



**CITY OF RICHMOND HEIGHTS
CUYAHOGA COUNTY**

REGUALR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2004 & 2003



**Auditor of State
Betty Montgomery**

**CITY OF RICHMOND HEIGHTS
CUYAHOGA COUNTY**

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CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Richmond Heights
Cuyahoga County
457 Richmond Road
Richmond Heights, Ohio 44143

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 Richmond Heights, Cuyahoga County, Ohio, (the City) as of and for the years ended December 31, 2004 and December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 Richmond Heights, Cuyahoga County, Ohio, as of December 31, 2004 and December 31, 2003, and the respective changes in financial position thereof and the respective budgetary comparisons for the General and Fire Service funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 18, during the year ended December 31, 2003, the City implemented GASB Statement No. 34, *Basic Financial Statements – Management Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 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

June 6, 2006

City of Richmond Heights

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

The discussion and analysis of the City of Richmond Heights's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2004 are as follows:

- ◆ City income tax revenue totaled \$3,807,096.
- ◆ The assets of the City of Richmond Heights exceeded its liabilities at the close of the most recent fiscal year by \$9,388,691. Of this amount, \$3,632,723 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ In total, net assets in governmental activities increased by \$273,380 during 2004. This represents a 3 percent increase from 2003.
- ◆ Total assets increased by \$931,864, which represents an increase of approximately 4 percent from 2003. The biggest changes were an increase in non-depreciable capital assets of \$997,907 and an increase in depreciable capital assets of \$570,988.
- ◆ Total liabilities increased by \$658,484, which represents an increase of approximately 4 percent.

Using this Annual Financial Report

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

Government-wide financial statements – Reporting the City of Richmond Heights as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets presents information on all the City of Richmond Heights's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increase or decrease in net assets may serve as a useful indicator of whether the financial position of the City of Richmond Heights 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 property and income tax laws, and the condition of the 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 used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

City of Richmond Heights

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

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

- Assets
- Liabilities
- Net assets (assets minus liabilities)
- Program revenues and expenses
- General revenues
- Net assets beginning of year and end of year

Fund Financial Statements - Reporting the City of Richmond Heights's Most Significant Funds

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Richmond Heights, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Richmond Heights can be accounted for in the category of governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds.

The City of Richmond Heights maintains 26 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General Fund, Fire Service Fund, Bond Retirement Fund, and Capital Improvement Capital Projects Fund, all of which are considered to be major funds.

City of Richmond Heights

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 25 of this report.

Government-wide Financial Analysis - City of Richmond Heights as a Whole

As noted earlier, the Statement of Net Assets looks at the City as a whole and can prove to be a useful indicator of the City's financial position.

Table 1 provides a summary of the City's net assets for 2004 as compared to 2003.

Table 1
Net Assets

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 11,348,699	\$ 11,985,730
Capital assets, net	<u>14,426,487</u>	<u>12,857,592</u>
<i>Total assets</i>	<u>25,775,186</u>	<u>24,843,322</u>
Current liabilities and other liabilities	6,557,030	5,247,388
Long-term liabilities:		
Due within one year	716,903	645,893
Due in more than one year	<u>9,112,562</u>	<u>9,834,730</u>
<i>Total liabilities</i>	<u>16,386,495</u>	<u>15,728,011</u>
Invested in capital assets, net of related debt	5,407,703	3,306,938
Restricted for:		
Debt service	348,265	155,107
Other purposes	-	20,295
Unrestricted	<u>3,632,723</u>	<u>5,632,971</u>
<i>Total net assets</i>	\$ <u><u>9,388,691</u></u>	\$ <u><u>9,115,311</u></u>

Total assets increased \$931,864 from 2003 to 2004 primarily because of the construction in progress. Increase in capital assets of \$1,586,895 offset the decrease in special assessment receivable of \$212,191.

City of Richmond Heights

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year as compared to 2003.

Table 2
Changes in Net Assets

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
Program revenues:		
Charges for services	\$ 1,292,715	\$ 1,025,454
Operating grants	<u>15,525</u>	<u>4,366</u>
Total program revenues	<u>1,308,240</u>	<u>1,029,820</u>
General revenues:		
Property taxes	3,263,807	3,021,580
Income taxes	3,807,096	3,607,399
Grants and entitlements	2,588,635	1,987,822
Investment income	51,804	63,070
Miscellaneous	<u>32,608</u>	<u>-</u>
Total general revenues	<u>9,743,950</u>	<u>8,679,871</u>
Total revenues	<u>11,052,190</u>	<u>9,709,691</u>
Expenses:		
General government	2,480,326	1,424,431
Security of persons and property	5,330,163	5,143,197
Transportation	1,257,705	1,119,494
Leisure time activities	658,343	439,605
Community development	294,033	275,539
Basic utility services	460,004	520,299
Interest and fiscal charges	<u>298,236</u>	<u>482,118</u>
Total expenses	<u>10,778,810</u>	<u>9,404,683</u>
Change in net assets	\$ <u><u>273,380</u></u>	\$ <u><u>305,008</u></u>

City of Richmond Heights

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

Governmental Activities

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. The City's income tax rate is 2 percent on gross income and has not changed since 1993. Residents of the City who work in another community and pay the withholding tax for that community receive a 100 percent credit to a limit of 2 percent. During 2004, the revenues generated from this tax amounted to \$3,807,096.

General property taxes are also a significant source of revenues. Although this is a much more stable tax, property taxes constitute only about a third of the general revenues for the City. In addition to the general property taxes, the City has a one-mill levy for the Fire Department. The Fire Service Levy provides for a portion of the operating expenditures of the Fire Department, the remainder of funding comes from the General Fund.

Intergovernmental revenues, particularly local government subsidies have, in the past, provided a very stable predictable and significant contribution to the City's General Fund. In 2004, local government subsidies have become less stable with State Budget cuts and county distribution formulas being challenged in court. Estate taxes have also been a significant contributor to this City's budget, but much less stable and not at all predictable. Both of these forms of intergovernmental taxes are at risk due to budget concerns at the State level.

The City has also more aggressively pursued grants and donations to help fund particular projects that might have been funded through the general fund. Grants have helped fund the City's annual tree planting program; police equipment; paramedic training as well as sanitary sewer construction in several areas of the City.

Interest on all City accounts, except when otherwise designated, is another source of revenue for the General Fund. In the past, interest constituted as much as 25 percent of the total budget. Now, because of the drop in interest rates, this source is much less significant.

Security of Persons and Property and General Government are the major activities of the City generating 72 percent of the governmental expenses. Currently, there are 21 full-time sworn officers in the police department. The City of Richmond Heights was recently rated number 46 amongst the top 66 communities with regards to its safety forces in an annual study conducted by Cleveland Magazine. During 2004, the department continued to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology. In 2003, the Police Department marked its first anniversary in a "new" law enforcement facility. The facility and related technological updates have proven to be a wise investment of public funds which contributes favorably to law enforcement and prevention.

City of Richmond Heights

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

The fire department consists of 18 full-time and 15 part-time fire fighters. All but three of these fire fighters are fully trained paramedics. Again, training plays a crucial role in the day-to-day operation of the fire department. The department handled 1,292 calls for assistance of which approximately 964 were for EMS and the rest for fire and fire related incidents.

With several large sanitary sewer construction projects planned or in process, the investment in streets was limited to those streets that experienced sanitary sewer construction or minor repair, and resurfacing of various streets.

The City's Funds

Information about the City's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,352,859 and expenditures of \$13,285,521. The net change in fund balance for the year was most significant in the Capital Improvement Fund showing an decrease in fund balance of \$842,189, which resulted from the City's planned "spend down" in 2003 of the fund's accumulated balance. The Other Governmental Funds reflected a decrease of \$1,168,154, however, the beginning fund balance of \$2,030,602 is more than ample to meet these times of lower revenues. Overall the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

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 legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public, the budget is adopted by City council. Council must approve legislation for any revisions in the budget that alter totals or the total appropriations for any department or fund. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

For the General Fund, budget basis revenue was \$212,526 under the original budget estimates of \$6,650,587. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenue areas. The original appropriations of \$5,952,656 were not sufficient to meet the expenditures for the year, which ended up at \$5,907,712 or \$147,780 less than anticipated in the final budget due to a conservative budgeting and spending controls.

City of Richmond Heights

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

Capital Assets and Debt Administration

Capital Assets

Table 3 shows fiscal 2004 balances of Capital Assets as compared to 2003:

Table 3
Capital Assets at December 31

	Governmental Activities	
	2004	2003
Land	\$ 617,747	\$ 300,010
Construction in progress	2,031,166	1,350,996
Land Improvements	1,531,566	1,413,900
Buildings and improvements	6,614,766	5,959,256
Machinery and equipment	1,276,111	1,154,046
Vehicles	1,564,616	1,591,689
Infrastructure:		
Roads	6,417,554	6,108,707
Sanitary sewers	3,645,275	3,571,700
Storm sewers	2,407,944	2,407,944
Water lines	2,381,534	2,381,534
Less: accumulated depreciation	<u>(14,061,792)</u>	<u>(13,382,190)</u>
Total capital assets, net	\$ <u>14,426,487</u>	\$ <u>12,857,592</u>

The City's plan is to maintain its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks and ambulances are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame. The police car replacement plan is to replace 3 vehicles each year. The older vehicles are either traded in to the dealers or sold to the highest bidder at auction.

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the roads, sewer lines and water lines in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack-sealed and in the case of concrete roads, either replaced or repaired. After approval from council, the projects are competitively bid to get the best possible pricing from contractors. Related expenditures are paid for out of the Capital Improvement Fund of the City.

The City is committed to a long-term goal of meeting the needs of its infrastructure and facilities. A five-year capital plan is in place that provides for street improvements and adding additional facilities to complement our current structures.

City of Richmond Heights

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

Debt

At December 31, 2004, the City of Richmond Heights had \$9,829,465 in outstanding debt and compensated absences, of which \$4,685,000 was in General Obligation Bonds. Table 4 summarizes the outstanding obligations of the City.

Table 4
Outstanding Debt at Year End

	Governmental Activities	
	2004	2003
General obligation bonds	\$ 4,685,000	\$ 5,146,746
Special assessment bonds	-	3,254
OWDA loans	4,129,338	4,238,369
OWPC loan	152,739	162,285
Police pension	50,343	51,142
Compensated absences	<u>812,045</u>	<u>878,827</u>
Total	\$ <u>9,829,465</u>	\$ <u>10,480,623</u>

At December 31, 2004, the City's overall legal debt margin was \$26,618,796. At year-end, the outstanding general obligation debt was \$4,685,000. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

Current Related Financial Activities

The City of Richmond Heights is strong financially. In addition, the City of Richmond Heights's systems of budgeting and internal controls are well regarded and the City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Richmond Heights with full disclosure of the financial position of the City.

Contacting the City of Richmond Heights's Finance Department

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance, Lynda Rossiter, City of Richmond Heights, 457 Richmond Road, Richmond Heights, Ohio 44143, telephone (216) 486-2474, or web site at www.RichmondHeights.oh.us.

City of Richmond Heights

Statement of Net Assets

December 31, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 2,952,025
Cash with fiscal agent	2,263
Materials and supplies inventory	12,766
Accrued interest receivable	3,792
Accounts receivable	154,130
Intergovernmental receivable	837,175
Prepaid items	6,643
Taxes receivable	4,409,205
Special assessments receivable	2,970,700
Nondepreciable capital assets	2,648,913
Depreciable capital assets, net	<u>11,777,574</u>
Total assets	<u>25,775,186</u>
Liabilities:	
Accounts payable	833,503
Accrued wages and benefits	158,921
Intergovernmental payable	385,711
Notes payable	2,085,000
Accrued interest payable	38,912
Deferred revenue	3,054,983
Long-term liabilities:	
Due within one year	716,903
Due in more than one year	<u>9,112,562</u>
Total liabilities	<u>16,386,495</u>
Net assets:	
Investment in capital assets, net of related debt	5,407,703
Restricted for:	
Debt service	348,265
Unrestricted	<u>3,632,723</u>
Total net assets	<u>\$ 9,388,691</u>

The accompanying notes are an integral part of these financial statements

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City of Richmond Heights

Statement of Activities

For The Year Ended December 31, 2004

	<u>Expense</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total Governmental Funds</u>
Government activities:				
General government	\$ 2,480,326	\$ 769,787	\$ -	\$ (1,710,539)
Security of persons and property	5,330,163	324,331	15,525	(4,990,307)
Transportation	1,257,705	74,810	-	(1,182,895)
Leisure time activities	658,343	122,788	-	(535,555)
Community development	294,033	999	-	(293,034)
Basic utility service	460,004	-	-	(460,004)
Interest and fiscal charges	<u>298,236</u>	<u>-</u>	<u>-</u>	<u>(298,236)</u>
Total governmental activities	\$ <u>10,778,810</u>	\$ <u>1,292,715</u>	\$ <u>15,525</u>	<u>(9,470,570)</u>
General revenues:				
Property and other local taxes levied for:				
				2,483,899
General purposes				779,908
Debt service				
Municipal income taxes levied for:				
				3,807,096
General purposes				2,588,635
Grants and entitlements not restricted				51,804
Investment income				32,608
Miscellaneous income				<u>32,608</u>
Total general revenues				<u>9,743,950</u>
Change in net assets				273,380
Net assets at beginning of year				<u>9,115,311</u>
Net assets at end of year				\$ <u>9,388,691</u>

