



**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2003



**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, Ohio 44124

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Mayfield Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2003, 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'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 Mayfield Heights, Cuyahoga County, Ohio, as of December 31, 2003, and the respective changes in financial position thereof, and the respective budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the City implemented GASB Statement No. 34, *Basic Financial Statements – Management Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting 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.

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

Betty Montgomery
Auditor of State

June 25, 2004

**CITY OF MAYFIELD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
Unaudited**

The discussion and analysis of the City of Mayfield Heights' financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements and the notes to those financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

This is the City of Mayfield Heights' first publication of its financial statements under the new GASB Statement No. 34 reporting model. Consequently, comparisons to prior financial statements are not offered for this discussion and analysis.

Using This Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City of Mayfield Heights as a financial whole, or as an entire operating entity. The statements provide a detailed look at the City's specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

Reporting the City of Mayfield Heights as a Whole

Statement of Net Assets and the Statement of Activities

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, an increase or decrease in net assets may serve as a useful indication of whether the financial position of the City is improving or deteriorating. However, in evaluating the overall position of the City, non-financial factors such as the City's tax base, change in tax laws, and the condition of capital assets should also be considered. Both the Statement of Net Assets and the Statement of Activities use the accrual basis of accounting similar to the accounting method used by private sector companies. This basis of accounting takes into account all of the current year's revenue and expenses regardless of when cash is received or paid.

**CITY OF MAYFIELD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
Unaudited**

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

- Assets
- Liabilities
- Net Assets
- Program Revenue and Expenses
- General Revenues
- Net Assets Beginning of Year and End of Year

Reporting the City of Mayfield Heights' Most Significant Funds

Fund Financial Statements

The presentation of the City's major funds begins on page 11. The City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements and identify certain services and activities provided to our residents. However, these fund financial statements focus on the City's most significant funds. The City's major funds are the General fund, Sanitary Sewer Improvement fund, and Municipal Complex Improvement fund.

Governmental Funds

Governmental funds are used to account for all activities which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information assists in determining whether there are more or less financial resources available in the near future for important city services. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Assets and the Statement of Activities) and governmental funds.

**CITY OF MAYFIELD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
Unaudited**

The City of Mayfield Heights As a Whole

Government-wide Financial Analysis

The Statement of Net Assets in Table 1 provides a summary of the City's net assets as of December 31, 2003. The City is implementing GASB Statement No. 34 this year. Thus, there are no figures for 2002 and no comparison can be made. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 1 - Net Assets

	<u>Governmental Activities</u>
<u>Assets</u>	
Current and Other Assets	\$ 27,898,878
Capital Assets	<u>15,578,613</u>
Total Assets	<u>\$ 43,477,491</u>
<u>Liabilities</u>	
Long-Term Liabilities	\$ 10,940,327
Other Liabilities	<u>6,478,889</u>
Total Liabilities	<u>17,419,216</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Debt	8,578,613
Restricted	2,103,962
Unrestricted	<u>15,375,700</u>
Total Net Assets	<u>\$26,058,275</u>

Total assets for the City are \$43,477,491. The largest portion of the City's assets is in cash totaling \$18,026,474, which represents 41.46 percent of the total.

Total liabilities for the City are \$17,419,216. The most significant liability is Municipal Complex Bond Anticipation Notes Payable for \$7,000,000, which represents 40.19 percent of the total.

Total net assets for the City are \$26,058,275. The most significant portions of these assets are represented by unrestricted net assets of \$15,375,700 and Invested in Capital Assets of \$8,578,613, which represents 59 percent and 32.92 percent of the total, respectively.

**CITY OF MAYFIELD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
Unaudited**

Table 2 shows the changes in net assets for the year ended December 31, 2003. The City is implementing GASB Statement No. 34 this year. Thus, there are no figures for 2002 and no comparison can be made. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2- Changes in Net Assets

	<u>Governmental Activities</u>
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 1,119,142
Operating Grants and Contributions	660,035
Capital Grants and Contributions	174,136
General Revenues	
Property Taxes	4,656,925
Income Taxes	8,811,751
Other Taxes	89,074
Grants and Entitlements	1,932,069
Other	<u>438,512</u>
Total Revenues	<u>17,881,644</u>
 <u>Program Expenses</u>	
General Government	3,697,842
Security of Persons and Property	8,594,582
Public Health Services	224,762
Transportation	4,790,395
Community Environment	602,168
Basic Utility Services	559,039
Leisure Time Activities	1,397,603
Interest and Fiscal Charges	<u>149,673</u>
Total Program Expenses	<u>20,016,064</u>
<i>Increase (Decrease) in Net Assets</i>	<u><u>\$(2,134,420)</u></u>

Governmental Activities

Several revenue sources fund the City's governmental activities. The most significant revenue sources is municipal income tax. The income tax rate is 1 percent and residents of the City who work in another community receive a .50 percent credit for the first 1 percent paid to another community. The rate of 1 percent and .50 percent credit have been in effect since 1982. Income tax as a revenue source was first enacted in 1967. The City has a significant commercial tax base, which provides financial stability. Major employers such as Rockwell Automation, Parker Hannifin, Meridia Hillcrest Hospital (Cleveland Clinic) and Progressive Casualty Insurance continue to contribute to the City's tax base. In 2003, the City's revenue from this source was \$8,811,751, a 7.63 percent increase over 2002.

**CITY OF MAYFIELD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
Unaudited**

The other major revenue source for the City is the property tax. The City's charter millage is 10 and has remained the same since 1951. The tax duplicate for collection year 2003 was \$510,816,419 and has been certified at \$545,040,765 for the 2004 collection year. While this source is not as significant as the income tax, the duplicate growth indicates additional revenue stability for the City.

During 2003, the City opened an expanded municipal complex. While some additional minor work remains to be completed, the cost of construction, renovations, and temporary facilities totaled \$8,221,759. The City issued \$7,000,000 in notes and provided \$1,221,759 from cash reserves to finance the project.

