



**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2003 & 2002**



**Auditor of State  
Betty Montgomery**



VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Village of Gates Mills  
Cuyahoga County  
1470 Chagrin River Road  
Gates Mills, OH 44040

To the Village Council:

We have audited the accompanying financial statements of the Village of Gates Mills, Cuyahoga County, Ohio (the Village) as of and for the years ended December 31, 2003 and December 31, 2002. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion 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 opinion.

As described in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Gates Mills, Cuyahoga County, Ohio as of December 31, 2003 and December 31, 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

As discussed in Note 2, the Village has restated the beginning balances for certain funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2004 on our consideration of the Village'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.

This report is intended solely for the information and use of the finance committee, management, the Village Council and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

May 7, 2004

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<b>Cash Receipts:</b>						
Property Tax and Other Local Taxes	\$2,761,494	\$214,785	\$0	\$0	\$0	\$2,976,279
Special Assessments	26,558	0	0	620,019	0	646,577
Intergovernmental Receipts	346,889	173,348	0	91,109	0	611,346
Charges for Services	0	49,113	0	19,040	0	68,153
Fines, Licenses, and Permits	159,513	0	0	0	0	159,513
Earnings on Investments	64,582	554	0	8,444	0	73,580
Miscellaneous	246,217	2,824	0	214,537	0	463,578
<b>Total Cash Receipts</b>	<b>3,605,253</b>	<b>440,624</b>	<b>0</b>	<b>953,149</b>	<b>0</b>	<b>4,999,026</b>
<b>Cash Disbursements:</b>						
Current:						
Security of Persons and Property	1,163,829	190,728	0	0	10,082	1,364,639
Public Health Services	0	7,177	0	0	0	7,177
Leisure Time Activities	10,462	57,011	0	0	863	68,336
Community Environment	58,174	177,788	0	0	0	235,962
Basic Utility Services	238,112	0	0	23,321	0	261,433
Transportation	1,025,606	117,481	0	0	0	1,143,087
General Government	1,213,840	0	0	3,468	10,068	1,227,376
Debt Service:						
Principal Payments	0	0	2,000,000	342,344	0	2,342,344
Interest Payments	0	0	0	428,943	0	428,943
Capital Outlay	0	0	0	1,270,577	28,646	1,299,223
<b>Total Cash Disbursements</b>	<b>3,710,023</b>	<b>550,185</b>	<b>2,000,000</b>	<b>2,068,653</b>	<b>49,659</b>	<b>8,378,520</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>(104,770)</b>	<b>(109,561)</b>	<b>(2,000,000)</b>	<b>(1,115,504)</b>	<b>(49,659)</b>	<b>(3,379,494)</b>
<b>Other Financing Receipts and (Disbursements):</b>						
Sale of Notes	0	0	2,000,000	0	0	2,000,000
Transfers-In	0	106,425	0	0	5,000	111,425
Transfers-Out	(111,425)	0	0	0	0	(111,425)
Other Sources	0	0	0	0	44,330	44,330
Other Uses	0	(6,300)	0	0	(20,000)	(26,300)
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>(111,425)</b>	<b>100,125</b>	<b>2,000,000</b>	<b>0</b>	<b>29,330</b>	<b>2,018,030</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<b>(216,195)</b>	<b>(9,436)</b>	<b>0</b>	<b>(1,115,504)</b>	<b>(20,329)</b>	<b>(1,361,464)</b>
<b>Fund Cash Balances, January 1, 2003</b>	<b>1,520,040</b>	<b>74,416</b>	<b>2,730</b>	<b>2,806,125</b>	<b>53,333</b>	<b>4,456,644</b>
<b>Fund Cash Balances, December 31, 2003</b>	<b>\$1,303,845</b>	<b>\$64,980</b>	<b>\$2,730</b>	<b>\$1,690,621</b>	<b>\$33,004</b>	<b>\$3,095,180</b>

