

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

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2012**

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



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of University Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2012 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

June 11, 2013

This page intentionally left blank.

TABLE OF CONTENTS

I

FINANCIAL SECTION

A Independent Auditor’s Report..... 1

B Management’s Discussion and Analysis..... 5

C Basic Financial Statements:

 Government-wide Financial Statements:

 Statement of Net Position..... 15

 Statement of Activities..... 16

 Fund Financial Statements:

 Balance Sheet - Governmental Funds..... 17

 Reconciliation of Total Governmental Fund Balances
 to Net Assets of Governmental Activities..... 18

 Statement of Revenues, Expenditures and Changes in Fund Balances -
 Governmental Funds..... 19

 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances of Governmental Funds to the
 Statement of Activities..... 20

 Statement of Revenues, Expenditures and Changes in Fund Balance -
 Budget and Actual (Non-GAAP Budgetary Basis):

 General Fund..... 21

 Sewer Maintenance A Fund..... 22

 Urban Redevelopment Fund..... 23

 Statement of Fiduciary Net Position - Fiduciary Funds..... 24

 Notes to the Basic Financial Statements..... 25

 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*..... 52

 Schedule of Finding and Response..... 54

 Status of Prior Year Findings and Recommendations..... 55

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

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To Members of City Council
City of University Heights, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Ohio, as of December 31, 2012, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, the Sewer Maintenance A Fund, and the Urban Redevelopment Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the financial statements, during 2012 the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and restated its December 1, 2011 net position of governmental activities to properly record net capital assets and the SIB loan. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2013, on our consideration of the City of University Heights, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of University Heights, Ohio's internal control over financial reporting and compliance.



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

May 3, 2013

This page intentionally left blank.

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

The discussion and analysis of the City of University Heights's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2012. 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 2012 are as follows:

- The assets of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$11,343,845. Of this amount, \$5,785,896 may be used to meet the City's on-going obligations to citizens and creditors.
- The net position increased by \$2,775,200 from the prior year. Assets increased by \$2,277,236, and liabilities and deferred inflows of resources decreased by \$497,964.
- The total fund balance for the General Fund was \$3,558,154, an increase of \$315,603 from prior year.

Using this Annual Financial Report

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

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

Statement of Net Position and the Statement of Activities

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

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

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Fiduciary Funds

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

Notes to the Basic Financial Statements

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

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

Government-wide Financial Analysis – The City as a Whole

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

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

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

Table 1 provides a summary of the City's net position for 2012 as compared to 2011.

Table 1 - Net Position

	Governmental Activities	
	2012	2011 *
<u>Assets</u>		
Current and Other Assets	\$ 13,849,470	\$ 12,315,234
Capital Assets	6,667,619	5,924,619
Total Assets	20,517,089	18,239,853
<u>Liabilities</u>		
Long-term Liabilities	5,413,475	5,879,112
Other Liabilities	1,011,449	852,314
Total Liabilities	6,424,924	6,731,426
<u>Deferred Inflows of Resources</u>		
Property Taxes	2,463,320	2,639,782
Project	285,000	300,000
Total Deferred Inflows of Resources	2,748,320	2,939,782
<u>Net Position</u>		
Net Investment in Capital Assets	2,545,932	1,642,099
Restricted	3,012,017	2,052,424
Unrestricted	5,785,896	4,874,122
Total Net Position	\$ 11,343,845	\$ 8,568,645

* Restated

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

Total assets increased \$2,277,236. The majority of the increase was due to increases in equity in pooled cash and cash equivalents, income taxes receivable and Capital Assets. These increases were offset mainly by a decrease in property tax receivable. Total liabilities and deferred inflows of resources decreased by \$497,964 mainly due to the property tax and debt payments.

A portion of the City's net position (22.44 percent) reflects the investments in capital assets less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (26.55 percent) represents resources that have been restricted on how they may be used. The remaining balance of unrestricted net position \$5,785,896 may be used to meet the government's on-going obligations to its citizens and creditors.

This space is intentionally left blank.

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

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

Table 2 - Change in Position

	Governmental Activities	
	2012	2011
Revenues		
Program Revenues:		
Charges for Services	\$ 1,710,953	\$ 1,468,287
Operating Grants and Contributions	479,820	751,825
Capital Grants and Contributions	3,152,608	2,878,500
General Revenues:		
Property Taxes	2,688,646	2,790,098
Income Taxes	9,095,313	8,299,220
Payments in lieu of taxes	1,505,490	2,091,391
Other Taxes	145,968	149,108
Grants and Entitlements	1,324,869	1,087,631
Investment earnings	8,518	4,029
Other	59,733	114,141
Total Revenues	20,171,918	19,634,230
Program Expenses		
Security of Persons and Property	7,645,672	7,779,186
Public Health and Welfare	51,950	52,410
Leisure Time Activities	314,947	317,451
Community Development	4,126,733	2,429,283
Basic Utility Services	2,114,107	3,194,888
Transportation	1,321,913	1,605,998
General Government	1,727,894	1,504,247
Interest and Fiscal Charges	93,502	91,867
Total Program Expenses	17,396,718	16,975,330
Increase in Net Position	2,775,200	2,658,900
Net Position, Beginning of Year, Restated	8,568,645	5,909,745
Net Position, End of Year	\$ 11,343,845	\$ 8,568,645

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

Total revenues increased \$537,688 or 2.74 percent mainly due to increases in capital grants and contributions and income taxes in 2012 and offset by the decrease in payments in lieu of taxes. The City's largest revenue source is income tax. The City's income tax rate is 2.5 percent of gross income. There is a credit of 1.0 percent for those residents who work in another municipality/subdivision where income tax is withheld. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2012, the income tax revenue was \$9,095,313. Another major revenue source is property taxes. The effective tax rate for 2012 was \$13.20 per \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by the City, Cuyahoga County, Cleveland Heights-University Heights City School District and Cleveland Heights-University Heights Public Library. During 2012, the property tax revenue was \$2,688,646. The City received \$1,505,490 in payments in lieu of taxes from the University Square Tax Increment Financing Project. This was the fourth year in which revenue was generated from the project.

