

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

*Basic
Financial Statements*
(Audited)

For The Year Ended
December 31, 2002

MR. ARMAN R. OCHOA, DIRECTOR OF FINANCE



**Auditor of State
Betty Montgomery**

Members of Council, Mayor and Finance Director
City of University Heights
2300 Warrensville Center Road
University Heights, OH 44118

We have reviewed the Independent Auditor's Report of the City of University Heights, Cuyahoga County, prepared by Trimble, Julian & Grube, Inc., for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

July 21, 2003

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

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor's Report

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

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, (the “City”), as of and for the year ended December 31, 2002, which collectively comprise the City’s basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City’s management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2002, and the respective changes in financial position and the respective budgetary comparison for the General Fund and Street Maintenance Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2003 on our consideration of the City’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management’s Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Trimble, Julian & Grube, Inc.
June 6, 2003

CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2002
UNAUDITED

The discussion and analysis of the City of University Heights' financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2002. 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 2002 are as follows:

- The assets of the City of University Heights exceeded its liabilities at the close of the most recent fiscal year by \$4.3 million. Of this amount, \$2.2 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The net assets decreased by \$0.2 million from prior year.
- The unreserved fund balance for the general fund was \$1.1 million, or 12 percent of the total general fund expenditures.

USING THIS ANNUAL REPORT

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

Government-Wide Statements

The government-wide statements are designed to provide readers with a broad overview of the City of University Heights' finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net assets present information on all of the City of University Heights' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of University Heights is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

Both of the government-wide financial statements distinguish functions of the City of University Heights that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs

through user fees and charges (business-type activities). The governmental activities of the City of University Heights include general government, security of persons and property, transportation, basic utilities, community environment, leisure time activities, and public health services. There are no business-type activities reported for the City of University Heights.

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

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

Notes to the Financial Statements

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

THE CITY AS A WHOLE

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets slightly decreased from a year ago—decreasing from \$4.5 million to \$4.3 million or 4.6 percent from prior year. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental type activities.

Table 1-Net Assets (in Millions)

	2002	2001 <u>As Restated</u>
Assets		
Current and Other Assets	\$ 7.9	\$ 7.9
Capital Assets, Net	4.7	4.9
Total Assets	<u>12.6</u>	<u>12.8</u>
Liabilities		
Current and Other Liabilities	4.8	4.7
Long-Term Liabilities		
Due Within One Year	0.7	0.7
Due in More Than One Year	2.8	2.9
Total Liabilities	<u>8.3</u>	<u>8.3</u>
Net Assets		
Invested in Capital		
Assets Net of Debt	1.9	2.5
Restricted		
Debt Service	0.2	0.2
Unrestricted	2.2	1.8
Total Net Assets	<u>\$ 4.3</u>	<u>\$ 4.5</u>

Table 2-Changes in Net Assets (in Millions)

	2002	2001 <u>As Restated</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 1.3	\$ 1.4
Capital Grants and Contributions	0.8	1.7
General Revenues:		
Property Taxes	2.7	2.6
Income Taxes	5.0	5.0
Grants and Entitlements	1.6	2.0
Investment Earnings	0.0	0.1
Other	0.0	0.1
Total Revenues	<u>\$ 11.4</u>	<u>\$ 12.9</u>
Program Expenses		
General Government	\$ 1.4	\$ 1.4
Security of Persons and Property	6.2	6.1
Transportation	1.4	1.2
Community Environment	0.9	0.8
Basic Utility Services	1.2	1.5
Leisure Time Activities	0.3	0.3
Interest and Fiscal Charges	0.2	0.2
Total Program Expenses	<u>11.6</u>	<u>11.5</u>
Increase (Decrease) in Net Assets	<u>\$ (0.2)</u>	<u>\$ 1.4</u>

Total revenues decreased 11.63 percent. This is primarily due to decrease in collections in permits, fees, and licenses, investment earnings, intergovernmental revenues, and grants and entitlements. The City's largest revenue source is income tax. The City's income tax rate is 1.50 percent on gross income and has not changed since 1976 when the tax was originally instituted. Residents of the City who work in another community and pay the withholding tax for that community receive a 50 percent tax credit on their City tax for University Heights, the credit limit being 1 percent. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2002 the income tax collected was approximately \$5.0 million. There was no change compared to prior year's collections. The second largest revenue source is property taxes. The full voted tax rate for 2002 was 156.40 mills. A mill is \$1.00 for every \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by Cuyahoga County, City of University Heights, Cleveland Heights-University Heights School District, and Cleveland Heights-University Heights Public Library. During 2002 the property tax collected was around \$2.7 million. There was a moderate increase compared to prior year's collection.