The accompanying notes are an integral part of these financial statements

City of Richmond Heights

Balance Sheet Governmental Funds

December 31, 2004

	<u>General</u>	<u>Fire Service</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 1,177,203	\$ 24,368
Cash with fiscal agents	-	-
Taxes receivable	2,510,838	961,670
Accounts receivable	110,895	-
Accrued interest receivable	3,792	-
Intergovernmental receivable	264,515	50,147
Special assessments receivable	-	-
Internal receivable	66,768	-
Materials and supplies inventory	-	-
Prepaid items	6,643	-
Total Assets	\$ <u>4,140,654</u>	\$ <u>1,036,185</u>
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	\$ 171,587	\$ 11,499
Accrued wages	55,580	85,758
Intergovernmental payable	184,350	13,330
Internal payable	4,839	666
Deferred revenue	1,965,503	961,670
Accrued interest payable	-	-
Notes payable	-	-
Total Liabilities	<u>2,381,859</u>	<u>1,072,923</u>
Fund Balances:		
Reserve for encumbrances	55,225	4,181
Reserve for inventory	-	-
Unreserved (deficit) for:		
General Fund	1,703,570	-
Special Revenue Funds	-	(40,919)
Debt Service Fund	-	-
Capital Projects Funds	-	-
Total Fund Balances (deficits)	<u>1,758,795</u>	<u>(36,738)</u>
Total Liabilities and Fund Balances	\$ <u>4,140,654</u>	\$ <u>1,036,185</u>

The accompanying notes are an integral part of these financial statements

	<u>Bond Retirement</u>	<u>Capital Improvements</u>	<u>Other Governmental</u>	<u>Total</u>
\$	298,378	\$ 23,568	\$ 1,428,508	\$ 2,952,025
	2,263	-	-	2,263
	766,387	-	170,310	4,409,205
	-	-	43,235	154,130
	-	-	-	3,792
	47,624	-	474,889	837,175
	2,970,700	-	-	2,970,700
	-	-	5,505	72,273
	-	-	12,766	12,766
	-	-	-	6,643
\$	<u>4,085,352</u>	<u>\$ 23,568</u>	<u>\$ 2,135,213</u>	<u>\$ 11,420,972</u>
\$	-	\$ -	\$ 650,417	\$ 833,503
	-	-	17,583	158,921
	-	-	188,031	385,711
	-	-	66,768	72,273
	3,737,087	-	349,966	7,014,226
	-	10,572	-	10,572
	-	2,085,000	-	2,085,000
	<u>3,737,087</u>	<u>2,095,572</u>	<u>1,272,765</u>	<u>10,560,206</u>
	-	-	930,546	989,952
	-	-	12,766	12,766
	-	-	-	1,703,570
	-	-	440,350	399,431
	348,265	-	-	348,265
	-	(2,072,004)	(521,214)	(2,593,218)
	<u>348,265</u>	<u>(2,072,004)</u>	<u>862,448</u>	<u>860,766</u>
\$	<u>4,085,352</u>	<u>\$ 23,568</u>	<u>\$ 2,135,213</u>	<u>\$ 11,420,972</u>

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City of Richmond Heights

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

December 31, 2004

Total Governmental Funds Balances \$ 860,766

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. 14,426,487

Other Long-Term Assets are not available to pay for current-period expenditures and therefore are deferred in the Funds.

Property and Other Taxes	\$ 281,728	
Municipal Income Taxes	420,493	
Special Assessments	2,970,700	
Intergovernmental	<u>286,322</u>	
Total		3,959,243

Accrued wages and benefits include contractual required pension contributions not expected to be paid with expendable available fund resources and therefore not reported in the funds. (50,343)

Long-Term Liabilities are not due and payable in the current period and are therefore not reported in the Funds.

Interest Payable	(28,340)	
General Obligation Bonds	(4,685,000)	
Loans Payable	(4,282,077)	
Compensated Absences	<u>(812,045)</u>	
Total		<u>(9,807,462)</u>

Net Assets of Governmental Activities \$ 9,388,691

The accompanying notes are an integral part of these financial statements

City of Richmond Heights

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For The Year Ended December 31, 2004

	<u>General</u>	<u>Fire Service</u>
Revenues:		
Property taxes	\$ 1,407,271	\$ 888,201
Municipal income tax	3,880,550	-
Other local taxes	238,868	-
Intergovernmental	494,385	153,095
Charges for services	115,355	-
License and permits	177,051	-
Fines and forfeitures	175,614	-
Special assessments	-	-
Investment income	51,804	-
Miscellaneous income	<u>343,623</u>	<u>6,263</u>
Total revenues	<u>6,884,521</u>	<u>1,047,559</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	2,844,535	1,841,087
Leisure time activities	308,123	-
Community development	294,228	-
Basic utility service	460,004	-
Transportation	751,211	-
General government	1,408,664	-
Capital outlay	-	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	-	-
Total expenditures	<u>6,066,765</u>	<u>1,841,087</u>
Excess of revenues over (under) expenditures	<u>817,756</u>	<u>(793,528)</u>
Other financing sources (uses):		
Transfers - in	20,295	675,000
Transfers - out	<u>(835,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(814,705)</u>	<u>675,000</u>
Net change in fund balances	3,051	(118,528)
Fund balance (deficit) at beginning of year	<u>1,755,744</u>	<u>81,790</u>
Fund balance (deficit) at end of year	\$ <u><u>1,758,795</u></u>	\$ <u><u>(36,738)</u></u>

The accompanying notes are an integral part of these financial statements

<u>Bond Retirement</u>	<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total</u>
\$ 779,814	\$ -	\$ 175,468	\$ 3,250,754
-	-	-	3,880,550
-	-	-	238,868
145,155	-	1,596,584	2,389,219
-	-	263,963	379,318
-	-	-	177,051
-	-	-	175,614
212,285	-	-	212,285
-	-	-	51,804
<u>2,261</u>	<u>16,900</u>	<u>228,349</u>	<u>597,396</u>
<u>1,139,515</u>	<u>16,900</u>	<u>2,264,364</u>	<u>11,352,859</u>
-	-	819,115	5,504,737
-	-	108,676	416,799
-	-	-	294,228
-	-	-	460,004
-	-	516,720	1,267,931
4,200	-	44,094	1,456,958
-	58,552	2,883,618	2,942,170
583,577	-	-	583,577
<u>336,875</u>	<u>22,242</u>	<u>-</u>	<u>359,117</u>
<u>924,652</u>	<u>80,794</u>	<u>4,372,223</u>	<u>13,285,521</u>
<u>214,863</u>	<u>(63,894)</u>	<u>(2,107,859)</u>	<u>(1,932,662)</u>
-	21,705	960,000	1,677,000
<u>(21,705)</u>	<u>(800,000)</u>	<u>(20,295)</u>	<u>(1,677,000)</u>
<u>(21,705)</u>	<u>(778,295)</u>	<u>939,705</u>	<u>-</u>
193,158	(842,189)	(1,168,154)	(1,932,662)
<u>155,107</u>	<u>(1,229,815)</u>	<u>2,030,602</u>	<u>2,793,428</u>
\$ <u>348,265</u>	\$ <u>(2,072,004)</u>	\$ <u>862,448</u>	\$ <u>860,766</u>

City of Richmond Heights

Reconciliation of The Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For The Year Ended December 31, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (1,932,662)

Amounts Reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report Capital Outlay as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	\$ 2,346,532	
Depreciation	<u>(773,581)</u>	
Total		1,572,951

In the Statement of Activities, only the loss on the disposal of assets are reported, whereas, in the Governmental Funds, the proceeds from the disposal increase financial resources. Thus, the change in Net Assets differs from the change in Fund Balance by the cost of the assets. (4,056)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Funds.

Property and Other Taxes	(225,815)	
Municipal Income Taxes	(73,454)	
Special Assessments	(212,285)	
Intergovernmental	<u>214,941</u>	
Total		(296,613)

Repayment of Debt Principal is an expenditure in the Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. 583,577

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds.

Compensated Absences	66,782	
Due to Other Governments	221,721	
Accrued Pension	799	
Accrued Interest on Debt	<u>60,881</u>	
Total		<u>350,183</u>

Change in Net Assets of Governmental Activities \$ 273,380

The accompanying notes are an integral part of these financial statements

City of Richmond Heights

Statement Of Revenues, Expenditures and Changes In Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual - General Fund

For The Year Ended December 31, 2004

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 1,391,892	\$ 1,391,892	\$ 1,407,271	\$ 15,379
Municipal income tax	4,023,519	4,023,519	3,849,145	(174,374)
Other local taxes	246,896	246,896	236,196	(10,700)
Intergovernmental	387,926	387,926	371,114	(16,812)
Charges for services	50,741	50,741	48,542	(2,199)
Licenses and permits	185,072	185,072	177,051	(8,021)
Fines and forfeitures	183,570	183,570	175,614	(7,956)
Interest	77,514	77,514	74,155	(3,359)
Miscellaneous income	<u>103,457</u>	<u>103,457</u>	<u>98,973</u>	<u>(4,484)</u>
Total revenues	<u>6,650,587</u>	<u>6,650,587</u>	<u>6,438,061</u>	<u>(212,526)</u>
Expenditures:				
Current:				
General government	1,426,221	1,418,722	1,303,444	115,278
Security of persons and property	2,655,638	2,748,953	2,740,154	8,799
Transportation	795,624	767,374	755,349	12,025
Community environment	281,931	296,701	295,073	1,628
Basic utility services	498,703	519,203	499,076	20,127
Leisure time activities	<u>294,539</u>	<u>304,539</u>	<u>314,616</u>	<u>(10,077)</u>
Total expenditures	<u>5,952,656</u>	<u>6,055,492</u>	<u>5,907,712</u>	<u>147,780</u>
Excess of revenues over (under) expenditures	<u>697,931</u>	<u>595,095</u>	<u>530,349</u>	<u>(64,746)</u>
Other financing sources (uses):				
Transfers - in	15,929	15,929	20,295	4,366
Advances - out	-	(40,000)	(39,500)	500
Transfers - out	<u>(1,290,000)</u>	<u>(1,290,000)</u>	<u>(885,000)</u>	<u>405,000</u>
	<u>(1,274,071)</u>	<u>(1,314,071)</u>	<u>(904,205)</u>	<u>409,866</u>
Net change in fund balance	(576,140)	(718,976)	(373,856)	345,120
Unencumbered fund balance at the beginning of year	1,057,064	1,057,064	1,057,064	-
Prior year encumbrances	<u>123,613</u>	<u>123,613</u>	<u>123,613</u>	<u>-</u>
Unencumbered fund balance at the end of year	\$ <u>604,537</u>	\$ <u>461,701</u>	\$ <u>806,821</u>	\$ <u>345,120</u>

The accompanying notes are an integral part of these financial statements

City of Richmond Heights

Statement Of Revenues, Expenditures and Changes In Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual - Fire Service Fund

For The Year Ended December 31, 2004

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 877,637	\$ 877,637	\$ 888,201	\$ 10,564
Intergovernmental	101,724	101,724	102,948	1,224
Miscellaneous	-	-	6,265	6,265
Total revenues	<u>979,361</u>	<u>979,361</u>	<u>997,414</u>	<u>18,053</u>
Expenditures:				
Current:				
Security of persons and property	<u>1,747,927</u>	<u>1,831,757</u>	<u>1,851,283</u>	<u>(19,526)</u>
Excess of revenues under expenditures	<u>(768,566)</u>	<u>(852,396)</u>	<u>(853,869)</u>	<u>(1,473)</u>
Other financing sources (uses):				
Transfers - in	<u>750,000</u>	<u>750,000</u>	<u>675,000</u>	<u>(75,000)</u>
Net change in fund balance	(18,566)	(102,396)	(178,869)	(76,473)
Unencumbered fund balance at the beginning of year	199,001	199,001	199,001	-
Prior year encumbrances	<u>55</u>	<u>55</u>	<u>55</u>	<u>-</u>
Unencumbered fund balance at the end of year	\$ <u>180,490</u>	\$ <u>96,660</u>	\$ <u>20,187</u>	\$ <u>(76,473)</u>

The accompanying notes are an integral part of these financial statements

City of Richmond Heights

Statement of Fiduciary Net Assets Fiduciary Funds

December 31, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ <u>183,920</u>
Liabilities:	
Deposits held and due to others	\$ <u>183,920</u>

The accompanying notes are an integral part of the basic financial statements

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City of Richmond Heights

Notes to Basic Financial Statements

For The Year Ended December 31, 2004

Note 1: The Reporting Entity

The City of Richmond Heights (City) is a charter municipal corporation established and operated under the laws of the State of Ohio. The original charter became effective January 1, 1960 and provides for a mayor-council form of government. Elected officials include seven council members and a mayor.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Richmond Heights this includes: police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair, refuse collection, recycling and general administrative services.

Component units are legally separate organizations for which the City may be financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

The City participates in the Northern Ohio Risk Management Association, which is a shared risk pool and the Eastern Suburban Regional Council of Governments, which is a jointly governed organization. These organizations are described in Notes 9 and 16 to the combined financial statements.

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 governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with GASB pronouncements. The more significant of the City's accounting policies are described below.

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)

The statement of net assets presents the financial condition of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and 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 not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

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 three categories of funds: governmental, proprietary and fiduciary. The City has no proprietary funds.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

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

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Fire Service Fund – This fund accounts for the operations of the Fire Department.

Capital Improvement Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and the acquisition of major equipment.

Bond Retirement Fund – This fund is used to account for the accumulation of resources for, and the payment of, general long-term bonded debt principal and interest.

Fiduciary Fund Type – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets, except for fiduciary funds. The statement of activities presents increases (e.g. revenues) and decreases (e.g. 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. Governmental fund financial statements, therefore, include 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 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 in the presentation of expenses versus expenditures.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Revenues – Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 6) Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes, interest, grants, fees and rentals.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenditures

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 Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process

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 prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Ordinance, all of which are prepared on the budgetary basis of accounting. All funds, other than the agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department in the General Fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by ordinance of City Council.

Tax Budget

At the first City Council meeting in July, the Mayor presents the Tax Budget for the following fiscal year to City Council for consideration and passage. The adopted Tax Budget is submitted to the Cuyahoga County Auditor, as Secretary of the Cuyahoga County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources

The Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The 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. Prior to December 31, the City must revise its Tax Budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised Tax Budget then serves as the basis for the annual Appropriation Ordinance. On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31 of the preceding year. The Certificate may be further amended during the year if the Director of Finance determines, and the Budget Commission agrees that an estimate needs to be either increased or decreased. The amounts reported in the budgetary statements reflect the amounts in the final amended Certificate of Estimated Resources issued during 2004.