Road improvement expenditures in 2003 totaled \$2,306,624, demonstrating the City's commitment to maintaining its infrastructure.

Equipment replacements in 2003 totaled \$454,168 for police vehicles, service vehicles, and other equipment. A new pumper for the Fire Department was ordered, with delivery scheduled for early 2004. The City continues to commit the proceeds from the estate tax to fund replacements for its vehicles, so as not to incur any short or long-term debt.

The City's Funds

Information about the City's major funds begins on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenue of \$25,034,567 (excluding transfers) and expenditures of \$29,627,963. The most significant fund is the general fund with a year end balance of \$9,749,860, which included an unreserved balance of \$9,621,154 compared to expenditures of \$12,766,202. During 2003, \$3,325,000 was transferred from the general fund to help finance various capital improvements.

The Sanitary Sewer Improvement Fund had a year end balance of \$2,930,965. The fund will provide the resources necessary to continue major infrastructure improvements.

The other major fund in 2003 was the Municipal Complex Improvement Fund, which recorded \$11,789,988 in expenditures related to the completion of the majority of the construction of the new facilities.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General fund. An annual appropriation budget is prepared and presented to City Council for approval. A detailed line item budget for all departments is provided as part of the appropriation process. During the year, several amendments were made in order to increase funds

**CITY OF MAYFIELD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
Unaudited**

for some capital improvements. The General fund budget was amended at the end of the year to adjust various line item amounts and to transfer a portion of the unencumbered balance to the Road Improvement fund. The appropriation increase of \$1,416,880 provided an additional \$1,000,000 for the Road Improvement fund. The balance of \$416,880 was a net increase for various line items such as union contract agreements ratified after the original appropriation was approved.

Capital Assets and Debt Administration

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

	Governmental Activities	
	2003	2002
Land	\$ 3,024,620	\$ 3,024,620
Construction in Progress	375,000	3,487,494
Land Improvements	138,687	232,004
Buildings	9,691,002	1,654,918
Machinery and Equipment	624,538	848,112
Furniture and Equipment	301,626	305,485
Vehicles	<u>1,423,140</u>	<u>1,411,200</u>
Total Capital Assets	<u>\$15,578,613</u>	<u>\$ 10,963,833</u>

Total capital assets for governmental activities of the City for 2003 were \$15,578,613, an increase of \$4,614,780 from 2002. The most significant increases in our capital assets was in buildings, with major improvements in the municipal complex and construction of a park restroom. In 2003, the City also acquired machinery and equipment in the amount of \$179,896 for the Police Department and the municipal complex. The City will record infrastructure in 2004 when more accurate information is available.

Long-Term Obligations

As of December 31, 2003, the City had \$7,183,544 in bonds, notes, and loans outstanding with \$7,018,352 due in a year. As noted in Note 18, the City paid down \$700,000 of the \$7,000,000 bond anticipation notes with the remaining due in 2005.

Table 4 - Outstanding Debt at December 31

	Governmental Activities	
	2003	2002
General Obligation Bonds	\$ 0	\$ 30,000
Special Assessment Bonds	0	55,000
Notes	7,000,000	7,000,000
OPWC Loans	153,544	166,896
Manuscript Bonds	<u>30,000</u>	<u>45,000</u>
Total Outstanding Debt	<u>\$ 7,183,544</u>	<u>\$ 7,296,896</u>

**CITY OF MAYFIELD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
Unaudited**

The City retired its general obligation bonds and special assessment bonds in full during 2003. The amount of short-term general obligation bond anticipation notes was \$7,000,000. These notes were first issued in 2002 to finance the Municipal Complex Improvement Project. At the time of issuance, the City successfully obtained an upgrade in its Moody's Investors Services bond rating from A1 to Aa3.

The Ohio Supreme Court found the City liable for a temporary taking of property and ordered the City to begin proceedings in Cuyahoga County Probate Court to determine loss of value for damages. An estimated \$2,000,000 in claims and judgment payable by the City was recorded in the Statement of Net Assets as of December 31, 2003. Related parties continue to discuss the final resolution of the claim.

Additional information concerning the City's debt can be found in Note 14 of the notes to the basic financial statements.

Current Financial Related Activities

The City continues its strong financial position, which can be attributed to its conservative approach in fiscal management. The City has adopted a policy of limited debt issuance. Most capital improvements and equipment replacements are financed from current revenues.

Contacting the City's Finance Department

This financial report is designed to provide our residents, taxpayers, creditors, and investors with a general overview of the City's finances and demonstrate the City's accountability for all money it receives, spends, and invests. If you have questions concerning this report or need additional financial information, contact the Director of Finance, Robert G. Tribby, at Mayfield Heights city Hall, 6154 Mayfield Road, Mayfield Heights, Ohio 44124, by telephone at 440-442-262, ext. 201, or by e-mail at roberttribby@mayfieldheights.org

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**CITY OF MAYFIELD HEIGHTS
STATEMENT OF NET ASSETS
DECEMBER 31, 2003**

	<u>Governmental Activities</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 18,026,474
Materials and Supplies Inventory	44,064
Accrued Interest Receivable	1,417
Accounts Receivable	58,099
Intergovernmental Receivable	1,044,755
Prepaid Items	65,727
Investments	1,530,000
Taxes Receivable	7,040,669
Special Assessments Receivable	87,673
Nondepreciable Capital Assets	3,399,620
Depreciable Capital Assets, Net	<u>12,178,993</u>
Total Assets	<u>\$ 43,477,491</u>
<u>Liabilities</u>	
Accounts Payable	550,424
Accrued Wages	231,555
Intergovernmental Payable	465,851
Accrued Interest Payable	128,458
Retainage Payable	281,076
Deferred Revenue	4,821,525
Long-Term Liabilities:	
Due Within One Year	1,273,826
Due in More Than One Year	<u>9,666,501</u>
Total Liabilities	<u>17,419,216</u>
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	8,578,613
Restricted for:	
Capital Project	24,703
Debt Service	379,833
Other Purpose	1,699,426
Unrestricted	<u>15,375,700</u>
Total Net Assets	<u>\$ 26,058,275</u>

See accompanying notes to the basic financial statements.