Total program expenses increased by \$421,388 or 2.48 percent in 2012 when compared to 2011. This increase can be attributed mainly to a decrease in basic utility services of \$1,080,781 due to a water main replacement project mainly completed and expended in 2011 and is offset by a significant increase in the community development expense of \$1,697,450. The community development program expense recognized an increase as a result of payments in lieu of taxes the City was required to make to the Trustee related to the University Square Parking Garage and a correction of a settlement error to the Trustee in the prior year.

Expenses are categorized by functions. The largest program expense, security of persons and property which includes police, fire, police and fire communications, traffic control, animal control, and public safety, was 43.95 percent of the total governmental expenses. Training plays a crucial role in keeping up with the rapidly changing laws, practices and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The second largest program expense is community development and represents 23.72 percent of the total governmental expenses. This program expense is made up of the sanitation department and the sewer maintenance. The City is a labor intensive industry and the expenses of the governmental activities are mainly salaries, wages and benefits. The City does have an annual road program which entails major and minor resurfacing of the various streets in University Heights. For the major resurfacing projects, the City has actively pursued grants and financial assistance from the Ohio Public Works Commission and the Ohio Water Development Authority. In addition, the City borrows on the open market by way of general obligation notes issued, which are rolled over year to year until paid down.

The City's Funds

Information about the City's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting.

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

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

As of the end of the year, the City's governmental funds reported combined ending fund balances of \$5,242,704, an increase of \$877,492 in comparison with the prior year. \$3,247,725 of the ending combined fund balance for 2012 constitutes *assigned and unassigned fund balance* combined, which is available for spending at the governments discretion. The remainder of fund balance is *nonspendable, restricted, or committed* to indicate that it is not available for new spending because it is not in spendable form or it has already been restricted or committed by external or internal constraints.

The General Fund is the main operating fund of the City. At the end of 2012, total fund balance for the General Fund was \$3,558,154. The General Fund balance increased by \$315,603 during the current fiscal year.

General Fund Budgeting Highlights

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

For the General Fund, final budgeted basis revenues were \$910,093 under the revenues of \$13,829,703, primarily due to lower estimate of collections for municipal income taxes and intergovernmental revenue.

The original appropriations, including other financing uses of \$13,167,333 were slightly increased to \$13,574,508. Even with these adjustments, the actual charges to appropriations (expenditures) were \$385,082 below the final budgeted amount for the General Fund.

Capital Assets and Debt Administration

Capital Assets

At the end of 2012, the City of University Heights had \$6,667,619 invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, furniture and fixtures and vehicles.

Table 3 shows fiscal 2012 balances of capital assets as compared to 2011:

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

	Governmental Activities	
	2012	2011 *
Land	\$ 985,954	\$ 385,954
Buildings and Improvements	936,166	826,372
Vehicles	401,459	450,661
Equipment	216,521	248,803
Infrastructures:		
Pavement	2,856,671	2,723,091
Storm Sewers	176,660	180,421
Sanitary Sewers	1,094,188	1,109,317
Total Capital Assets	\$ 6,667,619	\$ 5,924,619

* Restated

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame. During 2012, the City purchased vehicles and equipment for \$184,717. The City purchased two properties; the Fuchs-Mizarchi school property for \$600,000 and a single family residence for \$50,136. The City also completed the pavement of John Carroll Blvd. and parts of Chaney and Silsby. More detailed information about the City's capital assets is presented in Note 8 to the financial statements.

Debt

At December 31, 2012, the City of University Heights had \$4,173,915 in outstanding debt, of which \$275,000 was in general obligation bonds. Table 4 summarizes the outstanding debt obligations of the City.

Table 4 - Outstanding Debt at December 31

	Governmental Activities	
	2012	2011 *
General Obligation Bonds	\$ 275,000	\$ 405,000
General Obligation Bond Anticipation Notes	2,280,000	2,716,000
OPWC Loans	370,626	386,415
SIB Loan	528,302	595,180
Promissory Note	300,000	-
Accrued Police Pension	259,228	266,021
Capital leases	160,759	179,925
Total Outstanding Debt	\$ 4,173,915	\$ 4,548,541

* Restated

The City paid \$130,000 on principal for general obligation bonds on the Purvis Park Pool. General obligation bond anticipation notes were issued mainly for street programs in the amount of \$2,487,000. \$207,000 of the 2,487,000 various improvement bond anticipation notes issued on May 1, 2012 at 1.125 percent were considered short term.

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

The City paid \$66,878 on principal for the State Infrastructure Bank Loan for reconstruction of University Parkway.

City of University Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

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

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

Current Related Financial Activities

In preparing for the budget for 2012, the City recognizes the economic downturn as a factor still affecting operations. Budget projections include a modest 1% increase in income tax collections and stable wage costs. The City expects its budgetary constraints to continue based upon decisions made by the State including the elimination of estate tax revenues and continued reduction in the local government fund revenues. To maintain the integrity of the budget in 2012, the City will continue to control spending, continue applying for grant funding to finance capital projects and continue a policy of "pay as you go" for capital expenditures. With no unforeseen impacts to revenue or expenses, the City anticipates the General Fund balance to remain consistent in 2013.

