



**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2004



**Auditor of State
Betty Montgomery**

VILLAGE OF GATES MILLS
CUYAHOGA COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Gates Mills
Cuyahoga County
1470 Chagrin River Road, P.O. Box 339
Gates Mills, Ohio 44040

To the Village Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Gates Mills, Cuyahoga County, Ohio, (the Village) as of and for the years ended December 31, 2005 and December 31, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village'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.

As discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Gates Mills, Cuyahoga County, Ohio, as of December 31, 2005 and December 31, 2004, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

As reported in Note 3 to the basic financial statements, for the years ended December 31, 2005 and December 31, 2004, the Village revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Also, for the year ended December 31, 2004, the Village reclassified the Water and Wastewater Funds from Other Governmental Funds (Capital Projects Funds) to Proprietary Funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2006, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 the Governmental Accounting Standards Board 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

October 5, 2006

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and December 31, 2004
Unaudited**

This discussion and analysis of the Village of Gates Mills, Cuyahoga County, Ohio, (the Village) financial performance provides an overall review of the Village's financial activities for the years ended December 31, 2005 and December 31, 2004, within the limitations of the Village's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2005 are as follows:

Net assets of governmental activities increased \$1,041,743, or 30 percent, a significant change from the prior year. This was in part the result of the issuance of two new notes. A note for \$275,000 was issued for the service garage addition and a note for \$1,100,000 was issued for the construction of the new library.

The Village's general receipts are primarily property, income and estate taxes. These receipts represent 53 percent of the total cash received for governmental activities during the year. Property and income tax receipts for 2005 changed very little compared to 2004 while estate taxes increased 83 percent when compared to 2004.

The water and wastewater net assets, the Village's business-type activities, decreased by 13 percent when compared to 2004.

Key highlights for 2004 are as follows:

Net assets of governmental activities increased \$826,270, or 32 percent, a significant change from the prior year. This was in part the result of receiving the Clean Air Ohio Grant for \$359,500 and \$115,554 reimbursement from the County, both to repay money expensed by the Village in 2003.

The Village's general receipts are primarily property, income and estate taxes. These receipts represent 60 percent of the total cash received for governmental activities during the year. Property taxes changed very little compared to 2003. Income taxes decreased 15 percent when compared to 2003 while estate taxes increased 850 percent when compared to 2003.

The water and wastewater net assets, the Village's business-type activities, decreased by 19 percent when compared to 2003.

The Library Fund received income from donations in anticipation of construction of a new library which began in 2005. Construction of the new library is to be funded by donations from the Village's residents.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board Statement No. 34, as applicable to the Village's modified cash basis of accounting.

VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
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Unaudited
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Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Village as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Village has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Village as a Whole

The statement of net assets and the statement of activities reflect how the Village did financially during 2005 and 2004, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other nonfinancial factors as well as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property, income and estate taxes.

In the statement of net assets and the statement of activities, we divide the Village into two types of activities:

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and December 31, 2004
Unaudited
(Continued)**

Governmental activities. Most of the Village's basic services are reported here, including police, fire, streets, buildings and cemetery maintenance and recreation activities. Municipal income taxes, property taxes and state income taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Business-type activities. The Village has two business-type activities, the provision of water and wastewater. Business-type activities are financed by fees charged to the customers receiving the service and transfers from the General Fund.

Reporting the Village's Most Significant Funds

Fund financial statements provide detailed information about the Village's major funds – not the Village as a whole. The Village establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Village are split into three categories: governmental, proprietary and fiduciary.

Governmental Funds - Most of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. In 2005, the Village's major governmental funds are the General Fund, Debt Service Fund, Capital Improvement Fund, Historic Downtown Fund and the Library Fund. In 2004, the Village reported the same major funds, except for the Historic Downtown Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Proprietary Funds – When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The Village has two enterprise funds, the water and wastewater funds.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the Village's programs.

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2005 compared to 2004 on a modified cash basis:

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and December 31, 2004
Unaudited
(Continued)**

**Table 1
Net Assets 2005 and 2004**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Cash and Cash Equivalents	\$ 527,382	\$ 498,030	\$	\$	\$ 527,382	\$ 498,030
Investments	3,941,335	2,928,944	438,908	503,646	4,380,243	3,432,590
Total Assets	<u>\$4,468,717</u>	<u>\$3,426,974</u>	<u>\$438,908</u>	<u>\$503,646</u>	<u>\$ 4,907,625</u>	<u>\$ 3,930,620</u>
Net Assets						
Restricted for:						
Debt Service	\$ 12,270	\$ 6,950	\$	\$	\$ 12,270	\$ 6,950
Capital Projects	3,093,042	1,845,781			3,093,042	1,845,781
Other Purposes	214,801	218,263			214,801	218,263
Unrestricted	1,148,604	1,355,980	438,908	503,646	1,587,512	1,859,626
Total Net Assets	<u>\$4,468,717</u>	<u>\$3,426,974</u>	<u>\$438,908</u>	<u>\$503,646</u>	<u>\$ 4,907,625</u>	<u>\$ 3,930,620</u>

As mentioned previously, Net assets of governmental activities increased \$1,041,743, or 30 percent, a significant change from the prior year. This was in part the result of the issuance of two new notes totaling \$1,375,000.

