



**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

REGUALR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005



**Auditor of State
Betty Montgomery**

**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

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, 2005, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, 2005, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting 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

September 25, 2006

**CITY OF MAYFIELD HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
Unaudited**

The discussion and analysis of the City of Mayfield Heights' (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005. 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' third publication of its financial statements under the new GASB Statement No. 34 reporting model.

Total assets of the City of Mayfield Heights increased from \$57,319,690 to \$63,439,739, a total of \$6,120,049. This increase can be attributed to 2005 additions of infrastructure to capital assets and a restatement to 2004 income tax revenues.

Total liabilities of the City of Mayfield Heights decreased from \$16,610,546 to \$16,317,751, a total of \$292,795. The most significant factors can be attributed to the pay down of \$700,000 in Municipal Complex Notes which was offset by an increase in intergovernmental payables and deferred revenue.

Total net assets increased from \$40,709,144 to \$47,121,988, a total of \$6,412,844. This is mainly due to an increase in infrastructure improvements and a reduction in debt. See the above notes on total assets and total liabilities.

Using This Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City's basic financial 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.

**CITY OF MAYFIELD HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
Unaudited**

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, excluding Fiduciary Funds, 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.

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 13. 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, General Bond Retirement Fund and the Road Improvement Fund.

**CITY OF MAYFIELD HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
Unaudited**

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.

The City of Mayfield Heights As a Whole

Government-wide Financial Analysis

As noted earlier, the Statement of Net Assets looks at the City as a whole and can be used as an indicator of the City's financial position. The Statement of Net Assets in Table 1 provides a summary of the City's net assets for 2005 compared to 2004.

Table 1 - Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004 *</u>
<u>Assets</u>		
Current and Other Assets	\$ 27,299,940	\$ 27,000,917
Capital Assets	<u>36,139,799</u>	<u>30,318,773</u>
Total Assets	<u>\$ 63,439,739</u>	<u>\$ 57,319,690</u>
<u>Liabilities</u>		
Long-Term Liabilities	\$ 9,862,461	\$ 10,296,167
Other Liabilities	<u>6,455,290</u>	<u>6,314,379</u>
Total Liabilities	<u>16,317,751</u>	<u>16,610,546</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Debt	30,265,563	23,853,581
Restricted	1,584,083	1,739,900
Unrestricted	<u>15,272,342</u>	<u>15,115,663</u>
Total Net Assets	<u>\$ 47,121,988</u>	<u>\$ 40,709,144</u>

* Restated - see Note 3

**CITY OF MAYFIELD HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
Unaudited**

Total assets for the City are \$63,439,739. The largest portion of the City's assets is in capital assets totaling \$36,139,799, which represents 56.97 percent of the total.

Total liabilities for the City are \$16,317,751. The most significant liability is the Municipal Complex Bond Anticipation Notes payable for \$5,600,000, which represents 34.32 percent of the total.

Total net assets for the City are \$47,121,988. The most significant portions of these assets are represented by unrestricted net assets of \$15,272,342 and Invested in Capital Assets of \$30,265,563, which represents 32.41 percent and 64.23 percent of the total, respectively.

Table 2 shows the changes in net assets for the years ended December 31, 2005 and December 31, 2004 and corresponds to the Statement of Activities on page 12.

Table 2- Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 943,078	\$ 1,290,938
Operating Grants and Contributions	731,341	659,455
Capital Grants and Contributions	5,305,352	78,829
General Revenues		
Property Taxes	4,747,001	4,730,702
Income Taxes	10,101,949	9,770,506
Other Taxes	86,580	60,574
Grants and Entitlements	1,946,823	1,982,958
Other	<u>721,482</u>	<u>315,659</u>
Total Revenues	<u>24,583,606</u>	<u>18,889,621</u>
<u>Program Expenses</u>		
Security of Persons and Property	9,169,036	9,116,762
Public Health Services	270,544	266,818
Leisure Time Activities	1,377,805	1,320,213
Community Environment	835,633	681,579
Public Works	886,423	943,122
Transportation	2,939,372	4,259,376
General Government	2,513,737	2,546,014
Interest and Fiscal Charges	<u>178,212</u>	<u>128,257</u>
Total Program Expenses	<u>18,170,762</u>	<u>19,262,141</u>
<i>Increase (Decrease) in Net Assets</i>	6,412,844	(372,520)
Net Assets, Beginning of Year, as Restated (Note 3)	<u>40,709,144</u>	<u>41,081,664</u>
Net Assets, End of Year	<u>\$ 47,121,988</u>	<u>\$ 40,709,144</u>

**CITY OF MAYFIELD HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
Unaudited**

Total revenue increased in 2005 over 2004 by \$5,693,985, a percentage of 30.14 percent. The increase is attributed almost entirely to the infrastructure contribution to the City from the Northeastern Ohio Regional Sewer District and a restatement of 2004 income tax revenues.