Expenses remain relatively stable compared to prior year. Expenses are categorized by programs. The largest program, security of persons and property which includes police, fire, police and fire communications, traffic control, animal control, and public safety was around 53.5 percent of the governmental expenses. The police department is made up of 1 chief, 29 full-time sworn officers, 4 full-time dispatchers, and 3 secretaries. The fire department is composed of 1 chief, and 28 full-time fire fighters/paramedics. Training plays a crucial role in keeping up with the rapidly changing laws, practices, and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The second largest program is general government which is composed of the Mayor's office, Council, Finance, Law, and General Administration and was around 12 percent of the governmental expenses. Close in third are Basic Utility Services and Transportation which approximated 11 percent and 12 percent, respectively, of the governmental expenses. The City does have an annual road program which entails major and minor resurfacing of the various streets in University Heights. For the major resurfacing projects, the City has actively pursued obtaining grants and financial assistance from the Ohio Public Works Commission, and Ohio Water Development Authority. In addition, the City borrows on the open market by way of general obligation notes issued and rolled over year to year until paid down. In 2002, the City had expended \$0.5 million in major and minor resurfacing of roads.

THE CITY'S FUNDS

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

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

As of the end of the current fiscal year, the City of University Heights' governmental funds reported combined ending fund balances of \$0.7 million. Of this amount, \$0.4 million constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund

balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of prior period(s), to pay debt service, and for a variety of other restricted purposes.

The general fund is the chief operating fund of the City of University Heights. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1.1 million, while the total general fund balance was \$1.3 million. As a measure of the general fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved general fund balance represents 12 percent of total general fund expenditures, while total general fund balance represents 15 percent of the same amount. The general fund balance increased by \$0.1 million from prior year because revenues and other financing resources exceeded expenditures and other financing uses during the current fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

For the general fund, budgeted basis revenue was \$0.3 million above the original budget estimated of \$9.5 million primarily due to increases in collections for estate tax.

The original appropriation of \$9.7 million was increased to \$10.1 million. Even with these adjustments, the actual charges to appropriations (expenditures) were \$0.2 million below the final budgeted amounts for the general fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2002, the City had \$4.7 million invested in a broad range of capital assets, including land, buildings, improvements, machinery and equipment, park facilities, swimming pool, roads, and water and sewer lines. (See Table 3 below.) This amount represents a net decrease (including additions and deductions) of approximately \$0.2 million, or 4.5 percent under last year.

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

	<u>2002</u>	<u>2001</u>
Land	\$ 0.2	\$ 0.2
Buildings and Improvements	0.8	0.9
Equipment	0.2	0.2
Vehicles	0.6	0.6
Infrastructure	2.9	3.0
Total Capital Assets	<u>\$ 4.7</u>	<u>\$ 4.9</u>

The City purchased equipment for the various departments approximating \$0.2 million. The City purchased four pickup trucks for the building department; a fill station for the fire department; “no-smoke” exhaust system for fire departments trucks; and computers for various departments.

Debt

The City had \$4.6 million in outstanding debt at current and prior year ends as shown in Table 4.

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

	Governmental Activities	
	2002	2001
General obligation bonds (backed by the City)	\$ 1.5	\$ 1.7
General obligation notes (backed by the City)	1.1	1.0
OWDA/OPWC loans/Other Obligations	2.0	1.9
Totals	\$ 4.6	\$ 4.6

The City of University Heights paid \$0.2 million on principal for general obligation bonds fire equipment, streets, and Purvis Park Pool. New general obligation notes were issued for street programs in the amount of \$0.8 million and for motorized equipment purchases of \$0.3 million.

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2003 budget, tax rates, and fees that will be charged activities. One of those factors is the economy. Amounts available for appropriation in the general fund 2003 budget are \$10.2 million; which is an increase of 4.1 percent over the final 2002 budget of \$9.8 million. Cedar Road, which is a County road, is scheduled to be resurfaced in 2004/2005. However, the County has agreed to let the City pay only the portion of the project pertaining to engineering and design costs of the project. The project costs are estimated at \$0.3 million. The City has added no major new programs or initiatives to the 2003 budget. If these estimates are realized, the City's budgetary general fund balance is expected to increase modestly by the close of 2003. More importantly, however, this will have been accomplished without selling capital assets or restructuring long-term debt to alleviate cash flow pressures, both actions needed in the current year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2002

	<u>Governmental Activities</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 893,121
Materials and Supplies Inventory	78,994
Accounts Receivable	44,245
Intergovernmental Receivable	1,006,397
Prepaid Items	45,933
Taxes Receivable	5,035,535
Special Assessments Receivable	783,617
Nondepreciable Capital Assets	164,942
Depreciable Capital Assets, Net	4,558,435
Total Assets	12,611,219
<u>Liabilities</u>	
Accounts Payable	236,140
Accrued Wages	164,853
Intergovernmental Payable	562,372
Accrued Interest Payable	20,010
Deferred Revenue	2,692,884
Notes Payable	1,115,000
Long-Term Liabilities:	
Due within One Year	675,564
Due in More Than One Year	2,816,241
Total Liabilities	8,283,064
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	1,927,522
Restricted for:	
Debt Service	242,259
Unrestricted	2,158,374
Total Net Assets	\$4,328,155

