



**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2002



**Auditor of State
Betty Montgomery**

CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Mayfield Heights
Cuyahoga County
6154 Mayfield Road
Mayfield Heights, Ohio 44124

We have audited the accompanying general-purpose financial statements of the City of Mayfield Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Mayfield Heights, Cuyahoga County, Ohio, as of December 31, 2002, and the results of its operations 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 May 21, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

May 21, 2003

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CITY OF MAYFIELD HEIGHTS
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002

	GOVERNMENTAL FUND TYPES				FIDUCIARY	ACCOUNT GROUPS		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Fixed Assets	General Long- Term Debt	
ASSETS								
Equity in Pooled Cash and Cash Equivalents	\$ 8,687,792	\$ 327,597	\$ 241,768	\$ 13,859,613	\$ 1,367,014	\$ 0	\$ 0	\$ 24,483,784
Investments	45,000	0	0	0	0	0	0	45,000
Receivables:								
Taxes	6,317,539	276,410	32,246	0	61,636	0	0	6,687,831
Accounts	18,605	58	0	75	18,769	0	0	37,507
Intergovernmental	730,959	235,237	3,156	206,590	0	0	0	1,175,942
Accrued Interest	15,230	0	27	789	0	0	0	16,046
Special Assessments	0	0	167,454	2,332	0	0	0	169,786
Inventory	15,172	30,070	0	0	0	0	0	45,242
Prepaid Items	55,296	0	0	0	0	0	0	55,296
Fixed Assets (Net of								
Accumulated Depreciation)	0	0	0	0	0	8,619,555	0	8,619,555
Construction in Progress	0	0	0	0	0	2,918,027	0	2,918,027
Other Debits:								
Amount Available in Debt								
Service Funds	0	0	0	0	0	0	241,795	241,795
Amount to be Provided for								
Retirement of General								
Long-Term Obligations	0	0	0	0	0	0	8,622,759	8,622,759
Total Assets	<u>\$ 15,885,593</u>	<u>\$ 869,372</u>	<u>\$ 444,651</u>	<u>\$ 14,069,399</u>	<u>\$ 1,447,419</u>	<u>\$ 11,537,582</u>	<u>\$ 8,864,554</u>	<u>\$ 53,118,570</u>

The notes to the general purpose financial statements are an integral part of these statements.

CITY OF MAYFIELD HEIGHTS
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 2002
 (CONTINUED)

	GOVERNMENTAL FUND TYPES				FIDUCIARY	ACCOUNT GROUPS		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Fixed Assets	General Long- Term Debt	
LIABILITIES								
Accounts Payable	\$ 281,118	\$ 163,334	\$ 0	\$ 114,009	\$ 89,719	\$ 0	\$ 0	\$ 648,180
Contracts Payable	0	0	0	173,294	0	0	0	173,294
Retainage Payable	0	0	0	190,474	0	0	0	190,474
Accrued Wages and Benefits	185,933	13,473	0	0	0	0	0	199,406
Funds Held on Deposit Due to Other	0	0	0	0	181,156	0	0	181,156
Governments	273,305	154,392	0	0	61,636	0	0	489,333
Deferred Revenues	5,384,388	443,895	202,856	80,394	0	0	0	6,111,533
General Obligation Notes Payable	0	0	0	0	0	0	7,000,000	7,000,000
General Obligation Bonds Payable	0	0	0	0	0	0	30,000	30,000
Capital Lease Commitment Payable	0	0	0	0	0	0	0	0
Special Assessment Commitment Bonds Payable	0	0	0	0	0	0	100,000	100,000
Ohio Water Development Authority Bonds Payable	0	0	0	0	0	0	0	0
Ohio Public Works Commission	0	0	0	0	0	0	166,895	166,895
Compensated Absences Payable	55,617	892	0	0	0	0	1,567,659	1,624,168
Total Liabilities	<u>6,180,361</u>	<u>775,986</u>	<u>202,856</u>	<u>558,171</u>	<u>332,511</u>	<u>0</u>	<u>8,864,554</u>	<u>16,914,439</u>
FUND EQUITY AND OTHER CREDITS								
Investment in General Fixed Assets	0	0	0	0	0	11,537,582	0	11,537,582
Fund Balances:								
Reserved for Inventory	15,172	30,070	0	0	0	0	0	45,242
Reserved for Prepaid Items	55,296	0	0	0	0	0	0	55,296
Reserved for Encumbrances	0	471	0	5,013,372	0	0	0	5,013,843
Reserved for Debt Service	0	0	241,795	0	0	0	0	241,795
Unreserved: Undesignated	9,634,764	62,845	0	8,497,856	1,114,908	0	0	19,310,373
Total Fund Equity	<u>9,705,232</u>	<u>93,386</u>	<u>241,795</u>	<u>13,511,228</u>	<u>1,114,908</u>	<u>11,537,582</u>	<u>0</u>	<u>36,204,131</u>
Total Fund Equity and Other Credits	<u>\$ 15,885,593</u>	<u>\$ 869,372</u>	<u>\$ 444,651</u>	<u>\$ 14,069,399</u>	<u>\$ 1,447,419</u>	<u>\$ 11,537,582</u>	<u>\$ 8,864,554</u>	<u>\$ 53,118,570</u>

The notes to the general purpose financial statements are an integral part of these statements.