Appropriations

A temporary Appropriation Ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual Appropriation Ordinance must be passed by April 1 of each year for the period January 1 to December 31. The Appropriation Ordinance fixes spending authority at the object level within each department in the General Fund and at the fund level for all other funds. The Appropriation Ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed the amount available as stated in the Certificate of Estimated Resources. The allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of City Council. During the year, a supplemental Appropriation Ordinance was passed which did not have significant affect on the original Appropriation Ordinance. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications passed by City Council.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditures of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances 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.

F. Cash and Cash Equivalents

Cash received by the City is deposited into one central bank account. Monies from all funds are pooled in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through the City's records.

During 2004, investments were limited to U.S. governmental agency securities, money market mutual funds, and non-negotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as, non-negotiable certificates of deposit are reported at cost.

The City utilizes a financial institution to service certain general obligation bonded debt as principal and interest come due. The balance of this account is presented on the combined balance sheet as "Cash with Fiscal Agents".

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2004 amounted to \$51,804, which includes \$30,011 assigned from other City funds.

For purposes of the presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

G. Inventory

Inventory is stated at cost on a first-in, first-out basis. The costs of inventory items are recorded as expenditures when purchased.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which it was consumed.

I. Capital Assets

General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital asset values were initially determined at December 31, 1994 assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimated historical costs were developed. For certain fixed assets, the estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated. The City maintains a capitalization threshold of five thousand dollars.

The City's infrastructure consists of roads, sanitary sewers, storm sewers, and waterlines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	45 years
Buildings and improvements	45 years
Machinery and equipment	7 to 20 years
Vehicles	6 to 12 years
Infrastructure	65 years

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “internal receivables/payables”. Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

K. 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. A liability is accrued for employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates as of December 31, 2004, 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. For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the fund from which the employee who has accumulated unpaid leave is paid. The noncurrent portion of the liability is not reported. At December 31, 2003 there were no current portions recorded.

L. 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 are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, Compensated Absences and contractually required pension contributions (Intergovernmental Payable) 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 fund financial statements when due.

M. Fund Balance Reserves

Reservations of fund balances are established to identify the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, including amounts legally segregated for a specific future use. Fund balances are reserved for inventories of supplies and materials and encumbrances.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

N. Net Assets

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

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

O. 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.

P. Extraordinary and Special Items

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

Q. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3: Fund Accountability and Legal Compliance

A. Fund Accountability

The Fire Service Fund and the Capital Improvement Fund have deficit fund balances of \$36,738 and \$2,072,004 at December 31, 2004, respectively. These deficits are the result of the application of generally accepted accounting principles (GAAP) and the issuance of short-term bond anticipation notes which are used to finance projects in the capital fund until bonds are issued. The General Fund is liable for any deficits in the Fire Service Fund and provides operating transfers when cash is required, not when accruals occur. Once bonds are issued for capital projects and the liability is reported in the government-wide financial statements the deficit fund balance will be eliminated.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 3: Fund Accountability and Legal Compliance (continued)

B. Legal Compliance

Contrary to Ohio law, the City had expenditures plus encumbrances in excess of total appropriations during fiscal year 2004 and as of December 31, 2004 for various appropriation line items.

Contrary to Ohio law, the City did not always record a reservation of the applicable appropriation (encumber) at the time a commitment for the expenditure of funds was made.

Contrary to Ohio law, the City had appropriations in excess of total estimated resources as of December 31, 2004 for various funds.

Contrary to Ohio law, the City could not verify that the competitive bidding requirements were followed for four contracts.

Note 4: Budgetary Basis of Accounting

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/Expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures for all funds (budget) rather than as a reservation of fund balance for governmental fund types (GAAP);
- (d) Short-term note proceeds and note principal retirement for governmental funds are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 4: Budgetary Basis of Accounting (continued)

**Excess of Revenues and Other Financing Sources
over (under) Expenditures and other Financing Uses**

	<u>General</u>	<u>Fire Service Fund</u>
GAAP Basis	\$ 3,051	\$ (118,528)
Increase (decrease) due to:		
Revenue accruals	(446,460)	(50,145)
Current year encumbrances	139,107	-
Expenditure accruals	<u>(69,554)</u>	<u>(10,196)</u>
Budget Basis	\$ <u>(373,856)</u>	\$ <u>(178,869)</u>

Note 5: Deposits and Investments

The Ohio Revised Code classifies monies held by the City into these 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 City Council has identified as not required for use within the current 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.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, 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 Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 5: Deposits and Investments (continued)

Interim monies can be deposited or invested in the following securities:

1. U. S. Treasury Notes, Bills, Bonds, or any other obligation or security issued by the U. S. Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement 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 of Ohio Treasurer's investment pool (STAROhio).

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

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

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

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 5: Deposits and Investments (continued)

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Petty Cash

The City had \$325 of petty cash which is not included in the ending cash balance.

Deposits

At year-end, the carrying amount of the City's deposits was \$1,216,206 and the bank balance was \$1,372,238. Of the bank balance: \$200,000 was covered by federal depository insurance. \$1,172,238 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all Ohio Revised Code requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments

Investments are classified under the guidelines of GASB Statement No. 3 into three categories. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name.

	Risk <u>Category 3</u>	<u>Fair Value</u>
Victory Money Market Mutual Fund	\$ <u>1,922,002</u>	\$ <u>1,922,002</u>

The Victory Money Market Mutual Fund is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 5: Deposits and Investments (continued)

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows.

	Cash and Cash Equivalents/ <u>Deposits</u>	<u>Investments</u>
GASB Statement 9	\$ 3,138,208	\$ -
Victory Money Market Mutual Fund	<u>(1,922,002)</u>	<u>1,922,002</u>
GASB Statement 3	\$ <u>1,216,206</u>	\$ <u>1,922,002</u>

Note 6: Receivables

Receivables at December 31, 2004 consist primarily of taxes, accounts, intergovernmental and accrued interest on investments. All receivables are considered fully collectible.

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 2004 for real and public utility property taxes represents collections of the 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) is the 2004 taxes.

2004 real property taxes are levied after October 1, 2004 on the assessed value as of January 1, 2004, the lien date. Assessed values are established by the Ohio Revised Code at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005 operations.

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. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 6: Receivables (continued)

A. Property Taxes (continued)

The full tax rate for all City operations for the year ended December 31, 2004, was \$14.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate:	
Residential/Agriculture	\$ 189,070,710
Other Real Estate	82,256,620
Tangible Personal Property:	
Public Utility	4,298,790
General Tangible Personal Property	<u>19,006,474</u>
	<u>\$ 294,632,594</u>

Real property taxes are payable annually or semi-annually. If paid annually, the 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, the Ohio Revised Code permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30; with the remainder payable by September 20. The Cuyahoga County Treasurer collects property taxes on behalf of all taxing districts in the County including the City. The Cuyahoga County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2004 operations. The receivable is offset by Deferred Revenue.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 6: Receivables (continued)

B. Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2004 follows:

	<u>Amount</u>
Homestead and Rollback Reimbursements	\$ 181,571
Local Government	180,423
Fines and Forfeitures	9,665
Auto registration	35,165
Gasoline taxes	125,895
Estate Tax	297,713
Other	<u>6,743</u>
Total intergovernmental receivable	<u>\$ 837,175</u>

C. Income Taxes

The City levies a municipal income tax of two percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside of the City. The City allows a credit of one hundred percent for income tax paid to another municipality, not to exceed two percent of taxable income.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds may be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City. In 2004, the proceeds were allocated one hundred percent to the General Fund.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 7: Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Balance <u>12/31/2003</u>	Additions	Deletions	Balances <u>12/31/2004</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 300,010	\$ 317,737	\$ -	\$ 617,747
Construction in progress	1,350,996	680,170	-	2,031,166
Total capital assets, not being depreciated	<u>1,651,006</u>	<u>997,907</u>	<u>-</u>	<u>2,648,913</u>
Capital assets being depreciated:				
Land improvements	1,413,900	117,666	-	1,531,566
Buildings and improvements	5,959,256	655,510	-	6,614,766
Machinery and equipment	1,154,046	122,065	-	1,276,111
Vehicles	1,591,689	70,962	(98,035)	1,564,616
Infrastructure:				
Roads	6,108,707	308,847	-	6,417,554
Storm sewers	2,407,944	-	-	2,407,944
Sanitary sewers	3,571,700	73,575	-	3,645,275
Water lines	2,381,534	-	-	2,381,534
Total capital assets being depreciated	<u>24,588,776</u>	<u>1,348,625</u>	<u>(98,035)</u>	<u>25,839,366</u>
Less accumulated depreciation:				
Land improvements	(587,035)	(63,715)	-	(650,750)
Buildings and improvements	(1,349,982)	(133,302)	-	(1,483,284)
Machinery and equipment	(571,048)	(102,181)	-	(673,229)
Vehicles	(689,786)	(148,559)	93,979	(744,366)
Infrastructure:				
Roads	(4,963,324)	(157,468)	-	(5,120,792)
Sanitary sewers	(1,613,322)	(48,159)	-	(1,661,481)
Storm sewers	(1,964,435)	(72,566)	-	(2,037,001)
Water lines	(1,643,258)	(47,631)	-	(1,690,889)
Total accumulated depreciation	<u>(13,382,190)</u>	<u>(773,581)</u>	<u>93,979</u>	<u>(14,061,792)</u>
Net capital assets being depreciated	<u>11,206,586</u>	<u>575,044</u>	<u>(4,056)</u>	<u>11,777,574</u>
Governmental activities capital assets, net	\$ <u>12,857,592</u>	\$ <u>1,572,951</u>	\$ <u>(4,056)</u>	\$ <u>14,426,487</u>

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 457,079
Leisure Time Activities	244,578
Security of Persons and Property	<u>71,924</u>
	<u>\$ 733,581</u>

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 8: Shared Risk Pool

The City is a member of the Northern Ohio Risk Management Association (NORMA). NORMA is a joint self-insurance pool organized pursuant to Ohio Rev. Code 2744.081 and is defined as a shared risk pool for financial reporting purposes. It was established to enable its members to obtain property, liability and vehicle insurance through a formalized, jointly administered self-insurance fund.

Other members include the Cities of Bedford Heights, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Solon, South Euclid and the Village of Chagrin Falls. NORMA is governed by a Board of Trustees that consists of the Mayor from each of the participating members.

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

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

In 2004, the City paid \$2,541 in premiums which represent approximately 5.15 percent of the total premium. Financial information about NORMA can be obtained by contacting Mark P. Cegelka, Finance Director, City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146, who serves as the fiscal agent.

Note 9: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. To address such risks, the City joined together with other neighboring cities to form the Northern Ohio Risk Management Association (NORMA, see Note 8) for the purpose of providing property, liability and vehicle insurance and providing for a formalized, jointly administered self insurance fund. The City pays an annual premium to NORMA for its insurance coverage. The agreement for formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement. This coverage is purchased through the General Fund.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 9: Risk Management (continued)

Claims have not exceeded coverage provided by NORMA in any of the last three years and there were no significant reductions in coverage from the prior year.

The City also elected to join the NORMA group rating plan for workers' compensation. The group rating plan is administered by CompManagement, Inc. who was paid an annual fee of \$32,600 in 2004. The NORMA group rating plan is intended to achieve lower workers' compensation premium rates for the participants. The City pays the Ohio Bureau of Workers' Compensation a premium based on a rate per \$100 of wages paid. The rate is based on the group's claim history and administrative costs. There are no additional contributions required by a participant other than their annual fee.

The City provides medical, dental, vision and prescription drug benefits for all full-time employees through the QualChoice Health Plan and the Delta Dental Plan of Ohio. Monthly premium payments are made from the General and Fire Service Funds. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premiums for all benefits are \$959.91 for family coverage and \$366.94 for single coverage.

Note 10: Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and local ordinances. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned vacation time is paid upon termination of employment.

Employees earn sick leave at different rates depending upon type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, employees can be paid for accumulated, unused sick leave, up to a maximum number of hours which is either 600 or 690 for all City employees.

As of December 31, 2004, the City's liability for unpaid compensated absences was \$812,045.

Note 11: Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 11: Defined Benefit Pension Plans (continued)

A. Ohio Public Employees Retirement System (continued)

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

For the year ended December 31, 2004, the members of all three plans were required to contribute 8.50 percent of their annual covered salary to fund pension obligations. The City contributed 13.55 percent of covered payroll, of which 4.0 percent was used to fund health care coverage for retirees. The contribution rate is determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City of Richmond Heights's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$250,956, \$256,853, and \$209,226, respectively, equal to the required contributions for each year. The full amount has been contributed for the years 2003 and 2002. 46 percent has been contributed for in 2004, with the remainder being reported as a liability in the government-wide financial statements.

B. Ohio Police and Fire Pension Fund

The City of Richmond Heights contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. 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. 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters of which 7.75 percent was used to fund health care coverage. Contributions are authorized by state statute. The City of Richmond Heights's contributions to the Fund for police and firefighters were \$273,752 and \$291,177 for the year ended December 31, 2004, \$254,868 and \$244,873 for the year ended December 31, 2003, and \$255,193 and \$235,654 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 67 percent for police and 68 percent for firefighters has been contributed for 2004 with the remainder being reported as a liability.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 12: Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. 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 requiring employers to fund post-retirement health care through their contributions to OPERS. The 2004 employer contribution rate was 13.55 percent of covered payroll; 4.0 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.0 percent. An annual increase of 4.0 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next eight years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market value. 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.