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2002

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions			
Governmental Activities:						
Security of Persons and Property	\$6,219,387	\$ 31,274	\$ 540	\$ 0	\$ (6,187,573)	
Public Health Services	41,731	0	0	0	(41,731)	
Leisure Time Activities	305,441	79,372	0	0	(226,069)	
Community Environment	886,057	499,243	0	44,062	(342,752)	
Basic Utility Services	1,235,587	174,571	0	335,687	(725,329)	
Transportation	1,370,394	7,301	433,927	0	(929,166)	
General Government	1,419,355	531,155	0	0	(888,200)	
Interest and Fiscal Charges	164,641	0	0	0	(164,641)	
Total Governmental Activities	11,642,593	1,322,916	434,467	379,749	(9,505,461)	
		General Revenues:				
		Property Taxes Levied for:				
					2,083,537	
					119,860	
					419,450	
		Income Taxes Levied for:				
					5,043,813	
		Grants and Entitlements not Restricted to Special Programs			1,610,053	
					22,096	
					9,298,809	
					(206,652)	
					Net Assets, Beginning of Year, as Restated (Note 3)	
					4,534,807	
					\$ 4,328,155	

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2002

	General	Street Maintenance Special Revenue	General Bond Retirement Fund Debt Service	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Equity in Pooled Cash and Cash Equivalents	\$ 409,837	\$ 132,212	\$ 59,865	\$ 291,207	\$ 893,121
Receivables:					
Taxes	4,455,224	0	451,353	128,958	5,035,535
Accounts	3,607	4,943	0	35,695	44,245
Special Assessments	5,706	0	0	777,911	783,617
Due from Governments	839,097	125,514	28,589	13,197	1,006,397
Due from Funds	0	0	14,791	0	14,791
Inventory	58,813	20,181	0	0	78,994
Prepaid Items	45,933	0	0	0	45,933
Total Assets	<u>5,818,217</u>	<u>282,850</u>	<u>554,598</u>	<u>1,246,968</u>	<u>7,902,633</u>
<u>Liabilities and Fund Balances</u>					
Accounts Payable	182,626	7,809	0	45,705	236,140
Accrued Wages and Benefits	155,101	7,441	0	2,311	164,853
Compensated Absences Payable	31,835	2,645	0	0	34,480
Due to Other Funds	0	0	0	14,791	14,791
Due to Governments	63,095	2,402	0	1,518	67,015
Deferred Revenue	4,075,309	81,654	479,942	915,037	5,551,942
Notes Payable	0	815,000	0	300,000	1,115,000
Total Liabilities	<u>4,507,966</u>	<u>916,951</u>	<u>479,942</u>	<u>1,279,362</u>	<u>7,184,221</u>
<u>Fund Balances</u>					
Reserved for Inventory	58,813	20,181	0	0	78,994
Reserved for Prepaid Items	45,933	0	0	0	45,933
Reserved for Encumbrances	145,007	52,703	0	21,448	219,158
Unreserved:					
Undesignated (Deficits) Reported in:					
General Fund	1,060,498	0	0	0	1,060,498
Special Revenue Funds	0	(706,985)	0	235,956	(471,029)
Debt Service Funds	0	0	74,656	80,965	155,621
Capital Projects Funds	0	0	0	(370,763)	(370,763)
Total Fund Balances (Deficits)	<u>1,310,251</u>	<u>(634,101)</u>	<u>74,656</u>	<u>(32,394)</u>	<u>718,412</u>
Total Liabilities and Fund Balances	<u>\$5,818,217</u>	<u>\$ 282,850</u>	<u>\$ 554,598</u>	<u>\$1,246,968</u>	<u>\$7,902,633</u>

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2002

Total Governmental Funds Balances \$ 718,412

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 4,723,377

Other long-term assets are not available to pay for current-period expenditures and therefore are not deferred in the funds:

Property Taxes	\$ 144,209	
Grants and Entitlements	573,389	
Income Tax	1,357,843	
Special Assessments	783,617	
Total		2,859,058

Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds. (495,357)

Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(1,530,000)	
OWDA Loan	(202,676)	
OPWC Loan	(348,440)	
Capital Leases	(82,933)	
Compensated Absences	(977,523)	
Accrued Interest Payable	(20,010)	
Accrued Police Pension	(315,753)	
Total		(3,477,335)

Net Assets of Governmental Activities \$4,328,155

CITY OF UNIVERSITY HEIGHTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
DECEMBER 31, 2002