Contacting the City of University Heights's Finance Department

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

Basic Financial Statements

City of University Heights, Ohio
Statement of Net Position
December 31, 2012

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 4,359,024
Materials and Supplies Inventory	74,575
Accounts Receivable	331,768
Accrued Interest Receivable	1,958
Intergovernmental Receivable	693,266
Project Loan receivable	285,000
Prepaid Items	50,999
Income Taxes Receivable	4,094,849
Property and Other Taxes Receivable	2,702,392
Special Assessments Receivable	1,255,639
Nondepreciable Capital Assets	985,954
Depreciable Capital Assets	5,681,665
Total Assets	20,517,089
LIABILITIES	
Accounts Payable	149,878
Accrued Wages and Benefits	204,022
Intergovernmental Payable	398,582
Matured Compensated Absences Payable	25,178
Accrued Interest Payable	26,789
Notes Payable	207,000
Long-term Liabilities:	
Due within one year	3,382,359
Due in more than one year	2,031,116
Total Liabilities	6,424,924
DEFERRED INFLOWS OF RESOURCES	
Property Taxes	2,463,320
Project Loan Revenue	285,000
Total Deferred Inflows of Resources	2,748,320
NET POSITION	
Net Investment in Capital Assets	2,545,932
Restricted for:	
Debt Services	645,817
Capital Projects	195,411
Sewer Maintenance	1,293,926
Community Development	562,473
Other Purposes	314,390
Unrestricted	5,785,896
Total Net Position	\$ 11,343,845

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

City of University Heights, Ohio
Statement of Activities
For the Year Ended December 31, 2012

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
Security of Persons and Property	\$ 7,645,672	\$ 570,034	\$ 1,637	\$ -	\$ (7,074,001)
Public Health and Welfare	51,950	-	-	-	(51,950)
Leisure Time Activities	314,947	113,876	-	-	(201,071)
Community Development	4,126,733	673,850	-	2,075,740	(1,377,143)
Basic Utility Services	2,114,107	210,950	-	1,076,868	(826,289)
Transportation	1,321,913	-	426,146	-	(895,767)
General Government	1,727,894	142,243	52,037	-	(1,533,614)
Interest and Fiscal Charges	93,502	-	-	-	(93,502)
Total Governmental Activities	\$17,396,718	\$ 1,710,953	\$ 479,820	\$ 3,152,608	(12,053,337)
General Revenues:					
Property Taxes levied for:					
General Purposes					2,138,904
Debt Service Purpose					427,576
Special Revenue					122,166
Payments in Lieu of taxes					1,505,490
Income Taxes levied for:					
General Purposes					9,095,313
Other Taxes					145,968
Grants & Entitlements not restricted to specific programs					1,324,869
Investment Income					8,518
All Other Revenues					59,733
Total General Revenues					14,828,537
Change in Net Position					2,775,200
Net Position - Beginning of Year, Restated					8,568,645
Net Position - End of Year					\$ 11,343,845

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

City of University Heights, Ohio
Balance Sheet – Governmental Funds
December 31, 2012

	General Fund	Sewer Maintenance A	General Bond Retirement	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in Pooled Cash and Cash Equivalents	\$ 2,218,208	\$ 735,377	\$ 180,699	\$ 1,224,740	\$ 4,359,024
Materials and Supplies Inventory	44,575	-	-	30,000	74,575
Accrued Interest Receivable	1,958	-	-	-	1,958
Accounts Receivable	316,568	-	-	15,200	331,768
Interfund Receivable	39,652	-	-	-	39,652
Intergovernmental Receivable	417,558	-	33,987	241,721	693,266
Prepaid Items	50,999	-	-	-	50,999
Income Taxes Receivable	4,094,849	-	-	-	4,094,849
Property and Other Taxes Receivable	2,158,038	-	423,384	120,970	2,702,392
Special Assessments Receivable	27,611	568,707	-	659,321	1,255,639
Project Loan Receivable	285,000	-	-	-	285,000
Total Assets	\$ 9,655,016	\$ 1,304,084	\$ 638,070	\$ 2,291,952	\$ 13,889,122
LIABILITIES					
Accounts Payable	\$ 66,880	\$ 7,960	\$ -	\$ 75,038	\$ 149,878
Accrued Wages and Benefits	200,242	1,226	-	2,554	204,022
Intergovernmental Payable	167,247	972	-	230,363	398,582
Matured Compensated Absences Payable	25,178	-	-	-	25,178
Interfund Payable	-	-	-	39,652	39,652
Notes Payable	-	-	207,000	-	207,000
Total Liabilities	459,547	10,158	207,000	347,607	1,024,312
DEFERRED INFLOWS OF RESOURCES					
Property Taxes and Project Revenue	2,244,814	-	391,614	111,892	2,748,320
Unavailable Revenue - Delinquent Property Taxes	158,852	-	31,770	9,078	199,700
Unavailable Revenue - Income Taxes	2,564,170	-	-	-	2,564,170
Unavailable Revenue - Special Assessments	27,611	568,707	-	659,321	1,255,639
Unavailable Revenue - Other	641,868	-	33,987	178,422	854,277
Total Deferred Inflows of Resources	5,637,315	568,707	457,371	958,713	7,622,106
FUND BALANCES					
Nonspendable	95,574	-	-	30,000	125,574
Restricted	-	725,219	-	1,143,791	1,869,010
Committed	436	-	-	-	436
Assigned	2,294,169	-	-	-	2,294,169
Unassigned (Deficit)	1,167,975	-	(26,301)	(188,159)	953,515
Total Fund Balances	3,558,154	725,219	(26,301)	985,632	5,242,704
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 9,655,016	\$ 1,304,084	\$ 638,070	\$ 2,291,952	\$ 13,889,122

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

City of University Heights, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2012

Total Governmental Fund Balances		\$ 5,242,704
<i>Amounts reported for Governmental Activities in the Statement of Net Position are different because:</i>		
Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds.		6,667,619
Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable revenue in the funds:		
Property taxes	199,700	
Income taxes	2,564,170	
Special assessments	1,255,639	
Intergovernmental	605,392	
Charges for services	248,885	
Total		4,873,786
In the Statement of Activities, interest is accrued on outstanding debt, whereas in Governmental funds, an interest expenditure is reported when due.		(26,789)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	(275,000)	
OPWC loans	(370,626)	
Bond anticipation notes	(2,280,000)	
Promissory Note	(300,000)	
SIB Loan	(528,302)	
Accrued police pension	(259,228)	
Capital leases	(160,759)	
Compensated absences	(1,239,560)	
Total		(5,413,475)
Net Position of Governmental Activities		\$ 11,343,845