At December 31, 2004, the number of active contributing participants in the Traditional and Combined Plans totaled 376,109. The City's actual contributions for 2004, which were used to fund postemployment benefits, were \$74,083. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, were \$10.8 billion. The actuarially accrued liability and the unfounded actuarially accrued liability were \$29.5 billion and \$18.7 billion, respectively.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 12: Postemployment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

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 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 Retirement Medical Account that can be used to fund future health care expenses.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (Pension Fund) provides postretirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit ("OPEB") as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The Ohio Revised Code provides the statutory authority allowing the OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 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 participants eligible to receive health care benefits as of December 31, 2004, the date of the last actuarial valuation available, was 13,812 for police and 10,528 for firefighters. The City's actual contributions for 2004 that were used to fund post-employment benefits were \$108,799 for police and \$94,026 for firefighters. OP&F's total health care expenses for the year ending December 31, 2004 was \$102,173,796, which was net of member contributions of \$55,665,341.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 13: Contingencies

The City is a party to legal proceedings seeking damages. The City's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Note 14: Note Debt

The City's note activity, including amounts outstanding, interest rates and the governmental fund in which the note is reported is as follows:

	<u>Balance</u> <u>12/31/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding</u> <u>12/31/04</u>
Capital Projects Funds				
Street Resurfacing Fund				
2003-2004 1.70%	\$ 585,000	\$ 1,785,000	\$ 585,000	\$ 1,785,000
Capital Improvements Fund				
2003-2004 1.68%	<u>700,000</u>	<u>300,000</u>	<u>700,000</u>	<u>300,000</u>
	<u>\$ 1,285,000</u>	<u>\$ 2,085,000</u>	<u>\$ 1,285,000</u>	<u>\$ 2,085,000</u>

All of the notes are backed by the full faith and credit of the City and mature within one year from date of issuance. The note liability is reflected in the fund which received the proceeds.

The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 15: Long-Term Obligations

Changes in long-term obligations of the City during 2004 are as follows:

	Original Amount	Balance December 31, 2003	Additions	Deletions	Balance December 31, 2004	Due in One Year
General Obligation Bonds						
1994 5.67% City Hall, Sidewalks, Underground Storage	\$ 470,000	\$ 56,746	\$ -	\$ 56,746	\$ -	\$ -
1997 4.74% Street Improvements	435,000	200,000	-	45,000	155,000	50,000
1999 4.32% Street Improvements	995,000	640,000	-	95,000	545,000	100,000
2000 5.30% Street Improvements	875,000	660,000	-	80,000	580,000	85,000
2001 3.35-4.35% Street Improvements	600,000	440,000	-	55,000	385,000	60,000
2001 3.35-5.70% Law Enforcement Building	<u>3,550,000</u>	<u>3,150,000</u>	<u>-</u>	<u>130,000</u>	<u>3,020,000</u>	<u>130,000</u>
Total general obligation bonds	<u>6,925,000</u>	<u>5,146,746</u>	<u>-</u>	<u>461,746</u>	<u>4,685,000</u>	<u>425,000</u>
1994 4.00-5.55% Special Assessment Bonds	<u>470,000</u>	<u>3,254</u>	<u>-</u>	<u>3,254</u>	<u>-</u>	<u>-</u>
OWDA Loans						
Monticello Avenue Sewer 4.56%	200,000	131,626	-	4,674	126,952	9,454
Chardon Road Sewer 4.56%	1,530,082	1,285,877	-	30,320	1,255,557	61,331
Brushview Road Sewer 4.12%	439,361	377,604	-	8,452	369,152	17,079
Highland Road - Meadowlane 3.79%	648,030	578,980	-	12,284	566,696	24,800
Richmond Road (to Highland Road) 3.90%	1,012,021	889,285	-	17,604	871,681	38,770
Sunset/Skyline Sewer Construction 3.20%-3.59%	1,063,171	930,114	-	24,742	905,372	50,450
Karen Isle/Nan Linn 3.20%	<u>107,082</u>	<u>44,883</u>	<u>-</u>	<u>10,955</u>	<u>33,928</u>	<u>22,798</u>
Total OWDA loans	<u>4,999,747</u>	<u>4,238,369</u>	<u>-</u>	<u>109,031</u>	<u>4,129,338</u>	<u>224,682</u>
Other Long-Term Obligations						
City of Highland Heights OPWC Loan	190,923	162,285	-	9,546	152,739	9,546
Police Pension Liability	n/a	51,142	-	799	50,343	832
Compensated Absences	<u>n/a</u>	<u>878,827</u>	<u>-</u>	<u>66,782</u>	<u>812,045</u>	<u>56,843</u>
Total other long-term obligations	<u>190,923</u>	<u>1,092,254</u>	<u>-</u>	<u>77,127</u>	<u>1,015,127</u>	<u>67,221</u>
Total long-term debt	\$ <u>12,585,670</u>	\$ <u>10,480,623</u>	\$ <u>-</u>	\$ <u>651,158</u>	\$ <u>9,829,465</u>	\$ <u>716,903</u>

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 15: Long-Term Obligations (continued)

The City's overall legal debt margin was \$26,618,796 at December 31, 2004. The unvoted legal debt margin was \$11,887,167. Principal and interest requirements to retire the Long-Term General Obligation Bonds, Police Pension Liability, OWDA (Ohio Water Development Authority) Loans, and the Special Assessment Bonds as of December 31, 2004, are as follows:

	General Obligation		Police Pension		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 425,000	\$ 230,345	\$ 832	\$ 2,131	\$ 187,643	\$ 146,540
2006	445,000	211,935	868	2,095	118,576	90,355
2007	465,000	192,293	908	2,047	233,429	174,887
2008	425,000	171,337	944	2,019	221,171	168,714
2009	445,000	152,158	984	1,979	224,770	163,170
2010-2014	1,065,000	547,475	5,593	9,221	1,090,452	728,612
2015-2019	1,145,000	279,870	6,902	7,912	1,211,404	559,739
2020-2024	270,000	15,390	7,582	5,750	841,893	529,943
Thereafter	-	-	25,730	6,723	-	-
	<u>\$ 4,685,000</u>	<u>\$ 1,800,803</u>	<u>\$ 50,343</u>	<u>\$ 39,877</u>	<u>\$ 4,129,338</u>	<u>\$ 2,561,960</u>

	OPWC Loan		Total	
	Principal	Interest	Principal	Interest
2005	\$ 9,546	\$ -	\$ 623,021	\$ 379,016
2006	9,546	-	573,990	304,385
2007	9,546	-	708,883	369,227
2008	9,546	-	656,661	342,070
2009	9,546	-	680,300	317,307
2010-2014	47,731	-	2,208,776	1,285,308
2015-2019	47,731	-	2,411,037	847,521
2020-2024	9,547	-	1,129,022	551,083
Thereafter	-	-	25,730	6,723
	<u>\$ 152,739</u>	<u>\$ -</u>	<u>\$ 9,017,420</u>	<u>\$ 4,402,640</u>

General obligation bonds are the direct obligation of the City and will be paid from the Bond Retirement, Debt Service Fund using property tax revenues. The 2001 3.35 percent Law Enforcement Building general obligation bonds were issued at a premium of \$7,439. Special assessment bonds will be paid from special assessment proceeds levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City.

The Monticello Avenue Sewer, Chardon Road Sewer, Brushview Road Sewer and Highland Road - Meadowlane OWDA loan liabilities are being paid from the Bond Retirement, Debt Service Fund. The City also entered into contractual agreements for new construction and design loans from OWDA. Under the terms of these agreements, OWDA will reimburse, advance, or directly pay the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and add them to the total amounts of the final loans. OWDA loans will be paid with Special Assessment revenue.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 15: Long-Term Obligations (continued)

The Police Pension Liability will be paid from Property Tax revenue in the Police Pension Fund. The Compensated Absences will be paid by the fund from which the employee's salary is paid.

During 2002, the City entered into a contractual agreement with the City of Highland Heights for the construction of sanitary sewer lines on Highland Road. Richmond Heights is responsible for the portion of the lines that run through the City. The project was financed by a loan from the Ohio Public Works Commission in the name of the City of Highland Heights.

The total amount owed to the City of Highland Heights as of December 31, 2004, is \$152,739 and that amount has been recorded as an Intergovernmental Payable in the government-wide financial statements and will be repaid from special assessments levied on the affected properties.

Note 16: Jointly Governed Organization

Eastern Suburban Regional Council of Governments

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

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

In 2004, the City contributed \$12,500. Financial information can be obtained from Robert G. Tribby, Finance Director, City of Mayfield Heights, at 6154 Mayfield Road, Mayfield Heights, Ohio 44124-3207, who serves as fiscal agent.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 17: Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfer to	Transfer From				Total
	General Fund	Bond Retirement	Capital Improvements	Nonmajor Governmental	
General fund	\$ -	\$ -	\$ -	\$ 20,295	\$ 20,295
Fire service fund	675,000	-	-	-	675,000
Capital improvement fund	-	21,705	-	-	21,705
Nonmajor governmental funds	<u>160,000</u>	<u>-</u>	<u>800,000</u>	<u>-</u>	<u>960,000</u>
Total	\$ <u>835,000</u>	\$ <u>21,705</u>	\$ <u>800,000</u>	\$ <u>20,295</u>	<u>1,677,000</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

The City had no transfers that either do not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer.

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City of Richmond Heights

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2003

The discussion and analysis of the City of Richmond Heights's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2003 are as follows:

- ◆ City income tax revenue totaled \$3,607,399.
- ◆ The assets of the City of Richmond Heights exceeded its liabilities at the close of the most recent fiscal year by \$9,115,311. Of this amount, \$5,632,971 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ In total, net assets in governmental activities increased by \$305,008 during 2003. This represents a 3 percent increase from 2002.
- ◆ Total assets increased by \$495,700, which represents an increase of approximately 2 percent from 2002. The biggest changes were an increase in non-depreciable capital assets of \$1,350,996 and a decrease in taxes receivable of \$567,172.
- ◆ Total liabilities increased by \$190,692, which represents an increase of one percent.

Using this Annual Financial Report

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

Government-wide financial statements – Reporting the City of Richmond Heights as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets presents information on all the City of Richmond Heights's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increase or decrease in net assets may serve as a useful indicator of whether the financial position of the City of Richmond Heights 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 property and income tax laws, and the condition of the 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 used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

City of Richmond Heights

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2003

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

- Assets
- Liabilities
- Net assets (assets minus liabilities)
- Program revenues and expenses
- General revenues
- Net assets beginning of year and end of year

Fund Financial Statements - Reporting the City of Richmond Heights's Most Significant Funds

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Richmond Heights, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Richmond Heights can be accounted for in the category of governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds.

The City of Richmond Heights maintains 26 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General Fund, Fire Service Fund, Bond Retirement Fund, and Capital Improvement Capital Projects Fund, all of which are considered to be major funds.

City of Richmond Heights

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2003

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 73 of this report.

Government-wide Financial Analysis - City of Richmond Heights as a Whole

As noted earlier, the Statement of Net Assets looks at the City as a whole and can prove to be a useful indicator of the City's financial position.

Table 1 provides a summary of the City's net assets for 2003 as compared to 2002.

	Governmental Activities	
	<u>2003</u>	<u>2002</u>
Current and other assets	\$ 11,985,730	\$ 12,669,218
Capital assets, net	<u>12,857,592</u>	<u>11,678,404</u>
<i>Total assets</i>	<u>24,843,322</u>	<u>24,347,622</u>
Current liabilities and other liabilities	5,247,388	4,950,653
Long-term liabilities:		
Due within one year	645,893	1,013,729
Due in more than one year	<u>9,834,730</u>	<u>9,572,937</u>
<i>Total liabilities</i>	<u>15,728,011</u>	<u>15,537,319</u>
Invested in capital assets, net of related debt	3,306,938	2,431,603
Restricted for:		
Debt service	155,107	204,021
Other purposes	20,295	15,929
Unrestricted	<u>5,632,971</u>	<u>6,158,750</u>
<i>Total net assets</i>	<u>\$ 9,115,311</u>	<u>\$ 8,810,303</u>

Total assets increased \$495,700 from 2002 to 2003 primarily because of the construction in progress. Increase in capital assets of \$1,179,188 offset the decrease in taxes receivable of \$567,172, which reflects a lower expectation of income tax collections.

City of Richmond Heights

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2003

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year. However, since this is the first year the City has prepared financial statements following GASB 34, revenue and expense comparisons to 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities 2003
Program revenues:	
Charges for services	\$ 1,025,454
Operating grants	<u>4,366</u>
<i>Total program revenues</i>	<u>1,029,820</u>
General revenues:	
Property taxes	3,021,580
Income taxes	3,607,399
Grants and entitlements	1,987,822
Investment income	<u>63,070</u>
<i>Total general revenues</i>	<u>8,679,871</u>
Total revenues	<u>9,709,691</u>
Expenses:	
General government	1,424,431
Security of persons and property	5,143,197
Transportation	1,119,494
Leisure time activities	439,605
Community development	275,539
Basic utility services	520,299
Interest and fiscal charges	<u>482,118</u>
<i>Total expenses</i>	<u>9,404,683</u>
<i>Change in net assets</i>	\$ <u>305,008</u>

City of Richmond Heights

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2003

Governmental Activities

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. The City's income tax rate is two percent on gross income and has not changed since 1993. Residents of the City who work in another community and pay the withholding tax for that community receive a 100 percent credit to a limit of 2 percent. During 2003, the revenues generated from this tax amounted to \$3,607,399.

General property taxes are also a significant source of revenues. Although this is a much more stable tax, property taxes constitute only about a third of the general revenues for the City. In addition to the general property taxes, the City has a one-mill levy for the Fire Department. The Fire Service Levy provides for a portion of the operating expenditures of the Fire Department, the remainder of funding comes from the General Fund.

Intergovernmental revenues, particularly local government subsidies have, in the past, provided a very stable predictable and significant contribution to the City's General Fund. In 2003, local government subsidies have become less stable with State Budget cuts and county distribution formulas being challenged in court. Estate taxes have also been a significant contributor to this City's budget, but much less stable and not at all predictable. Both of these forms of intergovernmental taxes are at risk due to budget concerns at the State level.

The City has also more aggressively pursued grants and donations to help fund particular projects that might have been funded through the general fund. Grants have helped fund the City's annual tree planting program; police equipment; paramedic training as well as sanitary sewer construction in several areas of the City.