CITY OF MAYFIELD HEIGHTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - ALL GOVERNMENTAL FUND TYPES AND SIMILAR TRUST FUNDS
 DECEMBER 31, 2002

	GOVERNMENTAL FUND TYPES				FIDUCIARY	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	FUND TYPE Expendable Trust	
REVENUES						
Local Income Taxes	\$ 8,186,973	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,186,973
Property Taxes	3,611,285	273,518	673,814	0	0	4,558,617
Other Taxes	207,482	0	0	0	0	207,482
Intergovernmental Revenue	1,373,759	513,205	79,630	977,648	0	2,944,242
Special Assessments	0	2,017	95,654	0	0	97,671
Charges for Services	125,803	148,683	0	1,147	0	275,633
Fines, Licenses, and Permits	493,657	58	0	0	0	493,715
Interest Income	386,177	0	14,358	114,539	0	515,074
Miscellaneous	247,352	31,911	0	13,286	58,227	350,776
Total Revenues	<u>14,632,488</u>	<u>969,392</u>	<u>863,456</u>	<u>1,106,620</u>	<u>58,227</u>	<u>17,630,183</u>
EXPENDITURES						
Current:						
Security of Persons and Property	7,259,452	472,649	0	0	0	7,732,101
Public Health and Welfare	201,548	417	0	0	0	201,965
Leisure Time Activities	875,033	104,913	0	0	0	979,946
Community Development	579,626	2,550	0	0	0	582,176
Basic Utility Expenditures	678,798	0	0	87,341	0	766,139
Transportation	840,556	1,305,268	0	157,443	0	2,303,267
General Government	1,678,551	446	1,186	51,330	137,839	1,869,352
Capital Outlay	0	0	0	5,143,804	0	5,143,804
Debt Service:						
Principal Retirement	0	0	914,000	13,352	0	927,352
Interest and Fiscal Charges	0	0	81,220	0	0	81,220
Total Expenditures	<u>12,113,564</u>	<u>1,886,243</u>	<u>996,406</u>	<u>5,453,270</u>	<u>137,839</u>	<u>20,587,322</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,518,924</u>	<u>(916,851)</u>	<u>(132,950)</u>	<u>(4,346,650)</u>	<u>(79,612)</u>	<u>(2,957,139)</u>
OTHER FINANCING SOURCES (USES)						
Sale of Fixed Assets	0	0	0	24,970	0	24,970
General Obligation Notes Issued	0	0	0	7,000,000	0	7,000,000
Premium on General Obligation Notes Issued	0	0	5,950	0	0	5,950
Transfers In	0	963,051	0	3,037,733	100,000	4,100,784
Transfers Out	(4,072,500)	0	(28,284)	0	0	(4,100,784)
Other Sources	0	0	0	75	0	75
Total Other Financing Sources (Uses)	<u>(4,072,500)</u>	<u>963,051</u>	<u>(22,334)</u>	<u>10,062,778</u>	<u>100,000</u>	<u>7,030,995</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(1,553,576)</u>	<u>46,200</u>	<u>(155,284)</u>	<u>5,716,128</u>	<u>20,388</u>	<u>4,073,856</u>
Fund Balance - Beginning of Year	11,260,801	45,596	397,079	7,795,100	1,094,520	20,593,096
Increase (Decrease) in Reserved for Inventory	(1,993)	1,590	0	0	0	(403)
Fund Balance - End of Year	<u>\$ 9,705,232</u>	<u>\$ 93,386</u>	<u>\$ 241,795</u>	<u>\$13,511,228</u>	<u>\$ 1,114,908</u>	<u>\$ 24,666,549</u>

The notes to the general purpose financial statements are an integral part of these statements.

CITY OF MAYFIELD HEIGHTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
 ALL GOVERNMENTAL FUND TYPES AND SIMILAR TRUST FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2002

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Local Income Taxes	\$ 8,238,167	\$ 8,238,167	\$ 0	\$ 0	\$ 0	\$ 0
Property Taxes	3,611,285	3,611,285	0	273,518	273,518	0
Other Taxes	204,689	204,689	0	0	0	0
Intergovernmental Revenues	1,380,993	1,380,993	0	479,198	479,198	0
Special Assessments	0	0	0	2,017	2,017	0
Charges for Services	125,527	125,527	0	148,683	148,683	0
Fines, Licenses, and Permits	493,932	493,932	0	0	0	0
Interest Income	509,139	509,139	0	0	0	0
Miscellaneous	251,594	251,594	0	32,480	32,480	0
Total Revenues	14,815,326	14,815,326	0	935,896	935,896	0
EXPENDITURES						
Current:						
Security of Persons and Property	7,219,890	7,202,863	17,027	589,470	588,207	1,263
Public Health and Welfare	209,230	199,760	9,470	0	0	0
Leisure Time Activities	866,437	863,632	2,805	112,035	111,414	621
Community Development	643,736	633,084	10,652	2,550	2,550	0
Basic Utility Service	635,000	625,206	9,794	0	0	0
Transportation	831,219	827,078	4,141	1,254,674	1,247,590	7,084
General Government	1,672,286	1,656,804	15,482	0	0	0
Capital Outlay	0	0	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Other Charges	0	0	0	0	0	0
Total Expenditures	12,077,798	12,008,427	69,371	1,958,729	1,949,761	8,968
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,737,528	2,806,899	69,371	(1,022,833)	(1,013,865)	8,968
OTHER FINANCING SOURCES (USES)						
Proceeds from Sale of Notes	0	0	0	0	0	0
Sale of Fixed Assets	0	0	0	0	0	0
Operating Transfers In	0	0	0	963,051	963,051	0
Operating Transfers Out	(4,072,500)	(4,072,500)	0	0	0	0
Advances In	2,330,000	2,330,000	0	0	0	0
Advances Out	0	0	0	0	0	0
Total Other Financing Sources (Uses)	(1,742,500)	(1,742,500)	0	963,051	963,051	0
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	995,028	1,064,399	69,371	(59,782)	(50,814)	8,968
Fund Balance - Beginning of Year	7,296,097	7,296,097	0	277,336	277,336	0
Prior Year Encumbrances Appropriated	186,855	186,855	0	42,692	42,692	0
Fund Balance - End of Year	\$ 8,477,980	\$ 8,547,351	\$ 69,371	\$ 260,246	\$ 269,214	\$ 8,968

The notes to the general purpose financial statements are an integral part of this statement.