Charges for services decreased by \$347,860 due to a decrease in traffic fines and reclassifications of various revenue sources; Capital Grants and Contributions increased by \$5,226,523 due to Ohio Public Works Commission grants for Mayfield Road engineering design work; and the S.O.M. Center Road Sewer contribution from the Northeastern Ohio Regional Sewer District; income taxes increased by \$331,443 which is consistent with prior years.

Total program expenses decreased overall by \$1,091,379, a percentage of 5.67 percent. The decrease in transportation, (\$1,320,004) was offset by an increase in community environment of \$154,054.

Governmental Activities

Several revenue sources fund the City's governmental activities. The most significant revenue source 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 2005, the City's revenue from income tax was \$10,101,949. No single commercial entity provides more than 10 percent of annual collections, a fact, which further stabilizes the City's major revenue source.

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 2005 was \$548,507,574 and has been certified at \$555,335,756 for the 2006 collection year. While this source is not as significant as the income tax, the duplicate has continued to grow and is a stable source of revenue.

The City's Funds

Information about the City's major funds begins on page 11. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenue of \$29,086,910 and expenditures of \$29,026,643 (including other financial sources and uses). The most significant fund is the General Fund with a year end fund balance of \$8,615,645, which included an unreserved balance of \$8,446,471 compared to expenditures of \$14,300,742. During 2005, \$3,070,000 was transferred from the General Fund to help finance various capital improvements.

**CITY OF MAYFIELD HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
Unaudited**

The other major funds in 2005 were the General Bond Retirement Fund and the Road Improvement Fund. The General Bond Retirement Fund recorded \$6,430,847 in expenditures. \$6,300,000 was related to the repayment of short-term notes. The Road Improvement Fund recorded \$2,140,123 in expenditures. \$2,126,771 was expended in road resurfacing and repairs.

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 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 City of Mayfield Heights' original, conservative revenue estimate of \$15,554,999 was exceeded by \$1,689,055, due mainly to additional income tax collections and interest earnings. The original expenditure budget of \$17,895,540 was increased by several amended appropriations to a total of \$18,480,900, for an increase of \$585,360. The most significant item was for transfers to capital improvement funds, especially for road and sidewalk improvements.

Capital Assets and Debt Administration

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

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Land	\$ 3,024,620	\$ 3,024,620
Construction in Progress	1,127,407	0
Land Improvements	427,191	473,780
Buildings	7,098,180	7,329,394
Machinery and Equipment	396,815	472,313
Furniture and Equipment	483,932	479,581
Vehicles	1,712,358	1,661,519
Infrastructure		
Roads	12,161,892	11,126,634
Water Mains	811,330	833,303
Sanitary Sewers	7,378,379	3,355,855
Storm Sewers	1,517,695	1,561,774
Total Capital Assets	<u>\$ 36,139,799</u>	<u>\$ 30,318,773</u>

Total capital assets for governmental activities of the City for 2005 were \$36,139,799, an increase of \$5,821,026 from 2004. The reason for this significant increase can be attributed to construction in progress of \$1,127,407 which accounts for 19.37 percent of the increase and the sanitary sewer contribution which accounts for 69.10 percent of the increase.

**CITY OF MAYFIELD HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
Unaudited**

Long-Term Obligations

As of December 31, 2005, the City had \$5,874,236 in bonds, notes, and loans outstanding with \$718,352 due in a year (see Note 13).

Table 4 - Outstanding Debt at December 31

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Notes	\$ 5,600,000	\$ 6,300,000
OPWC Loans	254,236	140,192
Manuscript Bonds	<u>20,000</u>	<u>25,000</u>
Total Outstanding Debt	<u><u>\$ 5,874,236</u></u>	<u><u>\$ 6,465,192</u></u>

As of December 31, 2005, the City had no outstanding general obligation bonds. The amount of short-term general obligation bond anticipation notes is \$5,600,000. 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 City continues to retain the Aa3 from Moody's Investors Services.

The Ohio Supreme Court has found the City liable for a temporary taking of property and ordered the City to continue proceedings in Cuyahoga County Probate Court to determine loss of value for damages. To date, the City's position has been a willingness to settle the case for \$2,000,000. The lowest demand from the property owners has been significantly higher. Given the posture of the property owners, a jury trial is more than likely going to determine the City's exposure.

