

**CITY OF UNIVERSITY
HEIGHTS, OHIO**

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2011**

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



Dave Yost • Auditor of State

Members of 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, 2011 through December 31, 2011. 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

October 9, 2012

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

Certified Public Accountants

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To Members of City Council
City of University Heights, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of University Heights, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.


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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Ohio, as of December 31, 2011, and the respective changes in financial position, thereof and the respective budgetary comparisons for the General Fund, the Sewer Maintenance A Fund, and the Urban Redevelopment Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the financial statements, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and restated the December 31, 2010 fund balances of the Governmental Funds due to a change in fund structure.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2012, on our consideration of the City of University Heights, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


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

June 18, 2012

City of University Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2011

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, 2011. 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 2011 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$8,928,718. Of this amount, \$4,874,122 may be used to meet the City's on-going obligations to citizens and creditors.
- The net assets increased by \$2,658,900 from the prior year. Assets increased by \$753,277, and liabilities decreased by \$1,905,623.
- The total fund balance for the General Fund was \$3,242,551, an increase of \$1,389,399 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 Assets and the Statement of Activities

The Statement of Net Assets presents information on all the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increase or decrease in net assets 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 Assets 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, 2011

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 Assets 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 13 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 22 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 24 of this report.

City of University Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2011

Government-wide Financial Analysis – The City as a Whole

As noted earlier, the Statement of Net Assets 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 Assets and the Statement of Activities are divided into the following categories:

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

Table 1 provides a summary of the City's net assets for 2011 as compared to 2010.

Table 1 - Net Assets

	Governmental Activities	
	2011	2010
<u>Assets</u>		
Current and Other Assets	\$ 12,315,234	\$ 11,347,323
Capital Assets	5,689,512	5,904,146
Total Assets	18,004,746	17,251,469
<u>Liabilities</u>		
Long-term Liabilities	5,283,932	7,282,656
Other Liabilities	3,792,096	3,698,995
Total Liabilities	9,076,028	10,981,651
<u>Net Assets</u>		
Invested in Capital Assets Net of Debt	2,002,172	1,765,963
Restricted	2,052,424	428,171
Unrestricted	4,874,122	4,075,684
Total Net Assets	\$ 8,928,718	\$ 6,269,818

City of University Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2011

Total assets increased \$753,277. The majority of the increase was due to increases in income taxes receivable and property taxes receivable. These increases were offset mainly by a decrease in capital assets since depreciation expense exceeded capital asset additions. Total liabilities decreased significantly from the prior year. Total liabilities decreased by \$1,905,623 mainly due to the \$1,496,927 payable that was recorded in 2010 and paid in 2011 for payments in lieu of taxes the City was required to make to the Trustee related to the University Square Parking Garage.

A portion of the City's net assets (22.42 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 assets (22.99 percent) represents resources that have been restricted on how they may be used. The remaining balance of unrestricted net assets \$4,874,122 may be used to meet the government's on-going obligations to its citizens and creditors.

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City of University Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2011

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

Table 2 - Change in Net Assets

	Governmental Activities	
	2011	2010
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 2,092,656	\$ 2,432,803
Operating Grants and Contributions	751,825	78,229
Capital Grants and Contributions	2,254,131	1,694,702
General Revenues:		
Property Taxes	2,790,098	2,553,132
Income Taxes	8,299,220	8,943,267
Payments in lieu of taxes	2,091,391	3,681,784
Other Taxes	149,108	-
Grants and Entitlements	1,087,631	1,084,721
Investment earnings	4,029	2,184
Other	114,141	46,064
Total Revenues	19,634,230	20,516,886
<u>Program Expenses</u>		
Security of Persons and Property	7,779,186	8,114,598
Public Health and Welfare	52,410	26,290
Leisure Time Activities	317,451	344,131
Community Development	2,429,283	6,450,370
Basic Utility Services	3,194,888	3,109,165
Transportation	1,605,998	1,422,251
General Government	1,504,247	1,556,279
Interest and Fiscal Charges	91,867	142,158
Total Program Expenses	16,975,330	21,165,242
Increase in Net Assets	2,658,900	(648,356)
Net Assets, Beginning of Year,	6,269,818	6,918,174
Net Assets, End of Year	\$ 8,928,718	\$ 6,269,818

City of University Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2011

Total revenues decreased \$882,656 or 4.30 percent mainly due to decreases in charges for services, income taxes, and payments in lieu of taxes in 2011. 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 2011, the income tax revenue was \$8,299,220. Another major revenue source is property taxes. The effective tax rate for 2011 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 2011, the property tax revenue was \$2,790,098. The City received \$2,091,391 in payments in lieu of taxes from the University Square Tax Increment Financing Project. This was the third year in which revenue was generated from the project.

Total program expenses decreased by \$4,189,912 or 19.80 percent in 2011 when compared to 2010. This significant decrease can be attributed mainly to a decrease in the community development expense of \$4,021,087. The community development program expense recognized the largest decrease as a result of the \$1,496,927 payable that was recorded in 2010 and paid in 2011 for payments in lieu of taxes the City was required to make to the Trustee related to the University Square Parking Garage. 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 45.83 percent of the total governmental expenses. Training plays a crucial role in keeping up with the rapidly changing laws, practices and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The second largest program expense is basic utility services and represents 18.82 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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the year, the City's governmental funds reported combined ending fund balances of \$4,365,212, an increase of \$760,509 in comparison with the prior year. \$2,856,939 of the ending combined fund balance for 2011 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.