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

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Fiduciary Fund Types		Totals (Memorandum Only)
	Nonexpendable Trust	Agency	
<b>Operating Cash Disbursements:</b>			
Supplies and Materials	\$23,770	\$0	\$23,770
Total Operating Cash Disbursements	23,770	0	23,770
Operating Income/(Loss)	(23,770)	0	(23,770)
<b>Non-Operating Cash Receipts:</b>			
Earnings on Investments	8,978	0	8,978
Other Non-Operating Receipts	0	46,544	46,544
Total Non-Operating Cash Receipts	8,978	46,544	55,522
<b>Non-Operating Cash Disbursements:</b>			
Other Non-Operating Cash Disbursements	0	82,310	82,310
Total Non-Operating Cash Disbursements	0	82,310	82,310
Net Receipts Over/(Under) Disbursements	(14,792)	(35,766)	(50,558)
Fund Cash Balances, January 1, 2003	141,866	124,806	266,672
<b>Fund Cash Balances, December 31, 2003</b>	<b>\$127,074</b>	<b>\$89,040</b>	<b>\$216,114</b>

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

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<b>Cash Receipts:</b>						
Property Tax and Other Local Taxes	\$2,778,390	\$212,880	\$0	\$0	\$0	\$2,991,270
Special Assessments	45,144	0	0	640,716	0	685,860
Intergovernmental Receipts	346,865	137,659	0	766,335	0	1,250,859
Charges for Services	0	57,183	0	73,386	0	130,569
Fines, Licenses, and Permits	138,905	0	0	0	0	138,905
Earnings on Investments	96,072	1,149	0	30,046	0	127,267
Miscellaneous	224,789	2,800	0	220,000	0	447,589
<b>Total Cash Receipts</b>	<b>3,630,165</b>	<b>411,671</b>	<b>0</b>	<b>1,730,483</b>	<b>0</b>	<b>5,772,319</b>
<b>Cash Disbursements:</b>						
Current:						
Security of Persons and Property	1,100,102	152,033	0	0	1,119	1,253,254
Public Health Services	0	9,316	0	0	0	9,316
Leisure Time Activities	34,572	69,479	0	0	0	104,051
Community Environment	57,850	177,188	0	0	0	235,038
Basic Utility Services	213,663	0	0	19,159	0	232,822
Transportation	544,212	60,057	0	0	2,540	606,809
General Government	1,758,476	0	0	31,306	6,256	1,796,038
Debt Service:					0	
Principal Payments	0	0	2,000,000	328,348	0	2,328,348
Interest Payments	0	0	0	465,939	0	465,939
Capital Outlay	0	0	0	1,318,183	18,628	1,336,811
<b>Total Cash Disbursements</b>	<b>3,708,875</b>	<b>468,073</b>	<b>2,000,000</b>	<b>2,162,935</b>	<b>28,543</b>	<b>8,368,426</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>(78,710)</b>	<b>(56,402)</b>	<b>(2,000,000)</b>	<b>(432,452)</b>	<b>(28,543)</b>	<b>(2,596,107)</b>
<b>Other Financing Receipts and (Disbursements):</b>						
Sale of Notes	0	0	2,000,000	0	0	2,000,000
Transfers-In	0	98,600	0	0	0	98,600
Advances-In	0	0	0	500,000	0	500,000
Transfers-Out	(98,600)	0	0	0	0	(98,600)
Advances-Out	(250,000)	0	0	(250,000)	0	(500,000)
Other Sources	0	0	0	0	61,296	61,296
Other Uses	0	(41,300)	0	0	(25,618)	(66,918)
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>(348,600)</b>	<b>57,300</b>	<b>2,000,000</b>	<b>250,000</b>	<b>35,678</b>	<b>1,994,378</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<b>(427,310)</b>	<b>898</b>	<b>0</b>	<b>(182,452)</b>	<b>7,135</b>	<b>(601,729)</b>
<b>Fund Cash Balances, January 1, 2002 - Restated (See Note 2)</b>	<b>1,947,350</b>	<b>73,518</b>	<b>2,730</b>	<b>2,988,577</b>	<b>46,198</b>	<b>5,058,373</b>
<b>Fund Cash Balances, December 31, 2002</b>	<b>\$1,520,040</b>	<b>\$74,416</b>	<b>\$2,730</b>	<b>\$2,806,125</b>	<b>\$53,333</b>	<b>\$4,456,644</b>