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 440-442-2626, ext. 201, or by e-mail at roberttribby@mayfieldheights.org

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CITY OF MAYFIELD HEIGHTS, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	<u>Governmental Activities</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 8,282,616
Investments	9,544,457
Materials and Supplies Inventory	63,008
Accrued Interest Receivable	79,238
Accounts Receivable	91,875
Intergovernmental Receivable	1,541,624
Prepaid Items	73,029
Taxes Receivable	7,543,677
Special Assessments Receivable	80,416
Nondepreciable Capital Assets	4,152,027
Depreciable Capital Assets, Net	<u>31,987,772</u>
Total Assets	<u>63,439,739</u>
 <u>Liabilities</u>	
Accounts Payable	369,785
Accrued Wages	317,156
Contracts Payable	110,882
Intergovernmental Payable	604,197
Accrued Interest Payable	166,916
Deferred Revenue	4,886,354
Long-Term Liabilities:	
Due Within One Year	1,335,483
Due in More Than One Year	<u>8,526,978</u>
Total Liabilities	<u>16,317,751</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	30,265,563
Restricted for:	
Capital Projects	15,180
Debt Service	231,085
Other Purposes	1,337,818
Unrestricted	<u>15,272,342</u>
Total Net Assets	<u>\$ 47,121,988</u>

See accompanying notes to the basic financial statements.

CITY OF MAYFIELD HEIGHTS, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities
Governmental Activities:						
Security of Persons and Property	\$ 9,169,036	\$ 279,389	\$ 99,356	\$ 0		\$ (8,790,291)
Public Health Services	270,544	0	0	0		(270,544)
Leisure Time Activities	1,377,805	300,431	0	0		(1,077,374)
Community Development	835,633	180,265	0	0		(655,368)
Public Works	886,423	1,750	0	4,163,000		3,278,327
Transportation	2,939,372	35,111	631,985	1,142,352		(1,129,924)
General Government	2,513,737	146,132	0	0		(2,367,605)
Interest and Fiscal Charges	<u>178,212</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>(178,212)</u>
Total Governmental Activities	<u>\$ 18,170,762</u>	<u>\$ 943,078</u>	<u>\$ 731,341</u>	<u>\$ 5,305,352</u>		<u>(11,190,991)</u>
General Revenues:						
Property Taxes Levied for:						
						3,632,221
						306,820
						807,960
Income Taxes Levied for:						
						10,101,949
						86,580
						1,946,823
						577,924
						<u>143,558</u>
						<u>17,603,835</u>
						6,412,844
						40,709,144
						<u>\$ 47,121,988</u>

See accompanying notes to the basic financial statements.

CITY OF MAYFIELD HEIGHTS, OHIO
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	General	General Bond Retirement	Road Improvement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash					
Equivalents	\$ 56,978	\$ 133,135	\$ 185,478	\$ 7,907,025	\$ 8,282,616
Investments	9,524,457	0	0	20,000	9,544,457
Receivables:					
Taxes	6,414,248	818,577	0	310,852	7,543,677
Accounts	87,395	0	0	4,480	91,875
Accrued Interest	78,916	322	0	0	79,238
Special Assessments	0	0	0	80,416	80,416
Intergovernmental	714,851	50,237	215,859	560,677	1,541,624
Due from Other Funds	0	0	2,332,296	0	2,332,296
Inventory	31,169	0	0	31,839	63,008
Prepaid Items	72,362	0	0	667	73,029
Total Assets	<u>\$ 16,980,376</u>	<u>\$ 1,002,271</u>	<u>\$ 2,733,633</u>	<u>\$ 8,915,956</u>	<u>\$ 29,632,236</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 286,775	\$ 0	\$ 0	\$ 83,010	\$ 369,785
Contracts Payable	0	0	104,770	6,112	110,882
Accrued Wages and Benefits	294,999	0	0	22,157	317,156
Due to Other Funds	2,332,296	0	0	0	2,332,296
Due to Governments	408,668	0	0	195,529	604,197
Deferred Revenue	5,041,993	868,814	39,196	656,738	6,606,741
Total Liabilities	<u>8,364,731</u>	<u>868,814</u>	<u>143,966</u>	<u>963,546</u>	<u>10,341,057</u>
Fund Balances					
Reserved for Inventory	31,169	0	0	31,839	63,008
Reserved for Prepaid Items	72,362	0	0	667	73,029
Reserved for Encumbrances	65,643	0	316,615	97,119	479,377
Unreserved:					
Undesignated (Deficits) Reported in:					
General Fund	8,446,471	0	0	0	8,446,471
Special Revenue Funds	0	0	0	1,250,588	1,250,588
Debt Service Funds	0	133,457	0	87,359	220,816
Capital Projects Funds	0	0	2,273,052	6,484,838	8,757,890
Total Fund Balances (Deficits)	<u>8,615,645</u>	<u>133,457</u>	<u>2,589,667</u>	<u>7,952,410</u>	<u>19,291,179</u>
Total Liabilities and Fund Balances	<u>\$ 16,980,376</u>	<u>\$ 1,002,271</u>	<u>\$ 2,733,633</u>	<u>\$ 8,915,956</u>	<u>\$ 29,632,236</u>

See accompanying notes to the basic financial statements.