City of University Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2011

The General Fund is the main operating fund of the City. At the end of 2011, total fund balance for the General Fund was \$3,242,551. The General Fund balance increased by \$1,389,399 during the current fiscal year. Key factors for this are as follows: the General Fund revenues increased by \$500,492 or 3.88 percent from prior year; expenditures in total decreased \$535,612 or 4.77 percent from the prior year; and net other financing uses increased \$367,305 or 38.91 percent. Overall, the revenue base continued to meet City obligations. To combat the uncertain economic times, the City has taken cost-cutting measures to ensure its viability for many years to come.

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 \$424,174 above the original estimate of \$12,390,826, primarily due to increases in the estimate of collections for municipal income taxes and property and other local taxes.

The original appropriations, including other financing uses of \$12,810,644 were slightly increased to \$12,922,955. Even with these adjustments, the actual charges to appropriations (expenditures) were \$574,847 below the final budgeted amount for the General Fund.

Capital Assets and Debt Administration

Capital Assets

At the end of 2011, the City of University Heights had \$5,689,512 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 2011 balances of capital assets as compared to 2010:

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

	Governmental Activities	
	2011	2010
Land	\$ 212,260	\$ 212,260
Buildings and Improvements	769,323	804,579
Vehicles	446,297	346,062
Equipment	248,803	305,993
Infrastructures:		
Pavement	2,723,091	2,920,867
Storm Sewers	180,421	185,157
Sanitary Sewers	1,109,317	1,129,228
Total Capital Assets	\$ 5,689,512	\$ 5,904,146

City of University Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2011

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 2011, the City purchased vehicles and equipment for \$349,858. The City also completed the pavement of South Taylor Road and Silsby Road. More detailed information about the City's capital assets is presented in Note 8 to the financial statements.

Debt

At December 31, 2011, the City of University Heights had \$3,953,361 in outstanding debt, of which \$405,000 was in general obligation bonds. Table 4 summarizes the outstanding debt obligations of the City.

Table 4 - Outstanding Debt at December 31

	Governmental Activities	
	2011	2010
General Obligation Bonds	\$ 405,000	\$ 520,000
General Obligation Bond Anticipation Notes	2,716,000	2,901,000
OPWC Loans	386,415	433,783
Accrued Police Pension	266,021	272,534
Capital leases	179,925	283,400
Total Outstanding Debt	\$ 3,953,361	\$ 4,410,717

The City paid \$115,000 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 \$2,716,000. The City's general obligation bond rating continues to carry an A1 rating, assigned by national rating agencies to the City's debt since 1997. The State limits the amount of general obligation debt that cities can issue to 5.50 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below the state imposed limit.

Other obligations include 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 12 to the basic financial statements.

City of University Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2011

Current Related Financial Activities

In preparing the budget for 2011, the City recognizes the economic downturn as a factor affecting operations. Budget projections include a slight decrease in income and property tax collections and stable wage costs. The City expects its budgetary constraints to continue based on decisions made by the State including the elimination of the estate tax revenues and a 50 percent reduction in the local government fund revenues. To maintain the integrity of the budget in 2011, the City will continue to control spending, continue applying for grant funding to finance capital projects and continue a freeze on employee salaries. With no unforeseen impacts to revenue or expenses, the City anticipates the General Fund balance to increase \$1M by year-end 2012.

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 Assets December 31, 2011

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 2,929,215
Materials and Supplies Inventory	74,575
Accounts Receivable	243,196
Intergovernmental Receivable	936,098
Project receivable	300,000
Prepaid Items	42,622
Income Taxes Receivable	3,311,782
Property Taxes Receivable	3,365,030
Special Assessments Receivable	1,112,716
Nondepreciable Capital Assets	212,260
Depreciable Capital Assets	5,477,252
Total Assets	18,004,746
LIABILITIES	
Accounts Payable	277,882
Accrued Wages and Benefits	132,413
Intergovernmental Payable	410,627
Accrued Interest Payable	27,488
Retainage Payable	3,904
Deferred Revenue	2,939,782
Long-term Liabilities:	
Due within one year	3,611,388
Due in more than one year	1,672,544
Total Liabilities	9,076,028
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,002,172
Restricted for:	
Debt Services	459,944
Capital Projects	5,586
Sewer Maintenance	612,629
Community Development	870,626
Other Purposes	103,639
Unrestricted	4,874,122
Total Net Assets	\$ 8,928,718

