 was \$13.2 per \$1000 of assessed valuation.

Real Estate - 2004 Valuation

Residential/Agricultural	\$ 222,678,890
Commercial/Industrial	81,288,490
Public Utilities	3,470,120
General Tangible Personal Property - 2003 Valuation	<u>5,266,831</u>
	<u>\$ 312,704,331</u>

The Cuyahoga County Treasurer collects property tax on behalf of all taxing districts within the County. The Cuyahoga County Auditor periodically remits to the taxing districts their portions of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2004. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2005 operations. The receivable is offset by deferred revenue.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 6: **RECEIVABLES** (Continued)

B. Income Taxes

The City levies a municipal income tax of 1.5 percent on all salaries, wages, commissions, and other compensation, and net profits earned within the City, as well as incomes of residents earned outside the City. In the later case, the City allows a credit of 50 percent of the tax paid to another municipality to a maximum of one percent of income earned outside the City.

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

C. Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2004 follows:

	<u>Amounts</u>
Estate Tax	\$ 154,674
Local Government	419,229
Homestead and Rollback	713,814
Gasoline and Excise Tax	123,322
Auto Registration Fee	30,743
Permissive Tax	5,287
Other	<u>29,342</u>
Total	<u>\$1,476,411</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

	Balance 12/31/03	Additions	Deletions	Balance 12/31/04
<u>Governmental Activities</u>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 164,942	\$ 0	\$ 0	\$ 164,942
Construction in Progress	<u>115,085</u>	<u>560,350</u>	<u>0</u>	<u>675,435</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>280,027</u>	<u>560,350</u>	<u>0</u>	<u>840,377</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	1,527,412	0	0	1,527,412
Vehicles	2,276,729	141,076	(43,678)	2,374,127
Equipment	1,190,532	62,640	0	1,253,172
Infrastructure:				
Pavement	3,964,303	0	0	3,964,303
Storm Sewers	230,271	0	0	230,271
Water Lines	1,371,844	0	0	1,371,844
Sanitary Sewers	<u>592,299</u>	<u>0</u>	<u>0</u>	<u>592,299</u>
<i>Total Capital Assets Being Depreciated</i>	<u>11,153,390</u>	<u>203,716</u>	<u>(43,678)</u>	<u>11,313,428</u>
Less Accumulated Depreciation:				
Buildings and Improvements	755,951	29,300	0	785,251
Vehicles	1,634,886	115,821	(43,678)	1,707,029
Equipment	977,179	126,384	0	1,103,563
Infrastructure:				
Pavement	331,731	198,215	0	529,946
Storm Sewers	19,985	3,838	0	23,823
Water Lines	154,702	13,857	0	168,559
Sanitary Sewers	<u>22,707</u>	<u>7,404</u>	<u>0</u>	<u>30,111</u>
<i>Total Accumulated Depreciation</i>	<u>3,897,141</u>	<u>494,819</u>	<u>(43,678)</u>	<u>4,348,282</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>7,256,249</u>	<u>(291,103)</u>	<u>0</u>	<u>6,965,146</u>
Governmental Activities Capital Assets, Net	<u>\$ 7,536,276</u>	<u>\$ 269,247</u>	<u>\$ 0</u>	<u>\$ 7,805,523</u>

* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 131,446
Leisure Time Activities	8,159
Community Environment	11,332
Basic Utility Services	38,244
Transportation	255,779
General Government	49,859
Total Depreciation Expense	<u>\$ 494,819</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 8: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at December 31, 2004, consist of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 0	\$ 601,000
Street Maintenance	140,000	0
General Bond Retirement Debt Service	14,791	0
Nonmajor Governmental	461,000	14,791
Total	<u>\$ 615,791</u>	<u>\$ 615,791</u>

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

NOTE 9: COMPENSATED ABSENCES

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

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

NOTE 10: PENSION PLAN

A. Ohio Public Employees Retirement System

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 10: **PENSION PLAN** (Continued)

A. Ohio Public Employees Retirement System (Continued)

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City was 13.55 percent of covered payroll. The City's required contributions to OPERS for the years ended December 31, 2004, 2003, and 2002 were \$332,791, \$354,899, and \$345,854, respectively. The full amount has been contributed for 2003 and 2002. 78.92 percent has been contributed for 2004.

B. Ohio Police and Fire Pension Fund

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 10: **PENSION PLAN** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police and 24 percent for firefighters. The City's contributions to the OP&F for police and firefighters were \$343,684 and \$368,316 for the year ended December 31, 2004, \$359,566 and \$441,065 for the year ended December 31, 2003, and \$350,052 and \$383,837 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 76.51 percent and 76.24 percent, respectively, have been contributed for 2004.

NOTE 11: **POST-EMPLOYMENT BENEFITS**

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 employer contribution rate was 13.55 percent of covered payroll, 4 percent was the portion that was used to fund health care for 2004.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 11: **POST-EMPLOYMENT BENEFITS** (Continued)

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

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

At December 31, 2004, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,885. The City's annual contributions for 2004 used to fund postemployment benefits were \$99,717. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 11: **POST-EMPLOYMENT BENEFITS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the OP&F's Board of Trustees to provide health care coverage and states that health care costs paid from the OP&F fund shall be included in the employer's contribution rate. Health care funding and accounting are on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003 was 13,662 for police and 10,474 for firefighters.