**CITY OF MAYFIELD HEIGHTS, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Total Governmental Fund Balances \$19,291,179

*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. 36,139,799

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

Property Taxes	\$ 294,504	
Grants and Entitlements	849,483	
Income Tax	495,984	
Special Assessments	<u>80,416</u>	
Total		1,720,387

In the statement of activities, interest is accrued on outstanding
general obligation notes, whereas in governmental funds, an
interest expenditure is reported when due. (166,916)

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:

OPWC Loan	(254,236)	
Bond Anticipation Notes Payable	(5,600,000)	
Manuscript Bonds	(20,000)	
Claims and Judgment Payable	(2,000,000)	
Compensated Absences	<u>(1,988,225)</u>	
Total		<u>(9,862,461)</u>

Net Assets of Governmental Activities \$47,121,988

CITY OF MAYFIELD HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	<u>General</u>	<u>General Bond Retirement</u>	<u>Road Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Municipal Income Taxes	\$9,962,742	\$ 0	\$ 0	\$ 0	\$9,962,742
Property Taxes	3,768,587	761,428	0	289,150	4,819,165
Other Taxes	86,580	0	0	0	86,580
Intergovernmental Revenue	1,458,935	100,472	1,158,960	1,026,406	3,744,773
Special Assessments	0	0	0	11,915	11,915
Charges for Services	252,934	0	0	232,885	485,819
Fines, Licenses, and Permits	438,867	0	0	600	439,467
Interest Income	523,359	37,886	0	16,679	577,924
Miscellaneous	77,046	0	0	82,150	159,196
Total Revenues	<u>16,569,050</u>	<u>899,786</u>	<u>1,158,960</u>	<u>1,659,785</u>	<u>20,287,581</u>
Expenditures					
Security of Persons and Property	8,453,573	0	0	535,104	8,988,677
Public Health Services	253,635	0	0	11,333	264,968
Leisure Time Activities	1,104,173	0	0	195,874	1,300,047
Community Environment	549,455	0	0	314,202	863,657
Basic Utilities Expenditures	704,251	0	0	27,724	731,975
Transportation	1,023,008	0	2,126,771	1,837,963	4,987,742
General Government	2,212,647	5,197	0	154,548	2,372,392
Debt Service:					
Principal Retirement	0	6,300,000	13,352	5,000	6,318,352
Interest and Fiscal Charges	0	125,650	0	1,250	126,900
Total Expenditures	<u>14,300,742</u>	<u>6,430,847</u>	<u>2,140,123</u>	<u>3,082,998</u>	<u>25,954,710</u>
Excess of Revenues Over (Under) Expenditures	<u>2,268,308</u>	<u>(5,531,061)</u>	<u>(981,163)</u>	<u>(1,423,213)</u>	<u>(5,667,129)</u>
Other Financing Sources (Uses)					
Proceeds from Sale of Notes	0	5,600,000	0	0	5,600,000
Proceeds from OPWC Loan	0	0	127,396	0	127,396
Transfers In	0	0	1,725,000	1,346,933	3,071,933
Transfers Out	(3,070,000)	0	0	(1,933)	(3,071,933)
Total Other Financing Sources (Uses)	<u>(3,070,000)</u>	<u>5,600,000</u>	<u>1,852,396</u>	<u>1,345,000</u>	<u>5,727,396</u>
Net Change in Fund Balances	(801,692)	68,939	871,233	(78,213)	60,267
Fund Balances (Deficits) - Beginning of Year	9,400,884	64,518	1,718,434	8,030,944	19,214,780
Increase (Decrease) in Reserve for Inventory	<u>16,453</u>	<u>0</u>	<u>0</u>	<u>(321)</u>	<u>16,132</u>
Fund Balances (Deficits) - End of Year	<u>\$ 8,615,645</u>	<u>\$ 133,457</u>	<u>\$ 2,589,667</u>	<u>\$ 7,952,410</u>	<u>\$19,291,179</u>

See accompanying notes to the basic financial statements.

