

CITY OF UNIVERSITY HEIGHTS, OHIO

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2007



Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of University Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2007 through December 31, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 3, 2008

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**CITY OF UNIVERSITY HEIGHTS, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

Certified Public Accountants

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Ohio Society of Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of University Heights, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Ohio, as of December 31, 2007, and the respective changes in financial position and the respective budgetary comparison for the General Fund and the Urban Redevelopment Fund, for the 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 25, 2008 on our consideration of the City of University Heights, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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



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

June 25, 2008

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
Unaudited**

The Management's 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, 2007. 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 2007 are as follows:

- The assets of the City of University Heights exceeded its liabilities at the close of the most recent fiscal year by \$7.1 million. Of this amount, \$4.4 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. Assets increased by \$0.3 million, whereas, liabilities increased by \$0.3 million.
- The unreserved fund balance for the general fund was \$0.1 million, an increase of \$0.1 million from prior year. The general fund revenues increased by \$1.5 million or 13.95 percent mainly due to the passage of Issue 153 in November 2006 for an income tax rate and credit increase of one (1) percent. The general fund expenditures increased by \$0.8 million or 8.18 percent from prior year. However, transfers from the general fund to the other funds increased by \$0.9 million or 142.94 percent.

USING THIS ANNUAL REPORT

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

Government-Wide Statements

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

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
Unaudited**

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

Fund Financial Statements

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

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

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

Notes to the Financial Statements

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

THE CITY AS A WHOLE

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets decreased from a year ago - decreasing from \$7.3 million to \$7.1 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental type activities.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Unaudited

Table 1-Net Assets (in Millions)

	2007	2006
Assets		
Current and Other Assets	\$ 11.8	\$ 10.8
Capital Assets, Net	<u>7.5</u>	<u>8.4</u>
Total Assets	<u><u>19.3</u></u>	<u><u>19.2</u></u>
Liabilities		
Current and Other Liabilities	\$ 5.8	\$ 5.8
Long-Term Liabilities		
Due Within One Year	2.7	3.6
Due in More Than One Year	<u>3.7</u>	<u>2.5</u>
Total Liabilities	<u><u>12.2</u></u>	<u><u>11.9</u></u>
Net Assets		
Invested in Capital Assets Net of Debt	2.4	4.0
Restricted:		
Capital Projects	0.1	0.1
Debt Service	0.2	0.3
Unrestricted	<u>4.4</u>	<u>2.9</u>
Total Net Assets	<u><u>\$ 7.1</u></u>	<u><u>\$ 7.3</u></u>

The City's net assets increased \$0.2 million or 2.84 percent.

Table 2-Changes in Net Assets (in Millions)

	2007	2006
Revenues		
Program Revenues:		
Charges for Services	\$ 1.7	\$ 1.0
Operating Grants and Contributions	0.2	0.5
Capital Grants and Contributions	4.0	4.6
General Revenues:		
Property Taxes	3.2	2.8
Income Taxes	8.3	6.9
Grant and Entitlements	1.8	1.8
Other	<u>0.2</u>	<u>0.2</u>
Total Revenues	<u><u>19.4</u></u>	<u><u>17.8</u></u>
Program Expenses		
General Government	\$ 1.6	\$ 1.4
Security of Persons and Property	7.8	7.2
Transportation	2.0	2.1
Community Environment	4.6	2.7
Public Works	1.6	1.6
Leisure Time Activities	0.4	0.4
Interest and Fiscal Charges	0.3	0.2
Public Health Services	<u>0.1</u>	<u>0.1</u>
Total Program Expenses	<u><u>18.4</u></u>	<u><u>15.7</u></u>
Special Item (Cleveland Water Agreement)	<u>(1.2)</u>	<u>0.0</u>
Increase (Decrease) in Net Assets	<u><u>\$ (0.2)</u></u>	<u><u>\$ 2.1</u></u>

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
Unaudited**

Total revenues increased \$1.6 million or 13.95 percent mainly due to the passage of Issue 153 in November 2006 for an income tax rate and credit increase of one (1) percent. The City's largest revenue source is income tax. The City's income tax rate is 2.50 percent on gross income. There is a credit of 1.00 percent for those residents who work in another municipality/subdivision where income tax is withheld. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2007 the income tax collected was approximately \$8.3 million, up \$1.4 million or 21.19 percent from prior year. The second largest revenue source is property taxes. The full voted tax rate for 2007 was 158.20 mills. A mill is \$1.00 for every \$1,000 of assessed valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by Cuyahoga County, City of Cleveland Heights-University Heights School District, and Cleveland Heights-University Heights Public Library. During 2007 the property tax collected was around \$3.2 million, up \$0.4 million or 12.19 percent from prior year. The increase was based on assessed values of all properties within the City of University Heights increasing from \$262 million to \$285 million.

Total expenses increased \$2.7 million or 16.92 percent mainly due to community environment. Expenses are categorized by functions. 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 42.51 percent of the governmental expenses. The police department is made up of 1 chief, 1 deputy chief; 26 full-time sworn officers, 3 full-time dispatchers, and 2 secretaries. The fire department is composed of 1 chief; 1 executive captain; and 26 full-time fire fighters/paramedics. Training plays a crucial role in keeping up with the rapidly changing laws, practices and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The second largest program is community environment which is made up of the building department, community services, and urban redevelopment tax increment financing and was approximately 25.55 percent of the governmental expenses. The City is a labor intensive industry and the expenditures of the government activities are mainly salaries, wages, and benefits. The City does have an annual road program which entails major and minor resurfacing of the various streets in University Heights. For the major resurfacing projects, the City has actively pursued obtaining grants and financial assistance from the Ohio Public Works Commission and the Ohio Water Development Authority. In addition, the City borrows on the open market by way of general obligation notes issued and rolled over year to year until paid down. In 2007, the City had expended \$0.5 million in major and minor resurfacing of roads.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
Unaudited**