Table 2 provides a summary of the Village's net assets for 2004 compared to 2003 on a modified cash basis:

	2004	2003	2004	2003	2004	2003
	Assets					
Cash and Cash Equivalents	\$ 498,030	\$ 298,186	\$	\$	\$ 498,030	\$ 298,186
Investments	2,928,944	2,302,518	503,646	621,548	3,432,590	2,924,066
Total Assets	<u>\$ 3,426,974</u>	<u>\$ 2,600,704</u>	<u>\$ 503,646</u>	<u>\$ 621,548</u>	<u>\$ 3,930,620</u>	<u>\$ 3,222,252</u>
Net Assets						
Restricted for:						
Debt Service	\$ 6,950	\$ 2,730	\$	\$	\$ 6,950	\$ 2,730
Capital Projects	1,845,781	1,069,070			1,845,781	1,069,070
Other Purposes	218,263	225,057			218,263	225,057
Unrestricted	1,355,980	1,303,847	503,646	621,548	1,859,626	1,925,395
Total Net Assets	<u>\$ 3,426,974</u>	<u>\$ 2,600,704</u>	<u>\$ 503,646</u>	<u>\$ 621,548</u>	<u>\$ 3,930,620</u>	<u>\$ 3,222,252</u>

As mentioned previously, net assets of governmental activities increased \$826,270, or 32 percent, a significant change from the prior year. The primary reason contributing to the increase was due to the receipt in 2004 of a Clean Ohio Grant for \$359,500 and an \$115,554 reimbursement from the County, both to repay money expensed by the Village in 2003.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and December 31, 2004
Unaudited
(Continued)**

Table 3 reflects the changes in net assets in 2005 and 2004. Since the Village did not prepare financial statements in this format for 2003, a comparative analysis of government-wide data has not been presented comparing 2004 and 2003.

**Table 3
Changes in Net Assets**

	Governmental Activities 2005	Business Type Activities 2005	Governmental Activities 2004	Business Type Activities 2004	Total 2005	Total 2004
Receipts:						
Program Receipts:						
Charges for Services and Sales	\$407,047	\$653,240	\$462,020	\$632,279	\$1,060,287	\$1,094,299
Operating Grants and Contributions	138,380		138,747		138,380	138,747
Capital Grants and Contributions	211,183		932,095		211,183	932,095
Total Program Receipts	756,610	653,240	1,532,862	632,279	1,409,850	2,165,141
General Receipts:						
Property Taxes	1,652,550		1,653,869		1,652,550	1,653,869
Income Taxes	1,414,267		1,206,773		1,414,267	1,206,773
Estate Taxes	1,414,361		774,948		1,414,361	774,948
Grants & Entitlements Not Restricted to Specific Programs	358,874		348,550		358,874	348,550
Notes issued	3,375,000		2,000,000		3,375,000	2,000,000
Premium on Debt Issue	16,099		4,220		16,099	4,220
Sale of Capital Assets	84,965				84,965	
Interest	128,613		62,184		128,613	62,184
Miscellaneous	510				510	
Total General Receipts	8,445,239		6,050,544		8,445,239	6,050,544
Total Receipts	9,201,849	653,240	7,583,406	632,279	9,855,089	8,215,685
Disbursements:						
General Government	1,252,585		1,342,264		1,252,585	1,342,264
Security of Persons and Property	1,410,119		1,384,293		1,410,119	1,384,293
Public Health Services	7,894		5,951		7,894	5,951
Leisure Time Activities	299,127		301,097		299,127	301,097
Community Environment	33,446		59,321		33,446	59,321
Basic Utility	274,757		232,631		274,757	232,631
Transportation	950,250		885,089		950,250	885,089
Capital Outlay	1,829,653		473,490		1,829,653	473,490
Principal Retirement	2,000,000		2,000,000		2,000,000	2,000,000
Interest & Fiscal Charges	45,275		28,000		45,275	28,000
Water		724,039		723,981	724,039	723,981
Wastewater		50,939		71,200	50,939	71,200
Total Disbursements	8,103,106	774,978	6,712,136	795,181	8,878,084	7,507,317
Excess (Deficiency) Before Transfers	1,098,743	(121,738)	871,270	(162,902)	977,005	708,368
Transfers	(57,000)	57,000	(45,000)	45,000		
Increase in Net Assets	1,041,743	(64,738)	826,270	(117,902)	977,005	708,368
Net Assets, January 1,	3,426,974	503,646	2,600,704	621,548	3,930,620	3,222,252
Net Assets, December 31,	\$4,468,717	\$438,908	\$3,426,974	\$503,646	\$4,907,625	\$3,930,620

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and December 31, 2004
Unaudited
(Continued)**

For 2005 - Receipts:

Program receipts represent only 14 percent of total receipts and are primarily comprised of restricted intergovernmental receipts, special assessments, donations and charges for cemetery lots and burial charges, summer program registration fees, rent income from Village owned houses and cell tower, and cable franchise fees. Also included are assessments to repay the Village for the purchase of the "Mayfield School Board" property. The purchase was made from the General Fund, therefore the assessments which are being repaid over 20 years, are being recorded in the General Fund.