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

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended December 31, 2012

	General Fund	Sewer Maintenance A	Urban Redevelopment	General Bond Retirement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 2,193,289	\$ -	\$ -	\$ 438,453	\$ 125,272	\$ 2,757,014
Income Taxes	8,532,988	-	-	-	-	8,532,988
Payments in lieu of taxes	-	-	1,505,490	-	-	1,505,490
Other Taxes	145,968	-	-	-	-	145,968
Intergovernmental	1,304,473	482,484	-	67,973	502,076	2,357,006
Interest	8,518	-	-	-	8	8,526
Fines, Licenses and Permits	596,128	-	-	-	17,650	613,778
Charges for Services	526,393	-	-	-	-	526,393
Special Assessments	38,536	423,507	2,029,240	-	485,375	2,976,658
All Other Revenues	59,725	-	-	-	-	59,725
Total Revenues	13,406,018	905,991	3,534,730	506,426	1,130,381	19,483,546
EXPENDITURES						
Security of Persons and Property	6,688,749	-	-	-	976,821	7,665,570
Public Health and Welfare	51,950	-	-	-	-	51,950
Leisure Time Activities	313,905	-	-	-	-	313,905
Community Development	582,952	-	3,497,580	-	70,412	4,150,944
Basic Utility Services	1,104,225	793,401	-	-	190,602	2,088,228
Transportation	407,640	-	-	-	441,540	849,180
General Government	1,610,759	-	37,150	-	617	1,648,526
Capital Outlay	18,529	-	-	-	1,350,395	1,368,924
Debt Service:						
Principal Retirement	35,424	-	-	2,912,878	367,986	3,316,288
Interest and Fiscal Charges	5,563	-	-	71,088	17,550	94,201
Total Expenditures	10,819,696	793,401	3,534,730	2,983,966	3,415,923	21,547,716
Excess of Revenues Over (Under) Expenditures	2,586,322	112,590	-	(2,477,540)	(2,285,542)	(2,064,170)
OTHER FINANCING SOURCES (USES)						
Inception of Capital Lease	-	-	-	-	61,662	61,662
Notes Issued	-	-	-	2,280,000	600,000	2,880,000
Transfer In	19,281	-	-	100,000	2,190,000	2,309,281
Transfer Out	(2,290,000)	-	-	-	(19,281)	(2,309,281)
Total Other Financing Sources (Uses)	(2,270,719)	-	-	2,380,000	2,832,381	2,941,662
Net Change in Fund Balances	315,603	112,590	-	(97,540)	546,839	877,492
Fund Balances - Beginning of Year	3,242,551	612,629	-	71,239	438,793	4,365,212
Fund Balances - End of Year	\$ 3,558,154	\$ 725,219	\$ -	\$ (26,301)	\$ 985,632	\$ 5,242,704

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

City of University Heights, Ohio
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2012

Net Change in Fund Balances - Total Governmental Funds \$ 877,492

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

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

Capital outlay	\$	1,302,299	
Depreciation		(559,299)	
Total			743,000

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

Property and other taxes		(68,368)	
Municipal income taxes		562,325	
Special assessments		142,923	
Intergovernmental		(23,333)	
Charges for services		74,825	
Total			688,372

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of bond anticipation notes, promissory note and capital leases. (2,941,662)

Repayment of bond and note principal are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 3,316,288

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

Compensated absences		91,011	
Accrued interest		699	
Total			91,710

Change in Net Position of Governmental Activities \$ 2,775,200

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

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP Budgetary Basis) – General Fund
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Over
				(Under)
REVENUES:				
Property and other local taxes	\$ 2,233,399	\$ 2,233,399	\$ 2,338,696	\$ 105,297
Income Taxes	8,097,639	8,097,639	8,312,246	214,607
Intergovernmental	1,435,602	1,435,602	1,936,693	501,091
Charges for Services	412,850	412,850	476,927	64,077
Licenses, permits and fees	645,620	645,620	589,676	(55,944)
Special Assessments	16,000	16,000	20,788	4,788
Investment Income	4,000	4,000	6,982	2,982
Miscellaneous	74,500	74,500	104,394	29,894
Total Revenues	<u>12,919,610</u>	<u>12,919,610</u>	<u>13,786,402</u>	<u>866,792</u>
EXPENDITURES:				
Current:				
General Government	1,789,077	1,789,077	1,668,574	120,503
Security of Persons and Property	6,742,561	6,742,561	6,620,153	122,408
Basic Utility Services	1,141,761	1,141,761	1,149,548	(7,787)
Transportation	568,643	625,818	536,443	89,375
Public Health and Welfare	54,244	54,244	51,950	2,294
Community Development	622,416	622,416	579,693	42,723
Leisure Time Activities	328,631	328,631	313,090	15,541
Total Expenditures	<u>11,247,333</u>	<u>11,304,508</u>	<u>10,919,451</u>	<u>385,057</u>
Excess of Revenues over Expenditures	<u>1,672,277</u>	<u>1,615,102</u>	<u>2,866,951</u>	<u>1,251,849</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	19,281	19,281	19,281	-
Transfers Out	(1,920,000)	(2,270,000)	(2,270,000)	-
Total Other Financing Sources and Uses	<u>(1,900,719)</u>	<u>(2,250,719)</u>	<u>(2,250,719)</u>	<u>-</u>
Net Change in Fund Balance	(228,442)	(635,617)	616,232	1,251,849
Fund Balances, Beginning of Year	1,313,038	1,313,038	1,313,038	-
Prior Year Encumbrances Appropriated	127,007	127,007	127,007	-
Fund Balances, End of Year	<u>\$ 1,211,603</u>	<u>\$ 804,428</u>	<u>\$ 2,056,277</u>	<u>\$ 1,251,849</u>