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

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Fiduciary Fund Types		Totals (Memorandum Only)
	Nonexpendable Trust	Agency	
<b>Operating Cash Disbursements:</b>			
Contractual Services	\$7,418	\$0	\$7,418
Supplies and Materials	6,327	0	6,327
Capital Outlay	4,841	0	4,841
Total Operating Cash Disbursements	<u>18,586</u>	<u>0</u>	<u>18,586</u>
Operating Income/(Loss)	<u>(18,586)</u>	<u>0</u>	<u>(18,586)</u>
<b>Non-Operating Cash Receipts:</b>			
Earnings on Investments	11,659	0	11,659
Other Non-Operating Receipts	0	43,090	43,090
Total Non-Operating Cash Receipts	<u>11,659</u>	<u>43,090</u>	<u>54,749</u>
<b>Non-Operating Cash Disbursements:</b>			
Other Non-Operating Cash Disbursements	<u>0</u>	<u>34,700</u>	<u>34,700</u>
Total Non-Operating Cash Disbursements	<u>0</u>	<u>34,700</u>	<u>34,700</u>
Net Receipts Over/(Under) Disbursements	(6,927)	8,390	1,463
Fund Cash Balances, January 1, 2002 - Restated (See Note 2)	<u>148,793</u>	<u>116,416</u>	<u>265,209</u>
<b>Fund Cash Balances, December 31, 2002</b>	<b><u><u>\$141,866</u></u></b>	<b><u><u>\$124,806</u></u></b>	<b><u><u>\$266,672</u></u></b>

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

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND DECEMBER 31, 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of Gates Mills, Cuyahoga County, Ohio, (the Village) is a chartered municipal corporation with the full rights and powers granted to a municipal corporation in Ohio by the Ohio Constitution, the state laws and the Charter and Ordinances of the Village. The Village is directed by a publicly-elected seven-member Council. The Village provides police and other general government services. The Village appropriates general fund money to support a volunteer fire department.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

The Village participates in the Eastern Suburban Regional Council of Governments (ESRCOG), which is a jointly governed organization. ESRCOG is presented in Note 10 to the financial statements.

The Gates Mills Land Conservancy (Land Conservancy) is a legally separate, not-for-profit corporation served by a board of trustees. The Land Conservancy is operated under the supervision of the Council. The Mayor, with the consent of the Council, appoints one-third of the Trustees of the Land Conservancy. The Land Conservancy, under a contractual agreement with the Village, was organized as a supporting organization to the Village under Section 509(a)(3) of the Internal Revenue Code in order to perform and carry out the land conservation objectives of the Village. For five years, commencing in 2001, the Village has agreed to provide the Land Conservancy with 95% of the funds it receives from the 1 mill Charter amendment approved by voters at the November 6, 2001 election. Based on the significant resources provided by the Village to the Land Conservancy (fiscal dependency), the Land Conservancy is considered a component unit of the Village. Separately issued financial statements can be obtained from the Village.

**B. Basis of Accounting**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**C. Cash and Investments**

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

U.S. Treasury Notes are valued at cost. Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND DECEMBER 31, 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

**1. General Fund**

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Funds**

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

*Street Construction, Maintenance and Repair Fund and State Highway Fund* - These funds receive gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

*Cemetery Fund* – The cemetery fund is used to track money received for and spent on the cemeteries. Sources of funds are the sale of burial lots, burials, and transfers from the General Fund. Expenditures are made for maintenance of the cemeteries including supplies and wages.

*Park & Recreation Funds* – This fund tracks money received for and spent for recreation. Money is received from participants in the recreation programs and transfers from the General Fund.

*COPS Grant Fund* – Money is received from the Department of Justice COPS Grants program and transfers, as required by the grant, from the General Fund. The money is used to pay a part-time police officer's salary and related fringe benefits.