**CITY OF MAYFIELD HEIGHTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003**

		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	\$ 8,594,582	\$ 398,084	\$ 241,621	\$ 0		\$ (7,954,877)
Public Health Services	224,762	0	0	0		(224,762)
Leisure Time Activities	1,397,603	232,133	0	0		(1,165,470)
Community Development	602,168	204,807	0	0		(397,361)
Basic Utility Services	559,039	2,564	0	0		(556,475)
Transportation	4,790,395	27,833	418,414	174,136		(4,170,012)
General Government	3,697,842	253,721	0	0		(3,444,121)
Interest and Fiscal Charges	<u>149,673</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>(149,673)</u>
Total Governmental Activities	<u>\$ 20,016,064</u>	<u>\$ 1,119,142</u>	<u>\$ 660,035</u>	<u>\$ 174,136</u>		<u>(18,062,751)</u>
		General Revenues:				
		Property Taxes Levied for:				
						4,346,591
						279,416
						30,918
		Income Taxes Levied for:				
						8,811,751
						89,074
		Grants and Entitlements not				
						1,932,069
						7,100
						332,377
						<u>99,035</u>
		Total General Revenues				15,928,331
		Change in Net Assets				(2,134,420)
		Net Assets, Beginning of Year, as Restated (Note 3)				<u>28,192,695</u>
		Net Assets End of Year				<u>\$ 26,058,275</u>

See accompanying notes to the basic financial statements.

**CITY OF MAYFIELD HEIGHTS
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2003**

	<u>General</u>	<u>Sanitary Sewer Improvement</u>	<u>Municipal Complex Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Equity in Pooled Cash and Cash Equivalents	\$ 7,010,027	\$ 2,933,275	\$ 569,395	\$ 7,513,777	\$ 18,026,474
Investments	1,530,000	0	0	0	1,530,000
Receivables:					
Taxes	6,737,205	0	0	303,464	7,040,669
Accounts	50,847	0	0	7,252	58,099
Accrued Interest	53	0	0	1,364	1,417
Special Assessments	0	0	0	87,673	87,673
Intergovernmental	692,251	0	0	352,504	1,044,755
Inventory	17,648	0	0	26,416	44,064
Prepaid Items	65,046	0	0	681	65,727
Total Assets	<u>\$16,103,077</u>	<u>\$ 2,933,275</u>	<u>\$ 569,395</u>	<u>\$ 8,293,131</u>	<u>\$27,898,878</u>
<u>Liabilities and Fund Balances</u>					
Accounts Payable	\$ 195,300	\$ 2,310	\$ 135,283	\$ 217,531	\$ 550,424
Accrued Wages and Benefits	215,571	0	0	15,984	231,555
Retainage Payable	0	0	281,076	0	281,076
Due to Governments	315,993	0	0	149,858	465,851
Deferred Revenue	<u>5,626,353</u>	<u>0</u>	<u>0</u>	<u>615,135</u>	<u>6,241,488</u>
Total Liabilities	<u>6,353,217</u>	<u>2,310</u>	<u>416,359</u>	<u>998,508</u>	<u>7,770,394</u>
<u>Fund Balances</u>					
Reserved for Inventory	17,648	0	0	26,416	44,064
Reserved for Prepaid Items	65,046	0	0	681	65,727
Reserved for Encumbrances	46,012	0	132,591	950,791	1,129,394
Unreserved:					
Undesignated (Deficits) Reported in:					
General Fund	9,621,154	0	0	0	9,621,154
Special Revenue Funds	0	0	0	1,425,170	1,425,170
Debt Service Funds	0	0	0	292,285	292,285
Capital Projects Funds	<u>0</u>	<u>2,930,965</u>	<u>20,445</u>	<u>4,599,280</u>	<u>7,550,690</u>
Total Fund Balances	<u>9,749,860</u>	<u>2,930,965</u>	<u>153,036</u>	<u>7,294,623</u>	<u>20,128,484</u>
Total Liabilities and Fund Balances	<u>\$16,103,077</u>	<u>\$ 2,933,275</u>	<u>\$ 569,395</u>	<u>\$ 8,293,131</u>	<u>\$ 27,898,878</u>

See accompanying notes to the basic financial statements.

**CITY OF MAYFIELD HEIGHTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2003**

Total Governmental Funds Balances \$ 20,128,484

*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. 15,578,613

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

Delinquent Property Taxes	\$ 240,044	
Grants and Entitlements	702,575	
Income Tax	389,671	
Special Assessments	<u>87,673</u>	
Total		1,419,963

In the statement of activities, interest is accrued on outstanding
general obligation notes, whereas in governmental funds, an
interest expenditure is reported when due. (128,458)

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:

Manuscript Bonds	(30,000)	
OPWC Loan	(153,544)	
Bond Anticipation Notes Payable	(7,000,000)	
Compensated Absences	(1,756,783)	
Claims and Judgment Payable	<u>(2,000,000)</u>	
Total		<u>(10,940,327)</u>

Net Assets of Governmental Activities \$26,058,275

CITY OF MAYFIELD HEIGHTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
DECEMBER 31, 2003