	General	Street Maintenance Special Revenue	General Bond Retirement Fund Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Local Taxes - Income Tax	\$ 4,977,627	\$ 0	\$ 0	\$ 0	\$ 4,977,627
Local Taxes - Property Tax	2,101,884	0	419,450	119,862	2,641,196
Other Taxes	0	66,761	0	0	66,761
Intergovernmental Revenue	1,640,589	236,393	57,176	33,508	1,967,666
Special Assessments	1,522	0	0	643,068	644,590
Charges for Services	197,562	4,943	0	35,725	238,230
Fines, Licenses, and Permits	650,101	0	0	6,531	656,632
Interest Income	22,054	735	0	0	22,789
Miscellaneous	146,988	0	0	20	147,008
Total Revenues	<u>9,738,327</u>	<u>308,832</u>	<u>476,626</u>	<u>838,714</u>	<u>11,362,499</u>
Expenditures					
Security of Persons and Property	5,233,414	0	0	602,644	5,836,058
Public Health Services	41,731	0	0	0	41,731
Leisure Time Activities	286,976	0	0	0	286,976
Community Environment	709,369	0	0	162,884	872,253
Basic Utilities Expenditures	848,470	0	0	345,477	1,193,947
Transportation	487,705	722,846	0	0	1,210,551
General Government	1,314,011	0	0	41,380	1,355,391
Capital Outlay	0	0	0	66,715	66,715
Debt Service:					
Principal Retirement	2,597	0	190,000	53,782	246,379
Interest and Fiscal Charges	0	20,863	107,231	39,110	167,204
Total Expenditures	<u>8,924,273</u>	<u>743,709</u>	<u>297,231</u>	<u>1,311,992</u>	<u>11,277,205</u>
Excess of Revenues Over (Under) Expenditures	814,054	(434,877)	179,395	(473,278)	85,294
Other Financing Sources (Uses)					
Sale of Fixed Assets	12,467	0	0	0	12,467
Loan Proceeds from OPWC	0	0	0	27,105	27,105
Transfers In	16,837	220,863	0	813,370	1,051,070
Transfers Out	(775,432)	0	(258,801)	(16,837)	(1,051,070)
Total Other Financing Sources (Uses)	<u>(746,128)</u>	<u>220,863</u>	<u>(258,801)</u>	<u>823,638</u>	<u>39,572</u>
Net Change in Fund Balances	67,926	(214,014)	(79,406)	350,360	124,866
Fund Balances (Deficits) - Beginning of Year	1,238,288	(380,634)	154,062	(382,754)	628,962
Increase (Decrease) in Reserve for Inventory	4,037	(39,453)	0	0	(35,416)
Fund Balances (Deficits) - End of Year	<u>\$ 1,310,251</u>	<u>\$ (634,101)</u>	<u>\$ 74,656</u>	<u>\$ (32,394)</u>	<u>\$ 718,412</u>

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2002

Net Change in Fund Balances - Total Governmental Funds		\$ 124,866
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays and transportation as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		(195,968)
Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(24,697)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Grants and Entitlements	\$ (2,655)	
Income Tax	66,187	
Special Assessments	9,910	
Total	73,442	
Proceeds from debt issues are an other financing source in the funds but a debt issue increases long-term liabilities in the statement of net assets.		(27,105)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		246,379
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due.		2,564
Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable, which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	(122,369)	
Pension Obligation	(248,348)	
Change in Inventory	(35,416)	
Total	(406,133)	
Change in Net Assets of Governmental Activities		\$ (206,652)

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Property Taxes	\$2,075,639	\$2,093,139	\$2,101,885	\$ 8,746
Income Taxes	4,823,000	4,830,800	5,044,807	214,007
Other Taxes	1,466,097	1,712,097	1,632,946	(79,151)
Licenses and Permits	429,794	444,794	382,293	(62,501)
Fines and Forfeitures	380,500	380,500	305,479	(75,021)
Special Assessments	1,500	1,500	1,522	22
Charges for Services	97,995	110,495	111,209	714
Grants	4,401	4,401	15,396	10,995
Interest Earnings	80,000	80,000	22,096	(57,904)
Miscellaneous	147,500	147,500	147,668	168
Total Revenues	<u>9,506,426</u>	<u>9,805,226</u>	<u>9,765,301</u>	<u>(39,925)</u>
<u>Expenditures</u>				
Current:				
General Government	1,339,681	1,401,579	1,363,817	37,762
Public Safety:				
Police	3,116,522	3,172,822	3,097,479	75,343
Fire	2,118,897	2,168,897	2,166,902	1,995
Public Works	1,358,649	1,481,148	1,444,650	36,498
Public Health Services	41,731	41,731	41,731	0
Community Environment	695,951	731,751	713,134	18,617
Recreational Services	276,385	306,436	291,864	14,572
Total Expenditures	<u>8,947,816</u>	<u>9,304,364</u>	<u>9,119,577</u>	<u>184,787</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>558,610</u>	<u>500,862</u>	<u>645,724</u>	<u>144,862</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Fixed Assets	10,000	10,000	12,467	2,467
Transfers Out	(767,000)	(787,000)	(775,432)	11,568
Total Other Financing Sources (Uses)	<u>(757,000)</u>	<u>(777,000)</u>	<u>(762,965)</u>	<u>14,035</u>
Net Change in Fund Balance	<u>(198,390)</u>	<u>(276,138)</u>	<u>(117,241)</u>	<u>158,897</u>
Fund Balance, Beginning of Year	89,569	89,569	89,569	0
Prior Year Encumbrances Appropriated	202,339	202,339	202,339	0
Fund Balance, End of Year	<u>\$ 93,518</u>	<u>\$ 15,770</u>	<u>\$ 174,667</u>	<u>\$ 158,897</u>