CITY OF MAYFIELD HEIGHTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
 ALL GOVERNMENTAL FUND TYPES AND SIMILAR TRUST FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2002
 (CONTINUED)

	DEBT SERVICE FUNDS			CAPITAL PROJECTS FUNDS		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Local Income Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Property Taxes	673,814	673,814	0	0	0	0
Other Taxes	0	0	0	0	0	0
Intergovernmental Revenue	79,630	79,630	0	958,014	958,014	0
Special Assessments	120,048	120,048	0	0	0	0
Charges for Services	0	0	0	1,226	1,226	0
Fines, Licenses, and Permits	0	0	0	0	0	0
Interest Income	14,380	14,380	0	114,761	114,761	0
Miscellaneous	0	0	0	17,572	17,572	0
Total Revenues	887,872	887,872	0	1,091,573	1,091,573	0
EXPENDITURES						
Current:						
Security of Persons and Property	0	0	0	0	0	0
Public Health and Welfare	0	0	0	0	0	0
Leisure Time Activities	0	0	0	0	0	0
Community Development	0	0	0	0	0	0
Basic Utility Services	0	0	0	93,675	84,314	9,361
Transportation	0	0	0	1,303,055	1,257,560	45,495
General Government	1,200	1,186	14	51,630	51,462	168
Capital Outlay	0	0	0	10,725,664	10,177,403	548,261
Debt Service:						
Principal Retirement	914,000	914,000	0	13,355	13,352	3
Interest and Fiscal Charges	81,220	81,220	0	0	0	0
Total Expenditures	996,420	996,406	14	12,187,379	11,584,091	603,288
Excess (Deficiency) of Revenues Over (Under) Expenditures	(108,548)	(108,534)	14	(11,095,806)	(10,492,518)	603,288
OTHER FINANCING SOURCES (USES)						
Proceeds from Sale of Notes	5,950	5,950	0	7,000,000	7,000,000	0
Sale of Fixed Assets	0	0	0	24,970	24,970	0
Operating Transfer In	0	0	0	3,037,733	3,037,733	0
Operating Transfers Out	(28,287)	(28,284)	3	0	0	0
Advances In	0	0	0	0	0	0
Advances Out	0	0	0	(2,330,000)	(2,330,000)	0
Total Other Financing Sources (Uses)	(22,337)	(22,334)	3	7,732,703	7,732,703	0
Excess (Deficiency) of Revenues and and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(130,885)	(130,868)	17	(3,363,103)	(2,759,815)	603,288
Fund Balance - Beginning of Year	372,634	372,634	0	9,057,511	9,057,511	0
Prior Year Encumbrances Appropriated	0	0	0	2,098,429	2,098,429	0
Fund Balance - End of Year	\$ 241,749	\$ 241,766	\$ 17	\$ 7,792,837	\$ 8,396,125	\$ 603,288

The notes to the general purpose financial statements are an integral part of this statement.

CITY OF MAYFIELD HEIGHTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
 ALL GOVERNMENTAL FUND TYPES AND SIMILAR TRUST FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2002
 (CONTINUED)

	EXPENDABLE TRUST FUNDS			TOTALS (MEMORANDUM ONLY)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Local Income Taxes	\$ 0	\$ 0	\$ 0	\$ 8,238,167	\$ 8,238,167	\$ 0
Property Taxes	0	0	0	4,558,617	4,558,617	0
Other Taxes	0	0	0	204,689	204,689	0
Intergovernmental Revenue	0	0	0	2,897,835	2,897,835	0
Special Assessments	0	0	0	122,065	122,065	0
Charges for Services	0	0	0	275,436	275,436	0
Fines, Licenses, and Permits	0	0	0	493,932	493,932	0
Interest Income	0	0	0	638,280	638,280	0
Miscellaneous	58,227	58,227	0	359,873	359,873	0
Total Revenues	<u>58,227</u>	<u>58,227</u>	<u>0</u>	<u>17,788,894</u>	<u>17,788,894</u>	<u>0</u>
EXPENDITURES						
Current:						
Security of Persons and Property	0	0	0	7,809,360	7,791,070	18,290
Public Health and Welfare	0	0	0	209,230	199,760	9,470
Leisure Time Activities	0	0	0	978,472	975,046	3,426
Community Development	0	0	0	646,286	635,634	10,652
Basic Utility Services	0	0	0	728,675	709,520	19,155
Transportation	0	0	0	3,388,948	3,332,228	56,720
General Government	123,875	123,728	147	1,848,991	1,833,180	15,811
Capital Outlay	0	0	0	10,725,664	10,177,403	548,261
Debt Service:						
Principal Retirement	0	0	0	927,355	927,352	3
Interest and Other Charges	0	0	0	81,220	81,220	0
Total Expenditures	<u>123,875</u>	<u>123,728</u>	<u>147</u>	<u>27,344,201</u>	<u>26,662,413</u>	<u>681,788</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(65,648)</u>	<u>(65,501)</u>	<u>147</u>	<u>(9,555,307)</u>	<u>(8,873,519)</u>	<u>681,788</u>
OTHER FINANCING SOURCES (Uses)						
Proceeds from Sale of Notes	0	0	0	7,005,950	7,005,950	0
Sale of Fixed Assets	0	0	0	24,970	24,970	0
Operating Transfers In	100,000	100,000	0	4,100,784	4,100,784	0
Operating Transfers Out	0	0	0	(4,100,787)	(4,100,784)	3
Advances In	0	0	0	2,330,000	2,330,000	0
Advances Out	0	0	0	(2,330,000)	(2,330,000)	0
Total Other Financing Sources (Uses)	<u>100,000</u>	<u>100,000</u>	<u>0</u>	<u>7,030,917</u>	<u>7,030,920</u>	<u>3</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>34,352</u>	<u>34,499</u>	<u>147</u>	<u>(2,524,390)</u>	<u>(1,842,599)</u>	<u>681,791</u>
Fund Balance - Beginning of Year	1,097,578	1,097,578	0	18,101,156	18,101,156	0
Prior Year Encumbrances Appropriated	0	0	0	2,327,976	2,327,976	0
Fund Balance - End of Year	<u>\$ 1,131,930</u>	<u>\$ 1,132,077</u>	<u>\$ 147</u>	<u>\$ 17,904,742</u>	<u>\$ 18,586,533</u>	<u>\$ 681,791</u>

The notes to the general purpose financial statements are an integral part of this statement.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. **Reporting Entity**

The City of Mayfield Heights, Ohio (the “City”) is a home-rule municipal corporation established under the laws of the State of Ohio. The City of Mayfield Heights operates under its own charter. The current charter, which provides for a council-mayor form of government, was adopted by the voters on July 2, 1951.

The accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups and the results of operations of the various fund types. The financial statements are presented as of December 31, 2002, and for the year then ended, and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB’s *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

In evaluating how to define the governmental reporting entity, the City adopted the provision of GASB Statement No. 14, *The Financial Reporting Entity*, under which the financial statements include all the organizations, activities, functions, and component units for which the City (primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit’s board, and either **(1)** the City’s ability to impose its will over the component unit, or **(2)** the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

On this basis, the City’s financial reporting entity has no component units but includes all funds, account groups, agencies, boards, and commissions that are part of the primary government, including police and fire protection, waste collection, parks and recreation, health, certain social services, and general administrative services.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

A. **Reporting Entity** (Continued)

The City is associated with certain organizations which are identified as jointly governed organizations. The organizations are described in Note 16. The organizations are the NORMA Self Insurance Pool, Inc., the East Suburban Regional Council of Governments, and the Mayfield Union Cemetery.

B. **Basis of Presentation**

The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to governments.

The financial transactions of the City are recorded in individual funds and account groups. The various funds and account groups are reported by type in the general purpose financial statements. Amounts in the "Total Memorandum Only" columns in the general purpose financial statements represent a summation of the combined groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different bases of accounting, both restricted and unrestricted amounts, interfund transactions that have not been eliminated, and the caption "Amounts to be Provided", which does not represent an asset. Consequently, amounts shown in the "Total Memorandum Only" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the City. The City uses the following fund categories, fund types, and account groups:

Governmental Funds

Governmental funds are accounted for on a flow on financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheet. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during a period.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

Governmental Funds (Continued)

General Fund - This fund is the operating fund of the City and is used to account for all revenues and expenditures except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds - These funds are used to account for revenue from specific sources (other than major capital projects) which require separate accounting because of legal restrictions requiring that expenditures be for specified purposes.

Debt Service Fund - These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - These funds are used to account for revenues and expenditures related to the acquisition or construction of major capital facilities and to account for the financing of public improvements or services deemed to benefit specific properties against which assessments are levied.

Fiduciary Funds

Trust and Agency Funds - Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. These include expendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

Account Groups

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long term debt.

General Fixed Assets Account Group - This account group is used to account for capital assets used in general government operations with a useful life of greater than one year.

General Long-Term Obligations Account Group - This account is used to account for all long-term obligations of the City. These obligations are secured by the credit of the City as a whole and are payable from general government resources or assessments against property owners.

C. **Basis of Accounting**

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures in the accounts and reported in the financial statements, and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed by the governmental funds and fiduciary fund. Under the modified accrual basis of accounting revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied (Note 11). Revenue from income taxes is recognized in the period in which the income is earned (Note 10). 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, interest on investments, and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenue, including licenses, permits, certain charges for services, income taxes other than those withheld by employers, and miscellaneous revenues, is recorded as revenue when received in cash because it is generally not measurable until received.

Special assessment installments including related accrued interest which are measurable but not available at December 31, 2002 are recorded as deferred revenue. Property taxes measurable as of December 31, 2002, but which are not intended to finance 2002 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described (Note 11).

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. Allocation of cost such as depreciation and amortization, are not recognized in governmental funds.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

An annual appropriation budget is prepared for all funds other than the agency funds of the City. Budgetary comparisons are presented in this report on the budgetary basis.

The legal level of budgetary control is at the object level within each department for all funds. Any budgetary modifications at this level may only be made by resolution of City Council.

Tax Budget - A tax budget of estimated revenue and expenditures 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. A proposed budget of estimated revenues and expenditures is submitted by the Mayor to members of City Council of the City by November 15 of each year for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. On or about January 1, the certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Accounting** (Continued)

Appropriations - A temporary appropriation measure to control disbursements may be passed on or about January 1 of each year for the period from January 1 to March 31. The annual appropriations ordinance must be passed by March 31 and may be amended or supplemented during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. Appropriations may not exceed the estimated resources.

Encumbrances - As part of formal budgetary control, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

Budgetary Basis of Accounting

The City's budget (budget basis) accounts for certain transactions on a basis which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes;
2. Expenditures are recorded when paid in cash for budget purposes as opposed to when the liability is incurred for GAAP purposes;
3. Encumbrances are recorded when paid in cash for budget purposes as opposed to reservation of fund balances for GAAP purposes;

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Accounting** (Continued)

4. Short-term note proceeds and note principal retirement for governmental funds are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Activity relating to special assessments is recorded in a Special Assessment Fund for budget purposes as opposed to the use of the Debt Service Fund, Capital Projects Fund, and the General Long-Term Debt Account Group for GAAP purposes.

E. **Budgetary Basis of Accounting**

A reconciliation of the results of operations for the year from the GAAP basis to the budgetary basis for governmental fund types and expendable trust fund is as follows:

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses				
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Expendable Trust
GAAP Basis	\$(1,553,576)	\$ 46,200	\$(155,284)	\$ 5,716,128	\$ 20,388
Increase (Decrease):					
Revenue Accruals	2,512,838	(33,496)	24,416	(15,122)	0
Expenditures					
Accruals	289,654	(5,134)	0	(2,997,333)	14,111
Encumbrance	(184,517)	(58,384)	0	(5,463,488)	0
Budgetary Basis	<u>\$ 1,064,399</u>	<u>\$ (50,814)</u>	<u>\$(130,868)</u>	<u>\$(2,759,815)</u>	<u>\$ 34,499</u>

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

F. **Cash and Cash Equivalents**

To improve cash management, cash received by the City is pooled. Monies for all funds 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 combined balance sheet.

The City complies with GASB Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. As a governmental entity other than an external investment pool in accordance with GASB 31, the City's investments are stated at market value, except for interest-earnings investment contracts and manuscript bonds (Note 2).