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, 2011

<u>Functions</u>	<u>Expenses</u>	Program Revenues			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary Government:					
Governmental Activities:					
Security of Persons and Property	\$ 7,779,186	\$ 498,412	\$ 46,064	\$ 261,250	\$ (6,973,460)
Public Health and Welfare	52,410	-	-	-	(52,410)
Leisure Time Activities	317,451	79,758	-	-	(237,693)
Community Development	2,429,283	551,386	9,980	-	(1,867,917)
Basic Utility Services	3,194,888	902,086	-	1,992,881	(299,921)
Transportation	1,605,998	-	635,465	-	(970,533)
General Government	1,504,247	61,014	60,316	-	(1,382,917)
Interest and Fiscal Charges	91,867	-	-	-	(91,867)
Total Governmental Activities	<u>\$16,975,330</u>	<u>\$2,092,656</u>	<u>\$ 751,825</u>	<u>\$ 2,254,131</u>	<u>(11,876,718)</u>
General Revenues:					
Property Taxes levied for:					
General Purposes					2,183,223
Debt Service Purpose					472,015
Special Revenue					134,860
Payments in Lieu of taxes					2,091,391
Income Taxes levied for:					
General Purposes					8,299,220
Other Taxes					149,108
Grants & Entitlements not restricted to specific programs					1,087,631
Investment Income					4,029
All Other Revenues					114,141
Total General Revenues					<u>14,535,618</u>
Change in Net Assets					2,658,900
Net Assets - Beginning of Year					<u>6,269,818</u>
Net Assets - End of Year					<u>\$ 8,928,718</u>

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

City of University Heights, Ohio

Balance Sheet – Governmental Funds December 31, 2011

	General Fund	Sewer Maintenance A	General Bond Retirement	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in Pooled Cash and Cash Equivalents	\$1,440,441	\$ 633,668	\$ 71,239	\$ 783,867	\$ 2,929,215
Materials and Supplies Inventory	44,575	-	-	30,000	74,575
Accounts Receivable	236,723	-	-	6,473	243,196
Interfund Receivable	59,652	-	-	-	59,652
Intergovernmental Receivable	674,085	-	34,255	227,758	936,098
Prepaid Items	42,622	-	-	-	42,622
Income Taxes Receivable	3,311,782	-	-	-	3,311,782
Property and Other Taxes Receivable	2,770,242	-	462,612	132,176	3,365,030
Special Assessments Receivable	21,798	504,819	-	586,099	1,112,716
Project Receivable	300,000	-	-	-	300,000
Total Assets	\$8,901,920	\$ 1,138,487	\$ 568,106	\$ 1,766,373	\$ 12,374,886
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 122,738	\$ 18,834	\$ -	\$ 136,310	\$ 277,882
Accrued Wages and Benefits	124,332	1,111	-	6,970	132,413
Intergovernmental Payable	141,898	1,094	-	267,635	410,627
Retainage Payable	-	-	-	3,904	3,904
Interfund Payable	-	-	-	59,652	59,652
Deferred Revenue	5,270,401	504,819	496,867	853,109	7,125,196
Total Liabilities	5,659,369	525,858	496,867	1,327,580	8,009,674
Fund Balances:					
Nonspendable	87,197	-	-	30,000	117,197
Restricted	-	612,629	71,239	706,772	1,390,640
Committed	436	-	-	-	436
Assigned	1,231,050	-	-	-	1,231,050
Unassigned (Deficit)	1,923,868	-	-	(297,979)	1,625,889
Total Fund Balances	3,242,551	612,629	71,239	438,793	4,365,212
Total Liabilities and Fund Balances	\$8,901,920	\$ 1,138,487	\$ 568,106	\$ 1,766,373	\$ 12,374,886

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 Assets of Governmental Activities December 31, 2011

Total Governmental Fund Balances		\$ 4,365,212
<i>Amounts reported for Governmental Activities in the Statement of Net Assets are different because:</i>		
Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds.		5,689,512
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:		
Property taxes	268,068	
Municipal income taxes	2,001,845	
Special assessments	1,112,716	
Intergovernmental	628,725	
Charges for services	174,060	
Total	<u>4,185,414</u>	4,185,414
In the Statement of Activities, interest is accrued on outstanding debt, whereas in Governmental funds, an interest expenditure is reported when due.		(27,488)
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	(405,000)	
OPWC loans	(386,415)	
Bond anticipation notes	(2,716,000)	
Accrued police pension	(266,021)	
Capital leases	(179,925)	
Compensated absences	(1,330,571)	
Total	<u>(5,283,932)</u>	(5,283,932)
Net Assets of Governmental Activities		<u><u>\$ 8,928,718</u></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 Balances - Governmental Funds For the Year Ended December 31, 2011