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL -
STREET MAINTENANCE FUND
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Other Taxes	\$ 314,000	\$ 364,000	\$ 307,679	\$ (56,321)
Interest Earnings	300	300	735	435
Miscellaneous	25,100	25,100	0	(25,100)
Total Revenues	<u>339,400</u>	<u>389,400</u>	<u>308,414</u>	<u>(80,986)</u>
<u>Expenditures</u>				
Current:				
Public Works	488,329	941,570	812,533	129,037
Total Expenditures	<u>488,329</u>	<u>941,570</u>	<u>812,533</u>	<u>129,037</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(148,929)</u>	<u>(552,170)</u>	<u>(504,119)</u>	<u>48,051</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Notes	525,000	815,000	815,000	0
Transfers In	50,000	0	0	0
Transfers Out	(425,000)	(425,000)	(425,000)	0
Total Other Financing Sources (Uses)	<u>150,000</u>	<u>390,000</u>	<u>390,000</u>	<u>0</u>
Net Change in Fund Balance	1,071	(162,170)	(114,119)	48,051
Fund Balance, Beginning of Year	83,489	83,489	83,489	0
Prior Year Encumbrances Appropriated	90,716	90,716	90,716	0
Fund Balance, End of Year	<u><u>\$ 175,276</u></u>	<u><u>\$ 12,035</u></u>	<u><u>\$ 60,086</u></u>	<u><u>\$ 48,051</u></u>

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2002

Assets

Equity Pooled in Cash and Cash Equivalents

\$ 232,976

=====

Liabilities

Deposits Held and Due to Others

\$ 232,976

=====

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1: **REPORTING ENTITY**

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

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

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

A. **Basis of Presentation**

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

Government-wide Financial Statements

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

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

Fund Financial Statements

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

B. **Fund Accounting**

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

Governmental Funds

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

B. **Fund Accounting** (Continued)

Governmental Funds (Continued)

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

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

Fiduciary Funds

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

C. **Measurement Focus**

Government-wide Financial Statements

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

C. **Measurement Focus** (Continued)

Fund Financial Statements (Continued)

financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared.

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

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

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

D. **Basis of Accounting**

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

Revenues - Exchange and Non-exchange Transactions

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

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

Revenues - Exchange and Non-exchange Transactions (Continued)

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2002 but which were levied to finance year 2003 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.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

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

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. **Cash and Investments**

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

During 2002, the portfolio was limited to non-participating investment contracts and the State Treasury Asset Reserve of Ohio (STAROhio). Non-participating investment contracts such as repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2002.

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

E. **Cash and Investments**

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$22,054, which includes \$14,128 from other City funds.

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

F. **Inventory**

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

G. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2002 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

H. **Capital Assets**

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

H. **Capital Assets** (Continued)

All reported capital assets are depreciated except for land. 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>
Land	N/A
Buildings and Improvements	40 years
Equipment	5-7 years
Vehicles	5-7 years
Infrastructure	20-99 years

I. **Interfund Balances**

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

J. **Compensated Absences**

In conformity with GASB Statement No. 16, the City accrues vacation and sick leave benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. The City accrued these benefits for those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future. These benefits are measured using the pay rates in effect at December 31, 2002.

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

K. Accrued Liabilities and Long-Term Obligations

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

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

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

N. **Interfund Activity**

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

O. **Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred in 2002.

P. **Estimates**

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

NOTE 3: **COMPLIANCE AND ACCOUNTABILITY**

Accounting Error

Prior year net assets on government-wide financial statement is restated due to an accounting error. This restatement has no change in fund equity in the fund financial statements.

Governmental Activities Net Assets, December 31, 2001	\$ 4,071,067
Special Assessments	713,764
Estate Tax	60,099
Accrued Police Pension	(320,214)
OWDA Loan	10,091
Restated Net Assets, December 31, 2001	<u>\$ 4,534,807</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 3: **COMPLIANCE AND ACCOUNTABILITY**

B. Fund Deficits

Fund balances at December 31, 2002 included the following individual fund deficits:

Special Revenue Funds:	
Street Maintenance Fund	\$ 634,101
Capital Projects Fund:	
Capital Improvements Fund	353,927

The fund deficit results from the recognition of expenditures on the modified accrual basis of accounting that are greater than expenditures recognized on the budgetary basis.

NOTE 4: **BUDGETARY**

A. Budgetary Information

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

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 4: **BUDGETARY** (Continued)

B. Budgetary Basis of Accounting

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general and major special revenue fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
5. Debt service payments on short-term notes are made in General Bond Retirement fund as opposed to the funds where the notes payable were recorded as fund liability on GAAP basis. Transfers in/out are used to reflect the retirement in the respective funds.

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

CITY OF UNIVERSITY HEIGHTS, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (CONTINUED)

NOTE 4: **BUDGETARY** (Continued)

Net Change in Fund Balance
 Major Governmental Funds

	General	Street Maintenance
GAAP Basis	\$ 67,926	\$(214,014)
Net Adjustment for Revenue Accruals	26,974	814,582
Net Adjustment for Expenditure Accruals	22,594	(15,958)
Encumbrances	(217,898)	(52,866)
Transfers In	(16,837)	(220,863)
Transfers Out	0	(425,000)
Budget Basis	\$(117,241)	\$(114,119)

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

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

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

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

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

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

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

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

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

Deposits

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (CONTINUED)

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

Deposits (Continued)

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

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

All deposits are carried at cost. At year end, the carrying amount of the City's cash and deposits was \$61,334 and the bank balance was \$168,083. The bank balance was fully insured as of December 31, 2002.