THE CITY'S FUNDS

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1.8 million. Of this amount, \$1.6 million constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of prior period(s), to pay debt service, and for a variety of other restricted purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$0.2 million, while the total general fund balance was \$0.3 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. The unreserved general fund balance represents 2.51 percent of total general fund expenditures. The general fund balance increased by \$1.40 million during the current fiscal year as opposed to an increase of \$0.3 million in 2006. Key factors for this are as follows:

- The general fund revenues increased by \$1.5 million or 13.95 percent from prior year.
- The general fund expenditures in total increased \$0.8 million or 8.18 percent from prior year. However, transfers to other funds increased \$0.9 million or 142.96 percent, which brought the net change in fund balance to \$0.4 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

For the general fund, budgeted basis revenue was \$2.0 million below the revised budget estimate of \$14.4 million.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
Unaudited**

The original appropriation of \$10.8 million was increased to \$11.8 million. Even with these adjustments, the actual charges to appropriations (expenditures) were \$0.9 million below the final budgeted amounts for the general fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the City had \$7.5 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 \$0.9 million, or 10.87 percent over last year.

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

	<u>2007</u>	<u>2006</u>
Land	\$ 0.2	\$ 0.2
Buildings and Improvements	0.7	0.8
Equipment	0.5	0.5
Vehicles	0.9	0.5
Infrastructure	4.2	5.6
Construction in Progress	<u>1.0</u>	<u>0.8</u>
Total Capital Assets	<u>\$ 7.5</u>	<u>\$ 8.4</u>

The City purchased equipment for the various departments approximating \$0.6 million. The City purchased four (4) police vehicles for the police department; one (1) fire vehicle for the fire department; one (1) fire utility truck for the fire department; two (2) rubbish trucks for the sanitation department; one (1) police traffic truck; one (1) truck for the service department; one (1) loader/backhoe for the service department; software for the building department; and various other equipment. For infrastructure, the City performed phase II of the Meadowbrook Blvd. Rahab project for sewers and paving. The City has expended \$0.2 million in costs for this project, total project costs are \$0.6 million. The remainder was funded by Issue II funds through the Ohio Public Works Commission. The City entered into an agreement with the City of Cleveland pertaining to the waterlines of the City being taken over by the City of Cleveland Water Department in exchange for a non-poaching agreement pertaining to jobs moving from the City of Cleveland to the City of University Heights. The City has disposed of \$1.2 million in waterlines and is noted as a Special Item under Table 2.

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
Unaudited**

Debt

At year-end, the City had \$5.3 million in outstanding debt versus \$5.2 million last year- an increase of 2 percent - as shown in Table 4.

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

	Governmental Activities	
	2007	2006
General obligation bonds (backed by the City)	\$ 0.8	\$ 1.0
General obligation notes (backed by the City)	2.8	2.7
Short-Term General obligation notes (backed by the City)	0.4	0.5
OWDA loans	0.1	0.2
OPWC loans	0.5	0.5
Capital Leases	0.4	0.0
Accrued Police Pension	0.3	0.3
Totals	<u>\$ 5.3</u>	<u>\$ 5.2</u>

The City paid \$0.2 million on principal for general obligation bonds on streets and Purvis Park Pool. General obligations notes were issued mainly for street programs in the amount of \$2.2 million, construction of a salt storage facility in the amount of \$0.2 million, and motorized equipment in the amount of \$0.4 million.

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

Other obligations include police pension liability, accrued vacation and sick leave, OPWC loan, OWDA loans, and capital leases. More detailed information about the City's long-term liabilities is presented in Note 14 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 2008 budget, tax rates, and fees that will be charged activities. The general fund 2008 budget is \$12.1 million, which is \$0.4 million or 3.2 percent lower than the final 2007 budget of \$12.5 million. The City initiated a number of cuts to help lower the budget. One major cut was to limit the amount of capital expenditures for each department, and cut overtime budgets mainly in the police, fire, and service departments. Contract negotiations are in the process with the four unions of the City and it is anticipated that the impact of the first six months of the contracts taking effect July 1st will have minimal or no effect on the 2008 budget. The City has added no major new programs or initiatives to the 2008 budget. With more cuts anticipated from the State of Ohio, the City's budget could be in jeopardy. If these estimates are realized, the City's budgetary general fund balance is expected

**CITY OF UNIVERSITY HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
Unaudited**

to increase modestly by the close of 2008. 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, 2007

	<u>Governmental Activities</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 2,449,182
Materials and Supplies Inventory	92,278
Accounts Receivable	155,156
Project Receivable	360,000
Intergovernmental Receivable	866,011
Prepaid Items	55,778
Taxes Receivable	6,864,337
Special Assessments Receivable	1,012,307
Nondepreciable Capital Assets	1,196,303
Depreciable Capital Assets, Net	<u>6,265,210</u>
Total Assets	<u>19,316,562</u>
 <u>Liabilities</u>	
Accounts Payable	264,651
Accrued Wages	310,880
Intergovernmental Payable	1,054,378
Accrued Interest Payable	50,211
Deferred Revenue	3,678,918
Notes Payable	444,000
Long-Term Liabilities:	
Due within One Year	3,733,369
Due in More Than One Year	<u>2,669,138</u>
Total Liabilities	<u>12,205,545</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	2,459,838
Restricted for:	
Capital Projects	83,947
Debt Service	182,874
Unrestricted	<u>4,384,358</u>
Total Net Assets	<u>\$ 7,111,017</u>

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

		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	\$7,839,158	\$ 444,680	\$ 15,630	\$ 500	\$ (7,378,348)	
Public Health Services	50,926	0	0	0	(50,926)	
Leisure Time Activities	444,315	84,154	0	0	(360,161)	
Community Environment	4,659,861	237,020	172,188	3,782,255	(468,398)	
Public Works	1,635,107	767,200	0	35,240	(832,667)	
Transportation	1,972,027	0	16,277	196,045	(1,759,705)	
General Government	1,587,353	165,793	0	0	(1,421,560)	
Interest and Fiscal Charges	250,299	0	0	0	(250,299)	
Total Governmental Activities	\$18,439,046	\$1,698,847	\$ 204,095	\$ 4,014,040	(12,522,064)	
General Revenues:						
Property Taxes Levied for:						
					2,523,459	
					142,018	
					496,702	
Income Taxes Levied for:						
					8,324,418	
Grants and Entitlements not						
					1,780,725	
					63,701	
					188,327	
					13,519,350	
					(1,205,202)	
					12,314,148	
					(207,916)	
					7,318,933	
					\$ 7,111,017	