CITY OF MAYFIELD HEIGHTS, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

Net Change in Fund Balances - Total Governmental Funds		\$ 60,267
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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.		1,712,262
The net effect of other transactions involving capital assets is to decrease net assets.		
Donation	4,163,000	
Current year depreciation on donated asset	<u>(41,630)</u>	
Total		4,121,370
Governmental funds report only the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(12,606)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent Property Tax	(72,164)	
Grants and Entitlements	58,415	
Income Tax	139,207	
Special Assessments	<u>7,567</u>	
Total		133,025
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		6,318,352
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due.		(51,312)
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.		(5,727,396)
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	(157,250)	
Change in Inventory	<u>16,132</u>	
Total		<u>(141,118)</u>
Change in Net Assets of Governmental Activities		<u>\$ 6,412,844</u>

CITY OF MAYFIELD HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Income Taxes	\$ 8,898,979	\$ 9,927,284	\$ 9,927,284	\$ 0
Property Taxes	3,378,223	3,768,587	3,768,587	0
Other Taxes	77,139	86,053	86,053	0
Intergovernmental	1,303,800	1,454,458	1,454,458	0
Charges for Services	221,426	247,012	247,012	0
Fines, Licenses, and Permits	420,612	469,215	469,215	0
Interest Income	475,506	530,452	530,452	0
Miscellaneous	95,314	76,993	76,993	0
Total Revenues	<u>14,870,999</u>	<u>16,560,054</u>	<u>16,560,054</u>	<u>0</u>
<u>Expenditures</u>				
Security of Persons and Property	8,513,562	8,609,161	8,459,208	149,953
Public Health	270,624	272,325	260,107	12,218
Leisure Time Activities	1,185,730	1,227,980	1,132,740	95,240
Community Environment	554,040	564,940	553,655	11,285
Basic Utility	701,710	701,710	704,115	(2,405)
Transportation	1,043,945	1,077,045	1,046,323	30,722
General Governments	2,196,929	2,273,739	2,168,747	104,992
Total Expenditures	<u>14,466,540</u>	<u>14,726,900</u>	<u>14,324,895</u>	<u>402,005</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>404,459</u>	<u>1,833,154</u>	<u>2,235,159</u>	<u>(402,005)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers Out	(2,745,000)	(3,070,000)	(3,070,000)	0
Advances In	684,000	684,000	684,000	0
Advances Out	(684,000)	(684,000)	(684,000)	0
Total Other Financing Sources (Uses)	<u>(2,745,000)</u>	<u>(3,070,000)</u>	<u>(3,070,000)</u>	<u>0</u>
Net Change in Fund Balance	(2,340,541)	(1,236,846)	(834,841)	(402,005)
Fund Balance, Beginning of Year	7,928,564	7,928,564	7,928,564	0
Prior Year Encumbrances Appropriated	<u>117,147</u>	<u>117,147</u>	<u>117,147</u>	<u>0</u>
Fund Balance, End of Year	<u>\$ 5,705,170</u>	<u>\$ 6,808,865</u>	<u>\$ 7,210,870</u>	<u>\$ (402,005)</u>

See accompanying notes to the basic financial statements.

**CITY OF MAYFIELD HEIGHTS, OHIO
STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2005**

Assets

Equity Pooled in Cash and Cash Equivalents	<u>\$ 180,944</u>
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Liabilities

Accounts Payable	\$ 85,915
Deposits Held and Due to Others	<u>95,029</u>
Total Liabilities	<u>\$ 180,944</u>

See accompanying notes to the basic financial statements.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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 18 to the basic financial statements. The City is also associated with an organization defined as risk sharing pool (Note 14).

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, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(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, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

B. **Fund Accounting** (Continued)

Governmental Funds Governmental funds are those through which 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.

General Bond Retirement Fund The general bond retirement fund accounts for the note proceeds and interest revenues to be used for municipal complex improvement.

Road Improvement Fund The road improvement fund is used for the improvement of the City's roads.

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, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(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.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

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

Revenues – Exchange and Nonexchange Transactions (Continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the year 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, 2005 but which were levied to finance year 2006 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, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(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, 2005:

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 2005 amounted to \$523,359, with the remaining interest revenue being properly withheld to the respective funds in 2005.

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, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(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, 2005 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 utilizing the half-year convention over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Building and Improvement	20 - 60 years
Machinery and Equipment	5 - 20 years
Furniture and Fixtures	15 - 20 years
Vehicles	5 - 20 years
Infrastructure	15 - 50 years

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

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, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(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 2005.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(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 personnel services and other object levels 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, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(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, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR'S NET ASSETS

A. Change in Accounting Principles

For fiscal year 2005, the City has implemented GASB No. 40, *Deposit and Investment Risk Disclosures*, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. This statement also clarifies and establishes accounting revenues for insurance recoveries.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the City, however additional note disclosure can be found in Note 6. The implementation of GASB Statement No. 42 did not have an effect on the financial statements of the City.