In applying GASB 31, the City utilized the following methods and assumptions as of December 31, 2002:

The portfolio of the City was limited to nonparticipating interest-earning investment contracts and manuscript bonds. Nonparticipating investment contracts, such as non-negotiable certificates of deposit, are reported at cost. Manuscript bonds are reported at fair market value.

Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss resulting from the valuation will be recognized within the general fund to the extent its cash and investment balance exceeds the cumulative value of those investments subject to GASB 31.

The gain/loss resulting from valuation will be reported within the revenue account, "Interest Income" on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

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

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

F. **Cash and Cash Equivalents** (Continued)

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, capital projects fund, and debt service fund during fiscal year 2002 amounted to \$386,177, \$114,539, and \$14,358, respectively.

For presentation on the combined balance sheet, 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.

G. **Fixed Assets**

Fixed assets include land and land improvements, buildings, structures and improvements, vehicles, and machinery and equipment owned by the City. Infrastructure, including street, bridges, lighting systems, sewer lines, and sidewalks are not included.

Fixed assets acquired or constructed for general governmental purposes are reported as expenditures in the fund that finances the asset acquisition and capitalized in the general fixed assets account group. Assets in the general fixed assets account group are not depreciated.

All purchased fixed assets are recorded at historical cost or estimated historical cost if actual cost information is not available. All donated fixed assets are recorded at estimated fair market value at time of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency are capitalized at cost in the general fixed asset account group.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

H. **Interfund Transactions**

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. Operating subsidies are recorded as operating transfers.

I. **Inventories**

Inventories are stated at cost, on a first-in, first-out basis. The cost is recorded as an expenditure in the fund when purchased (purchase method). In the governmental funds, reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

J. **Compensated Absences**

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments. The liability is based on the sick leave accumulated at December 31, 2002, by those employees who are expected to become eligible in the future.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

J. **Compensated Absences** (Continued)

Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the general long-term obligations account group. All current liabilities are recorded in the fund in which the employees are paid.

Vacation benefits are accrued as a liability as the benefits are earned if the employees' right to receive compensation are attributed to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

K. **Accrued Liabilities and Long-Term Obligations**

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

Under Ohio law, a debt retirement fund must be created and used for the payment of all debt principal and interest. Generally accepted accounting principles require the allocation of the debt liability among the capital projects funds and the general long-term obligations account group, with principal and interest payments on matured general obligation long-term debt being reported in the debt service fund. To comply with GAAP reporting requirements, the City's debt retirement fund has been split among the appropriate funds and account groups. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

L. **Reservations of Fund Balance**

Reservations of fund balance indicate that a portion of the balance is not available for expenditure or is legally segregated for specific future use. Balances are reserved for inventories of materials and supplies, prepaid expenses, encumbrances (for governmental funds) and debt service.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

M. Total Columns on Combined Financial Statements

Total columns on the combined statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

N. Prepaids

Payments made to vendors for services that will benefit periods beyond December 31, 2002 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which it was consumed.

O. Estimates

The preparation of 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 these estimates.

NOTE 2: **CASH, CASH EQUIVALENTS, AND INVESTMENTS**

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents, and investments. In addition, investments are separately held by a number of individual funds. Statutes require the classification of funds held by the City into three categories:

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

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 2: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

Category 2 consists of “inactive” funds - those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited 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 direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Interim deposits in eligible institutions applying for interim funds;
5. Bonds and other obligations of the State of Ohio;
6. No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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
7. The State Treasury Asset Reserve of Ohio (STAROhio).

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 2: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligation of the City.

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

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

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105 percent of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporations or other authority. Based upon criteria described in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 2: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

The GASB has established risk categories for deposits and investments as follows:

Deposits

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

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

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

Investments

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

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

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

A. **Deposits**

At year end, the carrying amount of the City's deposits was \$24,483,784, including \$925 of cash on hand, and the bank balance was \$22,597,450. Of the bank balance, \$500,000 was fully insured by federal depository insurance. The remaining deposits of \$22,097,450 were uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to successful claim by the FDIC.

CITY OF MAYFIELD HEIGHTS
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
 (CONTINUED)

NOTE 2: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

B. Investments

Investments as of December 31, 2002 were as follows:

	<u>Fair Value</u>
City of Mayfield Heights Special Assessment Bonds (Category 1)	\$ 45,000
Total Investments	\$ 45,000

C. Reconciliation of Cash, Cash Equivalents, and Investments

The classification of cash and cash equivalents on the combined financial statements is based on criteria set forth in GASB Statement No. 9. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3. The captions on the combined balance sheet related to cash and cash equivalents are as follows:

	<u>Cash & Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 22,183,784	\$ 2,345,000
Investments:		
Certificate of Deposit (with maturities more than 3 months)	2,300,000	(2,300,000)
GASB Statement No. 3	\$ 24,483,784	\$ 45,000

The City maintains a cash pool that is available for the use by all funds and accounts.

CITY OF MAYFIELD HEIGHTS
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
 (CONTINUED)

NOTE 3: **FIXED ASSETS**

A summary of changes in general fixed assets follows:

	Balance January 1, 2002	Additions	Deletions	Balance December 31, 2002
Land and Land Improvements	\$ 432,885	\$ 0	\$ 0	\$ 432,885
Buildings, Structures, and Improvements	2,820,062	458,992	0	3,279,054
Construction in Progress	1,245,579	2,131,440	458,992	2,918,027
Machinery and Equipment	1,959,348	141,643	14,533	2,086,458
Vehicles	2,874,116	145,982	198,940	2,821,158
Total	<u>\$ 9,331,990</u>	<u>\$ 2,878,057</u>	<u>\$ 672,465</u>	<u>\$11,537,582</u>

As of December 31, 2002, the City is in the process of new construction, partial demolition, and major renovation of the City's municipal complex. The construction is expected to be completed by December 31, 2003.

NOTE 4: **INTERFUND RECEIVABLES AND PAYABLES**

There are no interfund balances at December 31, 2002. The interfund receivable/payable balance at December 31, 2001 in the amount of \$2,330,000 was paid and received in 2002.