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

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP Budgetary Basis) – Sewer Maintenance A Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over (Under)
REVENUES:				
Special Assessments	\$ 550,000	\$ 550,000	\$ 423,507	\$ (126,493)
Intergovernmental	-	481,599	482,484	885
Total Revenues	550,000	1,031,599	905,991	(125,608)
EXPENDITURES:				
Current:				
Basic Utility Services	507,915	989,514	943,262	46,252
Total Expenditures	507,915	989,514	943,262	46,252
Excess (Deficiency) of Revenues over Expenditures	42,085	42,085	(37,271)	(79,356)
OTHER FINANCING SOURCES (USES):				
Note Proceeds	276,760	276,760	-	(276,760)
Transfers Out	(325,000)	(325,000)	-	325,000
Total Other Financing Sources and Uses	(48,240)	(48,240)	-	48,240
Net Change in Fund Balance	(6,155)	(6,155)	(37,271)	(31,116)
Fund Balances, Beginning of Year	231,529	231,529	231,529	-
Prior Year Encumbrances Appropriated	402,139	402,139	402,139	-
Fund Balances, End of Year	\$ 627,513	\$ 627,513	\$ 596,397	\$ (31,116)

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

City of University Heights, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual (Non-GAAP Budgetary Basis) – Urban Redevelopment Fund
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Over
				(Under)
REVENUES:				
Payment In Lieu of Taxes	\$ 3,200,000	\$ 3,200,000	\$ 1,505,490	\$ (1,694,510)
Special Assessments	-	335,000	2,029,240	1,694,240
Total Revenues	<u>3,200,000</u>	<u>3,535,000</u>	<u>3,534,730</u>	<u>(270)</u>
EXPENDITURES:				
Current:				
Community Development	<u>3,200,000</u>	<u>3,535,000</u>	<u>3,534,730</u>	<u>270</u>
Net Change in Fund Balance	-	-	-	-
Fund Balances, Beginning of Year	-	-	-	-
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

City of University Heights, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2012

	<u>Agency Funds</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 334,344
Total Assets	<u>\$ 334,344</u>
LIABILITIES	
Deposits Held and Due to Others	\$ 334,344
Total Liabilities	<u>\$ 334,344</u>

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

City of University Heights, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 1: **The Reporting Entity**

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

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

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

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

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

A. **Basis of Presentation**

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

Government-Wide Financial Statements

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

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

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

Fund Financial Statements

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

B. **Fund Accounting**

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

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

B. Fund Accounting (Continued)

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

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

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

C. **Measurement Focus** (Continued)

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

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

D. **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred 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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Available period for the City is sixty days after year-end.

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

D. Basis of Accounting (Continued)

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, there were no deferred outflows of resources in 2012.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, project revenue and unavailable revenues. Property taxes and represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations and project revenue represents imposed nonexchange revenues. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, and other. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

Expenses/Expenditures

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

E. Budgetary Process

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

E. **Budgetary Process** (Continued)

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

F. **Cash and Cash Equivalents**

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

During 2012, the portfolio was limited to negotiable certificates of deposits, federal agencies and State Treasury Asset Reserve of Ohio (STAR Ohio).

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940.

Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2012.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2012 amounted to \$8,518, which includes \$4,489 assigned from other funds.

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

G. **Inventory**

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

H. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid items using the allocation method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

I. Capital Assets

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

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

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

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

J. Interfund Balances

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Compensated Absences

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

L. **Compensated Absences** (Continued)

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, 2012.

M. **Fund Balance**

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

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

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

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

N. Net Position

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

The government-wide statement of net position reports \$3,012,017 of the restricted component of net position, none of which is restricted by enabling legislation. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

O. Interfund Activity

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2012.

Q. Estimates

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

A. Change in Accounting Principles

GASB Statement Number 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City.

GASB Statement Number 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City.

GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City.

GASB Statement Number 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011 and have been implemented by the City.

GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented by the City.

B. Restatement of Prior Period's Net Position

A restatement of prior period's governmental activities' net position was necessary to record capital assets, net, and the SIB loan for the purpose of street improvement. The restatement is as follows:

	Governmental Activities
Net Position, December 31, 2011	\$8,928,718
Restatement:	
Governmental Activities Capital Assets, net	235,107
SIB Loan	(595,180)
Restated Net Position, December 31, 2011	\$ 8,568,645

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

NOTE 4: **Fund Balances**

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

	General	Sewer Maintenance A	General Bond Retirement	Other Governmental Funds	Total
Components of Fund Balance:					
<i>Nonspendable</i>					
Prepaid Items	\$ 50,999	\$ -	\$ -	\$ -	\$ 50,999
Inventories	44,575	-	-	30,000	74,575
<i>Total Nonspendable</i>	<u>95,574</u>	<u>-</u>	<u>-</u>	<u>30,000</u>	<u>125,574</u>
<i>Restricted</i>					
Streets and Highways	-	-	-	271,138	271,138
Law Enforcement	-	-	-	41,235	41,235
Sewers	-	725,219	-	-	725,219
Tree Improvement	-	-	-	282,466	282,466
Recycling	-	-	-	10,000	10,000
Community	-	-	-	26,128	26,128
Energy Projects	-	-	-	27,590	27,590
Sewer Bond Retirement	-	-	-	289,823	289,823
Capital Improvements	-	-	-	195,411	195,411
<i>Total Restricted</i>	<u>-</u>	<u>725,219</u>	<u>-</u>	<u>1,143,791</u>	<u>1,869,010</u>
<i>Committed to</i>					
Sick Leave Benefits	436	-	-	-	436
<i>Total Committed</i>	<u>436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>436</u>
<i>Assigned</i>					
Fiscal Year 2013 Appropriations	2,169,036	-	-	-	2,169,036
Encumbrances	124,737	-	-	-	124,737
Off street parking	396	-	-	-	396
<i>Total Assigned</i>	<u>2,294,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,294,169</u>
<i>Unassigned (Deficit)</i>	1,167,975	-	(26,301)	(188,159)	953,515
Total Fund Balance	<u><u>\$ 3,558,154</u></u>	<u><u>\$ 725,219</u></u>	<u><u>\$ (26,301)</u></u>	<u><u>\$ 985,632</u></u>	<u><u>\$5,242,704</u></u>