*VESTS Grant Fund* – Money is received from the Department of Justice Bulletproof Vest Partnership Grant Act of 1998 and transfers from the General Fund, as required by the grant. The money is used to purchase bulletproof vests for law enforcement officers.

*DARE Fund* – Money is received from the Attorney General's DARE Grants program and from transfers from the General Fund, as required by the grant. The DARE officer's base salary is the only authorized expenditure.

*Law Enforcement Trust Fund* – Seized cash and/or property received from State and Local Agencies is used for law enforcement drug education and other law enforcement expenses.

*Local Law Enforcement Block Fund* – Money from the Local Law Enforcement Block Grant and from any required matching funds transferred from the General Fund is used to purchase equipment for traffic and safety efforts.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND DECEMBER 31, 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**2. Special Revenue Funds (Continued)**

*Police Disability & Pension Fund* – This fund is used to track money received for and spent on the pension program for the full-time police officers. Money comes from the inside levy and transfers from the General Fund.

*Land Conservancy & Open Space Fund* – This fund tracks money received from a Charter outside levy and the interest earned on this fund. Expenditures are for land conservation purposes.

*Underground Storage Fund* – This fund satisfies financial responsibility requirements of the Petroleum UST Financial Assurance Fund by dedicating the deductible. The UST Fund is dedicated to pay for taking corrective action and for compensating third parties for bodily injury and property damage caused by accidental releases arising from the operation of underground storage tanks. The source of this fund was a transfer from the General Fund.

**3. Debt Service Fund**

This fund is used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant Debt Service Fund:

*Bond Retirement Fund* – This fund tracks the receipt and repayment of any debt except those required to be accounted for in another fund.

**4. Capital Project Funds**

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through trust funds). The Village has the following significant Capital Project Funds:

*Street Construction Fund* – This fund tracks money received for and spent on Street Improvements. Revenue is from the issuance of General Obligation securities and interest on investments of those proceeds. Expenditures are for improving streets by resurfacing such streets and by constructing culverts, for legal and engineering expenses for said projects, and for interest expenses on the general obligation securities.

*Wastewater Fund* – This fund tracks all money received for and spent on the Wastewater Plant. Revenue is from grants, loans, fund transfers, proceeds of bond issues and usage fees. Expenditures include all costs and expenses of installing and maintaining the wastewater plant, lines, and service connections and all legal fees, engineering fees, construction costs, administration costs, operating costs, and repayment of loans and bond issues.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND DECEMBER 31, 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**4. Capital Project Funds (Continued)**

*Water Fund* – This fund receives cash from loans, bonds, advances/transfers, assessments and connection (tap-in) charges. Expenditures include construction expenses, operation expenses, debt service charges on bonds and notes issued by, and repayment of other obligations entered into by the Village in connection with the water improvement projects.

*Library Fund* – This fund tracks money received for and spent on the construction of a library. Revenue sources are advances, transfers, interest, donations and other deposits authorized by council.

*Historic Downtown Trust Fund* – This fund receives donations, transfers, interest, and other deposits and is used to rehabilitate and restore the historic downtown district.

*Capital Improvement Fund* – This fund is used to track money received for and spent on capital projects. Sources of money include inheritance tax, advances and transfers. Expenditures are for capital projects.

**5. Fiduciary Funds (Trust and Agency Funds)**

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant Fiduciary Funds:

*Mayor's Discretionary Fund* – Money in this fund comes from private donations. It is spent on business expenses and expenses as specified by the donor(s).

*Non-Expendable Trust Fund* – Money in this fund comes from interest received from a trust. The trust provides in part that income from the trust is to be used for the beautification of the Village.

*Building Bond Deposit Fund* – This fund tracks building deposits made by contractors and residents performing projects that require, by Village Ordinance, to have inspections, and sign deposits as required by Village Ordinance. The deposit is returned minus an inspection fee (building deposit) and any village cost due to mal performance by the depositor.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND DECEMBER 31, 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process**

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end are canceled, and reappropriated in the subsequent year.