	General Fund	Sewer Maintenance A	Urban Redevelopment	General Bond Retirement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 2,196,253	\$ -	\$ -	\$ 429,368	\$ 122,676	\$ 2,748,297
Income Taxes	8,016,952	-	-	-	-	8,016,952
Payments in lieu of taxes	418,369	-	1,673,022	-	-	2,091,391
Other Taxes	149,108	-	-	-	-	149,108
Intergovernmental	1,485,216	1,992,881	-	68,509	840,986	4,387,592
Interest	4,029	-	-	-	-	4,029
Fines, Licenses and Permits	573,135	-	-	-	-	573,135
Charges for Services	418,000	-	-	-	6,473	424,473
Contributions and Donations	7,159	-	-	-	-	7,159
Special Assessments	20,788	464,428	-	-	532,684	1,017,900
All Other Revenues	106,248	-	-	731	-	106,979
Total Revenues	13,395,257	2,457,309	1,673,022	498,608	1,502,819	19,527,015
EXPENDITURES						
Security of Persons and Property	6,767,746	-	-	-	1,037,971	7,805,717
Public Health and Welfare	52,410	-	-	-	-	52,410
Leisure Time Activities	316,300	-	-	-	-	316,300
Community Development	608,436	-	3,169,949	-	124,422	3,902,807
Basic Utility Services	1,030,116	1,884,245	-	-	191,867	3,106,228
Transportation	401,284	-	-	-	621,965	1,023,249
General Government	1,443,498	-	-	-	95,066	1,538,564
Capital Outlay	-	-	-	-	464,922	464,922
Debt Service:						
Principal Retirement	66,373	-	-	3,016,000	90,983	3,173,356
Interest and Fiscal Charges	8,441	-	-	75,755	14,757	98,953
Total Expenditures	10,694,604	1,884,245	3,169,949	3,091,755	2,641,953	21,482,506
Excess of Revenues Over (Under) Expenditures	2,700,653	573,064	(1,496,927)	(2,593,147)	(1,139,134)	(1,955,491)
<u>OTHER FINANCING SOURCES (USES)</u>						
Notes Issued	-	288,358	-	-	2,427,642	2,716,000
Transfer In	-	15,000	-	2,600,000	1,296,254	3,911,254
Transfer Out	(1,311,254)	(325,000)	-	-	(2,275,000)	(3,911,254)
Total Other Financing Sources (Uses)	(1,311,254)	(21,642)	-	2,600,000	1,448,896	2,716,000
Net Change in Fund Balances	1,389,399	551,422	(1,496,927)	6,853	309,762	760,509
Fund Balances - Beginning of Year, Restated	1,853,152	61,207	1,496,927	64,386	129,031	3,604,703
Fund Balances - End of Year	\$ 3,242,551	\$ 612,629	\$ -	\$ 71,239	\$ 438,793	\$ 4,365,212

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, 2011

Net Change in Fund Balances - Total Governmental Funds \$ 760,509

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

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

Capital outlay	\$	464,922	
Depreciation		(679,556)	
Total			(214,634)

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	41,801		
Municipal income taxes	282,268		
Special assessments	3,202		
Intergovernmental	(294,002)		
Charges for services	73,946		
Total			107,215

Other financing sources in the Governmental funds that increase long-term liabilities in the Statement of Net Assets. These sources were attributed to the issuance of bond anticipation notes. (2,716,000)

Repayment of bond and note principal are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 3,173,356

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	44,441		
Settlements/judgments	1,496,927		
Accrued interest	7,086		
Total			1,548,454

Change in Net Assets of Governmental Activities \$ 2,658,900

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 (Non-GAAP Budgetary Basis) and Actual – General Fund For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over (Under)
REVENUES:				
Property and other local taxes	\$ 2,080,805	\$ 2,132,391	\$ 2,131,026	\$ (1,365)
Income Taxes	7,825,984	8,020,000	8,017,464	(2,536)
Intergovernmental	1,432,490	1,553,003	1,438,686	(114,317)
Charges for Services	397,657	407,515	425,812	18,297
Licenses, permits and fees	534,841	548,100	571,445	23,345
Special Assessments	19,516	20,000	20,788	788
Investment Income	2,440	2,500	4,029	1,529
Miscellaneous	97,093	99,500	104,900	5,400
Total Revenues	<u>12,390,826</u>	<u>12,783,009</u>	<u>12,714,150</u>	<u>(68,859)</u>
EXPENDITURES:				
Current:				
General Government	1,672,641	1,633,416	1,461,085	172,331
Security of Persons and Property	7,082,699	7,129,199	6,957,189	172,010
Basic Utility Services	1,184,987	1,204,487	1,082,625	121,862
Transportation	459,116	459,116	430,740	28,376
Public Health and Welfare	55,000	55,000	52,410	2,590
Community Development	678,503	653,933	619,418	34,515
Leisure Time Activities	371,561	345,561	318,921	26,640
Principal Repayment	-	66,373	66,373	-
Interest and Fiscal Charges	-	21,455	8,441	13,014
Total Expenditures	<u>11,504,507</u>	<u>11,568,540</u>	<u>10,997,202</u>	<u>571,338</u>
Excess of Revenues over Expenditures	<u>886,319</u>	<u>1,214,469</u>	<u>1,716,948</u>	<u>502,479</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	745	-	(745)
Transfers Out	(1,306,137)	(1,314,763)	(1,311,254)	3,509
Advances In	-	31,246	34,943	3,697
Advances Out	-	(39,652)	(39,652)	-
Total Other Financing Sources and Uses	<u>(1,306,137)</u>	<u>(1,322,424)</u>	<u>(1,315,963)</u>	<u>6,461</u>
Net Change in Fund Balance	(419,818)	(107,955)	400,985	508,940
Fund Balances, Beginning of Year	774,231	774,231	774,231	-
Prior Year Encumbrances Appropriated	137,822	137,822	137,822	-
Fund Balances, End of Year	<u>\$ 492,235</u>	<u>\$ 804,098</u>	<u>\$ 1,313,038</u>	<u>\$ 508,940</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 (Non-GAAP Budgetary Basis) and Actual – Sewer Maintenance A Fund For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Over Under
REVENUES:				
Special Assessments	\$ 375,000	\$ 554,190	\$ 464,428	\$ (89,762)
Intergovernmental	-	1,992,878	1,992,881	3
Total Revenues	<u>375,000</u>	<u>2,547,068</u>	<u>2,457,309</u>	<u>(89,759)</u>
EXPENDITURES:				
Current:				
Basic Utility Services	351,789	2,296,389	2,279,739	16,650
Total Expenditures	<u>351,789</u>	<u>2,296,389</u>	<u>2,279,739</u>	<u>16,650</u>
Excess (Deficiency) of Revenues over Expenditures	<u>23,211</u>	<u>250,679</u>	<u>177,570</u>	<u>(73,109)</u>
OTHER FINANCING SOURCES (USES):				
Note Proceeds	288,359	288,359	288,358	(1)
Transfers In	15,000	15,000	15,000	-
Transfers Out	(325,000)	(325,000)	(325,000)	-
Total Other Financing Sources and Uses	<u>(21,641)</u>	<u>(21,641)</u>	<u>(21,642)</u>	<u>(1)</u>
Net Change in Fund Balance	1,570	229,038	155,928	(73,110)
Fund Balances, Beginning of Year	33,851	33,851	33,851	-
Prior Year Encumbrances Appropriated	41,750	41,750	41,750	-
Fund Balances, End of Year	<u>\$ 77,171</u>	<u>\$ 304,639</u>	<u>\$ 231,529</u>	<u>\$ (73,110)</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 (Non-GAAP Budgetary Basis) and Actual – Urban Redevelopment For the Year Ended December 31, 2011