Interest on all City accounts, except when otherwise designated, is another source of revenue for the General Fund. In the past, interest constituted as much as 25 percent of the total budget. Now, because of the drop in interest rates, this source is much less significant.

Security of Persons and Property and General Government are the major activities of the City generating 70 percent of the governmental expenses. Currently, there are 22 full-time sworn officers in the police department. The City of Richmond Heights was recently rated number 42 amongst the top 64 communities with regards to its safety forces in an annual study conducted by Cleveland Magazine. During 2003, the department continued to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology. In 2003, the Police Department marked its first anniversary in a "new" law enforcement facility. The facility and related technological updates have proven to be a wise investment of public funds which contributes favorably to law enforcement and prevention. The City received \$25,157 from the Department of Justice for a COPS Grant.

City of Richmond Heights

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2003

The fire department consists of 16 full-time and 17 part-time fire fighters. All but three of these fire fighters are fully trained paramedics. Again, training plays a crucial role in the day-to-day operation of the fire department. The department handled 2,387 calls for assistance of which approximately 1,012 were for EMS and the rest for fire and fire related incidents.

With several large sanitary sewer construction projects planned or in process, the investment in streets was limited to those streets that experienced sanitary sewer construction or minor repair and resurfacing of various streets.

The City's Funds

Information about the City's major funds starts on page 62. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$10,577,460 and expenditures of \$11,395,301. The net change in fund balance for the year was most significant in the Fire Service Fund showing an decrease in fund balance of \$214,418, which resulted from the City's planned "spend down" in 2003 of the fund's accumulated balance. The General Fund reflected a decrease of \$44,944, however, the beginning fund balance of \$1,800,688 is more than ample to meet these times of lower revenues. Overall the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

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 legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public, the budget is adopted by City council. Council must approve legislation for any revisions in the budget that alter totals or the total appropriations for any department or fund. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

For the General Fund, budget basis revenue was \$337,274 under the final budget estimates of \$7,175,672 or \$432,279 under original of \$7,270,677. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenue areas. The original appropriations of \$7,058,517 was sufficient to meet the expenditures for the year, which ended up at \$5,620,649 or \$1,287,873 less than anticipated due to a conservative budgeting and spending controls.

City of Richmond Heights

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2003

Capital Assets and Debt Administration

Capital Assets

Table 3 shows fiscal 2003 balances of Capital Assets as compared to 2002:

**Table 3
Capital Assets at December 31**

	Governmental Activities	
	2003	2002
Land	\$ 300,010	\$ 300,010
Construction in progress	1,350,996	-
Land Improvements	1,413,900	1,364,128
Buildings and improvements	5,959,256	5,909,396
Machinery and equipment	1,154,046	1,056,219
Vehicles	1,591,689	1,563,749
Infrastructure:		
Roads	6,108,707	5,826,616
Sanitary sewers	3,571,700	3,571,700
Storm sewers	2,407,944	2,407,944
Water lines	2,381,534	2,381,534
Less: accumulated depreciation	<u>(13,382,190)</u>	<u>(12,702,892)</u>
 Total capital assets, net	 <u>\$ 12,857,592</u>	 <u>\$ 11,678,404</u>

The City’s plan is to maintain its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks and ambulances are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame. The police car replacement plan is to replace 3 vehicles each year. The older vehicles are either traded in to the dealers or sold to the highest bidder at auction.

With regards to the infrastructure, the City’s engineering department maintains a comprehensive listing of all the roads, sewer lines and water lines in the City. As part of the City’s annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack-sealed and in the case of concrete roads, either replaced or repaired. After approval from council, the projects are competitively bid to get the best possible pricing from contractors. Related expenditures are paid for out of the Capital Improvement Fund of the City.

The City is committed to a long-term goal of meeting the needs of its infrastructure and facilities. A five-year capital plan is in place that provides for street improvements and adding additional facilities to complement our current structures.

City of Richmond Heights

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2003

Debt

At December 31, 2003, the City of Richmond Heights had \$10,480,623 in outstanding debt and compensated absences, of which \$5,146,746 was in General Obligation Bonds. Table 4 summarizes the outstanding obligations of the City.

**Table 4
Outstanding Debt at Year End**

	Governmental Activities	
	2003	2002
General obligation bonds	\$ 5,146,746	\$ 5,593,394
Special assessment bonds	3,254	6,606
OWDA loans	4,238,369	3,525,303
OWPC loan	162,285	171,831
Police pension	51,142	51,907
Compensated absences	<u>878,827</u>	<u>860,145</u>
Total	\$ <u>10,480,623</u>	\$ <u>10,209,186</u>

At December 31, 2003, the City’s overall legal debt margin was \$24,916,153. At year-end, the outstanding general obligation debt was \$5,146,746 and the outstanding Special Assessment bonds were \$3,254. Other obligations include accrued vacation pay and sick leave. More detailed information about the City’s long-term liabilities is presented in the notes to the basic financial statements.

Current Related Financial Activities

The City of Richmond Heights is strong financially. In addition, the City of Richmond Heights’ systems of budgeting and internal controls are well regarded and the City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Richmond Heights with full disclosure of the financial position of the City.

Contacting the City of Richmond Heights’s Finance Department

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City’s finances and to show the City’s accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance, Lynda Rossiter, City of Richmond Heights, 457 Richmond Road, Richmond Heights, Ohio 44143, telephone (216) 486-2474, or web site at www.RichmondHeights.oh.us.

City of Richmond Heights

Statement of Net Assets

December 31, 2003

	<u>Primary Government</u>
	<u>Governmental</u> <u>Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 3,739,401
Cash with fiscal agents	2,263
Materials and supplies inventory	75,789
Accrued interest receivable	26,143
Accounts receivable	119,464
Intergovernmental receivable	390,490
Prepaid items	45,255
Taxes receivable	4,404,034
Special assessments receivable	3,182,891
Non-depreciable capital assets	1,651,006
Depreciable capital assets, net	<u>11,206,586</u>
Total assets	<u>24,843,322</u>
Liabilities:	
Accounts payable	239,095
Contracts payable	9,151
Accrued wages and benefits	130,869
Intergovernmental payable	461,035
Notes payable	1,285,000
Matured interest payable	2,263
Accrued interest payable	99,256
Deferred revenue	3,020,719
Long-term liabilities:	
Due within one year	645,893
Due in more than one year	<u>9,834,730</u>
Total liabilities	<u>15,728,011</u>
Net Assets:	
Invested in capital assets, net of related debt	3,306,938
Restricted for:	
Debt service	155,107
Other purposes	20,295
Unrestricted	<u>5,632,971</u>
Total net assets	<u>\$ 9,115,311</u>

The accompanying notes are an integral part of these financial statements

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City of Richmond Heights

Statement of Activities

For The Year Ended December 31, 2003

	<u>Expense</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total Governmental Funds</u>
Government activities:				
General government	\$ 1,424,431	\$ 452,462	\$ -	\$ (971,969)
Security of persons and property	5,143,197	354,459	-	(4,788,738)
Transportation	1,119,494	76,766	-	(1,042,728)
Leisure time activities	439,605	140,267	-	(299,338)
Community development	275,539	1,500	4,366	(269,673)
Basic utility service	520,299	-	-	(520,299)
Interest and fiscal charges	482,118	-	-	(482,118)
Total governmental activities	<u>\$ 9,404,683</u>	<u>\$ 1,025,454</u>	<u>\$ 4,366</u>	<u>\$ (8,374,863)</u>
General revenues:				
Property taxes and, levied for:				
General purposes				2,271,615
Debt service				749,965
Municipal income tax levied for:				
General purposes				3,607,399
Grants and entitlements not restricted to specific programs				1,987,822
Investment income				<u>63,070</u>
Total general revenues				<u>8,679,871</u>
Change in net assets				305,008
Net assets at beginning of year				<u>8,810,303</u>
Net assets at end of year				<u>\$ 9,115,311</u>

The accompanying notes are an integral part of these financial statements

City of Richmond Heights

Balance Sheet Governmental Funds

December 31, 2003

	<u>General</u>	<u>Fire Service</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 1,159,914	\$ 199,056
Cash with fiscal grants	-	-
Income taxes receivable	2,455,216	943,318
Accounts receivable	82,678	-
Accrued interest receivable	26,143	-
Intergovernmental receivable	138,880	47,339
Special assessments receivable	-	-
Internal receivable	27,268	-
Materials and supplies inventory	-	-
Prepaid	45,255	-
Total assets	\$ <u>3,935,354</u>	\$ <u>1,189,713</u>
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	\$ 129,706	\$ 11,327
Contracts payable	-	-
Accrued wages and benefits	43,449	82,826
Intergovernmental payable	67,535	23,113
Internal payable	-	-
Deferred revenue	1,938,920	990,657
Matured interest payable	-	-
Accrued interest payable	-	-
Notes payable	-	-
Total liabilities	<u>2,179,610</u>	<u>1,107,923</u>
Fund Balances:		
Reserve for encumbrances	68,098	55
Reserve for inventory	-	-
Unreserved (deficit) for:		
General fund	1,687,646	-
Special revenue funds	-	81,735
Debt service fund	-	-
Capital projects funds	-	-
Total fund balances (deficits)	<u>1,755,744</u>	<u>81,790</u>
Total liabilities and fund balances	\$ <u>3,935,354</u>	\$ <u>1,189,713</u>

The accompanying notes are an integral part of these financial statements

<u>Bond Retirement</u>	<u>Capital Improvements</u>	<u>Other Governmental</u>	<u>Total</u>
\$ 155,107	\$ 74,371	\$ 2,150,953	\$ 3,739,401
2,263	-	-	2,263
837,918	-	167,582	4,404,034
-	-	36,786	119,464
-	-	-	26,143
45,901	-	158,370	390,490
3,182,891	-	-	3,182,891
-	-	-	27,268
-	-	75,789	75,789
-	-	-	45,255
<u>\$ 4,224,080</u>	<u>\$ 74,371</u>	<u>\$ 2,589,480</u>	<u>\$ 12,012,998</u>
\$ -	\$ -	\$ 98,062	\$ 239,095
-	9,151	-	9,151
-	-	4,594	130,869
-	-	148,666	239,314
-	-	27,268	27,268
4,066,710	-	280,288	7,276,575
2,263	-	-	2,263
-	10,035	-	10,035
-	1,285,000	-	1,285,000
<u>4,068,973</u>	<u>1,304,186</u>	<u>558,878</u>	<u>9,219,570</u>
-	108,432	153,917	330,502
-	-	75,789	75,789
-	-	-	1,687,646
-	-	876,446	958,181
155,107	-	-	155,107
-	(1,338,247)	924,450	(413,797)
<u>155,107</u>	<u>(1,229,815)</u>	<u>2,030,602</u>	<u>2,793,428</u>
<u>\$ 4,224,080</u>	<u>\$ 74,371</u>	<u>\$ 2,589,480</u>	<u>\$ 12,012,998</u>

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City of Richmond Heights

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

December 31, 2003

Total Governmental Funds Balances \$ 2,793,428

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. 12,857,592

Other Long-Term Assets are not available to pay for current-period expenditures and therefore are deferred in the Funds.

Property and other taxes	\$ 268,767
Municipal income taxes	493,949
Special assessments	3,182,891
Intergovernmental	<u>310,249</u>

4,255,856

Accrued wages and benefits include contractual required pension contributions not expected to be paid with expendable available fund resources and therefore not reported in the funds. (51,142)

Long-Term Liabilities are not due and payable in the current period and are therefore not reported in the Funds.

Interest payable	(89,221)
Due to other governments	(221,721)
General obligation bonds	(5,146,746)
Loans payable	(4,400,654)
Special assessments	(3,254)
Compensated absences	<u>(878,827)</u>

(10,740,423)

Net Assets of Governmental Activities \$ 9,115,311

The accompanying notes are an integral part of these financial statements

City of Richmond Heights

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For The Year Ended December 31, 2003

	<u>General</u>	<u>Fire Service</u>
Revenues:		
Property taxes	\$ 1,175,382	\$ 846,645
Municipal income tax	4,367,752	-
Other local taxes	147,073	-
Intergovernmental	510,031	96,304
Charges for services	43,714	-
License and permits	149,070	-
Fines and forfeitures	158,662	-
Special assessments	-	-
Investment income	63,070	-
Reimbursements received	37,885	-
Miscellaneous income	162,118	-
Total revenues	<u>6,814,757</u>	<u>942,949</u>
Expenditures:		
Current Operations and Maintenance:		
Security of persons and property	2,644,617	1,681,602
Leisure time activities	287,373	-
Community development	275,381	-
Basic utility service	520,299	-
Transportation	756,995	-
General government	1,135,036	-
Capital outlay	-	-
Debt service:		
Principal retirement	-	765
Interest and fiscal charges	-	-
Total expenditures	<u>5,619,701</u>	<u>1,682,367</u>
Excess of revenues over (under) expenditures	<u>1,195,056</u>	<u>(739,418)</u>
Other financing sources (uses):		
Proceeds from sale of debt	-	-
Transfers – in	-	525,000
Transfers – out	<u>(1,240,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,240,000)</u>	<u>525,000</u>
Net change in fund balances	(44,944)	(214,418)
Fund balance (deficit) at beginning of year	<u>1,800,688</u>	<u>296,208</u>
Fund balance (deficit) at end of year	\$ <u><u>1,755,744</u></u>	\$ <u><u>81,790</u></u>

The accompanying notes are an integral part of these financial statements

	<u>Bond Retirement</u>	<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total</u>
\$	749,965	\$ -	\$ 145,134	\$ 2,917,126
	-	-	-	4,367,752
	-	-	-	147,073
	96,331	-	1,141,527	1,844,193
	-	-	303,667	347,381
	-	-	-	149,070
	-	-	9,193	167,855
	212,792	-	-	212,792
	-	-	-	63,070
	-	-	-	37,885
	-	-	161,145	323,263
	<u>1,059,088</u>	<u>-</u>	<u>1,760,666</u>	<u>10,577,460</u>
	-	-	689,243	5,015,462
	-	-	120,361	407,734
	-	-	185	275,566
	-	-	-	520,299
	-	-	521,436	1,278,431
	-	-	6,302	1,141,338
	-	9,151	1,590,849	1,600,000
	635,484	-	50,333	686,582
	<u>442,972</u>	<u>26,917</u>	<u>-</u>	<u>469,889</u>
	<u>1,078,456</u>	<u>36,068</u>	<u>2,978,709</u>	<u>11,395,301</u>
	<u>(19,368)</u>	<u>(36,068)</u>	<u>(1,218,043)</u>	<u>(817,841)</u>
	-	-	939,337	939,337
	118,117	147,663	715,000	1,505,780
	<u>(147,663)</u>	<u>-</u>	<u>(118,117)</u>	<u>(1,505,780)</u>
	<u>(29,546)</u>	<u>147,663</u>	<u>1,536,220</u>	<u>939,337</u>
	(48,914)	111,595	318,177	121,496
	<u>204,021</u>	<u>(1,341,410)</u>	<u>1,712,425</u>	<u>2,671,932</u>
\$	<u><u>155,107</u></u>	<u><u>(1,229,815)</u></u>	<u><u>2,030,602</u></u>	<u><u>2,793,428</u></u>

City of Richmond Heights

Reconciliation of The Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For The Year Ended December 31, 2003

Net Change in Fund Balances - Total Governmental Funds \$ 121,496

Amounts Reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report Capital Outlay as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlay	\$ 1,901,413	
Depreciation	<u>(722,225)</u>	
Total		1,179,188

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Funds.