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General	Urban Redevelopment Special Revenue	General Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 0	\$ 2,313,033	\$ 0	\$ 136,149	\$ 2,449,182
Receivables:					
Taxes	6,144,049	0	560,224	160,064	6,864,337
Accounts	155,156	0	0	0	155,156
Special Assessments	17,224	0	0	995,083	1,012,307
Project Receivable	360,000	0	0	0	360,000
Due from Governments	661,714	0	31,722	172,575	866,011
Due from Other Funds	0	0	0	164,000	164,000
Advances to Other Funds	46,000	0	0	0	46,000
Inventory	67,179	0	0	25,099	92,278
Prepaid Items	55,778	0	0	0	55,778
Total Assets	<u>\$7,507,100</u>	<u>\$ 2,313,033</u>	<u>\$ 591,946</u>	<u>\$ 1,652,970</u>	<u>\$12,065,049</u>
Liabilities					
Accounts Payable	\$ 144,178	\$ 0	\$ 0	\$ 120,473	\$ 264,651
Accrued Wages and Benefits	296,324	0	0	14,556	310,880
Advances from Other Funds	0	0	0	46,000	46,000
Due to Other Funds	164,000	0	0	0	164,000
Due to Governments	522,950	0	0	531,428	1,054,378
Deferred Revenue	6,101,272	0	591,946	1,312,933	8,006,151
Notes Payable	0	0	0	444,000	444,000
Total Liabilities	<u>7,228,724</u>	<u>0</u>	<u>591,946</u>	<u>2,469,390</u>	<u>10,290,060</u>
Fund Balances					
Reserved for Prepaid Items	55,778	0	0	0	55,778
Reserved for Inventory	67,179	0	0	25,099	92,278
Unreserved:					
Undesignated (Deficits) Reported in:					
General Fund	155,419	0	0	0	155,419
Special Revenue Funds	0	2,313,033	0	(1,013,426)	1,299,607
Debt Service Funds	0	0	0	87,960	87,960
Capital Projects Funds	0	0	0	83,947	83,947
Total Fund Balances (Deficits)	<u>278,376</u>	<u>2,313,033</u>	<u>0</u>	<u>(816,420)</u>	<u>1,774,989</u>
Total Liabilities and Fund Balances	<u>\$ 7,507,100</u>	<u>\$ 2,313,033</u>	<u>\$ 591,946</u>	<u>\$ 1,652,970</u>	<u>\$12,065,049</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, 2007

Total Governmental Funds Balance \$ 1,774,989

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. 7,461,513

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

Property Taxes	\$ 202,486	
Grants and Entitlements	669,670	
Income Tax	2,442,770	
Special Assessments	<u>1,012,307</u>	
Total		4,327,233

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	(835,000)	
Bond Anticipation Notes	(2,815,000)	
OWDA Loan	(136,826)	
OPWC Loans	(512,730)	
Accrued Police Pension	(290,407)	
Capital Leases	(411,712)	
Compensated Absences	(1,400,832)	
Accrued Interest Payable	<u>(50,211)</u>	
Total		<u>(6,452,718)</u>

Net Assets of Governmental Activities \$ 7,111,017

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General	Urban Redevelopment Special Revenue	General Bond Retirement Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Local Taxes - Income Tax	\$ 7,847,562	\$ 0	\$ 0	\$ 0	\$ 7,847,562
Local Taxes - Property Tax	2,532,947	0	497,880	142,252	3,173,079
Other Taxes	0	3,782,255	0	0	3,782,255
Intergovernmental Revenue	1,221,588	0	64,434	815,791	2,101,813
Special Assessments	9,532	0	0	753,372	762,904
Charges for Services	430,051	0	0	0	430,051
Fines, Licenses, and Permits	522,829	0	0	5,035	527,864
Interest Income	61,368	0	0	2,333	63,701
Miscellaneous	86,146	0	0	88,885	175,031
Total Revenues	<u>12,712,023</u>	<u>3,782,255</u>	<u>562,314</u>	<u>1,807,668</u>	<u>18,864,260</u>
Expenditures					
Security of Persons and Property	6,657,443	0	0	977,686	7,635,129
Public Health Services	50,926	0	0	0	50,926
Leisure Time Activities	439,679	0	0	0	439,679
Community Environment	796,469	3,657,584	0	274,698	4,728,751
Public Work Expenditures	1,026,574	0	0	540,220	1,566,794
Transportation	345,628	0	0	1,205,720	1,551,348
General Government	1,481,668	0	10,296	976	1,492,940
Capital Outlay	302,522	0	0	535,255	837,777
Debt Service:					
Principal Retirement	27,214	0	2,870,000	92,008	2,989,222
Interest and Fiscal Charges	6,408	0	187,755	22,164	216,327
Total Expenditures	<u>11,134,531</u>	<u>3,657,584</u>	<u>3,068,051</u>	<u>3,648,727</u>	<u>21,508,893</u>
Excess of Revenues Over (Under) Expenditures	<u>1,577,492</u>	<u>124,671</u>	<u>(2,505,737)</u>	<u>(1,841,059)</u>	<u>(2,644,633)</u>
Other Financing Sources (Uses)					
Sale of Fixed Assets	8,810	0	0	0	8,810
Proceeds from Sale of Notes	0	0	0	2,815,000	2,815,000
Capital Lease	235,100	0	0	54,411	289,511
Transfers In	0	0	2,505,737	812,979	3,318,716
Transfers Out	(1,465,559)	0	0	(1,853,157)	(3,318,716)
Total Other Financing Sources (Uses)	<u>(1,221,649)</u>	<u>0</u>	<u>2,505,737</u>	<u>1,829,233</u>	<u>3,113,321</u>
Net Change in Fund Balances	355,843	124,671	0	(11,826)	468,688
Fund Balances (Deficits)-Beginning of Year	(87,910)	2,188,362	0	(805,991)	1,294,461
Increase in Reserve for Inventory	10,443	0	0	1,397	11,840
Fund Balances (Deficits) -End of Year	<u>\$ 278,376</u>	<u>\$ 2,313,033</u>	<u>\$ 0</u>	<u>\$ (816,420)</u>	<u>\$ 1,774,989</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, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 468,688