	<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	\$ 3,650,000	\$ 1,673,020	\$ 1,673,022	\$ 2
EXPENDITURES:				
Current:				
Community Development	5,146,927	5,146,927	3,169,949	1,976,978
Net Change in Fund Balance	(1,496,927)	(3,473,907)	(1,496,927)	1,976,980
Fund Balances, Beginning of Year	1,496,927	1,496,927	1,496,927	-
Fund Balances (Deficit), End of Year	<u>\$ -</u>	<u>\$ (1,976,980)</u>	<u>\$ -</u>	<u>\$ 1,976,980</u>

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

City of University Heights, Ohio

Statement of Fiduciary Net Assets Fiduciary Funds December 31, 2011

	<u>Agency Funds</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 319,218
Total Assets	<u>\$ 319,218</u>
LIABILITIES	
Deposits Held and Due to Others	\$ 319,218
Total Liabilities	<u>\$ 319,218</u>

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

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City of University Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2011

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. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the City’s accounting policies are described below.

A. **Basis of Presentation**

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

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. 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, 2011

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

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

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

Fund Financial Statements

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

B. **Fund Accounting**

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

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

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

General Fund - The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred 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, 2011

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 assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's agency funds are purely custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations. The City's 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 Assets, except for fiduciary funds. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. 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, 2011

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 all liabilities associated with the operation of these funds are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its proprietary activities. The City has no proprietary funds.

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

D. **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; 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, 2011

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

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

Deferred Revenue/Unearned Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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. Contrary to Ohio Revised Code, the City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. Expenditures may not exceed appropriations at the legal level of control.

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

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

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

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 2011, the portfolio was limited to the 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, 2011.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2011 amounted to \$4,029.

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, 2011, are recorded as prepaid items using the allocation method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

I. **Capital Assets**

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

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

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

I. **Capital Assets** (continued)

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 Assets.

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. 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, 2011.

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

NOTE 2: Summary of Significant Accounting Policies (Continued)

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, 2011

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

N. **Net Assets**

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

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

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 2011.

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, 2011

NOTE 3: **Change in Accounting Principles and Fund Reclassifications**

A. **Change in Accounting Principles**

For 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 59, *Financial Instruments Omnibus*.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classification that can be more consistently applied and by clarifying the existing governmental fund type definitions. The implementation of this Statement resulted in the reclassification of fund balances on the City's governmental fund financial statements.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirement of certain financial instruments and external investment pools. The implementation of this Statement did not have an effect on the City's financial statements.

B. **Fund Reclassifications**

Fund reclassifications are required in order to report funds in accordance with GASB Statement No. 54. These fund reclassifications had the following effect on the City's governmental fund balances and previously reported:

	General	Other Governmental Funds
Fund Balance, December 31, 2010	\$ 1,852,756	\$ 129,427
Restatement:		
GASB 54 Change in Fund Structure	396	(396)
Fund Balance, December 31 2010, Restated	\$ 1,853,152	\$ 129,031