Property and other taxes	104,454	
Municipal income taxes	(760,353)	
Special assessments	(212,792)	
Intergovernmental	<u>922</u>	
Total		(867,769)

Repayment of Bond Principal is an expenditure in the Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets.

686,582

Loan proceeds, reported through intergovernmental revenue, provide current financial resources to governmental funds, but has no effect on net assets.

(939,337)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds.

Compensated absences	(18,682)	
Intergovernmental payable	155,759	
Accrued interest on debt	<u>(12,229)</u>	
		<u>124,848</u>

Change in Net Assets of Governmental Activities \$ 305,008

The accompanying notes are an integral part of these financial statements

City of Richmond Heights

Statement Of Revenues, Expenditures and Changes In Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual - General Fund

For The Year Ended December 31, 2003

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 1,175,138	\$ 1,175,138	\$ 1,175,382	\$ 244
Municipal income tax	4,784,500	4,691,073	4,447,767	(243,306)
Intergovernmental	658,410	645,553	612,071	(33,482)
Charges for services	48,556	47,608	45,139	(2,469)
Licenses and permits	239,960	235,275	223,072	(12,203)
Fines and forfeitures	170,696	167,362	158,682	(8,680)
Investment income	49,085	48,126	45,630	(2,496)
Miscellaneous income	<u>144,332</u>	<u>165,537</u>	<u>130,655</u>	<u>(34,882)</u>
Total revenues	<u>7,270,677</u>	<u>7,175,672</u>	<u>6,838,398</u>	<u>(337,274)</u>
Expenditures:				
Current:				
General government	2,831,032	2,597,832	1,705,087	892,745
Security of persons and property	2,859,074	2,879,079	2,638,615	240,464
Transportation	810,661	872,661	785,135	87,526
Community development	306,630	307,830	275,186	32,644
Leisure time activities	<u>251,120</u>	<u>251,120</u>	<u>216,626</u>	<u>34,494</u>
Total expenditures	<u>7,058,517</u>	<u>6,908,522</u>	<u>5,620,649</u>	<u>1,287,873</u>
Excess of revenues over expenditures	212,160	267,150	1,217,749	950,599
Other financing uses:				
Transfers – out	<u>(1,090,000)</u>	<u>(1,240,000)</u>	<u>(1,240,000)</u>	<u>-</u>
Net change in fund balance	(877,840)	(972,850)	(22,251)	950,599
Fund balance at beginning of year	994,131	994,131	994,131	-
Prior year encumbrances appropriated	<u>85,184</u>	<u>85,184</u>	<u>85,184</u>	<u>-</u>
Fund balance at end of year	\$ <u>201,475</u>	\$ <u>106,465</u>	\$ <u>1,057,064</u>	\$ <u>950,599</u>

The accompanying notes are an integral part of these financial statements

City of Richmond Heights

Statement Of Revenues, Expenditures and Changes In Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual - Fire Service Fund

For The Year Ended December 31, 2003

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 842,361	\$ 842,361	\$ 846,647	\$ 4,286
Intergovernmental	100,000	100,000	96,304	(3,696)
Miscellaneous	<u>6,000</u>	<u>6,000</u>	<u>-</u>	<u>(6,000)</u>
Total revenues	<u>948,361</u>	<u>948,361</u>	<u>942,951</u>	<u>(5,410)</u>
Expenditures:				
Current:				
Security of persons and property	<u>1,724,500</u>	<u>1,754,500</u>	<u>1,675,625</u>	<u>78,875</u>
Excess of revenues under expenditures	(776,139)	(806,139)	(732,674)	73,465
Other financing sources (uses):				
Transfers – in	<u>595,000</u>	<u>525,000</u>	<u>525,000</u>	<u>-</u>
Net change in fund balance	(181,139)	(281,139)	(207,674)	73,465
Fund balance at beginning of year	<u>406,675</u>	<u>406,675</u>	<u>406,675</u>	<u>-</u>
Fund balance at end of year	\$ <u>225,536</u>	\$ <u>125,536</u>	\$ <u>199,001</u>	\$ <u>73,465</u>

The accompanying notes are an integral part of these financial statements

City of Richmond Heights

Statement of Fiduciary Net Assets Fiduciary Funds

December 31, 2003

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ <u>280,325</u>
Liabilities:	
Deposits held and due to others	\$ <u>280,325</u>

The accompanying notes are an integral part of the basic financial statements

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City of Richmond Heights

Notes to Basic Financial Statements

For The Year Ended December 31, 2003

Note 1: The Reporting Entity

The City of Richmond Heights (City) is a charter municipal corporation established and operated under the laws of the State of Ohio. The original charter became effective January 1, 1960 and provides for a mayor-council form of government. Elected officials include seven council members and a mayor.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Richmond Heights this includes: police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair, refuse collection, recycling and general administrative services.

Component units are legally separate organizations for which the City may be financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

The City participates in the Northern Ohio Risk Management Association, which is a shared risk pool and the Eastern Suburban Regional Council of Governments, which is a jointly governed organization. These organizations are described in Notes 9 and 16 to the combined financial statements.

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 governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with GASB pronouncements. The more significant of the City's accounting policies are described below.

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)

The statement of net assets presents the financial condition of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and 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 not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

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 three categories of funds: governmental, proprietary and fiduciary. The City has no proprietary funds.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

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

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Fire Service Fund – This fund accounts for the operations of the Fire Department.

Capital Improvement Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and the acquisition of major equipment.

Bond Retirement Fund – This fund is used to account for the accumulation of resources for, and the payment of, general long-term bonded debt principal and interest.

Fiduciary Fund Type – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets, except for fiduciary funds. The statement of activities presents increases (e.g. revenues) and decreases (e.g. 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. Governmental fund financial statements, therefore, include 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 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 in the presentation of expenses versus expenditures.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Revenues – Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 6) Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes, interest, grants, fees and rentals.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenditures

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 Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process

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 prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Ordinance, all of which are prepared on the budgetary basis of accounting. All funds, other than the agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department in the General Fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by ordinance of City Council.

Tax Budget

At the first City Council meeting in July, the Mayor presents the Tax Budget for the following fiscal year to City Council for consideration and passage. The adopted Tax Budget is submitted to the Cuyahoga County Auditor, as Secretary of the Cuyahoga County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources

The Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The 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. Prior to December 31, the City must revise its Tax Budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised Tax Budget then serves as the basis for the annual Appropriation Ordinance. On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31 of the preceding year. The Certificate may be further amended during the year if the Director of Finance determines, and the Budget Commission agrees that an estimate needs to be either increased or decreased. The amounts reported in the budgetary statements reflect the amounts in the final amended Certificate of Estimated Resources issued during 2003.

Appropriations

A temporary Appropriation Ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual Appropriation Ordinance must be passed by April 1 of each year for the period January 1 to December 31. The Appropriation Ordinance fixes spending authority at the object level within each department in the General Fund and at the fund level for all other funds. The Appropriation Ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed the amount available as stated in the Certificate of Estimated Resources. The allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of City Council. During the year, a supplemental Appropriation Ordinance was passed which did not have significant affect on the original Appropriation Ordinance. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications passed by City Council.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditures of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances 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.

F. Cash and Cash Equivalents

Cash received by the City is deposited into one central bank account. Monies from all funds are pooled in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through the City's records.

During 2003, investments were limited to U.S. governmental agency securities, money market mutual funds, and non-negotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as, non-negotiable certificates of deposit are reported at cost.

The City utilizes a financial institution to service certain general obligation bonded debt as principal and interest come due. The balance of this account is presented on the combined balance sheet as "Cash with Fiscal Agents".

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2003 amounted to \$63,070, which includes \$45,408 assigned from other City funds.

For purposes of the presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 2: Summary of Significant Accounting Policies (continued)

G. Inventory

Inventory is stated at cost on a first-in, first-out basis. The costs of inventory items are recorded as expenditures when purchased.

H. Prepaid Items

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

I. Capital Assets

General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital asset values were initially determined at December 31, 1994 assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimated historical costs were developed. For certain fixed assets, the estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated. The City maintains a capitalization threshold of five thousand dollars.

The City’s infrastructure consists of roads, sanitary sewers, storm sewers, and waterlines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	45 years
Buildings and improvements	45 years
Machinery and equipment	7 to 20 years
Vehicles	6 to 12 years
Infrastructure	65 years

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 2: Summary of Significant Accounting Policies (continued)

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “internal receivables/payables”. Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

K. 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. A liability is accrued for employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates as of December 31, 2003, 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. For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the fund from which the employee who has accumulated unpaid leave is paid. The noncurrent portion of the liability is not reported. At December 31, 2003 there were no current portions recorded.

L. 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 are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, Compensated Absences and contractually required pension contributions (Intergovernmental Payable) 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 fund financial statements when due.

M. Fund Balance Reserves

Reservations of fund balances are established to identify the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, including amounts legally segregated for a specific future use. Fund balances are reserved for inventories of supplies and materials and encumbrances.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 2: Summary of Significant Accounting Policies (continued)

N. Net Assets

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

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

O. 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.

P. Extraordinary and Special Items

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

Q. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3: Fund Accountability and Legal Compliance

A. Fund Accountability

The Capital Improvement Fund has a deficit fund balance of \$1,229,815 at December 31, 2003. This deficit is the result of the issuance of short-term bond anticipation notes which are used to finance the project until bonds are issued. Once bonds are issued and the liability is reported in the government-wide financial statements and the deficit fund balance will be eliminated.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 3: Fund Accountability and Legal Compliance (continued)

B. Legal Compliance

Contrary to Ohio law, the City had expenditures plus encumbrances in excess of total appropriations during fiscal year 2003 and as of December 31, 2003 for various appropriation line items.

Contrary to Ohio law, the City did not always record a reservation of the applicable appropriation (encumber) at the time a commitment for the expenditure of funds was made.

Contrary to Ohio law, the City could not verify that the competitive bidding requirements were followed for four contracts.

Note 4: Budgetary Basis of Accounting

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/Expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures for all funds (budget) rather than as a reservation of fund balance for governmental fund types (GAAP);
- (d) Short-term note proceeds and note principal retirement for governmental funds are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 4: Budgetary Basis of Accounting (continued)

**Excess of Revenues and Other Financing Sources
over (under) Expenditures and other Financing Uses**

	<u>General</u>	<u>Fire Service Fund</u>
GAAP Basis	\$ (44,944)	\$ (214,418)
Increase (decrease) due to:		
Revenue accruals	23,641	2
Current year encumbrances	(115,066)	(55)
Expenditure accruals	<u>114,118</u>	<u>6,797</u>
Budget Basis	\$ <u>(22,251)</u>	\$ <u>(207,674)</u>

Note 5: Deposits and Investments

The Ohio Revised Code classifies monies held by the City into these 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 City Council has identified as not required for use within the current 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.

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

Interim monies can be deposited or invested in the following securities:

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 5: Deposits and Investments (continued)

1. U. S. Treasury Notes, Bills, Bonds, or any other obligation or security issued by the U. S. Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement 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 of Ohio Treasurer’s investment pool (STAROhio).

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

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

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

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement 3, “Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.”

Petty Cash

The City had \$325 of petty cash which is not included in the ending cash balance.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 5: Deposits and Investments (continued)

Deposits

At year-end, the carrying amount of the City's deposits was \$1,798,015 and the bank balance was \$1,826,531. Of the bank balance: \$200,000 was covered by federal depository insurance.

\$1,626,531 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all Ohio Revised Code requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments

Investments are classified under the guidelines of GASB Statement No. 3 into three categories. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name.

	Risk Category 3	Fair Value
U.S. Agency Securities	\$ 599,391	\$ 599,391
Victory Money Market Mutual Fund	-	1,624,583
	<u>\$ 599,391</u>	<u>\$ 2,223,974</u>

The Victory Money Market Mutual Fund is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows.

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$ 4,021,989	\$ -
U.S. Agency Securities	(599,391)	599,391
Victory Money Market Mutual Fund	(1,624,583)	1,624,583
GASB Statement 3	<u>\$ 1,798,015</u>	<u>\$ 2,223,974</u>

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 6: Receivables

Receivables at December 31, 2003 consist primarily of taxes, accounts, intergovernmental and accrued interest on investments. All receivables are considered fully collectible.