CITY OF MAYFIELD HEIGHTS
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
 (CONTINUED)

NOTE 5: **INTERGOVERNMENTAL RECEIVABLES**

Fund	Amounts
<u>General Fund</u>	
Local Government Support	\$ 408,390
Liquor Permits	6,128
Hotel/Motel Tax	2,085
Admission Tax	5,366
Homestead and Rollback	250,997
Public Utility Reimbursement	9,548
Grants	48,445
Total General Fund	730,959
<u>Special Revenue Funds</u>	
Street Maintenance	
Gasoline Tax	150,495
Motor Vehicle License Tax	51,529
Total Street Maintenance	202,024
State Highway	
Gasoline Tax	12,202
Motor Vehicle License Tax	4,178
Total State Highway	16,380
Police Pension	
Public Utility Reimbursement	345
Homestead and Rollback	8,071
Total Police Pension	8,416
Fire Pension	
Public Utility Reimbursement	346
Homestead and Rollback	8,071
Total Fire Pension	8,417
Total Special Revenue Funds	235,237
<u>Capital Projects Funds</u>	
Equipment Replacement	
Estate Taxes	148,531
Road Improvement	
Motor Vehicle License Tax	58,059
Total Capital Projects Funds	206,590
<u>Debt Service Funds</u>	
General Bond Retirement	
Public Utility Reimbursement	1,273
Homestead and Rollback	1,883
Total Debt Service Funds	3,156
Total All Funds	\$ 1,175,942

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 6: **DEFINED BENEFIT PENSION PLANS**

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

A. **Ohio Public Employees Retirement System**

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

The City of Mayfield Heights contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer defined benefit pension plan. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand alone financial report that includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222- 7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5 percent for employees other than law enforcement and public safety. The 2002 employer contribution rate for local government employer units was 13.55 percent of covered payroll, 8.55 percent, a decrease from 9.25 percent in 2001, to fund the pension and 5.0 percent to fund health care. Contribution rates are determined actuarially. The contribution requirements of plan members and the City are established and may be amended by the Ohio Public Employees Retirement Board. The City's contributions to the OPERS for the years ending December 31, 2002, 2001, and 2000 were \$436,785, \$404,049, and \$368,383, respectively, which were equal to the required contributions for each year. The full amounts have been contributed for 2001 and 2000, 75 percent has been contributed for 2002 with the remainder being reported as a liability within the respective funds.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 6: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

OPERS provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the OPERS. The portion of the 2002 employer contribution rate (identified above) that was used to fund health care for the year 2002 was 5.0 percent of covered payroll, which amounted to \$161,175. For 2001, the contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the OPERS' latest actuarial review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.0 percent. An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.5 percent to 6.3 percent. Health care costs were assumed to increase 4.0 percent annually.

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

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 6: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing, multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent and 24.0 percent respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2002, 2001, and 2000 were \$423,398, \$395,690, and \$431,584 for police and \$431,584, \$426,723, and \$410,847 for firefighters, respectively, which were equal to the required contributions for each year. The full amount has been contributed for 2001 and 2000. 76 percent for police and 77 percent for firefighters has been contributed in 2002, with the remainder being reported as a liability within the respective funds.

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

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 6: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

The portion of the 2002 covered payroll that was used to fund postemployment health care benefits was \$167,328 representing 7.50 percent of covered payroll for police and \$140,454 representing 7.75 percent of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. As of December 31, 2001, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,174 for police and 10,239 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2001 were \$122,298,771, which was net of member contributions of \$6,874,699.

NOTE 7: **LONG-TERM OBLIGATIONS**

Long-term obligations of the City, recorded in the General Long-Term Obligation Account Group, are as follows:

	Balance December 31, 2001	Issued (Retired)	Balance December 31, 2002
<u>General Obligation Bonds</u>			
9.50% 1983 Service Department Garage	\$ 60,000	\$ (30,000)	\$ 30,000
6.80%-7.60% 1989 Municipal Building Improvement	810,000	(810,000)	0
Total General Obligation Bonds	<u>870,000</u>	<u>(840,000)</u>	<u>30,000</u>
<u>Special Assessment Bonds Payable with General Commitment</u>			
9.50% 1983 Woodhawk Drive Improvements	110,000	(55,000)	55,000
6.25% 1993 Ashcroft Drive Improvements	20,000	(10,000)	10,000
6.5% 1992 Catalano Road Improvements	4,000	(4,000)	0
5.0% 2002 Aldenham Drive Improvements	40,000	(5,000)	35,000
Total Special Assessment Bonds Payable with General Commitment	<u>174,000</u>	<u>(74,000)</u>	<u>100,000</u>
<u>Other Long-Term Obligations</u>			
Accrued Sick/Vacation Leave	1,446,716	120,943	1,567,659
OPWC Loan Payable	180,247	(13,352)	166,895
Notes Payable	0	7,000,000	7,000,000
Total Other Long-Term Obligations	<u>1,626,963</u>	<u>7,107,591</u>	<u>8,734,554</u>
Total All Long-Term Obligations	<u>\$ 2,670,963</u>	<u>\$ 6,193,591</u>	<u>\$ 8,864,554</u>

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 7: **LONG-TERM OBLIGATIONS** (Continued)

Outstanding general obligation bonds consist of building improvements which are payable from general property taxes.

Outstanding special assessment bonds consist of street and sewer improvements which are payable from the proceeds of tax assessments against individual property owners.

Outstanding manuscript bonds consist of street improvements. Manuscript bonds are direct obligations of the City for which its full faith, credit, and resources are pledged and are payable from special assessments levied.