	<u>General</u>	<u>Sanitary Sewer Improvement</u>	<u>Municipal Complex Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Municipal Income Taxes	\$ 8,977,290	\$ 0	\$ 0	\$ 0	\$ 8,977,290
Property Taxes	4,168,550	0	0	307,748	4,476,298
Other Taxes	209,552	0	0	0	209,552
Intergovernmental Revenue	1,539,161	0	0	1,133,321	2,672,482
Special Assessments	0	0	0	86,492	86,492
Charges for Services	130,535	309	0	316,940	447,784
Fines, Licenses, and Permits	597,342	0	0	8,427	605,769
Interest Income	237,787	0	35,274	59,316	332,377
Miscellaneous	161,964	0	0	57,459	219,423
Total Revenues	<u>16,022,181</u>	<u>309</u>	<u>35,274</u>	<u>1,969,703</u>	<u>18,027,467</u>
Expenditures					
Security of Persons and Property	7,670,710	0	0	1,043,298	8,714,008
Public Health Services	201,854	0	0	16,964	218,818
Leisure Time Activities	985,922	0	0	221,334	1,207,256
Community Environment	562,257	0	0	1,304	563,561
Basic Utilities Expenditures	611,506	44,818	0	70	656,394
Transportation	904,595	0	0	3,598,096	4,502,691
General Government	1,829,358	0	4,650,377	22,084	6,501,819
Debt Service:					
Principal Retirement	0	0	7,000,000	113,352	7,113,352
Interest and Fiscal Charges	0	0	139,611	10,453	150,064
Total Expenditures	<u>12,766,202</u>	<u>44,818</u>	<u>11,789,988</u>	<u>5,026,955</u>	<u>29,627,963</u>
Excess of Revenues Over (Under) Expenditures	<u>3,255,979</u>	<u>(44,509)</u>	<u>(11,754,714)</u>	<u>(3,057,252)</u>	<u>(11,600,496)</u>
Other Financing Sources (Uses)					
Sale of Fixed Assets	0	0	0	7,100	7,100
Proceeds from Sale of Notes	0	0	7,000,000	0	7,000,000
Transfers In	0	0	605,950	2,727,615	3,333,565
Transfers Out	<u>(3,325,000)</u>	<u>0</u>	<u>0</u>	<u>(8,565)</u>	<u>(3,333,565)</u>
Total Other Financing Sources (Uses)	<u>(3,325,000)</u>	<u>0</u>	<u>7,605,950</u>	<u>2,726,150</u>	<u>7,007,100</u>
Net Change in Fund Balances	(69,021)	(44,509)	(4,148,764)	(331,102)	(4,593,396)
Fund Balances (Deficits) - Beginning of Year,					
Restated (Note 3)	9,816,405	2,975,474	4,301,800	7,629,379	24,723,058
Increase (Decrease) in Reserve for Inventory	<u>2,476</u>	<u>0</u>	<u>0</u>	<u>(3,654)</u>	<u>(1,178)</u>
Fund Balances (Deficits) - End of Year	<u>\$ 9,749,860</u>	<u>\$ 2,930,965</u>	<u>\$ 153,036</u>	<u>\$ 7,294,623</u>	<u>\$ 20,128,484</u>

See accompanying notes to the basic financial statements.

**CITY OF MAYFIELD HEIGHTS
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, 2003**

Net Change in Fund Balances - Total Governmental Funds **\$(4,593,396)**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 4,614,780

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

Delinquent Property Tax	180,627	
Grants and Entitlements	(64,349)	
Income Tax	(165,539)	
Special Assessments	<u>(86,492)</u>	
Total		(135,753)

Payment 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. 7,113,352

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. 390

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities. (7,000,000)

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	(132,615)	
Claims and Judgment Payable	(2,000,000)	
Change in Inventory	<u>(1,178)</u>	
Total		<u>(2,133,793)</u>

Change in Net Assets of Governmental Activities **\$(2,134,420)**

CITY OF MAYFIELD HEIGHTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive (Negative)
<u>Revenues</u>				
Income Taxes	\$ 8,843,000	\$ 8,840,350	\$ 8,840,615	\$ 265
Property Taxes	4,269,965	4,168,300	4,204,700	36,400
Other Taxes	196,200	196,650	196,808	158
Intergovernmental	1,451,925	1,549,202	1,513,437	(35,765)
Charges for Services	132,450	121,610	121,952	342
Fines, Licenses, and Permits	478,425	571,815	573,683	1,868
Interest Income	300,000	250,000	252,964	2,964
Miscellaneous	93,836	150,987	144,794	(6,193)
Total Revenues	<u>15,765,801</u>	<u>15,848,914</u>	<u>15,848,953</u>	<u>39</u>
<u>Expenditures</u>				
Security of Persons and Property	7,537,396	7,620,246	7,654,494	(34,248)
Public Health	219,540	202,125	209,442	(7,317)
Leisure Time Activities	1,027,015	1,005,340	1,001,019	4,321
Community Environment	491,590	518,150	570,719	(52,569)
Basic Utility	650,000	660,000	654,742	5,258
Transportation	855,175	926,720	920,871	5,849
General Governments	1,744,680	1,929,695	1,880,872	48,823
Total Expenditures	<u>12,525,396</u>	<u>12,862,276</u>	<u>12,892,159</u>	<u>(29,883)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,240,405</u>	<u>2,986,638</u>	<u>2,956,794</u>	<u>(29,844)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	<u>(2,245,000)</u>	<u>(3,325,000)</u>	<u>(3,325,000)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(2,245,000)</u>	<u>(3,325,000)</u>	<u>(3,325,000)</u>	<u>0</u>
Net Change in Fund Balance	995,405	(338,362)	(368,206)	(29,844)
Fund Balance, Beginning of Year	8,620,077	8,620,077	8,620,077	0
Prior Year Encumbrances Appropriated	<u>184,517</u>	<u>184,517</u>	<u>184,517</u>	<u>0</u>
Fund Balance, End of Year	<u>\$ 9,799,999</u>	<u>\$ 8,466,232</u>	<u>\$ 8,436,388</u>	<u>\$ (29,844)</u>

See accompanying notes to the basic financial statements.

**CITY OF MAYFIELD HEIGHTS
STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2003**

Assets

Equity Pooled in Cash and Cash Equivalents	<u>\$ 260,733</u>
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Liabilities

Accounts Payable	\$ 42,878
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Deposits Held and Due to Others	<u>217,855</u>
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Total Liabilities	<u>\$ 260,733</u>
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See accompanying notes to the basic financial statements.

**CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 1: 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 City, in order to provide the necessary services to its citizens, is segmented into many different departments. Among these are the police, fire fighting, street maintenance, planning and zoning, emergency medical technicians, parks and recreation system, public improvements department, and general administrative staff to provide support to these service groups. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. All are responsible to the citizens of Mayfield Heights and are included as part of the primary government.

A legally separate organization is a component unit of the primary government if **1)** the primary government is financially accountable for the organization, **2)** the nature and significance of the relationship between the primary government and the organization are such that exclusion would cause the reporting entity’s basic financial statements to be misleading or incomplete, or **3)** the organization is closely related to or financially integrated with the primary government. Components units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

The City is associated with certain organizations which are identified as jointly governed organizations. The jointly governed organizations are the Eastern Suburban Regional Council of Governments and the Mayfield Union Cemetery as presented in Note 19 to the basic financial statements. The City is also associated with an organization defined as risk sharing pool (Note 16).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

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

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 are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods and services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues 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 program is self-financing or draws from the general revenues of the City.

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

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and fiduciary. The City has no proprietary funds.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

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

B. **Fund Accounting** (Continued)

Governmental Funds Governmental funds are those through which most governmental functions 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 purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund The general fund is the operating fund of the City and is used to account for all financial resources except those required by law or contract to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the Charter of the City of Mayfield Heights and/or the general laws of Ohio.

Sanitary Sewer Improvement Fund The sanitary sewer improvement fund accounts for State monies and interest revenues to be used for the cost of construction of new sewer lines within the City.

Municipal Complex Improvement Fund The municipal complex improvement fund accounts for the note proceeds and interest revenues to be used for municipal complex improvement.

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, investments 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 has no trust fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for deposits and monies held for contractors, developers, and community activities.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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

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 and the statement presented for fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and the presentation of expense versus expenditures.

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

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

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

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

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

Revenues – Exchange and Nonexchange Transactions (Continued)

in which the exchange on which the tax is imposed takes place. Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. 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. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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, 2003 but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

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

E. 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".

The City complies with GASB Statement No. 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 6).

In applying GASB Statement No. 31, the City utilized the following methods and assumptions as of December 31, 2003:

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 cost.

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 Statement No. 31.

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 2003 amounted to \$237,787, which includes \$92,643 assigned from other City funds.

For presentation on the statement of net assets, 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.

**CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)**

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

F. Materials and Supplies Inventory

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventory consists of expendable supplies.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Capital Assets

The City's only capital assets are General Capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital 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.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$2,500. Interest incurred during the construction of capital assets is not capitalized.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Building and Improvement	20 - 60 years
Machinery and Equipment	5 - 20 years
Furniture and Fixtures	20 years
Vehicles	5 - 20 years

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

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

H. **Capital Assets** (Continued)

Although all governments are encouraged to report all infrastructure assets at the effective dates of the statement, governments are permitted to defer retroactive reporting of infrastructure for four years. The City has elected this option and will report major general infrastructure assets in 2004.

I. **Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable 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.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future (those employees who will be eligible to receive termination benefits in the next twenty years). The amount is based on accumulated sick leave and employee wage rates at year-end, taking into consideration any limits specified in the City's termination policy.

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

J. **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 and long-term loans are recognized as a liability on the governmental fund financial statements when due.

**CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)**

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

K. 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. Fund balance reserves have been established for encumbrances, inventories, and prepaids.

L. 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 constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of governments.

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

M. 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/expenses to the funds that initially paid for them are not presented on the financial statements.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

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

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 those estimates.

P. **Budgetary Data**

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. The amounts reported as the original budgeted amounts on the budgetary

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

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

P. **Budgetary Data** (Continued)

Estimated Resources (Continued)

statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time the final appropriations were passed by Council.

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 at the fund, function, or object level (legal level of control) do not exceed current estimated resources, as certified. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the appropriation amounts passed by Council during the year.

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.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY

A. Changes in Accounting Principles

For 2003, the City has implemented GASB Statement No. 34, *Basic Financial Statements – and Managements Discussion and Analysis (MD&A) – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB Statement No. 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements present governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002 caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the MD&A, the classification of program revenues, and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the City not being able to present budgetary comparisons for the general and each major special revenue fund. This statement was not applicable to the City in 2003.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

**CITY OF MAYFIELD HEIGHTS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
 (CONTINUED)**

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY (Continued)

B. Restatement of Fund Balance

The implementation of these changes had the following effects on fund balances of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Sanitary Service Improvement	Municipal Complex Improvement	Nonmajor	Total
<u>Governmental Activities</u>					
Fund Balances -					
December 31, 2002	\$ 9,705,232	\$ 2,975,474	\$ 4,301,800	\$ 6,569,135	\$23,551,641
Matured Compensated Absences Payable	55,617	0	0	892	56,509
Change in Fund Structure	55,556	0	0	1,059,352	1,114,908
Adjusted Fund Balances - December 31, 2002	\$ 9,816,405	\$ 2,975,474	\$ 4,301,800	\$ 7,629,379	24,723,058
<u>GASB 34 Adjustments</u>					
Capital Assets, Net of Accumulated Depreciation					10,963,833
Long-Term Deferred Assets					1,555,716
Accrued Interest Payable					(128,848)
Long-Term Liabilities					(7,296,896)
Compensated Absences Payable					(1,624,168)
Governmental Activities Net Assets, December 31, 2002					\$ 28,192,695

NOTE 4: ACCOUNTABILITY AND COMPLIANCE

A. Accountability

Fund balance at December 31, 2003 included the following individual fund deficits:

Police Pension Special Revenue Fund	\$ 60,666
Fire Pension Special Revenue Fund	60,666
Total	\$ 121,332

The deficits in the Police Pension and Fire Pension Special Revenue funds resulted from accrued liabilities. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Encumbrance System

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, 2003, the City was in violation of ORC 5705.41(D) for failure to certify the availability of funds for expenditure transactions.

**CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)**

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

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

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the related liabilities are incurred (GAAP basis).
- c. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
- d. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statement for the general fund.

	Net Change in Fund Balance
GAAP Basis	\$ (69,021)
Increase (Decrease) Due to:	
Revenue Accruals	(188,405)
Expenditure Accruals	(23,242)
Fair Value Adjustment for Investments	15,177
Net Impact of Encumbrances	<u>(102,715)</u>
Budgetary Basis	<u>\$ (368,206)</u>

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 6: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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 provide 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 and other obligations of the State of Ohio;

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

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

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

A. Deposits

At year-end, the carrying amount of the City's deposits was \$19,787,207, including \$925 of cash on hand, and the bank balance was \$20,420,117. Of the bank balance, \$600,000 was fully insured by Federal depository insurance. The remaining deposits of \$19,820,117 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, non-compliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

**CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)**

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

B. Investments

GASB Statement No. 3 entitled *Deposits With Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements* requires the City's investments to be categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name.

Investments as of December 31, 2003 were as follows:

	<u>Fair Value</u>
City of Mayfield Heights Special Assessment Bonds (Category 1)	\$ 30,000
Total Investments	\$ 30,000

The classification of cash and cash equivalents and investments on the statement of net assets is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$18,287,207	\$ 1,530,000
Petty Cash	(925)	
Investments:		
Certificate of Deposit with maturities more than 3 months	1,500,000	(1,500,000)
GASB Statement No. 3	\$19,786,282	\$ 30,000

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

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

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

B. **Investments** (Continued)

These securities must be obligations of, or guaranteed by, the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require that security for public deposits and investment be maintained in the name of the City.

The City will continue to monitor compliance with applicable statutes in the future pertaining to public deposits and investments.

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2003, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments, and accounts (billing for rental and permits, etc.). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

A. **Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2003 for real and public property taxes represents collections of 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

2003 real property taxes are levied after October 1, 2003 on the assessed value as of January 1, 2003, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2003 real property taxes are collected in and intended to finance 2004.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2003 public utility property taxes which became a lien at December 31, 2002 are levied after October 1, 2003, and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002 on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for true value for inventory.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

The full tax rate for all City operations for the year ended December 31, 2003 was \$10.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real Property - 2003 Tax Valuation	\$ 461,011,200
Public Utility Tangible Property - 2003 Tax Valuation	10,118,410
Tangible Personal Property - 2003 Tax Valuation	<u>39,686,809</u>
Total	<u>\$ 510,816,419</u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due by September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Mayfield Heights. The County Auditor periodically remits to the City its portion 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, 2003 and for which there is an enforceable legal claim. In the general, police pension and fire pension funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2003 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. **Municipal Income Taxes**

An income tax of 1.0 percent is levied on substantially all income earned within the City. In addition, residents of the City are required to pay City income taxes on income earned outside the City; however, credit is allowed for income taxes paid to other municipalities up to 50 percent of the first percent paid. The allocation of income tax revenue to the City's general funds is determined by City Ordinance.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

B. Municipal Income Taxes (Continued)

Employers within the City are required to withhold income tax on employee compensation and remit this tax to the City's collection agency at least quarterly. Major employers are required to remit withholdings to the City's collection agency at least monthly. Corporations and self-employed individual taxpayers are required to pay estimated taxes quarterly and file a declaration annually. The Regional Income Tax Agency administers and collects income taxes for the City. Payments are remitted monthly, net of collection fees of 3 percent.

C. Special Assessments

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

All special assessments are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the combined balance sheet.

Special assessments expected to be collected in more than one year amount to \$87,673 in the special assessment bond retirement fund. At December 31, 2003, the amount of delinquent special assessments was \$6,119.

D. Other Local Taxes

With certain exceptions, a tax of 3 percent is levied by the City on individuals, companies and organizations which collect an admission charge and reported in the Bond Retirement Fund. Additionally, the City receives estate taxes which are used for the purpose of making equipment replacement purchases. All estate taxes are reported in the capital project equipment replacement fund.

**CITY OF MAYFIELD HEIGHTS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
 (CONTINUED)**

NOTE 7: **RECEIVABLES** (Continued)

E. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities</u>	
Estate Tax	\$ 45,067
Gasoline Tax	175,681
Local Government	418,671
Homestead and Rollback	271,928
Utility Property Tax Loss Reimbursement	19,418
Auto Registration	<u>113,990</u>
Total Governmental Activities	<u>\$ 1,044,755</u>

NOTE 8: **INTERFUND TRANSFERS**

	Transfer From		
<u>Transfer To</u>	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Municipal Complex Improvement	\$ 600,000	\$ 5,950	\$ 605,950
Nonmajor Governmental Funds	<u>2,725,000</u>	<u>2,615</u>	<u>2,727,615</u>
Total	<u>\$ 3,325,000</u>	<u>\$ 8,565</u>	<u>\$ 3,333,565</u>

The general fund transfers of \$600,000 to the Municipal Complex Improvement fund was made to fund capital projects. The general fund transfers to the nonmajor governmental funds were made to provide additional resources for current operations.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 9: **CAPITAL ASSETS**

A summary of changes in capital assets during 2003 follows:

	Restated Balance <u>12/31/02</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/03</u>
<u>Governmental Activities</u>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 3,024,620	\$ 0	\$ 0	\$ 3,024,620
Construction in Progress	<u>3,487,494</u>	<u>5,109,265</u>	<u>(8,221,759)</u>	<u>375,000</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>6,512,114</u>	<u>5,109,265</u>	<u>(8,221,759)</u>	<u>3,399,620</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	442,372	6,206	0	448,578
Buildings	2,755,383	8,320,997	0	11,076,380
Machinery and Equipment	1,158,023	179,896	0	1,337,919
Furniture and Equipment	441,896	33,728	0	475,624
Vehicles	<u>2,821,159</u>	<u>240,544</u>	<u>(89,698)</u>	<u>2,972,005</u>
Totals at Historical Cost	<u>7,618,833</u>	<u>8,781,371</u>	<u>(89,698)</u>	<u>16,310,506</u>
Less Accumulated Depreciation:				
Land Improvements	(210,368)	(99,523)	0	(309,891)
Buildings	(1,100,465)	(284,913)	0	(1,385,378)
Machinery and Equipment	(309,911)	(403,470)	0	(713,381)
Furniture and Equipment	(136,411)	(37,587)	0	(173,998)
Vehicles	<u>(1,409,959)</u>	<u>(228,604)</u>	<u>89,698</u>	<u>(1,548,865)</u>
Total Accumulated Depreciation	<u>(3,167,114)</u>	<u>(1,054,097)</u>	<u>89,698</u>	<u>(4,131,513)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>4,451,719</u>	<u>7,727,274</u>	<u>0</u>	<u>12,178,993</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,963,833</u>	<u>\$ 12,836,539</u>	<u>\$ (8,221,759)</u>	<u>\$ 15,578,613</u>

*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 62,674
Security of Persons and Property	352,444
Public Health	5,220
Basic Utilities	53,010
Community Environment	12,021
Leisure Time Activities	288,173
Transportation	<u>280,555</u>
Total Depreciation Expense	<u>\$ 1,054,097</u>

The City has elected not to report general infrastructure in 2003. Also, the City did not construct any new infrastructure assets in 2003. See Note 2 for details.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 10: **COMPENSATED ABSENCES**

City employees generally earn vacation ranging from two to five weeks based on length of service. It is fully vested when earned. Normally, all vacation time should be taken in the year available unless written approval for carryover of vacation is obtained. Upon termination of employment the employee receives all accumulated vacation time and the pro-rated portion earned for the current year. Employees earn sick leave of 15 days per year; 4.615 hours for every 80 hours paid (excluding overtime). Employees who have at least 10 years of service receive, upon termination of employment, one half of the first 1,000 hours of accumulated sick leave and then one-third of anything over 1,000 hours.

NOTE 11: **PENSION PLAN**

A. **Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

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

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

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$294,516, \$273,998, and \$253,462 respectively; 89 percent has been contributed for 2003 and 100 percent for 2002 and 2001. No contributions have been made to the member-directed plan for 2003 by the City or and by plan members.

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 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.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$274,297 and \$313,471 for the year ended December 31, 2003, \$255,124 and \$292,218 for the year ended December 31, 2002, and \$238,429 and \$288,927 for the year ended December 31, 2001. The full amount has been contributed for 2002 and 2001. 74.51 percent for police and 76.72 percent for firefighters has been contributed for 2003 with the remainder being reported as a liability.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 12: **POST-EMPLOYMENT BENEFITS**

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll; 5.00 percent of covered payroll was the portion that was used to fund health care.

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, 2002, include a rate of return on investments of 8 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 4 percent annually.

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.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$172,232. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

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

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

In December 2001, the Board adopted the Health Care “Choices” Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care plan. This is in contrast to the ten-year “cliff” eligibility standard for the present Plan.

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

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

The Ohio Police and Fire Pension Fund (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. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund’s Board of Trustees to provide health care coverage and states that health care costs paid from the funds of the OP&F shall be included in the employer’s contribution rate. Health care funding and accounting are on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. 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.

**CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)**

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

B. Ohio Police and Fire Pension Fund (Continued)

The City's annual contributions for 2003 that were used to fund postemployment benefits were \$180,919 for police and \$149,501 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002 (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002 was 13,527 for police and 10,396 for firefighters.

NOTE 13: **CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

As of December 31, 2003, the City had the following significant contractual commitments:

Project	Contractor	Amount Remaining on Contract
Municipal Complex Improvement	Blaze Building Corporation	\$ 61,292
Road Improvement	HNTB Ohio, Inc.	781,296
Total		\$ 842,588

NOTE 14: **LONG-TERM OBLIGATIONS**

Changes in the debt of the City for the year ended December 31, 2003 are as follows:

	Issuance Amount	Maturity Date	Balance 12/31/02	Increase	Decrease	Balance 12/31/03	Amount Due in a Year
Governmental Activities							
<i>General Obligation Bonds</i>							
9.50% 1983 Service Department Garage	\$600,000	2003	\$ 30,000	\$ 0	\$ (30,000)	\$ 0	\$ 0
<i>Total General Obligation Bonds</i>			30,000	0	(30,000)	0	0
<i>Special Assessment Bonds</i>							
9.50% 1983 Woodhawk Dr Improvements	1,113,000	2003	55,000	0	(55,000)	0	0
<i>Total Special Assessment Bonds</i>			55,000	0	(55,000)	0	0
<i>Manuscript Bonds</i>							
6.25% 1993 Ashcroft Drive Improvement	108,000	2003	10,000	0	(10,000)	0	0
5.00% 1999 Aldenham Drive Improvement	50,000	2009	35,000	0	(5,000)	30,000	5,000
<i>Total Manuscript Bonds</i>			45,000	0	(15,000)	30,000	5,000
OPWC Loan Payable	271,155	2015	166,896	0	(13,352)	153,544	13,352
Municipal Complex Improvement Notes 2%			7,000,000	7,000,000	(7,000,000)	7,000,000	700,000
Claims and Judgment Payable			0	2,000,000	0	2,000,000	0
Compensated Absences			1,624,168	633,241	(500,626)	1,756,783	555,474
Total Governmental Activities			\$ 8,921,064	\$ 9,633,241	\$ (7,613,978)	\$ 10,940,327	\$ 1,273,826

**CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)**

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

General obligation bonds are direct obligations for the City for which its full faith and credit are pledged for repayment. General obligation bonds are repaid from both voted and unvoted general property taxes levied on all taxable property located within the City. Tax monies were received in, and the debt was retired from, the General Obligation Bond Retirement fund. As of December 31, 2003, the 1983 Service Department Garage bond was fully retired.