The City's annual contributions for 2004 that were used to fund postemployment benefits were \$152,652 for police and \$147,034 for fire. OP&F's total health care expenses for the year ended December 31, 2003 (the latest information available) were \$150,853,148, which was net of member contributions of \$17,207,506.

NOTE 12: **NOTES PAYABLE**

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

	<u>Maturity Date</u>	<u>Balance December 31, 2003</u>	<u>Issued Retired</u>	<u>Balance December 31, 2004</u>
2.05% Bond Anticipation Notes, Series 2004	2005	\$ 0	\$ 515,000	\$ 515,000
Total Notes Payable		<u>\$ 0</u>	<u>\$ 515,000</u>	<u>\$ 515,000</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 13: LONG-TERM OBLIGATIONS

Changes in bonds and other long-term obligations of the City during 2004 were as follows:

	Interest Rate	Principal Outstanding 01/01/03	Additions	Deletions	Principal Outstanding 12/31/04	Amounts Due in One Year
Governmental Activities						
General Obligation Bonds:						
1997 Street Resurfacing	4-4.95%	\$ 230,000	\$ 0	\$ (55,000)	\$ 175,000	\$ 55,000
1995 Purvis Park Improvement Series A & B	6.25%	1,175,000	0	(80,000)	1,095,000	80,000
Total General Obligation Bonds		<u>1,405,000</u>	<u>0</u>	<u>(135,000)</u>	<u>1,270,000</u>	<u>135,000</u>
*Bond Anticipation Notes Series 2004	1.60%	1,165,000	1,565,000	(1,165,000)	1,565,000	1,565,000
Tax Anticipation Notes		0	611,500	(611,500)	0	0
OWDA Loan	5.06%	0	135,002	0	135,002	27,000
OWDA Loan	5.77%	191,687	0	(33,982)	157,705	24,982
OPWC Loan	-	339,505	0	(26,803)	312,702	17,869
Accrued Police Pension	4.25%	311,101	0	(4,852)	306,249	5,060
Capital Lease - Banc One	4.66%	60,746	0	(21,199)	39,547	22,204
Compensated Absences	-	1,101,684	576,799	(541,862)	1,136,621	576,799
Total Governmental Activities		<u>\$4,574,723</u>	<u>\$2,888,301</u>	<u>\$(2,540,198)</u>	<u>\$4,922,826</u>	<u>\$2,373,914</u>

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

Debt service requirements to maturity are as follows:

Year Ended 12/31	Bond							
	General Obligation Bonds		Anticipation Notes		OWDA Loan		OPWC Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 135,000	\$ 76,508	\$1,565,000	\$ 24,960	\$ 24,982	\$ 9,391	\$ 17,869	\$ 0
2006	145,000	68,840	0	0	26,444	7,970	17,869	0
2007	155,000	60,630	0	0	27,992	6,466	17,869	0
2008	100,000	51,770	0	0	29,631	4,873	17,869	0
2009-2013	595,000	159,030	0	0	48,656	4,591	89,345	0
2014-2018	140,000	8,680	0	0	0	0	89,345	0
2019-2023	0	0	0	0	0	0	62,536	0
2024-2028	0	0	0	0	0	0	0	0
2029-2033	0	0	0	0	0	0	0	0
2034-2038	0	0	0	0	0	0	0	0
Totals	<u>\$ 1,270,000</u>	<u>\$ 425,458</u>	<u>\$1,565,000</u>	<u>\$ 24,960</u>	<u>\$ 157,705</u>	<u>\$ 33,291</u>	<u>\$ 312,702</u>	<u>\$ 0</u>

Year Ended 12/31	OWDA Sewer Project		Accrued Policy Pension Liability		Capital Lease Obligations		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2005	\$ 27,000	\$ 0	\$ 5,060	\$ 12,962	\$ 22,204	\$ 1,459	\$1,797,115
2006	27,000	0	5,278	12,745	17,343	406	238,934	89,961
2007	27,000	0	5,504	12,518	0	0	233,365	79,614
2008	27,001	0	5,741	12,282	0	0	180,242	68,925
2009-2013	27,001	0	32,622	57,491	0	0	792,624	221,112
2014-2018	0	0	40,256	49,859	0	0	269,601	58,539
2019-2023	0	0	49,677	40,438	0	0	112,213	40,438
2024-2028	0	0	61,302	28,811	0	0	61,302	28,811
2029-2033	0	0	75,647	14,466	0	0	75,647	14,466
2034-2038	0	0	25,162	1,060	0	0	25,162	1,060
Totals	<u>\$ 135,002</u>	<u>\$ 0</u>	<u>\$ 306,249</u>	<u>\$242,632</u>	<u>\$ 39,547</u>	<u>\$ 1,865</u>	<u>\$3,786,205</u>	<u>\$728,206</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

General obligation bonds are the direct obligation of the City and will be paid from the general bond retirement fund using property tax revenues. In 1992, the City issued \$565,000 of general obligation bonds for fire equipment; in 1995, the City issued \$1,660,000 of bonds for improving Purvis Park; and in 1997, the City issued \$500,000 of general obligation bonds for resurfacing streets and curb repair.