Principal and Interest Requirements

A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2002 follows:

<u>Years</u>	<u>General Obligation Bond</u>		<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 30,000	\$ 2,850	\$ 55,000	\$ 5,225
2004	0	0	0	0
2005	0	0	0	0
2006	0	0	0	0
2007	0	0	0	0
2008-2012	0	0	0	0
2013-2017	0	0	0	0
Totals	<u>\$ 30,000</u>	<u>\$ 2,850</u>	<u>\$ 55,000</u>	<u>\$ 5,225</u>

<u>Years</u>	<u>Manuscript Bonds</u>		<u>OPWC</u>	<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Loan</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 15,000	\$ 2,375	\$ 13,352	\$ 113,352	\$ 10,450
2004	5,000	1,500	13,352	18,352	1,500
2005	5,000	1,250	13,352	18,352	1,250
2006	5,000	1,000	13,352	18,352	1,000
2007	5,000	750	13,352	18,352	750
2008-2012	10,000	750	66,758	76,758	750
2013-2017	0	0	33,378	33,378	0
Totals	<u>\$ 45,000</u>	<u>\$ 7,625</u>	<u>\$ 166,896</u>	<u>\$ 296,896</u>	<u>\$ 15,700</u>

CITY OF MAYFIELD HEIGHTS
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
 (CONTINUED)

NOTE 7: **LONG-TERM OBLIGATIONS** (Continued)

In 2002, the City paid the remaining balance of \$810,000 on the general obligation bonds titled Municipal Building Improvement Bonds Series 1989 at an interest rate of 6.60 percent to 7.60 percent. The total amount of the City's payment of \$810,000 has been removed from the City's General Long-Term Debt Account Group. The City realized an interest savings of \$49,400 for 2002.

NOTE 8: **NOTES PAYABLE**

On February 7, 2002, the City issued \$7,000,000 in notes for municipal complex improvements at an interest rate of 2.00 percent to mature one year from the issue date.

NOTE 9: **ACCUMULATED UNPAID EMPLOYEE BENEFITS AND OVERTIME**

City employees generally earn vacation ranging from two to five weeks based on length of service and sick leave of 15 days per year. Vacation and sick leave accumulate on a monthly basis and are fully vested when earned. Normally, all vacation time is to be taken in the year available unless written approval for carryover of vacation is obtained. Employees receive at retirement or death one-half of their first 1,000 hours, then one-third of anything over 1,000 hours.

Employees are entitled to receive payments in cash for their accumulated hours upon retirement or termination from the City after 10 years of service at their current rate.

A summary of employee benefit obligations (calculated in accordance with GASB Statement No. 16) at December 31, 2002 is as follows:

	<u>Government Fund Types</u>
Vacation	\$ 426,919
Sick Pay	1,140,740
	<u>\$1,567,659</u>
	=====

Government fund type liabilities are recorded in the General Long-Term Debt Account Group. The liability above excludes the amount of \$56,509 which was paid within the available period, which is reflected as a fund liability in the respective funds.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 10: **INCOME TAXES**

The locally levied tax of 1 percent applies to gross salaries, wages, and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City.

Employers within the City are required to withhold income tax on employee compensation and remit this tax to an intermediary collection agency (Regional Income Tax Agency) at least quarterly. Corporations and self-employed individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually with the collection agency. The collection agency remits tax collected for the City each month, net of a fee for their service. Taxes receivable at December 31, 2002 amounted to \$2,019,375 in the general fund.

NOTE 11: **PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Ohio law prohibits taxation of property from all taxing authorities in excess of 10 mills of assessed value without a vote of the people. Presently, the City levies 10 mills of assessed value per City Charter. A reevaluation of all property is required to be completed no less than every six years, with a statistical update every third year. The last reevaluation was completed in 2000.

Real property taxes, excluding public utility property, are all assessed at 35 percent of appraised market value. Pertinent real property tax dates are:

Collection Dates	January 20 and June 20 of the current year
Lien Date	January 1 of the year preceding the collection year
Levy Date	October 1 of the year preceding the collection year

Tangible personal property taxes are based on assessed value determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. For the collection year 2002, the percentage used to determine taxable value of personal property and inventory was 25 percent. Pertinent tangible personal property tax dates are:

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 11: **PROPERTY TAXES** (Continued)

Collection Dates	April 30 and September 30 of the current year
Lien Date	January 1 of the current year
Levy Date	October 1 of the year preceding the collection year

Public utility tangible personal property currently is assessed at 100 percent of its true value except for rural electric companies (50 percent) and railroads (25 percent). Pertinent public utility tangible personal property tax dates are:

Collection Dates	January 20 and June 20 of the current year
Lien Date	January 1 of the year preceding the collection year
Levy Date	October 1 of the year preceding the collection year

The County Treasurer collects personal property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the City its portion of the taxes collected.

The full property tax rate for all City operations for the year ended December 31, 2002 was \$10.00 per \$1,000 of assessed value. The assessed value upon which the 2002 tax receipts were based was \$514,488,395. This amount constitutes \$458,706,640 in real property assessed value, \$10,525,130 in public utility assessed value and \$45,256,625 in tangible personal property assessed value.

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes which are measurable at December 31, 2002. These taxes are intended to finance the next fiscal year's operations and are therefore offset by a credit to deferred revenue. Taxes receivable at December 31, 2002 amounted to \$4,298,164 in the general fund, \$276,410 in the special revenue funds, and \$32,246 in the debt service funds.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 12: **CONTINGENCIES AND COMMITMENTS**

The City is party to various legal proceedings. City management is of the opinion that ultimate settlement of the majority of such claims not covered by insurance will not result in a material adverse effect on the City's financial position.

The Ohio Supreme Court recently found the City liable for a temporary taking of property and ordered the City to begin proceedings in the Cuyahoga County Probate Court to determine loss of value for damages. The City Law Director has stated that the Trial Judge has indicated a strong desire to work with both sides to resolve this matter in an amicable fashion by way of mediation. Although an unfavorable outcome of the claim is possible, a reasonable estimate cannot be made at this time.

NOTE 13: **CONSTRUCTION AND OTHER COMMITMENTS**

As of December 31, 2002, the City had an unpaid commitment of \$3,877,189 with respect to new construction and renovation of the municipal building complex. Of this amount, \$335,729 is recorded as contract and retainage payable in the capital projects fund. The City also had an unpaid commitment of \$31,102 with respect to resurfacing of various City streets. The total contract sum was \$326,000. Of the unpaid commitment, \$28,039 is recorded as contract and retainage payable.