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

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	\$ 42,622	\$ -	\$ -	\$ -	\$ 42,622
Inventories	44,575	-	-	30,000	74,575
Total Nonspendable	87,197	-	-	30,000	117,197
<i>Restricted</i>					
Streets and Highways	-	-	-	284,904	284,904
Law Enforcement	-	-	-	27,989	27,989
Sewers	-	612,629	-	-	612,629
Street Lighting	-	-	-	1,537	1,537
Tree Improvement	-	-	-	137,346	137,346
Recycling	-	-	-	10,000	10,000
Community	-	-	-	22,494	22,494
General Bond Retirement	-	-	71,239	-	71,239
Sewer Bond Retirement	-	-	-	216,916	216,916
Capital Improvements	-	-	-	5,586	5,586
Total Restricted	-	612,629	71,239	706,772	1,390,640
<i>Committed to</i>					
Sick Leave Benefits	436	-	-	-	436
Total Committed	436	-	-	-	436
<i>Assigned</i>					
Fiscal Year 2012 Appropriations	1,152,720	-	-	-	1,152,720
Encumbrances	77,934	-	-	-	77,934
Off street parking	396	-	-	-	396
Total Assigned	1,231,050	-	-	-	1,231,050
<i>Unassigned (Deficit)</i>					
	1,923,868	-	-	(297,979)	1,625,889
Total Fund Balance	\$ 3,242,551	\$ 612,629	\$ 71,239	\$ 438,793	\$4,365,212

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

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, Sewer Maintenance "A" Fund and Urban Redevelopment Fund.

Net Change in Fund Balance			
	General	Sewer Maintenance A	Urban Redevelopment
GAAP Basis	\$ 1,389,399	\$ 551,422	\$ (1,496,927)
Increase (Decrease) Due to:			
Revenue Accruals	(681,107)	-	-
Advances In	34,943	-	-
Expenditure Accruals	(175,591)	6,645	-
Advances Out	(39,652)	-	-
Net Impact of Encumbrances	(127,007)	(402,139)	-
Budgetary Basis	\$ 400,985	\$ 155,928	\$ (1,496,927)

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

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, 2011

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 \$3,212,633 and the bank balance was \$3,260,371. Of the bank balance \$415,975 was covered by Federal depository insurance and \$2,844,396 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, 2011, the city had the following investments:

<u>Investment type</u>	<u>Fair Value</u>	<u>Less than 1 Year</u>
STAR Ohio	<u>\$ 35,800</u>	<u>\$ 35,800</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.

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. All investments of the City are registered and carry a rating AAA by Standard & Poor's.

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.

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

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 2011 for real and public utility property taxes represents collections for 2010 taxes. Property tax payments received during 2011 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 2009 affecting collections beginning in 2010.

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 Auditor is statutorily responsible for administering and collecting real property taxes on the behalf of all taxing authorities in the county, including the City.

The tax rate levied to finance the City's services for the year ended December 31, 2011 was \$13.20. The assessed values of real and public utility property upon which 2011 property tax receipts were based are as follows:

<u>Property Category</u>	<u>Assessed Value</u>
Residential/agricultural	\$ 222,974,040
Commerical/industrial	29,960,120
Public Utility	2,557,970
Total	<u>\$ 255,492,130</u>

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

NOTE 7: **Receivables** (Continued)

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:

<u>Revenue Description</u>	<u>Amount</u>
Local Government	\$ 368,813
Homestead and Rollback	215,314
Gasoline and Auto Registration tax	178,299
Permissive tax	6,673
Estate tax	133,999
Grants	33,000
Total	<u>\$ 936,098</u>

D. Loan Receivables

The City has a long-term project development agreement accounts receivable due in annual installments on the first business day of January through 2032 in the amount of \$15,000. As of December 31, 2011, \$300,000 is outstanding.

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

NOTE 8: Capital Assets

Capital asset activity for government the year ended December 31, 2011, was as follows:

	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
<u>Governmental Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 212,260	\$ -	\$ -	\$ 212,260
Total non-depreciable assets	212,260	-	-	212,260
Capital Assets, being depreciated:				
Buildings and Improvements	1,749,972	-	-	1,749,972
Vehicles	2,736,780	328,353	-	3,065,133
Equipment	1,203,599	21,505	-	1,225,104
Infrastructure:				
Pavement	4,567,348	115,064	-	4,682,412
Storm Sewers	230,271	-	-	230,271
Sanitary Sewers	1,235,057	-	-	1,235,057
Total Capital Assets, being depreciated	11,723,027	464,922	-	12,187,949
Less Accumulated depreciation:				
Buildings and Improvements	(945,393)	(35,256)	-	(980,649)
Vehicles	(2,390,718)	(228,118)	-	(2,618,836)
Equipment	(897,606)	(78,695)	-	(976,301)
Infrastructure:				
Pavement	(1,646,481)	(312,840)	-	(1,959,321)
Storm Sewers	(45,114)	(4,736)	-	(49,850)
Sanitary Sewers	(105,829)	(19,911)	-	(125,740)
Total Accumulated depreciation	(6,031,141)	(679,556)	-	(6,710,697)
Total Capital Assets being depreciated, net	5,691,886	(214,634)	-	5,477,252
Governmental Activities Capital Assets, net	\$ 5,904,146	\$ (214,634)	\$ -	\$ 5,689,512

Depreciation expense was charged to governmental activities as follows:

Security of Persons and Property	\$ 18,543
Leisure Time Activities	1,151
Community Environment	1,599
Public Works	56,890
Transportation	594,340
General Government	7,033
	\$ 679,556

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

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 and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the year ended December 31, 2011, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.0 percent and 11.6 percent, respectively; however, no police or fire officers of the City are members of OPERS. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2011, member and employer contribution rates were consistent across all three plans.