Investments

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

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

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

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

The City's investments (as defined by GASB 3) at December 31, 2002 were as follows:

	Carrying Value	Fair Value
STAROhio (Uncategorized)	\$ 583,461	\$ 583,461
Repurchase Agreement (Category 3)	481,302	481,302
Total Investments	\$ 1,064,763	\$ 1,064,763

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

CITY OF UNIVERSITY HEIGHTS, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (CONTINUED)

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

	Cash and Cash	
	<u>Equivalent</u>	<u>Investment</u>
GASB Statement No. 9	\$ 1,126,097	\$ 0
STAROhio	(583,461)	583,461
Repurchase Agreement	(481,302)	481,302
GASB Statement No. 3	<u>\$ 61,334</u>	<u>\$1,064,763</u>

NOTE 6: **RECEIVABLES**

Receivables at December 31, 2002 consist primarily of taxes, special assessments, accounts, and money due from other governments. All receivables are considered fully collectible.

A. **Property Taxes**

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

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

The full tax rate applied to real property for the fiscal year ended December 31, 2002 was \$13.2 per \$1000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$13.2 per \$1000 of assessed valuation of real property classified as residential/agricultural and \$13.2 per \$1000 of assessed evaluation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

CITY OF UNIVERSITY HEIGHTS, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (CONTINUED)

NOTE 6: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2002 was \$13.2 per \$1000 of assessed valuation.

Real Estate - 2002 Valuation

Residential/Agricultural	\$ 191,292,970
Commercial/Industrial	33,272,450
Public Utilities	3,435,330
General Tangible Personal Property - 2002 Valuation	4,511,589
	\$ 232,512,339

The Cuyahoga County Treasurer collects property tax on behalf of all taxing districts within the County. The Cuyahoga County Auditor periodically remits to the taxing districts their portions of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2002. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2002 operations. The receivable is offset by deferred revenue.

B. **Income Taxes**

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 6: **RECEIVABLES** (Continued)

C. **Intergovernmental Receivables**

A summary of intergovernmental receivables as of December 31, 2002 follows:

	<u>Amounts</u>
Permissive Tax	\$ 5,055
Local Government	434,416
Homestead and Rollback	179,699
Gasoline and Excise Tax	90,437
Auto Registration Fee	30,022
Estate Tax	244,159
Community Development Block Grant	5,029
Other	17,580
Total	<u>\$1,006,397</u>

D. **Long-Term Receivables**

The only receivable not expected to be collected within one year is \$435,000 of project receivable in the urban redevelopment tax increment equivalent fund due in annual installments on the first business day of each year, with final payment due on the first business day of January 2032. As of December 31, 2002, \$15,000 represents the current portion of this \$435,000 receivable.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 7: **CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2002 was as follows:

	<u>Balance</u> <u>12/31/01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/02</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 189,639	\$ 0	\$ (24,697)	\$ 164,942
Capital Assets Being Depreciated:				
Buildings and Improvements	1,527,412	0	0	1,527,412
Vehicles	2,324,004	91,384	(162,013)	2,253,375
Equipment	1,067,237	66,735	(56,337)	1,077,635
Infrastructure:				
Pavement	1,056,849	0	0	1,056,849
Storm Sewers	230,271	0	0	230,271
Water Lines	1,371,844	0	0	1,371,844
Sanitary Sewers	592,299	0	0	592,299
Total Capital Assets Being Depreciated	<u>8,169,916</u>	<u>158,119</u>	<u>(218,350)</u>	<u>8,109,685</u>
Less Accumulated Depreciation:				
Buildings and Improvements	663,955	31,072	0	695,027
Vehicles	1,665,877	171,687	(162,013)	1,675,551
Equipment	857,812	73,386	(56,337)	874,861
Infrastructure:				
Pavement	80,673	52,843	0	133,516
Storm Sewers	12,309	3,838	0	16,147
Water Lines	129,537	18,586	0	148,123
Sanitary Sewers	5,350	2,675	0	8,025
Total Accumulated Depreciation	<u>3,415,513</u>	<u>* 354,087</u>	<u>(218,350)</u>	<u>3,551,250</u>
Total Capital Assets Being Depreciated, Net	<u>4,754,403</u>	<u>(195,968)</u>	<u>0</u>	<u>4,558,435</u>
Governmental Activities Capital Assets, Net	<u>\$4,944,042</u>	<u>\$ (195,968)</u>	<u>\$ (24,697)</u>	<u>\$4,723,377</u>

* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 130,940
Leisure Time Activities	9,171
Community Environment	11,718
Basic Utility Services	37,327
Transportation	110,416
General Government	54,515
Total Depreciation Expense	<u>\$ 354,087</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (CONTINUED)

NOTE 8: **INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances at December 31, 2002, consist of the following individual fund receivables and payables:

Fund	Receivable	Payable
General Bond Retirement Debt Service	\$ 14,791	\$ 0
Nonmajor Governmental	0	14,791
Total	\$ 14,791	\$ 14,791

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

NOTE 9: **COMPENSATED ABSENCES**

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

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

NOTE 10: **DEFINED BENEFIT PENSION PLANS**

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. **Ohio Public Employees Retirement System**

The following information was provided by OPERS to assist the City in complying with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

The City of University Heights contributes to the OPERS, a cost-sharing, multiple-employer defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 10: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand alone financial report that includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 2002 employer contribution rate for local government employer units was 13.55 percent of covered payroll. Contribution rates are determined actuarially. The 2001 and 2000 employer contribution rates were 13.55 and 10.84 percent respectively. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's required contributions to the OPERS for the years ending December 31, 2002, 2001, and 2000 were \$345,854, \$306,136, and \$293,501 respectively. The full amount has been contributed for 2001 and 2000. 77.99 percent has been contributed for 2002.

The OPERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the OPERS. The portion of the 2002 employer contribution rate (identified above) that was used to fund health care for the year 2002 was 5 percent of covered payroll, which amounted to \$127,624.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the OPERS' latest actuarial review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 10: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

depreciation on investment assets. The investment assumption rate for 2001 was 8 percent. An annual increase of 4 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4 percent base increase, were assumed to range from 0.5 percent to 6.3 percent. Health care costs were assumed to increase 4 percent annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The actuarial value of the OPERS' net assets available for OPEB at December 31, 2001 was \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

B. **Ohio Police and Fire Pension Fund (the "OP&F" Fund)**

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing, multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Contributions requirements

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 10: **DEFINED BENEFIT PENSION PLANS** (Continued)

B. Ohio Police and Fire Pension Fund (the “OP&F” Fund) (Continued)

and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent and 24.0 percent respectively for police officers and firefighters. The City’s required contributions to the OP&F Fund for the years ending December 31, 2002, 2001, and 2000 were \$350,052, \$343,684, and \$343,755 for police and \$383,837, \$368,316, and \$394,010 for firefighters, respectively. The full amount has been contributed for 2001 and 2000. 48.32 percent for police and 52.35 percent for firefighters, respectively, have been contributed for 2002.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer’s contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund’s Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer’s contributions to the OP&F Fund.

CITY OF UNIVERSITY HEIGHTS, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (CONTINUED)

NOTE 10: **DEFINED BENEFIT PENSION PLANS** (Continued)

B. Ohio Police and Fire Pension Fund (the "OP&F") (Continued)

The portion of the 2002 covered payroll that was used to fund postemployment health care benefits was \$139,124 representing 7.75 percent of covered payroll for police and \$123,947 representing 7.75 percent of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. As of December 31, 2001, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,174 for police and 10,239 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2001 were \$122,298,771, which was net of member contributions of \$6,874,699.

NOTE 11: **CONSTRUCTION COMMITMENT**

At December 31, 2002, the City of University Heights had no material contracts pending.

NOTE 12: **SHORT-TERM DEBT**

Changes in short-term debt during the year is as follows:

Description	January 1, 2002	Additions	Deletions	December 31, 2002
Bond Anticipation Notes	\$ 1,000,000	\$ 1,115,000	\$ 1,000,000	\$ 1,115,000
	=====	=====	=====	=====

The City issued \$1,115,000 in bond anticipation notes during the year for the following purposes:

Purpose	Amount
Acquisition of Motorized Equipment	\$ 300,000
Resurfacing Streets and Repairing Curbs	815,000
Total	\$1,115,000

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 12: **SHORT-TERM DEBT** (Continued)

The City also redeemed \$1,000,000 in bond anticipation notes during the year. These notes were issued for the following purposes:

Purpose	Amount
Acquisition of Motorized Equipment	\$ 300,000
Resurfacing Streets and Repairing Curbs	625,000
Acquisition of Communication Systems	75,000
Total	\$1,000,000

On a modified accrual basis, the note liability is reflected in the special revenue and capital projects funds, the funds which received the proceeds. On a full accrual basis, the liability is reflected as "Notes Payable" on the statement of net assets.

NOTE 13: **LONG-TERM OBLIGATIONS**

Changes in bonds and other long-term obligations of the City during 2002 were as follows:

	Interest Rate	Principal Outstanding 01/01/02 (as Restated)	Additions	Deletions	Principal Outstanding 12/31/02	Amounts Due in One Year
<u>Governmental Activities</u>						
General Obligation Bonds:						
1993 Fire Equipment	3-5.50%	\$ 70,000	\$ 0	\$ (70,000)	\$ 0	\$ 0
1997 Street Resurfacing	4-4.95%	330,000	0	(50,000)	280,000	50,000
1995 Purvis Park Improvement Series A & B	6.25%	1,320,000	0	(70,000)	1,250,000	75,000
Total General Obligation Bonds		1,720,000	0	(190,000)	1,530,000	125,000
OWDA Loan	5.77%	223,739	0	(21,063)	202,676	22,295
OPWC Loan	-	330,270	27,105	(8,935)	348,440	17,869
Accrued Police Pension	4.25%	320,214	0	(4,461)	315,753	4,652
Capital Lease - Banc One	4.66%	100,308	0	(19,323)	80,985	20,239
Capital Lease - Toshiba	-	4,545	0	(2,597)	1,948	1,948
Compensated Absences	-	855,154	1,012,003	(855,154)	1,012,003	483,561
Total Governmental Activities		\$3,554,230	\$1,039,108	\$(1,101,533)	\$3,491,805	\$675,564