B. Restatement of Prior Year's Net Assets

Net assets of governmental activities were restated as follows:

Net Assets, December 31, 2004	\$41,322,700
Restatement Adjustment:	
Additional Special Assessments Receivable	66,059
Reduction in 2004 Income Tax Receivable	<u>(679,615)</u>
Net Assets, December 31, 2004, as Restated	<u>\$40,709,144</u>

Governmental activities' net assets were restated due to the exclusion of various special assessments receivable for fiscal year 2004 and RITA's change in the 2004 income tax receivable.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE**

A. **Accountability**

Fund balance at December 31, 2005 included the following individual fund deficits:

Police Pension Special Revenue Fund	\$ 69,829
Fire Pension Special Revenue Fund	<u>69,829</u>
Total	<u>\$ 139,658</u>

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.

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).

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 5: BUDGETARY BASIS OF ACCOUNTING (Continued)

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	\$ (801,692)
Increase (Decrease) Due to:	
Revenue Accruals	(16,089)
Expenditure Accruals	128,621
Fair Value Adjustment for Investments	7,093
Advances In	684,000
Advances Out	(684,000)
Net Impact of Encumbrances	<u>(152,774)</u>
Budgetary Basis	<u>\$ (834,841)</u>

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;

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

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;
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.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

A. Cash on Hand

At December 31, 2005, the City had \$1,050 in undeposited cash on hand, which is included on the balance sheet of the City as part of “Equity in Pooled Cash and Cash Equivalents”.

B. Deposits

At December 31, 2005 the carrying amount of the City’s deposits was \$8,462,510, (including \$2,005,000 in certificate of deposits). Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2005, \$800,000 of the City’s bank balance was covered by Federal Depository Insurance and \$8,055,860 was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent but not in the City’s name.

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

C. Investments

The City has a formal investment policy. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. At December 31, 2005, fair value was \$115,483 below the City’s net cost for investments. At December 31, 2004, fair value was \$91,188 below net cost. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

D. Interest Rate Risk

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

E. Credit Risk

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

F. Custodial Credit Risk

For an investment custodial credit risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Agency notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by a third party custodian designated by the Finance Director. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the finance director or qualified trustee.

G. Concentration of Credit Risk

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

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

G. **Concentration of Credit Risk** (Continued)

Cash and investments at year-end were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturities</u>	
			<u>(in Years)</u>	
			<u><1</u>	<u>1-3</u>
U.S. Agencies	\$ 9,524,457	Aaa/AAA	\$ 5,974,457	\$ 3,550,000
Manuscript Bond	<u>20,000</u>		<u>5,000</u>	<u>15,000</u>
Total Investments	9,544,457		5,979,457	3,565,000
Carrying Amount of				
Deposits	8,462,510		8,462,510	0
Petty Cash	<u>1,050</u>		<u>1,050</u>	<u>0</u>
Total	<u>\$18,008,017</u>		<u>\$14,443,017</u>	<u>\$ 3,565,000</u>

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

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2005, 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 2005 for real and public property taxes represents collections of 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005 on the assessed value as of January 1, 2005, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2005 real property taxes are collected in and intended to finance 2006.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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. 2005 public utility property taxes which became a lien at December 31, 2004 are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004 on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2005 was \$10.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property - 2005 Tax Valuation	\$ 503,082,110
Public Utility Tangible Property - 2005 Tax Valuation	10,216,880
Tangible Personal Property - 2005 Tax Valuation	<u>35,208,584</u>
Total	<u>\$ 548,507,574</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.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

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, 2005 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 2005 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.

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.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

C. **Special Assessments** (Continued)

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 \$80,416 in the special assessment bond retirement fund. At December 31, 2005, the amount of delinquent special assessments was \$34,300.

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.

E. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amount</u>
OPWC Loan	\$ 127,396
FEMA Grant	40,977
Estate Tax	240,704
Gasoline Tax/Motor Vehicle License Tax	358,181
Local Government	456,415
Homestead and Rollback	298,796
Utility Property Tax Loss Reimbursement	19,155
Total Governmental Activities	<u>\$ 1,541,624</u>

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 8: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

As of December 31, 2005, interfund transfers were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 0	\$ 3,070,000
Road Improvement Fund	1,725,000	0
Nonmajor Governmental Funds	<u>1,346,933</u>	<u>1,933</u>
Total	<u>\$ 3,071,933</u>	<u>\$ 3,071,933</u>

Interfund transfers were needed to provide additional resources for current operations. The composition of interfund balances as of December 31, 2005, is as follows:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General	\$ 0	\$ 2,332,296
Road Improvement	2,332,296	0

Interfund balances were needed due to the City maximizing its potential for investments using operating cash.