The City's required contributions for pension obligations, excluding the health care portion, to all three plans for the years ended December 31, 2011, 2010, and 2009 were \$337,372, \$224,295, and \$212,398, respectively; 100.00 percent has been contributed for 2011, 2010 and 2009.

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

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 \$315,539 and \$413,498, respectively, for the year ended December 31, 2011, \$312,693 and \$400,667, respectively, for the year ended December 31, 2010, and \$300,571 and \$388,210, respectively, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. For 2011, 73.51 percent for police and 73.61 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, 2011

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 through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. In 2011, 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 2011. 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, 2011, 2010, and 2009 were \$96,392, \$127,854, and \$151,426, respectively; 100.00 percent has been contributed for 2011, 2010 and 2009.

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

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

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, 2011

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.

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 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, 2011, 2010, and 2009 were \$148,591 and \$157,996, \$165,431 and \$156,588, and \$159,126 and \$151,908, respectively. For 2011, 73.51 percent for police and 73.61 percent for firefighters has been contributed, with the remainder being reported as a liability. The full amount has been contributed for 2010 and 2009.

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

NOTE 11: Long-Term Obligations

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2011 was as follows:

	Balance January 1, 2011	Additions	Retired	Balance December 31, 2011	Due Within One Year
General Obligation Bonds					
6.25% 1995 Purvis Park Improvement Series A & B	\$ 520,000		\$ 115,000	\$ 405,000	\$ 130,000
Total General Obligation Bonds	<u>520,000</u>	<u>-</u>	<u>115,000</u>	<u>405,000</u>	<u>130,000</u>
General Obligation Notes					
1.50% Various Purpose General Obligation Bond Anticipation Notes	2,901,000	-	2,901,000	-	-
1.25% Various Purpose General Obligation Bond Anticipation Notes	-	2,716,000	-	2,716,000	2,716,000
Total General Obligation Notes	<u>2,901,000</u>	<u>2,716,000</u>	<u>2,901,000</u>	<u>2,716,000</u>	<u>2,716,000</u>
OPWC Loan					
0.00% Issue II Loan	214,423	-	26,803	187,620	17,869
0.00% Meadowbrook	219,360	-	20,565	198,795	13,710
Total OPWC Loan	<u>433,783</u>	<u>-</u>	<u>47,368</u>	<u>386,415</u>	<u>31,579</u>
Other Obligations					
Accrued Police Pension	272,534	-	6,513	266,021	6,793
Capital leases payable	283,400	-	103,475	179,925	58,820
Settlements/judgments	1,496,927	-	1,496,927	-	-
Accrued Compensated Absences	1,375,012	702,473	746,914	1,330,571	668,196
Total Other Obligations	<u>3,427,873</u>	<u>702,473</u>	<u>2,353,829</u>	<u>1,776,517</u>	<u>733,809</u>
Total Long-Term Liabilities	<u>\$ 7,282,656</u>	<u>\$3,418,473</u>	<u>\$5,417,197</u>	<u>\$ 5,283,932</u>	<u>\$3,611,388</u>

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

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						Total	
	General Obligation Bonds		OPWC Loans	Accrued Pension Liability		Principal		
	Principal	Interest	Principal	Principal	Interest			
2012	\$ 130,000	\$ 25,110	\$ 31,579	\$ 6,793	\$ 11,230	\$ 168,372	\$ 36,340	
2013	135,000	17,050	31,579	7,084	10,938	173,663	27,988	
2014	140,000	8,680	31,579	7,389	10,634	178,968	19,314	
2015	-	-	31,579	7,706	10,317	39,285	10,317	
2016	-	-	31,579	8,037	9,986	39,616	9,986	
2017-2021	-	-	157,891	45,669	44,446	203,560	44,446	
2022-2026	-	-	70,629	56,357	33,757	126,986	33,757	
2027-2031	-	-	-	69,545	20,068	69,545	20,068	
2032-2035	-	-	-	57,441	4,896	57,441	4,896	
Totals	<u>\$ 405,000</u>	<u>\$ 50,840</u>	<u>\$ 386,415</u>	<u>\$ 266,021</u>	<u>\$ 156,272</u>	<u>\$1,057,436</u>	<u>\$ 207,112</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 Water Development Authority (OWDA) 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 3, 2011, the City issued various purpose General Obligation Bond Anticipation Notes of \$2,716,000 with an interest rate of 1.25 percent in anticipation of the issuance of bonds.

The accrued police pension liability will be paid from the Police Pension Fund. See Note 12 for detail on capital leases. The settlements/judgments were paid from the Urban Redevelopment Fund. 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, 2011

NOTE 12: 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.

	Governmental Activities
Assets:	
Buildings and Improvements	\$ 149,415
Vehicles	347,530
Equipment	54,411
Less: accumulated depreciation	(329,156)
Total	\$ 222,200

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>	Governmental Activities
2012	\$ 65,840
2013	65,688
2014	40,987
2015	20,564
Total minimum lease payments	193,079
Less: Amount representing interest	(13,154)
Present value of minimum lease payments	\$ 179,925

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.