A summary of 2002 and 2003 budgetary activity appears in Note 4.

**F. Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**G. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

**2. RESTATEMENT OF FUND BALANCE**

For the year ended December 31, 2001, certain adjustments have resulted in a restatement of fund balance for certain funds. The fund balance of the Special Revenue Funds was increased by \$60,312 due to the improper classification of various funds. The Police Disability & Pension Fund and the Underground Storage Tank Fund were improperly classified as Expendable Trust Funds. The Land Conservation Fund was improperly classified as an Agency Fund.

As a result of the improper classification of the Land Conservation Fund, the Agency Fund balance was reduced by \$33,509.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND DECEMBER 31, 2002  
(Continued)**

**2. RESTATEMENT OF FUND BALANCE (Continued)**

The activity of a trust that had been recorded as an Expendable Trust Fund was determined to be a Non-Expendable Trust Fund. The establishment of the Non-Expendable Trust Fund along with the above noted improper fund classifications resulted in a reduced fund balance of \$152,792 for the Expendable Trust Fund and a new beginning fund balance of \$148,793 for the Non-Expendable Trust Fund.

**3. EQUITY IN POOLED CASH AND INVESTMENTS**

The Village maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	<u>2003</u>	<u>2002</u>
Money Market Mutual Fund	\$12,979	\$15,214
U.S. Treasury Notes	2,302,518	2,107,488
STAR Ohio	421,921	2,050,940
Total Investments	2,737,418	4,173,642
Demand Deposits	573,876	549,674
Total Demand Deposits and Investments	\$3,311,294	\$4,723,316

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation, and collateralized by the financial institution's public entity deposit pool.

**Investments:** U.S. Treasury Notes are held in book-entry form by the Federal Reserve, in the name of the Village's financial institution. The financial institution maintains records identifying the Village as owner of these securities. Investments in STAR Ohio and money market mutual funds are not evidenced by securities that exist in physical or book-entry form.

**4. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$3,781,708	\$3,605,253	(\$176,455)
Special Revenue	609,758	547,049	(62,709)
Debt Service	2,000,000	2,000,000	0
Capital Projects	1,360,000	953,149	(406,851)
Expendable Trust	41,022	49,330	8,308
Agency Fund	70,000	46,544	(23,456)
Non-Expendable Trust	8,978	8,978	0
Total	\$7,871,466	\$7,210,303	(\$661,163)

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND DECEMBER 31, 2002  
(Continued)**

**4. BUDGETARY ACTIVITY (Continued)**

2003 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriations</u>	<u>Disbursements</u>	<u>Variance</u>
General	\$3,880,325	\$3,821,448	\$58,877
Special Revenue	598,895	556,485	42,410
Debt Service	2,000,000	2,000,000	0
Capital Projects	2,435,000	2,068,653	366,347
Expendable Trust	76,230	69,659	6,571
Agency Fund	100,000	82,310	17,690
Non-Expendable Trust	23,770	23,770	0
<b>Total</b>	<b>\$9,114,220</b>	<b>\$8,622,325</b>	<b>\$491,895</b>

2002 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$3,539,434	\$3,630,165	\$90,731
Special Revenue	722,396	510,271	(212,125)
Debt Service	2,000,000	2,000,000	0
Capital Projects	6,725,000	1,730,483	(4,994,517)
Expendable Trust	28,341	61,296	32,955
Agency Fund	70,000	43,090	(26,910)
Non-Expendable Trust	11,659	11,659	0
<b>Total</b>	<b>\$13,096,830</b>	<b>\$7,986,964</b>	<b>(\$5,109,866)</b>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriations</u>	<u>Disbursements</u>	<u>Variance</u>
General	\$4,315,400	\$3,807,475	\$507,925
Special Revenue	562,000	509,373	52,627
Debt Service	2,000,000	2,000,000	0
Capital Projects	4,038,500	2,162,935	1,875,565
Expendable Trust	81,414	54,161	27,253
Agency Fund	100,000	34,700	65,300
Non-Expendable Trust	18,586	18,586	0
<b>Total</b>	<b>\$11,115,900</b>	<b>\$8,587,230</b>	<b>\$2,528,670</b>