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (910,093)

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

Grants and Entitlements	\$ 80,576	
Income Tax	541,784	
Special Assessments	(38,360)	
Property Tax	<u>(11,928)</u>	
Total		572,072

Proceeds from debt issues are in other financing sources in the funds, but the repayment reduces long-term liabilities in the statement of net assets. (3,104,511)

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. 2,989,221

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. (33,972)

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	(201,161)	
Change in Inventory	<u>11,840</u>	
Total		<u>(189,321)</u>

Change in Net Assets of Governmental Activities **\$ (207,916)**

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, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive
				(Negative)
Revenues				
Property Taxes	\$ 3,074,235	\$ 3,582,807	\$ 2,532,947	\$(1,049,860)
Income Taxes	7,676,850	8,176,850	7,656,953	(519,897)
Other Taxes	1,119,399	1,595,399	1,284,991	(310,408)
Licenses and Permits	260,910	310,610	266,830	(43,780)
Fines and Forfeitures	216,000	217,800	187,513	(30,287)
Special Assessments	7,000	10,000	9,532	(468)
Charges for Services	347,525	355,525	361,973	6,448
Grants	25,000	26,000	2,429	(23,571)
Interest Earnings	25,000	75,000	70,294	(4,706)
Miscellaneous	55,000	56,000	51,995	(4,005)
Total Revenues	<u>12,806,919</u>	<u>14,405,991</u>	<u>12,425,457</u>	<u>(1,980,534)</u>
Expenditures				
Current:				
General Government	1,399,417	1,656,868	1,554,111	102,757
Security of Persons and Property	6,806,507	7,266,280	6,706,303	559,977
Public Works	1,014,803	1,112,338	1,028,740	83,598
Transportation	373,471	427,925	346,686	81,239
Public Health Services	50,706	50,926	50,926	0
Community Environment	747,188	834,431	795,114	39,317
Leisure Time Activities	403,504	464,863	437,289	27,574
Principal Repayment	27,214	27,214	27,214	0
Interest and Fiscal Charges	6,408	6,408	6,408	0
Total Expenditures	<u>10,829,218</u>	<u>11,847,253</u>	<u>10,952,791</u>	<u>894,462</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>1,977,701</u>	<u>2,558,738</u>	<u>1,472,666</u>	<u>(1,086,072)</u>
Other Financing Sources (Uses)				
Proceeds of Tax Anticipation Notes	0	2,000,000	0	(2,000,000)
Sale of Fixed Assets	10,000	10,000	8,810	(1,190)
Other Sources	113,700	123,700	30,588	(93,112)
Transfers Out	(1,612,464)	(1,986,358)	(1,465,559)	520,799
Total Other Financing Sources (Uses)	<u>(1,488,764)</u>	<u>147,342</u>	<u>(1,426,161)</u>	<u>(1,573,503)</u>
Net Change in Fund Balance	488,937	2,706,080	46,505	(2,659,575)
Fund Balance (Deficit)-Beginning of Year	(391,163)	(391,163)	(391,163)	0
Prior Year Encumbrances Appropriated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance (Deficit)-End of Year	<u>\$ 97,774</u>	<u>\$ 2,314,917</u>	<u>\$ (344,658)</u>	<u>\$ (2,659,575)</u>

See accompanying notes to the basic financial statements.

CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET (NON-GAAP BASIS) AND ACTUAL -
URBAN REDEVELOPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive
				(Negative)
<u>Revenues</u>				
Payment in Lieu of Taxes	<u>\$ 4,020,000</u>	<u>\$ 4,020,000</u>	<u>\$ 3,782,255</u>	<u>\$ (237,745)</u>
Total Revenues	<u>4,020,000</u>	<u>4,020,000</u>	<u>3,782,255</u>	<u>(237,745)</u>
<u>Expenditures</u>				
Community Environment	<u>4,014,113</u>	<u>4,014,113</u>	<u>3,657,584</u>	<u>356,529</u>
Total Expenditures	<u>4,014,113</u>	<u>4,014,113</u>	<u>3,657,584</u>	<u>356,529</u>
Net Change in Fund Balance	5,887	5,887	124,671	118,784
Fund Balance-Beginning of Year	<u>2,188,362</u>	<u>2,188,362</u>	<u>2,188,362</u>	<u>0</u>
Fund Balance-End of Year	<u>\$ 2,194,249</u>	<u>\$ 2,194,249</u>	<u>\$ 2,313,033</u>	<u>\$ 118,784</u>

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2007**

Assets

Equity in Pooled Cash and Cash Equivalents	\$ 133,278
Due from Other Funds	<u>180,223</u>

Total Assets **\$ 313,501**

Liabilities

Accounts Payable	\$ 403
Deposits Held and Due to Others	<u>313,098</u>

Total Liabilities **\$ 313,501**

See accompanying notes to the basic financial statements.

**CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 1: REPORTING ENTITY

The City of University Heights, Ohio (the “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 accounting principles generally accepted in the United States of America (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
FOR THE YEAR ENDED DECEMBER 31, 2007
(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 and/or the general laws of Ohio.