NOTE 13: 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.

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

NOTE 13: **Risk Management** (Continued)

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 14: **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 fifteen years of employment, is paid a portion of the employee's earned unused sick leave balances.

NOTE 15: **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, 2011.

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, 2011.

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

NOTE 16: **Interfund Transactions**

A. **Interfund Balances**

Interfund receivables and payables for the year ended December 31, 2011 consisted of the following:

	Receivables	Payables
Major Funds		
General	\$ 59,652	\$ -
Nonmajor Funds		
<i>Special Revenue Funds:</i>		
CDBG	-	20,000
County MEP Energy	-	12,000
NOPEC Grant	-	27,652
	\$ 59,652	\$ 59,652

B. **Interfund Transfers**

Interfund transfers for the year ended December 31, 2011, consisted of the following:

<u>Fund</u>	Transfers In	Transfers Out
General	\$ -	\$ 1,311,254
Sewer Maintenance A Fund	15,000	325,000
General Bond Retirement Fund	2,600,000	-
Nonmajor Governmental Funds	1,296,254	2,275,000
Total	\$ 3,911,254	\$ 3,911,254

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.

City of University Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2011

NOTE 17: Accountability

There are deficits in the, Community Development Block Grant Fund, County MEP Energy Fund, NOPEC Grant Fund, Police Pension Fund and Fire Pension Fund of \$19,959, \$12,000, \$9,832, \$110,823 and \$145,365, 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 18: Shared Risk Pool

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

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

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

NOTE 19: Subsequent Event

On May 2, 2012, the City issued \$2,487,000 in bond anticipation notes for the various purposes. The notes mature on April 30, 2013 and have an interest rate of 1.125 percent.

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2011, which collectively comprise the City of University Heights, Ohio's basic financial statements and have issued our report thereon dated June 18, 2012, wherein we noted that the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and restated the December 31, 2010 fund balances of the Governmental Funds due to a change in fund structure. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of University Heights, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as, **Items 2011-001, 2011-002, and 2011-003.**

We noted certain matters that we reported to management of the City of University Heights, Ohio, in a separate letter dated June 18, 2012.

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

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



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

June 18, 2012

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF COMPLIANCE FINDINGS AND RESPONSES
DECEMBER 31, 2011**

Item 2011-001 Final Appropriations in Excess of Estimated Revenue and Carryover Balances

Condition

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

<u>Special Revenue Fund</u>	Estimated Revenue Plus Carryover <u>Balances</u>	Final <u>Appropriations</u>	<u>Excess</u>
Urban Redevelopment	\$ 3,169,947	\$ 5,146,927	\$(1,976,980)
 <u>Internal Service Funds</u>			
Police Pension Fund	\$ 457,881	\$ 462,011	\$ (4,130)
Fire Pension Fund	575,004	584,786	(9,782)

Criteria

The City's funds should not have final appropriations that exceed estimated revenues and carryover balances as of December 31, 2011.

Cause

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

Effect

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

Recommendation

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

Corrective Action Plan

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

**CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF COMPLIANCE FINDINGS AND RESPONSES
DECEMBER 31, 2011
(CONTINUED)**

Item 2011-002 Final Appropriations in Excess of Actual Resources

State of Condition/Criteria

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

<u>Special Revenue Fund</u>	<u>Total Actual</u>	<u>Final</u>	<u>Excess</u>
Urban Redevelopment	<u>Resources</u>	<u>Appropriations</u>	<u>Excess</u>
	\$ 3,169,949	\$ 5,146,927	\$(1,976,978)
 <u>Internal Service Funds</u>			
Police Pension Fund	\$ 457,881	\$ 462,011	\$ (4,130)
Fire Pension Fund	575,005	584,786	(9,781)

Cause

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

Effect

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

Recommendation

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

Corrective Action Plan

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

CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF COMPLIANCE FINDINGS AND RESPONSES
DECEMBER 31, 2011
(CONTINUED)

Item 2011-003 Expenditures Exceeding Appropriations

Condition and Criteria

Ohio Revised Code Section 5705.41(B) prohibits a City from expending money unless it has been appropriated.

The following fund had expenditures exceeding appropriations for the fiscal year ending December 31, 2011:

	<u>Final</u> <u>Appropriations</u>	<u>Total</u> <u>Expenditures</u>	<u>Variance</u>
<u>Internal Service Fund</u>			
Police Pension Fund	\$ 462,011	\$ 563,091	\$ (101,080)

Effect

The District did not comply with Ohio Revised Code Section 5705.41(B).

Cause

For the fund noted above, expenditures exceeded appropriations for the year ending December 31, 2011.

Recommendation

We recommend that the City not expend monies unless it has been appropriated, per Ohio Revised Code Section 5705.41(B).

Corrective Action Plan

The City will make every effort in the future to be compliant with Ohio Revised Code §5705.41(B).

**CITY OF UNIVERSITY HEIGHTS, OHIO
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011**

The prior audit report, as of December 31, 2010, included one material noncompliance citation.

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected ?</u>
2010-001	Proper Encumbrance of Funds	Yes

Also, the 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
OCTOBER 23, 2012