A. Property Taxes

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

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

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

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

The full tax rate for all City operations for the year ended December 31, 2003, was \$14.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Residential/Agriculture	\$ 189,070,710
Other Real Estate	82,256,620
Tangible Personal Property	
Public Utility	4,298,790
General Tangible Personal Property	<u>19,006,474</u>
	<u>\$ 294,632,594</u>

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 6: Receivables (continued)

A. Property Taxes (continued)

Real property taxes are payable annually or semi-annually. If paid annually, the 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, the Ohio Revised Code permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30; with the remainder payable by September 20. The Cuyahoga County Treasurer collects property taxes on behalf of all taxing districts in the County including the City. The Cuyahoga County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2003 operations. The receivable is offset by Deferred Revenue.

B. Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2003 follows:

	<u>Amount</u>
Homestead and Rollback Reimbursements	\$ 170,562
Local Government	70,306
Auto registration	19,352
Gasoline taxes	101,541
Estate Tax	<u>28,729</u>
Total intergovernmental receivable	<u>\$ 390,490</u>

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 6: Receivables (continued)

C. Income Taxes

The City levies a municipal income tax of two percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside of the City. The City allows a credit of one hundred percent for income tax paid to another municipality, not to exceed two percent of taxable income.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds may be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City. In 2003, the proceeds were allocated one hundred percent to the General Fund.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 7: Capital Assets

Capital asset activity for the year ended December 31, 2003, was as follows:

	Restated Balance <u>12/31/2002</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>12/31/2003</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 300,010	\$ -	\$ -	\$ 300,010
Construction in progress	<u>-</u>	<u>1,350,996</u>	<u>-</u>	<u>1,350,996</u>
Total capital assets, not being depreciated	<u>300,010</u>	<u>1,350,996</u>	<u>-</u>	<u>1,651,006</u>
Capital assets being depreciated:				
Land improvements	1,364,128	49,772	-	1,413,900
Buildings and improvements	5,909,396	49,860	-	5,959,256
Machinery and equipment	1,056,219	97,827	-	1,154,046
Vehicles	1,563,749	79,972	(52,032)	1,591,689
Infrastructure:				
Roads	5,826,616	282,091	-	6,108,707
Sanitary sewers	3,571,700	-	-	3,571,700
Storm sewers	2,407,944	-	-	2,407,944
Water lines	<u>2,381,534</u>	<u>-</u>	<u>-</u>	<u>2,381,534</u>
Total capital assets being depreciated	<u>24,081,286</u>	<u>559,522</u>	<u>(52,032)</u>	<u>24,588,776</u>
Less accumulated depreciation:				
Land improvements	(525,935)	(61,100)	-	(587,035)
Buildings and improvements	(1,231,247)	(118,735)	-	(1,349,982)
Machinery and equipment	(485,331)	(85,717)	-	(571,048)
Vehicles	(595,981)	(136,732)	42,927	(689,786)
Infrastructure:				
Roads	(4,810,607)	(152,717)	-	(4,963,324)
Sanitary sewers	(1,893,001)	(71,434)	-	(1,964,435)
Storm sewers	(1,565,163)	(48,159)	-	(1,613,322)
Water lines	<u>(1,595,627)</u>	<u>(47,631)</u>	<u>-</u>	<u>(1,643,258)</u>
Total accumulated depreciation	<u>(12,702,892)</u>	<u>(722,225)</u>	<u>42,927</u>	<u>(13,382,190)</u>
Net capital assets being depreciated	<u>11,378,394</u>	<u>(162,703)</u>	<u>(9,105)</u>	<u>11,206,586</u>
Governmental activities capital assets, net	\$ <u>11,678,404</u>	\$ <u>1,188,293</u>	\$ <u>(9,105)</u>	\$ <u>12,857,592</u>

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 425,414
Leisure Time Activities	71,167
Security of Persons and Property	<u>225,644</u>
	\$ <u>722,225</u>

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 8: Shared Risk Pool

The City is a member of the Northern Ohio Risk Management Association (NORMA). NORMA is a joint self-insurance pool organized pursuant to Ohio Rev. Code 2744.081 and is defined as a shared risk pool for financial reporting purposes. It was established to enable its members to obtain property, liability and vehicle insurance through a formalized, jointly administered self-insurance fund.

Other members include the Cities of Bedford Heights, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Solon, South Euclid and the Village of Chagrin Falls. NORMA is governed by a Board of Trustees that consists of the Mayor from each of the participating members.

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

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

In 2003, the City paid \$2,013 in premiums which represent approximately seven percent of the total premium. Financial information about NORMA can be obtained by contacting Mark P. Cegelka, Finance Director, City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146, who serves as the fiscal agent.

Note 9: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. To address such risks, the City joined together with other neighboring cities to form the Northern Ohio Risk Management Association (NORMA, see Note 8) for the purpose of providing property, liability and vehicle insurance and providing for a formalized, jointly administered self insurance fund. The City pays an annual premium to NORMA for its insurance coverage. The agreement for formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement. This coverage is purchased through the General Fund.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 9: Risk Management (continued)

Claims have not exceeded coverage provided by NORMA in any of the last three years and there were no significant reductions in coverage from the prior year.

The City also elected to join the NORMA group rating plan for workers' compensation. The group rating plan is administered by CompManagement, Inc. who was paid an annual fee of \$31,391 in 2003. The NORMA group rating plan is intended to achieve lower workers' compensation premium rates for the participants. The City pays the Ohio Bureau of Workers' Compensation a premium based on a rate per \$100 of wages paid. The rate is based on the group's claim history and administrative costs. There are no additional contributions required by a participant other than their annual fee.

The City provides medical, dental, vision and prescription drug benefits for all full-time employees through the QualChoice Health Plan and the Delta Dental Plan of Ohio. Monthly premium payments are made from the General and Fire Service Funds. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premiums for all benefits are \$836.83 for family coverage and \$321.55 for single coverage.

Note 10: Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and local ordinances. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned vacation time is paid upon termination of employment.

Employees earn sick leave at different rates depending upon type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, employees can be paid for accumulated, unused sick leave, up to a maximum number of hours which is either 600 or 690 for all City employees.

As of December 31, 2003, the City's liability for unpaid compensated absences was \$878,827.

Note 11: Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, contribute to 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 defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over 5 years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investments earnings thereon.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 11: Defined Benefit Pension Plans (continued)

- 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 Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and 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. The OPERS issues a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. City employees are required to contribute 8.5 percent of their annual salary to fund pension obligations. The 2003 employer contribution rate for the City was 13.55 percent of covered payroll. The City's contributions to the OPERS for the years ended December 31, 2003, 2002, and 2001 were \$256,853, \$209,226, and \$195,595, respectively. The full amount has been contributed for 2002 and 2001. 77.7 percent has been contributed for in 2003, with the remainder being reported as a liability in the government-wide financial statements.

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

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police and 24.0 percent for firefighters of which 7.75 percent was used to fund health care coverage. Contribution rates are authorized by State Statute. The City's contributions to the OP&F for police and firefighters were \$254,868 and \$244,873 for the year ended December 31, 2003; \$255,193 and \$235,654 for the year ended December 31, 2002; \$262,886 and \$266,052 for the year ended December 31, 2001. The full amount has been contributed for 2002 and 2001. 70 percent and 73 percent, respectively, have been contributed for 2003 with the remainder being reported as a liability in the government-wide financial statements.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 12: Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the OPERS is considered an Other Postemployment Benefit (OPEB) as defined by GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by the Ohio Revised Code. The 2003 and 2002 employer contribution rate was 13.55 percent of covered payroll with 5.00 percent as the portion used to fund health care for both years.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase 4.00 percent annually.

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

The number of active contributing participants was 369,885. The City's actual contributions for 2003 which were used to fund OPEB were \$94,780. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for OPEB at December 31, 2003, were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (Pension Fund) provides postretirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as defined in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Pension Fund Board of Trustees to provide health care coverage and states that health care costs paid from the Pension Fund 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 is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003 and 2002. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of the OPEB through a deduction from their monthly benefit payment. Beginning in 2001, all retirees are survivors have monthly care contributions.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 12: Postemployment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

The City’s actual contributions for 2003 that were used to fund OPEB were \$101,294 for police and \$79,074 for fire. The Pension Fund total health care expenses for the year ended December 31, 2003, were \$150,853,148, which was net of member contributions of \$17,207,506. The number of Pension Fund participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

Note 13: Contingencies

The City is a party to legal proceedings seeking damages. The City’s management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Note 14: Note Debt

The City’s note activity, including amounts outstanding, interest rates and the governmental fund in which the note is reported is as follows:

	<u>Balance</u> <u>12/31/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding</u> <u>12/31/03</u>
Capital Projects Funds				
Street Resurfacing Fund				
2003-2004 1.70%	\$ 650,000	\$ 585,000	\$ (650,000)	\$ 585,000
Capital Improvements Fund				
2003-2004 1.68%	<u>750,000</u>	<u>700,000</u>	<u>(750,000)</u>	<u>700,000</u>
	<u>\$ 1,400,000</u>	<u>\$ 1,285,000</u>	<u>\$ (1,400,000)</u>	<u>\$ 1,285,000</u>

All of the notes are backed by the full faith and credit of the City and mature within one year from date of issuance. The note liability is reflected in the fund which received the proceeds.

The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 15: Long-Term Obligations

Changes in long-term obligations of the City during 2003 are as follows:

	Original Amount	Balance December 31, 2002	Additions	Deletions	Balance December 31, 2003	Due in One Year
<u>General Obligation Bonds</u>						
1994 5.67% City Hall, Sidewalks, Underground Storage	\$ 470,000	\$ 108,394	\$ -	\$ (51,648)	\$ 56,746	\$ 56,746
1997 4.74% Street Improvements	435,000	245,000	-	(45,000)	200,000	45,000
1999 4.32% Street Improvements	995,000	735,000	-	(95,000)	640,000	95,000
2000 5.30% Street Improvements	875,000	735,000	-	(75,000)	660,000	80,000
2001 3.35-4.35% Street Improvements	600,000	495,000	-	(55,000)	440,000	55,000
2001 3.35-5.70% Law Enforcement Building	3,550,000	3,275,000	-	(125,000)	3,150,000	130,000
Total general obligation bonds	<u>6,925,000</u>	<u>5,593,394</u>	<u>-</u>	<u>(446,648)</u>	<u>5,146,746</u>	<u>461,746</u>
1994 4.00-5.55% Special Assessment Bonds	<u>470,000</u>	<u>6,606</u>	<u>-</u>	<u>(3,352)</u>	<u>3,254</u>	<u>3,254</u>
<u>OWDA Loans</u>						
Monticello Avenue Sewer 4.56%	200,000	140,663	-	(9,037)	131,626	4,674
Chardon Road Sewer 4.56%	1,530,082	1,344,505	-	(58,628)	1,285,877	30,320
Brushview Road Sewer 4.12%	439,361	394,000	-	(16,396)	377,604	8,452
Highland Road - Meadowlane 3.79%	648,030	602,866	-	(23,886)	578,980	12,284
Richmond Road (to Highland Road) 3.90%	1,012,021	888,274	35,216	(34,205)	889,285	17,604
Sunset/Skyline Sewer 3.20%-3.59%	1,063,171	88,717	904,121	(62,724)	930,114	24,742
Karen Isle/Nan Linn 3.20%	<u>107,082</u>	<u>66,278</u>	<u>-</u>	<u>(21,395)</u>	<u>44,883</u>	<u>10,955</u>
Total OWDA loans	<u>4,999,747</u>	<u>3,525,303</u>	<u>939,337</u>	<u>(226,271)</u>	<u>4,238,369</u>	<u>109,031</u>
<u>Other Long-Term Obligations</u>						
City of Highland Heights OPWC Loan	190,923	171,831	-	(9,546)	162,285	9,546
Police Pension Liability	n/a	51,907	-	(765)	51,142	798
Compensated Absences	n/a	860,145	18,682	-	878,827	61,518
Total other long-term obligations	<u>190,923</u>	<u>1,083,883</u>	<u>18,682</u>	<u>(10,311)</u>	<u>1,092,254</u>	<u>71,862</u>
Total long-term debt	\$ <u>12,585,670</u>	\$ <u>10,209,186</u>	\$ <u>958,019</u>	\$ <u>(686,582)</u>	\$ <u>10,480,623</u>	\$ <u>645,893</u>

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 15: Long-Term Obligations (continued)

The City’s overall legal debt margin was \$24,916,153 at December 31, 2003. The unvoted legal debt margin was \$10,684,524. Principal and interest requirements to retire the Long-Term General Obligation Bonds, Police Pension Liability, OWDA (Ohio Water Development Authority) Loans, and the Special Assessment Bonds as of December 31, 2003, are as follows:

	General Obligation		Police Pension		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 461,746	\$ 250,649	\$ 798	\$ 2,165	\$ 109,031	\$ 86,240
2005	425,000	230,345	832	2,131	238,488	160,282
2006	445,000	211,935	868	2,095	210,831	151,072
2007	465,000	192,293	908	2,058	219,522	142,831
2008	425,000	171,337	944	2,019	228,575	133,328
2009-2013	1,315,000	607,862	5,362	9,452	1,292,428	517,090
2014-2018	1,085,000	341,715	6,617	8,197	1,516,454	231,665
2019-2023	525,000	45,315	8,166	6,648	423,040	98,101
2024-2028	-	-	26,647	7,290	-	-
	<u>\$ 5,146,746</u>	<u>\$ 2,051,451</u>	<u>\$ 51,142</u>	<u>\$ 42,055</u>	<u>\$ 4,238,369</u>	<u>\$ 1,520,609</u>

	Special Assessment Bonds		OPWC Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 3,254	\$ 163	\$ 9,546	\$ -	\$ 584,375	\$ 339,217
2005	-	-	9,546	-	673,866	392,758
2006	-	-	9,546	-	666,245	365,102
2007	-	-	9,546	-	694,976	337,182
2008	-	-	9,546	-	664,065	306,684
2009-2013	-	-	47,730	-	2,660,520	1,134,404
2014-2018	-	-	47,730	-	2,655,801	581,577
2019-2023	-	-	19,095	-	975,301	150,064
2024-2028	-	-	-	-	26,647	7,290
	<u>\$ 3,254</u>	<u>\$ 163</u>	<u>\$ 162,285</u>	<u>\$ -</u>	<u>\$ 9,601,796</u>	<u>\$ 3,614,278</u>

General obligation bonds are the direct obligation of the City and will be paid from the Bond Retirement, Debt Service Fund using property tax revenues. The 2001 3.35 percent Law Enforcement Building general obligation bonds were issued at a premium of \$7,439. Special assessment bonds will be paid from special assessment proceeds levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City.