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

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

B. **Fund Accounting** (Continued)

Governmental Funds (Continued)

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

Fiduciary Funds

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

C. **Measurement Focus**

Government-wide Financial Statements

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

Fund Financial Statements

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

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

C. **Measurement Focus** (Continued)

Fund Financial Statements (Continued)

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

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

D. **Basis of Accounting**

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

Revenues - Exchange and Non-exchange Transactions

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(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 7). 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, 2007, but which were levied to finance year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

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

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

Expenses/Expenditures (Continued)

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

E. **Cash and Investments**

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

During 2007, 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 fair value.

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, 2007.

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

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$61,368, which includes \$61,368 from other City funds.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

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

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

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

F. **Inventory**

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

G. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2007 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.

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

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

H. **Capital Assets** (Continued)

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

I. **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Advances To/Advances From Other Funds”. Receivables and payables resulting from negative cash fund balances 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, 2007.

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. At December 31, 2007, the balance of “Compensated Absences Payable” is \$0. The noncurrent portion of the liability is not reported.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

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

K. Accrued Liabilities and Long-Term Obligations

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

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

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(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 2007.

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: **CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2007, the City implemented GASB Statement No. 48, *Sales and Pledges of Receivable and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and GASB Statement No. 45, *Accounting and Financial Reporting for Post-Employment Benefits other than Pensions*.

GASB Statement No. 48 provides guidance on accounting for sales and pledges of receivables and future revenues. The Statement also requires governments to disclose in the notes to the financial statements the amount of future revenues that have been pledged or sold.

GASB Statement No. 45 supercedes GASB Statement No. 12 and establishes standards for disclosure of information on post-employment benefits other than pensions benefits by all state and local government employers. This information can be found in Note 12.

The implementation of GASB Statements No. 45 and 48 did not have an effect on the financial statements of the City.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 4: **COMPLIANCE AND ACCOUNTABILITY**

A. Fund Deficits

Fund balances at December 31, 2007, included the following individual fund deficits:

Special Revenue Funds:		
Street Maintenance Fund	\$	471,365
Street Lighting		14,293
Tree Improvement		30,379
Police Pension		222,151
Fire Pension		278,581
CDBG		19,959
Federal Emergency Management		442

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

B. Compliance

The general fund had a negative cash balance of \$344,223 at December 31, 2007, in noncompliance with Ohio Revised Code Section 5705.10.

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CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 5: **BUDGETARY**

A. **Budgetary Information**

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

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

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

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

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 Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual for the general fund and major special revenue fund are 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).

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 5: **BUDGETARY** (Continued)

B. Budgetary Basis of Accounting (Continued)

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

	Net Change in Fund Balance Major Governmental Funds	
	General	Urban Redevelopment
	GAAP Basis	\$ 355,843
Net Adjustment for Revenue Accruals	(490,977)	0
Net Adjustment for Expenditure Accruals	181,639	0
Budget Basis	\$ 46,505	\$ 124,671

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS**

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

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

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

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

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.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

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

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

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.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

A. Deposits

At December 31, 2007, the carrying amount of the City's deposits was \$214,863 and the bank balance was \$346,695. Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2007, \$160,554 of the City's bank balance was covered by Federal Depository Insurance.

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposit may not be returned. The City's policy is to place deposits with major local banks approved by the City's Council. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to a least 105% of the carrying value of the deposits. Such collateral, as permitted by Charter 135 of the ORC is held in financial institution pools at Federal Reserve Banks, or at member banks of the federal reserve system in the name of the respective depository bank, and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at a Federal Reserve Bank in the name of the City.

B. Investments

The City has a formal investment policy. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. At December 31, 2007, fair value of \$2,367,597 equals the City's net cost for investments. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

C. Interest Rate Risk

As a means of limiting its exposure to fair value of losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

D. Credit Risk

The credit risk of the City's investments are in the table below. The credit ratings were provided from Moody's and Standard and Poor's. The City has no investment policy that would further limit its investment choices.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

E. Custodial Credit Risk

For an investment, custodial credit risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Finance Director or qualified trustee.

F. Concentration of Credit Risk

Safety of principal is the foremost objective of the City's investment program. Investments of the City shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed income generated from the remainder of the portfolio.

Investments at year-end were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturities (in Years)</u>
STAROhio	\$ 34,753	Aaa/AAA	\$ 34,753
Repurchase Agreement	<u>2,332,844</u>	Aaa/AAA	<u>2,332,844</u>
Total Investments	<u>\$ 2,367,597</u>		<u>\$ 2,367,597</u>

* Credit Ratings were obtained from Moody's and Standard & Poor's, respectively, for all investments.

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2007, 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 25 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 2006.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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

The full tax rate applied to real property for the fiscal year ended December 31, 2007, 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 owner's tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2007, was \$13.2 per \$1000 of assessed valuation.

Real Estate - 2006 Valuation

Residential/Agricultural	\$ 247,669,150
Commercial/Industrial	28,609,820
Public Utilities	3,055,890
General Tangible Personal Property - 2005 Valuation	<u>5,497,220</u>
	<u>\$ 284,832,080</u>

The Cuyahoga County Treasurer collects property tax on behalf of all taxing districts within the County. The Cuyahoga County Auditor periodically remits to the taxing districts their portions of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2007. 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 2008 operations. The receivable is offset by deferred revenue.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

B. Income Taxes

The City levies a municipal income tax of 2.5 percent with a 1.00 percent credit 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 does not allow a credit of income tax paid to another municipality.