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2005 follows:

	<u>Restated Balance 12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/05</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>0</u>	<u>1,127,407</u>	<u>0</u>	<u>1,127,407</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>3,024,620</u>	<u>1,127,407</u>	<u>0</u>	<u>4,152,027</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	1,187,753	0	0	1,187,753
Buildings	8,919,736	0	(16,165)	8,903,571
Machinery and Equipment	1,389,175	10,324	(3,837)	1,395,662
Furniture and Equipment	782,482	50,987	0	833,469
Vehicles	3,303,852	297,837	(16,660)	3,585,029
Infrastructure:				
Roads	23,260,631	2,240,000	0	25,500,631
Water Mains	1,098,642	0	0	1,098,642
Sanitary Sewer	4,942,285	4,163,000	0	9,105,285
Storm Sewers	<u>2,203,957</u>	<u>0</u>	<u>0</u>	<u>2,203,957</u>
Totals at Historical Cost	<u>47,088,513</u>	<u>6,762,148</u>	<u>(36,662)</u>	<u>53,813,999</u>
Less Accumulated Depreciation:				
Land Improvements	(713,973)	(46,589)	0	(760,562)
Buildings	(1,590,342)	(221,246)	6,197	(1,805,391)
Machinery and Equipment	(916,862)	(83,184)	1,199	(998,847)
Furniture and Equipment	(302,901)	(46,636)	0	(349,537)
Vehicles	(1,642,333)	(246,998)	16,660	(1,872,671)

(Continued)

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 9: **CAPITAL ASSETS** (Continued)

	Restated Balance			Balance 12/31/05
	<u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	
<u>Governmental Activities</u> (Continued)				
Infrastructure:				
Roads	(12,133,997)	(1,204,742)	0	(13,338,739)
Water Mains	(265,339)	(21,973)	0	(287,312)
Sanitary Sewers	(1,586,430)	(140,476)	0	(1,726,906)
Storm Sewers	(642,183)	(44,079)	0	(686,262)
Total Accumulated Depreciation	<u>(19,794,360)</u>	<u>(2,055,923)</u>	<u>24,056</u>	<u>(21,826,227)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>27,294,153</u>	<u>4,706,225</u>	<u>(12,606)</u>	<u>31,987,772</u>
Governmental Activities Capital Assets, Net	<u>\$ 30,318,773</u>	<u>\$ 5,833,632</u>	<u>\$ (12,606)</u>	<u>\$ 36,139,799</u>

* Depreciation expense was charged to governmental functions as follows:

	Other		Total
	<u>Capital Assets</u>	<u>Infrastructure</u>	
Security of Persons and Property	\$ 307,281	\$ 0	\$ 307,281
Public Health	5,220	0	5,220
Public Works	51,523	206,528	258,051
Community Environment	8,766	0	8,766
Leisure Time Activities	76,891	0	76,891
Transportation	52,531	1,204,742	1,257,273
General Government	142,441	0	142,441
Total Depreciation Expense	<u>\$ 644,653</u>	<u>\$ 1,411,270</u>	<u>\$ 2,055,923</u>

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.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 11: DEFINED BENEFIT PENSION PLAN

A. Ohio Public Employees Retirement System

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

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

OPERS provides retirement, disability, survivor, death benefits, and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City was 9.55 percent of covered payroll. The City's required contributions to OPERS for the years ended December 31, 2005, 2004, and 2003 were \$391,333, \$345,789, and \$294,516, respectively. The full amount has been contributed for 2004 and 2003. 86.04 percent has been contributed for 2005.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

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.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police officers and 24.00 percent for firefighters. The City's contributions to the OP&F for police and firefighters were \$481,679 and \$507,604 for the year ended December 31, 2005, \$472,177 and \$477,068 for the year ended December 31, 2004, and \$274,292 and \$313,471 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 71.17 percent and 72.78 percent, respectively, have been contributed for 2005.

NOTE 12: **POST-EMPLOYMENT BENEFITS**

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in *GASB Statement No. 12*. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2005 employer rate was 13.55 percent of covered payroll; 4 percent was the portion that was used to fund health care for 2005.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

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

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, 2004, 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 at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent annually for the next 8 years and 4 percent (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans totaled 376,109. Actual City contributions for 2005 which were used to fund post-employment benefits were \$163,909. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS' net assets available for payment of benefits at December 31, 2004 (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

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

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

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

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

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 OP&F shall be included in the employer's contribution rate. Health care funding and accounting is 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 post-employment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 was 13,812 for police and 10,585 for firefighters.