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

NOTE 5: **Budgetary Basis of Accounting**

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

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

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

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

Net Change in Fund Balance		
	General	Sewer Maintenance A
GAAP Basis	\$ 315,603	\$ 112,590
Increase (Decrease) Due to:		
Revenue Accruals	380,383	-
Expenditure Accruals	82,177	(10,881)
Net Impact of Encumbrances	<u>(161,931)</u>	<u>(138,980)</u>
Budgetary Basis	<u>\$ 616,232</u>	<u>\$ (37,271)</u>

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

NOTE 6: **Deposits and Investments**

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

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

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

Deposits

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

At year-end, the carrying amount of the City's deposits was \$3,907,962 and the bank balance was \$4,042,549. Of the bank balance, \$514,351 was covered by Federal depository insurance and \$3,528,198 was uninsured and collateralized with securities held by the pledging institution's trust department, not in the City's name.

Investments

Investments are reported at fair value. As of December 31, 2012, the city had the following investments:

	Fair Value	Credit Rating (*)	Investment Maturities (in Years)		
			<1	1-3	3-5
<u>Investment Type:</u>					
Star Ohio	\$ 35,828	Aaa/AAA	\$ 35,828	\$ -	\$ -
Negotiable CD's	499,725	N/A	-	499,725	-
U.S. Agencies	249,853	Aaa/AAA	-	-	249,853
Total Investments	<u>785,406</u>		<u>\$ 35,828</u>	<u>\$ 499,725</u>	<u>\$ 249,853</u>

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

Investments (Continued)

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

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

NOTE 7: **Receivables**

A. **Property Taxes**

Property taxes include amounts levied against all real property and public utility tangible personal property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections for 2011 taxes. Property tax payments received during 2012 for tangible personal property, except for public utility property, are for prior year unpaid tangible personal property taxes.

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

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

NOTE 7: **Receivables** (Continued)

The tax rate levied to finance the City's services for the year ended December 31, 2012 was \$13.20. The assessed values of real and public utility property upon which 2012 property tax receipts were based are as follows:

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

B. Income Taxes

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

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

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Revenue Description	Amount
Local Government	\$ 239,114
Homestead and Rollback	212,758
Gasoline and Auto Registration tax	180,287
Permissive tax and Liquor Permits	5,356
Estate tax	9,251
Grants	46,500
Total	\$ 693,266

D. Project Loan Receivables

The City has a long-term project development agreement related to the City's TIF Project. Accounts receivable for the project is due in annual installments on the first business day of January through 2032 in the amount of \$15,000. As of December 31, 2012, \$285,000 is outstanding.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

NOTE 8: **Capital Assets**

Capital asset activity for government the year ended December 31, 2012, was as follows:

	Restated Balance 12/31/2011	Additions	Deletions	Balance 12/31/2012
<u>Governmental Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 385,954	\$ 600,000	\$ -	\$ 985,954
Total non-depreciable assets	<u>385,954</u>	<u>600,000</u>	<u>-</u>	<u>985,954</u>
Capital Assets, being depreciated:				
Buildings and Improvements	1,863,657	153,167	-	2,016,824
Vehicles	3,065,133	128,631	-	3,193,764
Equipment	1,225,104	56,086	-	1,281,190
Infrastructure:				
Pavement	4,682,412	364,415	-	5,046,827
Storm Sewers	230,271	-	-	230,271
Sanitary Sewers	1,235,057	-	-	1,235,057
Total Capital Assets, being depreciated	<u>12,301,634</u>	<u>702,299</u>	<u>-</u>	<u>13,003,933</u>
Less Accumulated depreciation:				
Buildings and Improvements	(1,037,285)	(43,373)	-	(1,080,658)
Vehicles	(2,614,472)	(177,833)	-	(2,792,305)
Equipment	(976,301)	(88,368)	-	(1,064,669)
Infrastructure:				
Pavement	(1,959,321)	(230,835)	-	(2,190,156)
Storm Sewers	(49,850)	(3,761)	-	(53,611)
Sanitary Sewers	(125,740)	(15,129)	-	(140,869)
Total Accumulated depreciation	<u>(6,762,969)</u>	<u>(559,299)</u>	<u>-</u>	<u>(7,322,268)</u>
Total Capital Assets being depreciated, net	<u>5,538,665</u>	<u>143,000</u>	<u>-</u>	<u>5,681,665</u>
Governmental Activities Capital Assets, net	<u>\$ 5,924,619</u>	<u>\$ 743,000</u>	<u>\$ -</u>	<u>\$ 6,667,619</u>

Depreciation expense was charged to governmental activities as follows:

Security of Persons and Property	\$ 16,781
Leisure Time Activities	1,042
Community Development	1,447
Basic Utility Services	48,070
Transportation	485,594
General Government	6,365
	<u>\$ 559,299</u>

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

NOTE 9: **Pension Plans**

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.html>, writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only with the Traditional Pension Plan. For the year ended December 31, 2012, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.5 percent and 12.10 percent, respectively; however, no police or fire officers of the City are members of OPERS.

The City's required contributions for pension obligations, excluding the health care portion, to all three plans for the years ended December 31, 2012, 2011, and 2010 were \$235,880, \$240,980, and \$224,295, respectively; 92.73 percent has been contributed for 2012 and 100 percent for 2011 and 2010.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by state statute. The City's contributions to the OP&F for police and firefighters were \$297,057 and \$392,577, respectively, for the year ended December 31, 2012, \$280,672 and \$403,768, respectively, for the year ended December 31, 2011, and \$312,693 and \$400,667, respectively, for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. For 2012, 78.02 percent for police and 77.10 percent for firefighters has been contributed, with the remainder being reported as a liability.