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

C. Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2007 follows:

	<u>Amounts</u>
Estate Tax	\$ 60,365
Local Government	442,515
Homestead and Rollback	199,395
Gasoline Tax and Auto Registration	157,855
Jury Duty	225
Permissive Tax	<u>5,656</u>
Total	<u>\$ 866,011</u>

D. Long-Term Receivables

The City has a long-term project development agreement accounts receivable due in annual installments on the first business day of January through 2032 in the amount of \$15,000. As of December 31, 2007, \$360,000 is outstanding.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 8: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	Balance 12/31/2006	Additions	Deletions	Balance 12/31/2007
Governmental Activities				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 164,942	\$ 0	\$ 0	\$ 164,942
Construction in Progress	<u>835,316</u>	<u>196,045</u>	<u>0</u>	<u>1,031,361</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,000,258</u>	<u>196,045</u>	<u>0</u>	<u>1,196,303</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	1,687,667	0	0	1,687,667
Vehicles	2,572,796	574,050	235,382	2,911,464
Equipment	<u>1,329,900</u>	<u>67,682</u>	<u>0</u>	<u>1,397,582</u>
Subtotal	<u>5,590,363</u>	<u>641,732</u>	<u>235,382</u>	<u>5,996,713</u>
Infrastructure:				
Pavement	3,964,303	0	0	3,964,303
Storm Sewers	230,271	0	0	230,271
Water Lines	1,371,844	0	1,371,844	0
Sanitary Sewers	<u>1,235,057</u>	<u>0</u>	<u>0</u>	<u>1,235,057</u>
Total Infrastructure	<u>6,801,475</u>	<u>0</u>	<u>1,371,844</u>	<u>5,429,631</u>
<i>Total Capital Assets Being Depreciated</i>	<u>12,391,838</u>	<u>641,732</u>	<u>1,607,226</u>	<u>11,426,344</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	914,509	37,329	0	951,838
Vehicles	2,045,897	185,661	205,221	2,026,337
Equipment	<u>878,785</u>	<u>58,169</u>	<u>0</u>	<u>936,954</u>
Subtotal	<u>3,839,191</u>	<u>281,159</u>	<u>205,221</u>	<u>3,915,129</u>
Infrastructure:				
Pavement	945,051	198,215	0	1,143,266
Storm Sewers	31,678	3,838	0	35,516
Water Lines	152,785	13,857	166,642	0
Sanitary Sewers	<u>51,785</u>	<u>15,438</u>	<u>0</u>	<u>67,223</u>
Subtotal	<u>1,181,299</u>	<u>231,348</u>	<u>166,642</u>	<u>1,246,005</u>
Total Accumulated Depreciation	<u>5,020,490</u>	<u>512,507</u>	<u>371,863</u>	<u>5,161,134</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>7,371,348</u>	<u>129,225</u>	<u>1,235,363</u>	<u>6,265,210</u>
Governmental Activities Capital Assets, Net	<u>\$8,371,606</u>	<u>\$ 325,270</u>	<u>\$1,235,363</u>	<u>\$7,461,513</u>

* Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 74,689
Leisure Time Activities	4,636
Community Environment	6,439
Basic Utility Services	54,863
Transportation	343,550
General Government	28,330
Total Depreciation Expense	<u>\$ 512,507</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 8: **CAPITAL ASSETS** (Continued)

The City of University Heights entered into a Joint Economic Development Zone Agreement with the City of Cleveland, whereas, the City of Cleveland owns and controls a water distribution system of the City of University Heights as of May 21, 2007. Therefore, the City has disposed of \$1.2 million in waterlines and is reported on the Statement of Activities as a special item.

NOTE 9: **INTERFUND RECEIVABLES AND PAYABLES**

At December 31, 2007, interfund balances were as follows:

<u>Fund</u>	Due from Other Funds	Due to Other Funds	Advances to Other Funds	Advances From Other Funds
General	\$ 0	\$ 46,000	\$ 0	\$ 0
Nonmajor Governmental	46,000	0	0	0
Total	<u>\$ 46,000</u>	<u>\$ 46,000</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

NOTE 10: **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 11: **PENSION PLAN**

A. **Ohio Public Employees Retirement System**

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

- The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan;

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 11: **PENSION PLAN** (Continued)

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

- The Member-Directed Plan (MD) - a benefit contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings;
- The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377 or by using the OPERS website at www.opers.org.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 9.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City was 8.85 percent of covered payroll from January 1 to June 31, 2007 and 7.85 from July 1 to December 31, 2007. The City's required contributions to OPERS for the years ended December 31, 2007, 2006, and 2005 were \$212,157, \$324,053, and \$323,753, respectively. The full amount has been contributed for 2006 and 2005. 47.96 percent has been contributed for 2007.

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

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. The OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 11: **PENSION PLAN** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code.

The OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police and 24 percent for firefighters. The City's contributions to the OP&F for police and firefighters were \$277,569 and \$383,728 for the year ended December 31, 2007, \$404,720 and \$503,537 for the year ended December 31, 2006, and \$404,551 and \$494,102 for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 47.67 percent and 47.82 percent, respectively, have been contributed for 2007.

NOTE 12: **POST-EMPLOYMENT BENEFITS**

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2007 employer rate was 13.85 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for State and local employer units. Active members do not make contributions to the OPEB Plan.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

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

OPERS Post-Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care was 5.00 percent from January 1 through June 30, 2007, and 6.00 percent from July 1 through December 31, 2007. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 percent to 5 percent annually for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

As of December 31, 2007, the number of active contributing participants in the Traditional Pension and Combined plans totaled 374,979. The number of active contributing participants for both plans used in the December 31, 2006, actuarial valuation was 362,130. Actual City contributions for 2007 which were used to fund post-employment benefits were \$140,607. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS' net assets available for payment of benefits at December 31, 2006 (the latest information available) was \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

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

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

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

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

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

OP&F provides post-retirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check, or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a two-thirds basis. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45. Health care funding and accounting is on a pay-as-you-go basis.

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

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

The Ohio Revised Code provides for contributions requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50 percent of covered payroll for police employer units and 24.00 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F's post-employment health care plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2007, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequate funded and also is limited by the provisions of Section 401(h).

In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006, the date of the last actuarial valuation was 14,120 for police and 10,563 for firefighters.