The Monticello Avenue Sewer, Chardon Road Sewer, Brushview Road Sewer and Highland Road - Meadowlane OWDA loan liabilities are being paid from the Bond Retirement, Debt Service Fund. The City also entered into contractual agreements for new construction and design loans from OWDA. Under the terms of these agreements, OWDA will reimburse, advance, or directly pay the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and add them to the total amounts of the final loans. OWDA loans will be paid with Special Assessment revenue.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 15: Long-Term Obligations (continued)

The Police Pension Liability will be paid from Property Tax revenue in the Police Pension Fund. The Compensated Absences will be paid by the fund from which the employee's salary is paid.

During 2002, the City entered into a contractual agreement with the City of Highland Heights for the construction of sanitary sewer lines on Highland Road. Richmond Heights is responsible for the portion of the lines that run through the City. The project was financed by a loan from the Ohio Public Works Commission in the name of the City of Highland Heights.

The total amount owed to the City of Highland Heights as of December 31, 2003, is \$162,285 and that amount has been recorded as an Intergovernmental Payable in the government-wide financial statements and will be repaid from special assessments levied on the affected properties.

Note 16: Jointly Governed Organization

Eastern Suburban Regional Council of Governments

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

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

In 2003, the City contributed \$12,500. Financial information can be obtained from Robert G. Tribby, Finance Director, City of Mayfield Heights, at 6154 Mayfield Road, Mayfield Heights, Ohio 44124-3207, who serves as fiscal agent.

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 17: Interfund Transfers

Interfund transfers for the year ended December 31, 2003, consisted of the following:

Transfer to	Transfer From			Total
	General Fund	Bond Retirement	Other Governmental	
Fire service fund	\$ 525,000	\$ -	\$ -	\$ 525,000
Bond retirement fund	-	-	118,117	118,117
Capital improvement fund	-	147,663	-	147,663
Nonmajor governmental funds	<u>715,000</u>	<u>-</u>	<u>-</u>	<u>715,000</u>
Total	\$ <u>1,240,000</u>	\$ <u>147,663</u>	\$ <u>118,117</u>	\$ <u>1,505,780</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

The City had no transfers that either do not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer.

Note 18: Change in Accounting Principles and Restatement of Prior Year Fund Balances

A. Changes in Accounting Principles

For 2003, the City has implemented GASB Statement No. 34, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments”, GASB Statement No. 36, “Recipient Reporting for Certain Shared Nonexchange Revenues”; GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

GASB 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on a accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

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

City of Richmond Heights

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2003

Note 18: Change in Accounting Principles and Restatement of Prior Year Fund Balances (continued)

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

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

B. Restatement of Fund Balance

	Total Governmental Activities
Fund balance, December 31, 2002	\$ 2,671,932
GASB 34 adjustments:	
Capital assets	11,678,404
Long-term liabilities	(10,209,186)
Intergovernmental payable	(377,480)
Long-term (deferred) assets	5,123,625
Accrued interest payable	<u>(76,992)</u>
Governmental activities net assets, December 31, 2002	\$ <u>8,810,303</u>

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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 Richmond Heights
Cuyahoga County
457 Richmond Road
Richmond Heights, Ohio 44143

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 Richmond Heights, Cuyahoga County, Ohio, (the City) as of and for the years ended December 31, 2004 and December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 6, 2006, wherein we noted the City adopted Governmental Auditing Standards Board Statement No. 34 for the year ended December 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-005 and 2004-006.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the City's management dated June 6, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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www.auditor.state.oh.us

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-004. In a separate letter to the City's management dated June 6, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

June 6, 2006

**CITY OF RICHMOND HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND DECEMBER 31, 2003**

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

FINDING NUMBER	2004-001
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Noncompliance Citation

Ohio Rev. Code § 5705.41(B) prohibits a subdivision from making expenditures unless they have been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by City Council may not exceed appropriations at the legal level for all funds. The following funds had expenditures plus encumbrances in excess of appropriations as of October 31, 2004:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund:			
Recreation Dept.- Contractual	\$20,218	\$24,794	(\$4,576)
Street Lighting – Electricity	\$93,360	\$94,229	(\$869)
Service Dept. – Contractual	\$32,492	\$37,091	(\$4,599)
City Hall – Supplies	\$50,000	\$52,535	(\$2,535)
City Hall – Parade	\$23,906	\$24,051	(\$145)
Statutory Accts. – News Letters	\$7,194	\$8,960	(\$1,766)
Statutory Accts. – Contingencies	\$10,000	\$16,125	(\$6,125)
	\$20,000	\$82,529	(\$62,529)
Capital Projects Fund:			
Cap. Improv. – Park Improv.	\$150,000	\$301,002	(\$151,002)

The following accounts had expenditures plus encumbrances in excess of appropriations for the year ending December 31, 2004:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund:			
Police Dept. – Benefits	\$397,266	\$398,290	(\$1,024)
Recreation Dept. – Wages	\$139,782	\$148,301	(\$8,519)
Recreation Dept. – Contractual	\$66,164	\$72,376	(\$6,212)
Law Director – Contractual	\$125,043	\$128,581	(\$3,538)
Special Revenue Funds:			
Street Construction	\$270,608	\$276,194	(\$5,586)
Fire Service	\$1,827,576	\$1,851,281	(\$23,705)
Capital Projects Fund:			
Capital Improvement	\$1,791,981	\$2,304,569	(\$512,588)

**CITY OF RICHMOND HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND DECEMBER 31, 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2004-001
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(Continued)

Noncompliance Citation (Continued)

The following accounts had expenditures plus encumbrances in excess of appropriations as of August 31, 2003:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund:			
City Hall – Contractual	\$60,000	\$78,654	(\$18,654)
Capital Projects Fund:			
Cap. Improv.	\$0	\$7,271	(\$7,271)

The following accounts had expenditures plus encumbrances in excess of appropriations for the year ending December 31, 2003:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund:			
Service Dept. – Benefits	\$201,125	\$206,808	(\$5,683)
Civil Service – Wages	\$2,280	\$2,850	(\$570)

We recommend the City verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditures plus encumbrances in all funds which are legally required to be budgeted, at the legal level of control, to maintain compliance with the above requirements.

Officials' Response

This reflects the appropriations not entered into the accounting systems in a timely manner. The procedure will change so that an approved appropriation will be entered into the accounting system within a week of approval and/or before the end of the month, whichever is less.

FINDING NUMBER	2004-002
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Noncompliance Citation

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

**CITY OF RICHMOND HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND DECEMBER 31, 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2004-002
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(Continued)

Noncompliance Citation (Continued)

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirements for approval of expenditures by the City.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Forty-seven percent of non-payroll expenditures tested in 2004 and fifty-four percent of non-payroll expenditures tested in 2003 were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the City followed the aforementioned exceptions.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend the Finance Director certify that funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

**CITY OF RICHMOND HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND DECEMBER 31, 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER	2004-002
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(Continued)

Noncompliance Citation (Continued)

We recommend the City certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response

A "Then and Now" stamp has been purchased and is being used on all purchase orders processed after an invoice is received by the City. In addition, blanket purchase orders are being utilized more frequently, along with multi-vendor blanket and super blanket purchase orders.

Finding Number	2004-003
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Noncompliance Citation

Ohio Revised Code § 5705.39 provides, in part, that the total appropriations from each fund should not exceed the total estimated revenue. Ohio Revised Code § 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Revised Code § 5705.36(A)(3) provides that an increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Ohio Revised Code § 5705.36(A)(4) provides that a reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation. Ohio Revised Code § 5705.39 provides, in part, that the total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

The following funds had appropriations in excess of total estimated resources for the year ending December 31, 2004:

	<u>Total Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Special Revenue Fund:			
McKinley Heights	\$75,000	\$83,550	(\$8,550)
Professional Services	\$25,979	\$37,700	(\$11,721)
Capital Projects Fund:			
White/Richmond/Chardon Project Fund	\$2,103,558	\$2,110,000	(\$6,442)
Richmond Road Fund	\$125,000	\$147,000	(\$22,000)

**CITY OF RICHMOND HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND DECEMBER 31, 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-003
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(Continued)

Noncompliance Citation (Continued)

We recommend the City monitor appropriations and amend the certificate of estimated resources to ensure that appropriations do not exceed total estimated resources.

Officials' Response

This was my error. I have a spreadsheet used to submit the new appropriations to the County for an updated Estimated Resources Certificate. I will use this spreadsheet as a tool before an appropriation is presented to determine the correct amounts.

FINDING NUMBER	2004-004
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Noncompliance Citation

Competitive Bidding Procedures

Ohio Revised Code § 735.05 provides, in part, that competitive bidding procedures require that a contract be entered into in writing with the lowest and best bidder after advertisement of the proposal for bids for not less than two nor more than four consecutive weeks in a newspaper of general circulation within the municipality.

Section VI-3(n) of the City Charter states, in part, that each net expenditure of more than \$15,000 shall be made to the lowest and best bidder after public advertising in a manner prescribed by the Council.

A review of eight contracts that were subject to competitive bidding procedures disclosed the City could not verify if the required competitive bidding procedures were followed for four of the contracts due to inadequate record keeping. For three of the four contracts noted, it could not be determined if the contracts were awarded to the lowest and best bidder because the City was unable to locate the actual bids submitted to them by the bidders. For one of the four contracts noted, the City was unable to locate the actual contract, therefore, we could not verify the contract contained the required prevailing wage language.

We recommend the City maintain all pertinent information relating to competitive bidding procedures in one file for each contract, including, but not limited to the actual contract, the advertisement of the proposal for bid and the actual bids of each bidder.

Officials' Response

The auditors will provide me a list of what is required in a bid file. I will work with the Clerk of Council to ensure that each file of every bid of the City is complete.

**CITY OF RICHMOND HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND DECEMBER 31, 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-005
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Reportable Condition

Cash balances include cash in bank accounts and other imprest accounts such as payroll. Cash is an asset that is very susceptible to embezzlement and is considered a high risk asset because of its liquidity and its desirability. In order for the cash to be properly monitored and accounted for, most entities perform monthly bank reconciliations. This reconciliation verifies the cash balance reported in the general ledger agrees to the adjusted balance per the bank statement and it is also used to determine whether all cash receipts and disbursements have been properly recorded.

The City was so far behind in performing their monthly bank reconciliations that they had to hire an accountant from a temporary agency to perform their bank reconciliations for fiscal years 2003 and 2004. Monthly reconciliations went unperformed for fiscal year 2005 and again the City had to hire a temporary employee to perform the reconciliations. A review of the bank reconciliations performed for fiscal years 2003 and 2004 noted unsupported book to bank variances. As of December 31, 2003 and 2004, the bank reconciliation disclosed an adjusted book balance exceeding the adjusted bank balance by \$2,174.94 and \$310, respectively.

We recommend the City's cash balances be reconciled on a monthly basis and all reconciling items contain adequate supporting documentation. This reconciliation should be performed by the Finance Director or an employee of the Finance Department and should not have to be performed by a temporary accountant. Also, all cash receipts and disbursements should be posted to the general ledger at the time the transaction occurs. Furthermore, each month the reconciliation of the general account should be reviewed and approved by the City Council. Finally, this adjustment should be documented by the Finance Department, and appropriate action presented to the City Council.

Officials' Response

Cash reconciliations should not be performed by the same person that signs the checks. The accounting department does not have the expertise, outside of myself, to perform this duty. I am making arrangements for a temporary service to provide this service for us.

**CITY OF RICHMOND HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND DECEMBER 31, 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-006
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Reportable Condition

Sections 31.1 and 31.2 of the agreement between the City of Richmond Heights and the International Association of Fire Fighters, Local 2009, AFL-CIO (IAFF contract) states, "Each employee shall earn vacation time after one (1) year of continuous service and be entitled to paid vacation in accordance with the following schedule of full-time employment:

<u>Years of Continuous Service</u>	<u>Vacation Time</u>
1 - 5	5 tours of duty (120 hours)
6 – 20	Increase of ½ tour/yr.(maximum accumulation 12-1/2 tours)

Vacation time shall accrue to the employee upon each successive annual recurrence of the anniversary date of his appointment. Vacations shall be taken by the employee during the year after which it has accrued and prior to the next recurrence of the anniversary date. An employee shall be paid for any unused vacation time remaining at the conclusion of the vacation year within thirty (30) calendar days after the anniversary date of his or her appointment."

Our review of the annual accruals of the above noted IAFF contract noted the firefighters are being credited an extra 12 hours of vacation time beginning the day after the anniversary date of their fifth year of appointment as opposed to the anniversary date of their sixth year of appointment. As a result, the firefighters are being credited with an extra 12 hours of vacation time each year after their fifth year.

We recommend the City follow the leave policies noted in the IAFF contract.

Officials' Response

Up until this year, the finance department did not maintain paid time off records for the police and fire departments. With the new financial software, these times are tracked and updated with each payroll for everyone in the City.

**CITY OF RICHMOND HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND DECMEBER 31, 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2002-001	Ohio Rev. Code Section 5705.41(D) states, in part, that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.	No	Reissued as Finding 2004-002
2002-002	Ohio Revised Code Section 5705.41(B) requires that no subdivision or taxing unit shall make any expenditure of money unless it has been properly appropriated.	No	Reissued as Finding 2004-001
2002-003	A review of the bank reconciliations noted unsupported book to bank variances.	No	Reissued as Finding 2004-005
2002-004	Ordinance 94-2001 and the City's IAFF agreement were not always being properly followed as they related to vacation and compensatory time. In addition, two employees carried negative leave balances at the end of the fiscal year.	No	Partially corrected. Part of the Finding reissued as 2004-006.



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CITY OF RICHMOND 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 21, 2006**