NOTE 10: **Post-Employment Benefits**

A. Ohio Public Employees Retirement System

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

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

In order to qualify for post-retirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.html>, writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling 614-222-5601 or 800-222-7377.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care coverage through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care coverage. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, the City's contribution rate was 14.0 percent of covered payroll for local employees and 18.1 percent of covered payroll for law enforcement and public safety employees; no police or fire officers of the City are members of OPERS. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of the post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care for the years ended December 31, 2012, 2011, and 2010 were \$94,352, \$96,392, and \$127,854, respectively; 92.73 percent has been contributed for 2012 and 100 percent for 2011 and 2010.

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

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

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

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

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

B. Ohio Police and Fire Pension Fund (Continued)

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

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

The Ohio Revised Code provides for contribution requirements of the participating employers and of the plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of the covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401 (h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contribution allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F for police and fire for the years ending December 31, 2012, 2011, and 2010 were \$157,265 and \$153,617, \$148,591 and \$157,996, and \$165,431 and \$156,588, respectively. For 2012, 78.02 percent for police and 77.10 percent for firefighters has been contributed, with the remainder being reported as a liability. The full amount has been contributed for 2011 and 2010.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

NOTE 11: Long-Term Obligations

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2012 was as follows:

	Restated Balance January 1, 2012	Additions	Retired	Balance December 31, 2012	Due Within One Year
General Obligation Bonds					
6.25% 1995 Purvis Park Improvement Series A & B	\$ 405,000	\$ -	\$ 130,000	\$ 275,000	\$ 135,000
Total General Obligation Bonds	<u>405,000</u>	<u>-</u>	<u>130,000</u>	<u>275,000</u>	<u>135,000</u>
General Obligation Notes					
1.125% Various Purpose General Obligation Bond Anticipation Notes	-	2,280,000	-	2,280,000	2,280,000
1.25% Various Purpose General Obligation Bond Anticipation Notes	2,716,000	-	2,716,000	-	-
Total General Obligation Notes	<u>2,716,000</u>	<u>2,280,000</u>	<u>2,716,000</u>	<u>2,280,000</u>	<u>2,280,000</u>
OPWC Loans					
0.00% Issue II Loan	187,620	-	8,934	178,686	17,869
0.00% Meadowbrook	198,795	-	6,855	191,940	13,710
Total OPWC Loans	<u>386,415</u>	<u>-</u>	<u>15,789</u>	<u>370,626</u>	<u>31,579</u>
Other Obligations					
SIB Loan	595,180	-	66,878	528,302	68,900
Promissory Note	-	600,000	300,000	300,000	200,000
Accrued Police Pension	266,021	-	6,793	259,228	7,084
Capital leases payable	179,925	61,662	80,828	160,759	80,611
Accrued Compensated Absences	1,330,571	577,185	668,196	1,239,560	579,185
Total Other Obligations	<u>2,371,697</u>	<u>1,238,847</u>	<u>1,122,695</u>	<u>2,487,849</u>	<u>935,780</u>
Total Long-Term Liabilities	<u>\$ 5,879,112</u>	<u>\$ 3,518,847</u>	<u>\$ 3,984,484</u>	<u>\$ 5,413,475</u>	<u>\$ 3,382,359</u>

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

Principal and interest requirement to retire the long-term debt obligations outstanding at December 31, 2011 were as follows:

Year	Governmental Activities						
	General Obligation Bonds		OPWC Loans	SIB Loan		Accrued Pension Liability	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest
2013	\$ 135,000	\$ 17,050	\$ 31,579	\$ 68,900	\$ 15,336	\$ 7,084	\$ 10,938
2014	140,000	8,680	31,579	70,982	13,254	7,389	10,634
2015	-	-	31,579	73,128	11,108	7,706	10,317
2016	-	-	31,579	75,338	8,898	8,037	9,986
2017	-	-	31,579	77,615	6,621	8,382	9,641
2018-2022	-	-	157,891	162,339	6,133	47,631	42,484
2023-2027	-	-	54,840	-	-	58,777	31,336
2028-2032	-	-	-	-	-	72,532	17,081
2033-2035	-	-	-	-	-	41,690	2,625
Totals	<u>\$ 275,000</u>	<u>\$ 25,730</u>	<u>\$ 370,626</u>	<u>\$ 528,302</u>	<u>\$ 61,350</u>	<u>\$ 259,228</u>	<u>\$ 145,042</u>

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

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

On May 1, 2012, the City issued various purpose General Obligation Bond Anticipation Notes of \$2,487,000 with an interest rate of 1.125 percent in anticipation of the issuance of bonds.

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

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

The accrued police pension liability will be paid from the Police Pension Fund. See Note 12 for detail on capital leases. Compensated absences will be paid by the fund from which the employee's salary is paid.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

NOTE 12: Note Debt

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

<u>Types/Issues</u>	<u>Balance January 1, 2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance December 31, 2012</u>
2012 Bond Anticipation Notes	\$ -	\$ 207,000	\$ -	\$ 207,000

NOTE 13: Capital Leases

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

	<u>Governmental Activities</u>
Assets:	
Buildings and Improvements	\$ 146,427
Vehicles	401,008
Equipment	53,323
Less: accumulated depreciation	(413,652)
Total	\$ 187,106

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

<u>Year</u>	<u>Governmental Activities</u>
2013	\$ 87,696
2014	62,996
2015	20,564
Total minimum lease payments	171,256
Less: Amount representing interest	(10,497)
Present value of minimum lease payments	\$ 160,759

Lease payments are made from the General Fund and Street Maintenance Fund. The lease payment amounts will be paid with current, available resources that have accumulated in the fund for payment early in the following year.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

NOTE 14: **Risk Management**

A. **Property and Liability**

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

B. **Workers' Compensation**

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

C. **Other**

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

NOTE 15: **Compensated Absences**

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

Sick leave is earned at the rate of 10 hours to 14 hours for each month worked. The total amount of accumulated sick leave shall not exceed 960 hours to 1,344 hours, depending upon the employment contract. Each employee, upon retirement, with ten years of employment, is paid a portion of the employee's earned unused sick leave balances.