Contrary to the Ohio Revised Code, the Village did not establish a separate trust fund for each amount received in trust.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND DECEMBER 31, 2002  
(Continued)**

**5. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rate are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

**6. LOCAL INCOME TAX**

The Village levies a municipal income tax of 1% percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to CCA who sends it to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**7. DEBT**

Debt outstanding at December 31, 2003 was as follows:

	<u>Principle</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan, 1998	\$2,847,012	6.51%
Ohio Water Development Authority Loan, 1999	3,152,530	5.86%
OPWC Loan, 1995	1,328,845	0%
OPWC Loan, 2001	336,700	0%
G.O. Street Improvement Note, 2003	2,000,000	1.40%
Total	<u>\$9,665,087</u>	

The Ohio Water Development Authority (OWDA) loans and the 1995 OPWC loan relate to a water plant expansion project. The 2001 OPWC loan was for the wastewater treatment plant. The OWDA and OPWC loans are repaid in semiannual payments over 20 years. The OWDA loans are collateralized by assessments. The General Obligation Street Improvement was issued for one year.

The Note and OPWC loans are collateralized by the Village's taxing authority.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND DECEMBER 31, 2002  
(Continued)**

**7. DEBT (Continued)**

Amortization of the above long term debt, including interest, is scheduled as follows:

<u>Year Ending December 31</u>	<u>OWDA LOANS</u>	<u>OPWC LOANS</u>
2004	\$624,994	\$102,293
2005	624,994	102,293
2006	624,994	102,293
2007	624,994	102,293
2008	624,994	102,293
2009-2013	3,124,970	511,465
2014-2018	2,808,932	511,465
2019-2021	308,956	131,150
TOTAL	\$9,367,828	\$1,665,545

**8. RETIREMENT SYSTEMS**

The Village's full-time law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). All other full-time employees belong to the Ohio Public Employees Retirement System (OPERS) of Ohio. OP&F and OPERS are cost sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2003, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of full-time police participant wages. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2003.

**9. RISK MANAGEMENT**

**Commercial Insurance**

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

**10. JOINTLY GOVERNED ORGANIZATION**

**East Suburban Regional Council of Governments**

The Village is a member of the Eastern Suburban Regional Council of Governments (ESRCOG). The ESRCOG was formed by written agreement pursuant to Ohio Revised Code Section 167.01 in 1972 to foster cooperation between member municipalities through sharing of resources for mutual benefit. Other members include the Cities of Highland Heights, Lyndhurst, Mayfield Heights, Richmond Heights and the Village of Mayfield. The governing body of ESRCOG is a Council comprised of one representative from each of the six participating municipalities. The Council adopts a budget for ESRCOG annually. Each member's degree of control is limited to its representation on the Council.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND DECEMBER 31, 2002  
(Continued)**

**10. JOINTLY GOVERNED ORGANIZATION (Continued)**

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

Financial information can be obtained from Robert G. Tribby, Finance Director, City of Mayfield Heights, at 6154 Mayfield Road, Mayfield Heights, Ohio 44124-3207, who serves as fiscal agent.



**Auditor of State  
Betty Montgomery**

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

Village of Gates Mills  
Cuyahoga County  
1470 Chagrin River Road  
Gates Mills, OH 44040

To the Village Council:

We have audited the financial statements of the Village of Gates Mills, Cuyahoga County, Ohio (the Village) as of and for the years ended December 31, 2003 and December 31, 2002, and have issued our report thereon dated May 7, 2004, wherein we noted the Village restated the beginning balances for certain funds. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated May 7, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-002 and 2003-003.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated May 7, 2004.

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

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

**Betty Montgomery**  
Auditor of State

May 7, 2004

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND DECEMBER 31, 2002**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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The comment with an asterisk (\*) denotes a comment that was previously reported to management in the 2001 audit report for which corrective action has not been taken.