The City had no material operating lease commitments at December 31, 2002.

NOTE 14: **FUND EQUITY**

Reservations of fund balances of governmental funds are to satisfy legal covenants that require a portion of the fund balance to be segregated or to identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of the fund balance accounts are summarized below.

Reserved for encumbrances - This reserve represents encumbrances outstanding at the end of the year based upon purchase orders and contracts signed by the City but not completed as of the close of the fiscal year.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 14: **FUND EQUITY** (Continued)

Reserved for inventory - This reserve was created to represent the portion of the fund balance that is not available for expenditures because the City expects to use these resources within the next budgetary period.

Reserved for prepaid items - This reserve was created to represent the portion of the fund balance that is not available for expenditures because the City expects to use these resources within the next budgetary period.

Reserved for debt service - This reserve was created to segregate a portion of the fund balance that will be used for debt service, including both principal and interest payment.

NOTE 15: **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; or acts of God. In October 1987, the City joined together with other neighboring cities to form the NORMA, a not-for-profit corporation, for the purpose of obtaining property, liability and vehicle insurance and providing for a formalized, jointly administered self insurance fund. The City pays an annual premium to NORMA for its insurance coverage. The agreement for formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement. This coverage is maintained through the general fund.

Claims have not exceeded coverage provided by NORMA in any of the last three years. 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 provides medical, dental, and prescription benefits for all full-time employees. All payments are made from the general fund or the Street Construction Road Maintenance fund based on amounts needed to pay prior and current year claims. Costs are based on actuarial estimations, demographics, and the City's claim history.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 15: **RISK MANAGEMENT** (Continued)

The medical, dental, vision, and prescription benefits are all provided through Medical Mutual of Ohio. Payments are made from the general fund and the Street Construction Road Maintenance fund on a monthly basis. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premium for all benefits is \$332.49 for single coverage and \$833.20 for family coverage.

NOTE 16: **JOINTLY GOVERNED ORGANIZATIONS**

A. **NORMA Self-Insurance Pool, Inc.**

NORMA is a shared risk pool comprised of the cities of Bedford Heights, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon, South Euclid, and the Village of Chagrin Falls. NORMA was formed to enable its members to obtain property and liability insurance, including vehicles, and provide for a formalized, jointly administered self-insurance fund. The members formed a not-for-profit corporation known as NORMA, Inc. to administer the pool. NORMA is governed by a Board of Trustees that consists of the directors of the finance departments from each of the participating members.

Each entity must remain a member for at least three years from the commencement date of October 1, 1987, with the exception of Eastlake and Solon whose commencement date is October 1, 1989, Maple Heights whose commencement date is October 1, 1993, and Hudson whose commencement date is October, 1995. After the initial three years, each City may extend its term in three-year increments.

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$100,000 per occurrence, will come from the self-insurance pool with any excess paid from the stop loss coverage carried by the pool. Any losses over these amounts would be covered by the pool's excess insurance coverage which is \$10 million aggregate. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 16: **JOINTLY GOVERNED ORGANIZATIONS**

A. **NORMA Self-Insurance Pool, Inc.** (Continued)

In 2002, the City of Mayfield Heights paid \$109,977 in premiums and loss fund contributions, which represents 8.22 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146.

B. **Eastern Suburban Regional Council of Governments**

The Eastern Suburban Regional Council of Governments (ESCOG) was formed in 1972 to foster cooperation between member municipalities through sharing of facilities for mutual benefit. The governing body of ESCOG is a council comprised of one representative from each of the six participating municipalities. The Council operates in accordance with a written agreement establishing ESCOG pursuant to Ohio Revised Code Chapter 167.

The Council established one subsidiary organization, the Suburban Police Anti-Crime Network (SPAN), which provides for the mutual interchange and sharing of police personnel and police equipment to be utilized by all participating members.

The Council adopts a budget for ESCOG annually. Each member municipality's degree of control is limited to its representation on the Council. In 2002, the City contributed \$43,000, which represents 16.7 percent of the total contributions.

C. **Mayfield Union Cemetery**

The Mayfield Union Cemetery is a jointly governed organization among three local communities (Village of Mayfield, City of Highland Heights, and the City of Mayfield Heights). The jointly owned organization was formed based on the boundaries in relation to the cemetery. Each of the communities contributes a nominal fee for the maintenance of the cemetery. The Village of Mayfield assumes the daily accounting and reporting of the cemetery finances. The Cemetery Board consists of three Board members, with one council member appointed from each of the three communities. Financial information can be obtained by contacting the Director of Finance at the Village of Mayfield, 6621 Wilson Mills Road, Mayfield Village, Ohio 44143.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
(CONTINUED)

NOTE 17: **COMPLIANCE AND ACCOUNTABILITY**

Ohio Revised Code requires the City to reserve (encumber) appropriations when commitments are made. The City did not properly use the encumbrance method of accounting. For December 31, 2002, the City was in violation of ORC Section 5705.41(D) for failure to certify the availability of funds for expenditure transactions.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Mayfield Heights
Cuyahoga County
6154 Mayfield Road
Mayfield Heights, Ohio 44124

We have audited the financial statements of the City of Mayfield Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated May 21, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of 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* which is described in the accompanying schedule of findings as item 2002-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated May 21, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated May 21, 2003.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 21, 2003

**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2002-001
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Ohio Revised Code § 5705.41(D) states no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

This section also provides two exceptions to the above requirements:

- If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, City Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate (a then and now certificate), if such expenditure is otherwise valid.
- If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of City Council.

A test of 60 expenditures disclosed that 73 percent of the purchase orders were dated after the invoice date and the instances noted did not fall within any exceptions to this Section. As a result, the City did not record a reservation of the applicable appropriation (encumber) at the time a commitment for the expenditure of funds was made and encumbrances were understated at year end. Failure to encumber commitments could result in deficit fund balances.



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CITY OF MAYFIELD 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
JULY 15, 2003**