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.

The Ohio Public Works Commission (OPWC) loan will be paid from the Road Improvement fund by revenues transferred from the general fund. Municipal Complex Improvement Notes payable were reissued in 2003 in anticipation of bond proceeds. The notes will be refinanced until the projects are complete and the City determines it to be advantageous to issue bonds. Payment for claims and judgments payable will be made from the general fund. See note 18 for further details. Compensated absences will be paid from the respective funds from which the employees' salary is paid.

Principal and Interest Requirements

A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2003 follows:

<u>Years</u>	<u>Manuscript Bonds</u>		<u>OPWC Loan</u>	<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>		<u>Principal</u>	<u>Interest</u>
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	5,000	500	13,352	18,352	500
2009-2013	5,000	250	66,760	71,760	250
2014-2018	0	0	20,024	20,024	0
Totals	<u>\$ 30,000</u>	<u>\$ 5,250</u>	<u>\$ 153,544</u>	<u>\$ 183,544</u>	<u>\$ 5,250</u>

**CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)**

NOTE 15: NORTHERN OHIO RISK MANAGEMENT ASSOCIATION

The Northern Ohio Risk Management Association (NORMA) is a shared risk pool comprised of the cities of Bedford Heights, Highland Heights, Mayfield Heights, Richmond Heights, South Euclid, Eastlake, Solon, Maple Heights, and the villages of Chagrin Falls and Hudson, for the purpose of enabling its members to obtain property and liability insurance, including vehicle, 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 mayor from each of the participating members. Each entity must remain a member for at least three years from its initial entry date. After the initial three years, each City may extend its term by an additional three years.

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

In 2003, the City of Mayfield Heights paid \$117,820 in premiums from the general fund, which represents 9.64 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.

NOTE 16: RISK MANAGEMENT

NORMA provides a pool of self-insurance for liability and property damage, vehicles, boiler and machinery, theft, bonding of city employees, and public officials' errors and omissions. The City's share of NORMA's claims and expenses are accounted among general fund departments and other funds in proportion to the protection provided for the assets in those general fund departments and other funds. The agreement of formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement.

Settled claims have not exceeded commercial coverage in any of the past three years. Also, there have been no significant reductions in the limits of liability.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 16: **RISK MANAGEMENT** (Continued)

All employees of the City are covered by a blanket bond, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage.

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 based on amounts needed to pay prior and current year claims. Costs are based on actuarial estimations, demographics, and the City's claim history.

The medical, dental, and prescription benefits are provided through Medical Mutual of Ohio. Payments are made from the general 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 medical and prescription benefits is \$376.50 for single coverage and \$925.53 for family coverage. The monthly premium for dental benefits is \$20.59 for single coverage and \$66.77 for family coverage. The monthly coverage for vision benefits is \$4.19 for single coverage and \$10.48 for family coverage.

NOTE 17: **CONTINGENT LIABILITIES**

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, except for the specific case described below.

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 claims and judgment payable is estimated to be \$2,000,000 and is recorded as long-term liability in governmental activities. Meetings are scheduled in June 2004 between the related parties to determine final settlement.

CITY OF MAYFIELD HEIGHTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(CONTINUED)

NOTE 18: **SUBSEQUENT EVENTS**

On January 28, 2004, the City issued \$6,300,000 2004 series Municipal Complex Improvement Bond Anticipation Notes to retire 2003 series Municipal Complex Improvement Bond Anticipation Notes in the amount of \$7,000,000. The 2004 series notes payable were issued at an interest rate of 2 percent with the maturity date on January 27, 2005.

NOTE 19: **JOINTLY GOVERNED ORGANIZATION**

Eastern Suburban Regional Council of Governments

The Eastern Suburban Regional Council of Governments (ESRCOG) was formed in 1972 to foster cooperation between member municipalities through sharing of facilities for mutual benefit. The governing body of ESRCOG is a council comprised of one representative from each of the six participating municipalities. The Council operates in accordance with a written agreement establishing ESRCOG 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 ESRCOG annually. Each member municipality's degree of control is limited to its representation on the Council. In 2003, the City contributed \$12,500, which represents 16.7 percent of the total contributions.

Mayfield Union Cemetery

The Mayfield Union Cemetery is a jointly governed organization among three local communities (the Village of Mayfield, the City of Highland Heights, and the City of Mayfield Heights). The jointly governed 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 is 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.

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**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 governmental activities, each major fund and the aggregate remaining fund information of the City of Mayfield Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 25, 2004, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 34. 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 City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect 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 we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. However, we noted certain immaterial instances of noncompliance that we have reported to the City's management in a separate letter dated June 25, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting 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 the City's management in a separate letter dated June 25, 2004.

City of Mayfield Heights
Cuyahoga County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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 style with a large, prominent initial "B".

Betty Montgomery
Auditor of State

June 25, 2004

**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2003-001
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Purchase Order Certification

Ohio Revised Code Section 5705.41(D) states, in part, that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract 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 encumbrances.

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 both at the time that the contract or order was made and at the time that he is completing his certification, a sufficient sum was available or in the process of collection, to the credit of a proper fund, properly appropriated and free of any previous encumbrances, the 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 approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

- If the amount involved is less than one thousand dollars (\$3,000 after April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the City Council upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

A review of expenditures disclosed that 73% (forty-four expenditures or \$28,952 out of sixty expenditures or \$109,852 reviewed in the fiscal year) of the purchase orders were dated after the invoice date and the instances noted did not fall within any exception 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 a negative fund balance(s).

We recommend the City properly certify the availability of funds for any orders or contracts involving the expenditure of money to ensure compliance with this requirement. Where prior certification is not feasible, we encourage the City to utilize then and now certificates or blanket certificates.

**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	ORC 5705.41 (D) Failure to encumber commitments.	Not Corrected	Comment reissued as 2003-001



**Auditor of State
Betty Montgomery**

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800-282-0370

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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
SEPTEMBER 16, 2004**