The City's actual contributions for 2007 that were used to fund post-employment health care benefits were \$146,948 for police and \$150,155 for firefighters. The OP&F's total health care expenses for the year ended December 31, 2006 (the latest information available) was \$120,373,722, which was net of member contributions of \$58,532,848.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 13: NOTES PAYABLE

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

	Maturity Date	Balance December 31, 2006	Issued	Retired	Balance December 31, 2007
3.95% Bond Anticipation Notes, Series 2007	2007	\$ 469,000	\$ 444,000	\$ (469,000)	\$ 444,000
Total Notes Payable		<u>\$ 469,000</u>	<u>\$ 444,000</u>	<u>\$ (469,000)</u>	<u>\$ 444,000</u>

NOTE 14: LONG-TERM OBLIGATIONS

Changes in bonds and other long-term obligations of the City during 2007 were as follows:

	Interest Rate	Restated Principal Outstanding 12/31/06	Additions	Deletions	Principal Outstanding 12/31/07	Amounts Due in One Year
<u>Governmental Activities</u>						
General Obligation Bonds:						
1997 Street Resurfacing	4%-4.95%	\$ 60,000	\$ 0	\$ (60,000)	\$ 0	\$ 0
1995 Purvis Park Improvement Series A & B	6.25%	<u>930,000</u>	<u>0</u>	<u>(95,000)</u>	<u>835,000</u>	<u>100,000</u>
Total General Obligation Bonds		<u>990,000</u>	<u>0</u>	<u>(155,000)</u>	<u>835,000</u>	<u>100,000</u>
<u>Other Long-Term Obligations</u>						
OWDA Loan - Baintree	5.77%	106,279	0	(27,992)	78,287	14,605
OWDA Loan - Sewer Project	5.06%	85,472	0	(26,933)	58,539	13,980
OPWC Issue II Loan	0.00%	276,964	0	(17,869)	259,095	17,869
OPWC Meadowbrook		267,345	0	(13,710)	253,635	6,855
Accrued Police Pension		295,911	0	(5,504)	290,407	5,741
Capital Lease - National City Bank Leasing		149,415	0	(27,214)	122,201	28,487
Capital Lease - Kansas State Bank Leasing		0	54,411	0	54,411	12,587
Capital Lease - 1 st Source Bank Leasing		0	117,550	0	117,550	14,554
Capital Lease - 1 st Source Bank Leasing		0	117,550	0	117,550	0
Various Purpose General Obligation Notes	4.00%	2,715,000	2,815,000	(2,715,000)	2,815,000	2,815,000
Compensated Absences		<u>1,199,671</u>	<u>836,179</u>	<u>(635,018)</u>	<u>1,400,832</u>	<u>703,691</u>
Total Other Long-Term Obligations		<u>5,096,057</u>	<u>3,940,690</u>	<u>(3,469,240)</u>	<u>5,567,507</u>	<u>3,633,369</u>
Total Governmental Activities		<u>\$6,086,057</u>	<u>\$4,505,343</u>	<u>\$(4,188,893)</u>	<u>\$6,402,507</u>	<u>\$3,733,369</u>

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

Debt service requirements to maturity are as follows:

Year Ended 12/31	General Obligation Bonds		OWDA Loan - Baintree		OWDA Loan - Sewer Project		OPWC Loan Intercommunity Sewer	
	Principal	Interest	Principal	Interest	Principal	Interest*	Principal	Interest
2008	\$ 100,000	\$ 51,770	\$ 29,631	\$ 4,873	\$ 28,313	\$ 2,585	\$ 17,869	\$ 0
2009	105,000	45,570	31,365	3,188	30,226	1,134	17,869	0
2010	110,000	39,060	17,291	1,403	0	0	17,869	0
2011	115,000	32,240	0	0	0	0	17,869	0
2012	130,000	25,110	0	0	0	0	17,869	0
2013-2017	275,000	25,730	0	0	0	0	89,345	0
2018-2022	0	0	0	0	0	0	80,405	0
2023-2027	0	0	0	0	0	0	0	0
2028-2032	0	0	0	0	0	0	0	0
2033-2037	0	0	0	0	0	0	0	0
Totals	<u>\$ 835,000</u>	<u>\$ 219,480</u>	<u>\$ 78,287</u>	<u>\$ 9,464</u>	<u>\$ 58,539</u>	<u>\$ 3,719</u>	<u>\$ 259,095</u>	<u>\$ 0</u>

Year Ended 12/31	OPWC Loan MeadowBrook		Accrued Police Pension Liability		Capital Lease Obligations		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 13,710	\$ 0	\$ 5,741	\$ 12,282	\$ 55,628	\$ 13,833	\$ 250,892	\$ 85,343
2009	13,710	0	5,987	12,035	73,551	16,472	277,708	78,399
2010	13,710	0	6,245	11,778	77,198	12,826	242,313	65,067
2011	13,710	0	6,513	11,510	81,028	8,997	234,120	52,747
2012	13,710	0	6,793	11,230	35,424	5,562	203,796	41,902
2013-2017	68,550	0	38,598	51,516	88,883	5,667	560,376	82,913
2018-2022	68,550	0	47,632	42,484	0	0	196,587	42,484
2023-2027	47,985	0	58,777	31,336	0	0	106,762	31,336
2028-2032	0	0	72,032	17,581	0	0	72,032	17,581
2033-2037	0	0	42,089	2,655	0	0	42,089	2,655
Totals	<u>\$ 253,635</u>	<u>\$ 0</u>	<u>\$ 290,407</u>	<u>\$ 204,407</u>	<u>\$ 411,712</u>	<u>\$ 63,357</u>	<u>\$2,186,675</u>	<u>\$ 500,427</u>

*Not Available

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 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) loans will be paid from the sewer replacement "A" fund. The Baintree loan was issued in 2000 for \$253,170. The sewer project loan was issued in 2004 for \$135,002. The Ohio Public Works Commission (OPWC) intercommunity sewer project will be paid from the sewer replacement "A" fund. This loan was issued in 2001 for \$330,270 and an additional \$27,105 in 2002. The OPWC Meadowbrook Boulevard loan will be paid from the Issue II fund. This loan was issued in 2005 for \$85,298 and has not yet been fully disbursed, therefore, no repayment terms have been confirmed.