<b>Finding Number</b>	<b>2003-001</b>
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**Establishment of Funds**

Ohio Rev. Code § 5705.09 requires a subdivision to establish a trust fund for any amount received by a subdivision in trust.

The Village was the recipient of a trust which dates back to 1969. As a result, the Village receives quarterly interest payments which are to be used for the purpose of beautification of the Village. The Village also receives donations from a donor based on specific requests of the Village. The Village will prepare a list of items (usually safety related) with input from the Police Chief and Fire Chief which is then submitted to the donor. The donor will then present the Village with a check for the item(s) which he has chosen to purchase for the Village.

Both of the above mentioned trusts were posted to the Mayor's Discretionary Fund which is an Expendable Trust Fund, instead of separate funds.

The accompanying financial statements reflect the establishment of a separate Non-Expendable Trust Fund for the trust dating back to 1969 and a separate Expendable Trust Fund for the other above mentioned trust.

<b>Finding Number</b>	<b>2003-002</b>
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**Reportable Condition – Approval of Time Sheets/Forms \***

The Village has instituted control procedures to ensure that recorded payroll transactions are for the performance of services and are approved. The Village utilizes time sheets/forms to document the performance of services and use of leave time. The signatures of the employee and the supervisor attest to the accuracy of the time charged and leave used.

In reviewing the time sheets/forms used to process payroll, we noted that there was no approval of hours worked for administrative employees. Also, there was no indication of approval for 10 out of 28 police department personnel time sheets/forms tested.

This weakness may allow employees to be paid for time not worked or leave time may be taken and not recorded. As a result, payroll expenditures may be overstated and leave balances may not be accurate.

We recommend that time sheets/forms used be approved by the appropriate supervisor. Time sheets/forms which are not approved should be returned to the appropriate supervisor so proper approval can be obtained.

VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND DECEMBER 31, 2002  
(Continued)

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

(Continued)

Finding Number	2003-003
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**Reportable Condition – Proper Support Documentation**

Each year, the Village's Recreation Department organizes a play which is put on by the residents of Gates Mills. A \$60 fee is collected from each resident in the play. For the two days the play is held, an admission fee is charged to all residents. The admission fee is set by the Council Chairman of the Recreation Committee and the Play Director. Cash is also collected from the sale of concessions which are sold during the two days the play is held. All fees and concession sales are collected by the Play Director and remitted to the Assistant Clerk.

For the past 33 years, the Village of Gates Mills has held an annual art show. Each artist participating in the show is allowed a maximum of three paintings to exhibit and the artist is assessed a fee of \$5 per painting. Also, letters are sent out to various members of the public asking them if they would like to be a patron. The cost to be a patron is \$40. The patrons are invited to a pre-show party where they meet the artists and have a chance to buy the paintings that are exhibited. In addition, the Village receives 15% of the sale price of each piece or art work sold. The purchaser makes a check out to the artist, but the check is held by the Art Show Chairman until the artist remits a check, made out to the Village, to the Art Show Chairman for 15% of his/her art sales. A schedule reflecting what paintings were sold, including the amount they were sold for is prepared by the Art Show Chairman.

In reviewing the revenue reported by the Village for the above noted events, we noted there was no supporting documentation (receipts, sales reports, etc.) maintained for the fees and concession sales from the play held in 2003 when the monies are turned over to the Assistant Clerk. In addition, the 2002 art show sales report which supports the 15% of art work sales revenue due the Village could not be located. Therefore, we could not validate the accuracy of the fee and concession sales revenue collected from the play in fiscal year 2003 or the 2002 art work sales revenue from the art show.

We recommend that the Village require any person who collects monies on behalf of the Village to prepare receipts and reports or some other type of supporting documentation that reflects an accurate accounting of the revenue collected. This supporting documentation should reflect data that can be verified to the monies being turned over to the Assistant Clerk. The documentation should be maintained for audit purposes.



**Auditor of State  
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**VILLAGE OF GATES MILLS**

**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  
JUNE 1, 2004**