The City's actual contributions for 2005 that were used to fund postemployment health care benefits were \$204,326 for police and \$173,327 for firefighters. The OP&F's total health care expenses for the year ended December 31, 2004 (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 13: LONG-TERM OBLIGATIONS

Changes in the debt of the City for the year ended December 31, 2005 are as follows:

	<u>Issuance Amount</u>	<u>Maturity Date</u>	<u>Balance 12/31/04</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 12/31/05</u>	<u>Amount Due in a Year</u>
Long-Term Obligations							
Governmental Activities							
<i>Manuscript Bonds</i>							
5.00% 1999 Aldenham Drive Improvement	\$50,000	2009	\$ 25,000	\$ 0	\$ (5,000)	\$ 20,000	\$ 5,000
<i>Total Manuscript Bonds</i>			<u>25,000</u>	<u>0</u>	<u>(5,000)</u>	<u>20,000</u>	<u>5,000</u>
Total GO, SA & Manuscript Bond Liabilities			<u>\$ 25,000</u>	<u>\$ 0</u>	<u>\$ (5,000)</u>	<u>\$ 20,000</u>	<u>\$ 5,000</u>
OPWC Loan Payable	\$271,155	2015	140,192	0	(13,352)	126,840	13,352
OPWC Loan Payable	\$1,000,000	2024	0	127,396	0	127,396	0
Municipal Complex Improvement Notes		Jan 2006	6,300,000	5,600,000	(6,300,000)	5,600,000	700,000
Claims and Judgment Payable			2,000,000	0	0	2,000,000	0
Compensated Absences			<u>1,830,975</u>	<u>729,038</u>	<u>(571,788)</u>	<u>1,988,225</u>	<u>617,131</u>
Total Governmental Long-Term Liabilities			<u>\$10,296,167</u>	<u>\$ 6,456,434</u>	<u>\$ (6,890,140)</u>	<u>\$ 9,862,461</u>	<u>\$ 1,335,483</u>

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) loans will be paid from the Road Improvement fund by revenues transferred from the general fund. Municipal Complex Improvement Notes payable were reissued in 2005 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 16 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, 2005 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>
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	5,000	250	13,352	18,352	250
2010	0	0	13,352	13,352	0
2011-2015	0	0	66,760	66,760	0
Totals	<u>\$ 20,000</u>	<u>\$ 2,500</u>	<u>\$ 133,520</u>	<u>\$ 153,520</u>	<u>\$ 2,500</u>

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 14: 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 the stop loss coverage 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 2005, the City of Mayfield Heights paid \$133,009 in premiums from the general fund, which represents 9.30 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 15: 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, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 15: **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 \$414.03 for single coverage and \$1,016.67 for family coverage. The monthly premium for dental benefits is \$21.35 for single coverage and \$69.23 for family coverage. The monthly coverage for vision benefits is \$3.14 for single coverage and \$7.86 for family coverage.

NOTE 16: **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.

In August of 2006, the City of Mayfield Heights reached a settlement agreement in the ongoing litigation concerning the temporary taking of property. The parties agreed that the City will pay the sum of \$4,000,000, with the other party donating \$1,000,000 back to the City. The net cost to conclude the litigation was \$3,000,000. The City issued \$3,000,000 in Final Judgment Notes, and the financial transaction was concluded on August 31, 2006.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(CONTINUED)

NOTE 17: SUBSEQUENT EVENT

On January 25, 2006, the City issued \$4,900,000 in 2006 series Municipal Complex Improvement Bond Anticipation Notes to retire 2005 series Municipal Complex Improvement Bond Anticipation Notes in the amount of \$5,600,000. The 2006 series notes payable were issued at an interest rate of 4.00 percent, with the maturity date on January 25, 2007.

NOTE 18: 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 six (6) participating member municipalities. In 2005, all participating municipalities contributed \$75,000 each.

The Council adopts a budget for ESRCOG annually. Each member municipality's degree of control is limited to its representation on the Council. In 2005, 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, 6622 Wilson Mills Road, Mayfield Village, Ohio 44143.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the City Council:

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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 25, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated September 25, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the City's management dated September 25, 2006, we reported other matters related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

We intend this report solely for the information and use of management and City Council. It is not intended for 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

September 25, 2006

**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Revised Code 5705.41(B) – Expenditures Plus Encumbrances Exceeding Appropriations	Not fully corrected	Re-issued in the management letter



**Auditor of State
Betty Montgomery**

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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
NOVEMBER 16, 2006**