NOTE 16: **Contingencies/Pending Litigation**

A. **Grants**

The City has received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and a condition specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2012

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

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

B. Litigation

A few claims and lawsuits are pending against the City. The amount of liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material effect on the overall position of the City at December 31, 2012.

NOTE 17: **Interfund Transactions**

A. Interfund Balances

Interfund receivables and payables for the year ended December 31, 2012 consisted of the following:

	Receivables	Payables
Major Funds		
General	\$ 39,652	\$ -
Nonmajor Funds		
<i>Special Revenue Funds:</i>		
County MEP Energy	-	12,000
NOPEC Grant	-	27,652
	\$ 39,652	\$ 39,652

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2012, consisted of the following:

<u>Fund</u>	Transfers In	Transfers Out
General	\$ 19,281	\$ 2,290,000
General Bond Retirement Fund	100,000	-
Nonmajor Governmental Funds	2,190,000	19,281
Total	\$ 2,309,281	\$ 2,309,281

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed. The City had no transfers that either do not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer. The City's interfund loan of \$20,00 between the General Fund and CDBG was not to be paid back and was converted to a transfer.

City of University Heights, Ohio
Notes to the Basic Financial Statements (continued)
For the Year Ended December 31, 2012

NOTE 18: **Accountability**

There are deficits in the County MEP Energy Fund, Street Lighting Fund, Police Pension Fund, Fire Pension Fund and General Bond Retirement Fund of \$12,000, \$5,767, \$77,348, \$93,044 and \$26,301, respectively, caused by the application of generally accepted accounting principles to these funds. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

NOTE 19: **Shared Risk Pool**

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

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

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

NOTE 20: **Subsequent Event**

On March 20, 2013, the City issued \$2,280,000 in serial bonds for various purposes. Final maturity in December 1, 2022 and has an interest rate of 2.4%.

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

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of University Heights, Ohio's basic financial statements, and have issued our report thereon dated May 3, 2013, wherein we noted that the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* and restated its December 31, 2011 net position of governmental activities to properly record net capital assets and the SIB loan.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as **Item #2012-001** that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of University Heights, Ohio's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of University Heights, Ohio's response to the finding identified in our audit is described in the accompanying Schedule of Finding and Response. The City of University Heights, Ohio's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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



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

May 3, 2013

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDING AND RESPONSE
FOR THE YEAR ENDED DECEMBER 31, 2012**

Item #2012-001 - Significant Deficiency - Receipts Exceeding Bank Deposits

Condition/Criteria

During our review of the City's receipt process, we noted that several receipts exceeded the amount deposited by the City for the Pool and Other Services.

Cause/Effect

Individual receipt support totaled more than the actual amount deposited.

Recommendation

We recommend that the City follow the procedures in place wherein the Finance Department deposit the total amount of the monies received by the City, as evidenced by individual receipts from the respective departments. We recommend that the Finance Director reconcile the amount deposited to the City cash receipt detail report in order to strengthen controls over the receipt process.

Client Response

The City takes this finding seriously and is committed to its correction. To provide context, the pool admissions passes were sold to the public at the swimming pool for the first time in 2012. This was done as a convenience to residents and resulted in a substantial increase of revenue from this source, from \$75,707.52 in 2011 to \$108,280.62 in 2012. After review of the receipts detailing pass purchases, it is the City's belief that the young seasonal employees who were initially receiving the money for pass purchases were not appropriately supervised. The City does not believe that there is cash missing, rather that the types of passes purchased for admission were poorly documented by these workers. The major discrepancies noted were related to cash being marked on the receipt as the form of payment; however, the deposit did not match that amount. After an extensive review of receipts, the City firmly believes that the situation was not one of cash being collected as the form of payment and then becoming lost or missing. Instead, the City firmly believes that the young workers were not careful about marking the correct form of payment, whether cash, check, or pre-paid via PayPal. The City recognizes the importance of properly marking the exact method of payment for pool passes. The City believes that the pool management did not adequately supervise the young workers as they were accepting payment for pool passes.

The Finance Director was newly hired at the time the sale of pool admission passes began at the pool and had not had input into the training of the pool management about the importance of accurate accounting methods for handling cash and other payments. The practice in place was that the pool management submitted a written pay-in sheet daily to the Finance Office that indicated the monies collected for pass purchases at the pool. These sheets were initialed by either the pool manager or assistant manager, indicating that the amounts collected matched the receipts issued. The City is now aware that this was not the case; that the daily sheets did not accurately match the amounts being collected with the receipts issued for pass purchases. To correct this situation, the pool management has been instructed to monitor the front desk area of the pool where passes are issued and adequately train the staff in proper accounting procedures. Additionally, the pool management will review the records of all passes issued and monies collected for pass purchases. The pool management has been instructed that they are responsible for ensuring that the records submitted to the Finance Office match the method of payment. The Finance Office will then review the receipts and submit monies for accuracy before depositing the money in the bank.

**CITY OF UNIVERSITY HEIGHTS, OHIO
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Finding Number	Finding Summary	Fully Corrected?
2011-001	Final Appropriations in Excess of Estimated Revenues and Carryover Balances	Yes
2011-002	Final Appropriations in Excess of Actual Resource	Yes
2011-003	Expenditures Exceeding Appropriations	Yes

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



Dave Yost • Auditor of State

CITY OF UNIVERSITY HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 25, 2013**