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 14: **LONG-TERM OBLIGATIONS** (Continued)

On May 1, 2007, the City issued various purpose General Obligation Bond Anticipation Notes of \$2,815,000 with an interest rate of 4 percent in anticipation of the issuance of bonds for the purpose of improving the City's Sanitary Sewer System.

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

NOTE 15: **INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2007 consisted of the following:

Fund	<u>Transfer To</u>	<u>Transfer From</u>
General Fund	\$ 0	\$ 1,465,559
General Bond Retirement Debt Service Fund	2,505,737	0
Nonmajor Governmental Funds	812,979	1,853,157
Total Interfund Transfers	\$ 3,318,716	\$ 3,318,716

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.

NOTE 16: **CLAIMS AND JUDGMENTS**

The City is involved in no material litigation as either plaintiff or defendant.

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
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 17: CAPITAL LEASE

The City has financed the acquisition of two rubbish trucks and a backhoe loader. These lease agreements qualify as a capital lease for accounting purposes and, therefore, they have been recorded at the present value of their future minimum lease payments as of the inception date.

The asset acquired through the capital lease is as follows:

	Governmental Activities
Vehicle	\$ 289,461
Less: Accumulated Depreciation	20,911
Total	268,550
Total Assets	\$ 268,550

See Note 14 for the future minimum lease obligations as of December 31, 2007.

NOTE 18: 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 2007, the City contracted with several companies for various types of insurance as noted below. The policy deductible does not exceed \$10,000 for any policy.

	Coverage
Travelers Insurance	Employee Benefits \$3,000,000
Travelers Insurance	Public Officials Liability \$2,000,000
Travelers Insurance	Law Enforcement Liability \$2,000,000
Travelers Insurance	Boiler and Machinery \$6,194,637
Travelers Insurance	Stop GAP \$1,000,000
Travelers Insurance	Inland Marine \$ 281,669
Travelers Insurance	Automobile Liability \$1,000,000
	Each accident
Travelers Insurance	Automobile Collision \$1,000,000
	Each accident
Travelers Insurance	General Liability \$2,000,000
Travelers Insurance	Umbrella Liability \$1,000,000
VFIS	Fire Department/Paramedic Liability \$2,000,000
Travelers Insurance	Bond-Finance Director \$ 75,545

CITY OF UNIVERSITY HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(CONTINUED)

NOTE 18: **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 19: **SPECIAL ITEM**

The City entered into an agreement with the City of Cleveland pertaining to the waterlines of the City being taken over by the City of Cleveland Water Department in exchange for a non-poaching agreement pertaining to jobs moving from the respective Cities. The City moved the waterlines from the financial statements in 2007 in the amount of \$1,205,202 which represent the waterline cost less accumulated depreciation.

NOTE 20: **SUBSEQUENT EVENTS**

The City issued bond anticipation notes on May 8, 2008 for \$2,595,000 for the acquisition of motorized equipment and for resurfacing streets and repairing curbs. Interest rate on these notes are 2.5 percent with a maturity date of May 7, 2009.

NOTE 21: **GOING CONCERN**

Ohio Revised Code Section 5705.10, in part, requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures. At December 31, 2007, total assets exceeded total liabilities \$278,376 in the General Fund although the fund had a negative cash balance of \$344,223. Continued operations are dependent upon the City's ability to meet financing requirements and current obligations.

In November 2006, the City passed an income tax increase from 1 percent to 2.5 percent, which affects employees who work in the City and also residents who work in the City. The City also created an internal policy which puts a freeze on rehiring employees and a limit to overtime. These changes were effective January 1, 2007. This resulted in a significant decreased deficit in the cash balance of the General Fund and a projected positive balance by the end of fiscal year 2008.

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Certified Public Accountants
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Garfield Hts., Ohio 44125

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Ohio Society of Certified Public Accountants

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of University Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2007, which collectively comprise the City of University Heights, Ohio's basic financial statements and have issued our report thereon dated June 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of University Heights, Ohio's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of University Heights, Ohio's financial statements that is more than inconsequential will not be prevented or detected by the City of University Heights, Ohio's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a significant deficiency in internal control over financial reporting: **Finding No. 2007-1.**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of University Heights, Ohio's internal control.

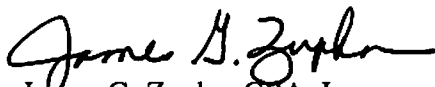
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of University Heights, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*: **Finding No. 2007-2.**

We noted certain matters that we reported to the management of the City of University Heights, Ohio, in a separate letter dated June 25, 2008.

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


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

June 25, 2008

CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2007

Significant Deficiency - Cash Reconciliation
Finding No. 2007-1

A significant deficiency in internal control over cash and financial reporting of cash was noted during our audit testing. The reconciliations of the general account for the year of 2007 had a unreconciled difference that was not resolved as of June, 2008. In addition, the reconciled payroll balances at December 31, 2007 differed from the cash balance on the financial records by approximately \$14,000. The City is working to locate the differences and does not anticipate significant adjustments.

We recommend the City improve internal controls over reconciling cash accounts timely and resolving differences in the account.

City's Response

As noted above, the City is currently addressing the cash reconciliation variances and expects to resolve this matter shortly.

CITY OF UNIVERSITY HEIGHTS, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2007

FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Non-Compliance - Negative Cash Balance
2007-2

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

It was noted during the audit that at December 31, 2007, the City had a negative cash balance in the following fund:

<u>Major Fund</u>	<u>Amount</u>
General	\$ 344,223

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

We recommend that the City take actions to generate funds for operations.

Client Response

The City did an income tax increase effective January 1, 2007 and is formulating a plan to significantly cut services and related costs.

**CITY OF UNIVERSITY HEIGHTS
 CUYAHOGA COUNTY, OHIO
 STATUS OF PRIOR AUDIT FINDINGS
 DECEMBER 31, 2007**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Action Taken; or No <u>Longer Valid;</u> <u>Explain:</u>
2006-1	Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.	No	Finding repeated as 2007-2



Mary Taylor, CPA
Auditor of State

CITY OF UNIVERSITY HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 30, 2008