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

Debt service requirements to maturity are as follows:

Year Ended 12/31	General Obligation Bonds		OWDA Loan		OPWC Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 125,000	\$ 91,132	\$ 22,295	\$ 11,377	\$ 17,869	\$ 0
2004	135,000	84,120	23,601	10,072	17,869	0
2005	135,000	76,508	24,982	8,691	17,869	0
2006	145,000	68,840	26,444	7,229	17,869	0
2007	155,000	60,630	27,992	5,681	17,869	0
2008-2012	560,000	193,750	77,362	6,822	89,345	0
2013-2017	275,000	25,730	0	0	89,345	0
2018-2022	0	0	0	0	80,405	0
2023-2027	0	0	0	0	0	0
2028-2032	0	0	0	0	0	0
2033-2037	0	0	0	0	0	0
Totals	\$ 1,530,000	\$ 600,710	\$ 202,676	\$ 49,872	\$ 348,440	\$ 0

Year Ended 12/31	Accrued Police Pension Liability		Capital Lease Obligations		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 4,652	\$ 13,371	\$ 22,187	\$ 3,424	\$ 192,003	\$ 119,304
2004	4,852	13,171	21,199	2,464	202,521	109,827
2005	5,060	12,962	22,204	1,459	205,115	99,620
2006	5,278	12,745	17,343	405	211,934	89,219
2007	5,504	12,518	0	0	206,365	78,829
2008-2012	31,279	58,835	0	0	757,986	259,407
2013-2017	38,598	51,516	0	0	402,943	77,246
2018-2022	47,631	42,484	0	0	128,036	42,484
2023-2027	58,777	31,336	0	0	58,777	31,336
2028-2032	72,532	17,581	0	0	72,532	17,581
2033-2037	41,590	2,655	0	0	41,590	2,655
Totals	\$ 315,753	\$ 269,174	\$ 82,933	\$ 7,752	\$ 2,479,802	\$ 927,508

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

The Ohio Water Development Authority (OWDA) loan will be paid from the sewer replacement "A" fund. This loan was issued in 2000 for \$253,170. The Ohio Public Works Commission (OPWC) project will be paid from the bond retirement fund. This loan was issued in 2001 for \$330,270 and an additional \$27,105 in 2002. See Note 16 for further details on capital leases. Compensated absences will be paid by the fund from which the employee's salary is paid.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

NOTE 14: **INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2002 consisted of the following:

Transfers to General Fund from:	
Nonmajor Governmental Fund	\$ 16,837
Transfers to Street Maintenance fund from:	
General Bond Retirement Fund	220,863
Transfers to Nonmajor Governmental Funds from:	
General Fund	775,432
General Bond Retirement Fund	37,938
Total	<u>\$1,051,070</u>

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

The City retired the bond anticipation notes out of the Debt Service Fund, however, in 2002 the short-term notes payable was recorded as fund liability in the funds receiving the proceeds. Transfers were adjusted to reflect the retirement of short-term notes in the respective funds

NOTE 15: **CLAIMS AND JUDGMENTS**

The City is currently a defendant in lawsuits. It is the opinion of legal counsel that none of this litigation will have a material adverse effect on the financial condition of the City. In addition, there are a few unasserted claims, the results of which, if asserted, would not have a material effect on the financial statements at December 31, 2002.

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

CITY OF UNIVERSITY HEIGHTS, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2002
 (CONTINUED)

NOTE 16: **CAPITAL LEASES**

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

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Equipment	\$ 7,791
Less: Accumulated Depreciation	(4,675)
Total	3,116
Vehicle	104,195
Less: Accumulated Depreciation	(18,606)
Total	85,589
Total Assets	\$ 88,705

See Note 13 for the future minimum lease obligations as of December 31, 2002.

NOTE 17: **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2002, the City contracted with several companies for various types of insurance as follows:

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2002
(CONTINUED)

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

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

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

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

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

NOTE 18: **SUBSEQUENT EVENTS**

The City issued bond anticipation notes in May 2003 for \$1,165,000 for the acquisition of motorized equipment and for resurfacing streets and repairing curbs. Interest rate on these notes was 1.35 percent with a maturity date of May 2004.

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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

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

We have audited the basic financial statements of City of University Heights as of and for the year ended December 31, 2002, and have issued our report thereon dated June 6, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of University Heights's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we also noted certain immaterial instances of noncompliance that we have reported to the management of the City of University Heights in a separate letter dated June 6, 2003.

Members of Council and Mayor
City of University Heights

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of University Heights's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the management of the City of University Heights in a separate letter dated June 6, 2003.

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

Trimble, Julian & Grube, Inc.
June 6, 2003

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

**STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-UH-001	Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.	No	Partially Corrected - The City is attempting to monitor its budgeting on a continual basis and make amendments as necessary. Citation has been moved to the management letter.



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

CITY OF UNIVERSITY HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 14, 2003**