The Ohio Water Development Authority (OWDA) loan will be paid from the sewer replacement "A" fund. This loan was issued in 2000 for \$253,170. The Ohio Public Works Commission (OPWC) project will be paid from the bond retirement fund. This loan was issued in 2001 for \$330,270 and an additional \$27,105 in 2002.

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

NOTE 14: **INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2004 consisted of the following:

Transfers to General Bond Retirement Fund from:	
General Fund	\$ 649,752
Street Maintenance	554,000
Nonmajor Governmental Fund	290,000
Transfers to Nonmajor Governmental Funds from:	
General Fund	<u>702,211</u>
Total	<u>\$2,195,963</u>

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE 15: CLAIMS AND JUDGMENTS

The City is currently a defendant in lawsuits. It is the opinion of legal counsel that none of this litigation will have a material adverse effect on the financial condition of the City. In addition, there are a few unasserted claims, the results of which, if asserted, would not have a material effect on the financial statements at December 31, 2004.

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

NOTE 16: CAPITAL LEASES

The City has entered into a lease agreement as lessee for financing the acquisition of a Toshiba copier. The city also has financed the acquisition of a City street sweeper. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Governmental</u> <u>Activities</u>
Vehicle	\$ 104,195
Less: Accumulated Depreciation	<u>48,376</u>
Total	<u>55,819</u>
Total Assets	<u>\$ 55,819</u>

See Note 14 for the future minimum lease obligations as of December 31, 2004.

NOTE 17: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2004, the City contracted with several companies for various types of insurance as follows:

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

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

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

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

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

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

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

NOTE 18: **SUBSEQUENT EVENTS**

The City issued bond anticipation notes in May 2005 for \$1,965,000 for the acquisition of motorized equipment and for resurfacing streets and repairing curbs. Interest rate on these notes was 3.05 percent with a maturity date of May 2006.

NOTE 19: **FINANCIAL STABILITY**

The City advanced monies at December 31, 2004 from other funds to cover a general fund deficit and currently is projecting a \$0 balance at December 31, 2005. The City's management is currently working on a general fund operating expense containment plan for the remainder of the year (2005).

JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

333 County Line Road West
Westerville, Ohio 43082

Telephone 614.846.1899
Facsimile 614.846.2799

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the basic 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, 2004, and have issued our report thereon dated June 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of University Heights's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the management of the City of University Heights in a separate letter dated June 10, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of University Heights's financial statements of the governmental activities, each major fund, and the aggregate remaining fund information are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as items 2004-CUH-001 and 2004-CUH-002. We also noted certain immaterial instances of noncompliance that we have reported to the management of the City of University Heights in a separate letter dated June 10, 2005.

Members of Council and Mayor
City of University Heights

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
June 10, 2005

**CITY OF UNIVERSITY HEIGHTS
CUYAHOGA COUNTY, OHIO
DECEMBER 31, 2004**

SCHEDULE OF FINDINGS

1. FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2004-CUH-001

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

It was noted during the audit that for the year ended December 31, 2004 the City had expenditures exceeding appropriations in the following fund:

<u>Fund Type</u>	<u>Fund</u>	<u>Excess</u>
General	Leisure Time Activities	\$ 4,780
General	Basic Utilities	27,314
General	General Government	402,836
Special Revenue	Street Maintenance	9,468
Special Revenue	Community Development Block Grant	36,699
Special Revenue	Local Law Enforcement	670
Capital Projects	Public Works - Issue II	133,196
Capital Projects	Sewer Replacement "A"	41,268

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

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

Client Response: The City Director of Finance will obtain additional supplemental appropriations and have them approved by the City Council in a timely manner.

Finding Number	2004-CUH-002
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Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.

It was noted during the audit that at December 31, 2004, the City had a negative cash balance in the Community Development Block Grant fund of \$90,442.

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

**CITY OF UNIVERSITY HEIGHTS
CUYAHOGA COUNTY, OHIO
DECEMBER 31, 2004**

SCHEDULE OF FINDINGS

1. FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS – (Continued)	
Finding Number	2004-CUH-002 – (Continued)

We recommend that the City properly record receipts as deposits in transit only after funds have been received and subsequent to proper appropriation. If funds are anticipated, but not yet received and expenditures are necessary, the City should advance or transfer funds from the General Fund with proper Council approval.

Client Response: The City Director of Finance will advance monies with City Council approve when funds are anticipated, but not yet received and expenditures are necessary.

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

**STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <u>Explain:</u>
2003-CUH-001	Ohio Revised Code Section 5705.41 (B) requires that no subdivision is to expend money unless it has been appropriated.	No	The Finance Director is attempting to monitor the City's budget more closely.



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF UNIVERSITY HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 30, 2005**