General receipts represent 86 percent of the Village's total receipts, and of this amount, 45 percent are property, income and estate taxes. State and federal grants and entitlements make up the balance of the Village's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

For 2004 - Receipts:

Program receipts represent only 26 percent of total receipts and are primarily comprised of restricted intergovernmental receipts, rent, special assessments and donations.

General receipts represent 74 percent of the Village's total receipts, and of this amount, 44 percent are property, income and estate taxes. State and federal grants and entitlements make up the balance of the Village's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

For 2005 and 2004 - Disbursements

Disbursements for General Government represent the overhead costs of running the Village and the support services provided for other Village activities. These include the legal and engineering costs, other professional costs, and property/liability insurance costs, as well as internal services such as payroll and fringe benefits and purchasing.

Security of Persons and Property are the costs of police and fire protection plus street lighting.

Public Health Services are cemetery costs.

Leisure Time activities are the costs of maintaining the Village's parklands plus providing community activities such as Day Camp, Jr. Strawhat, Halloween Party, Easter Hunt, Concert, and Art Show.

Community Environment is the cost of providing building inspections.

Basic Utility Service is the cost of trash hauling, street lighting, and maintaining ditches. Transportation is the cost of maintaining the roads, bridges, and guardrails along with the cost of maintaining the service department's equipment.

In both the Receipts and the Disbursement is \$2,000,000 which reflects the renewal of a loan. Repayment of principal will begin in 2006, amortized over 10 years.

In 2004, the Wastewater Fund incurred an unusually large expense caused by invoices received and paid from the County for prior years' services.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and December 31, 2004
Unaudited
(Continued)**

Government Activities

On the Statement of Activities the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for general government, transportation and security of persons and property. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for service and grants received by the Village that must be used to provide a specific service. The Net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 4.

**Table 4
Governmental Activities**

	Total Cost Of Services 2005	Net Cost Of Services 2005	Total Cost Of Services 2004	Net Cost Of Services 2004
General Government	\$1,252,585	(\$961,103)	\$1,342,264	(\$962,685)
Security of Persons and Property	1,410,119	(1,406,457)	1,384,293	(1,372,380)
Public Health Services	7,894	(4,394)	5,951	(2,451)
Leisure Time Activities	299,127	(199,787)	301,097	(230,404)
Community Environment	33,446	(33,446)	59,321	(59,321)
Basic Utility Services	274,757	(274,757)	232,631	(232,631)
Transportation	950,250	(839,574)	885,089	(665,845)
Capital Outlay	1,829,653	(1,581,703)	473,490	374,443
Principal Retirement	2,000,000	(2,000,000)	2,000,000	(2,000,000)
Interest and Fiscal Charges	45,275	(45,275)	28,000	(28,000)
Total Expenses	\$8,103,106	(\$7,346,496)	\$6,712,136	(\$5,179,274)

Business-Type Activities

The water and wastewater operations of the Village are relatively small and supplemented by transfers from the General Fund.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
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The Village's Funds

For 2005:

Total governmental funds, excluding transfers and advances, had receipts of \$9,201,849 and disbursements of \$8,103,106. The most significant change within governmental funds occurred within the General, Library, Capital Improvement and the Historic Downtown Funds. The significant changes are as follows:

- The fund balance of the General Fund decreased \$207,376 as the result of increased costs for salaries and benefits.
- The fund balance of the Library Fund increased \$399,414 as the result of a \$1,100,000 loan and donations totaling \$211,183.
- The fund balance of the Capital Improvement Fund decreased \$550,797 as the result of the repayment of a \$1,625,000 advance and intergovernmental receipts of \$1,414,361.
- The fund balance of the Historic Downtown Fund increased \$1,398,644 as the result of an advance of \$1,625,000.

For 2004:

Total governmental funds, excluding transfers and advances, had receipts of \$7,583,406 and disbursements of \$6,712,136. The most significant change within governmental funds occurred within the Capital Improvement and Library Funds. The fund balance of the Capital Improvement Fund increased \$417,010 as the result of a reduction of projects financed. The fund balance of the Library Fund increased \$422,996 as the result of donations received totaling \$457,363.

General Fund Budgeting Highlights

The Village's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

For 2005:

The Village amended its General Fund budget a few times to reflect changing circumstances. Final budgeted receipts were slightly less than expected.

Final disbursements were budgeted at \$3,709,700 while actual disbursements were \$3,646,641. The Village spent very close to budgeted amounts as demonstrated by the minor reported variances. The result is the decrease in fund balance of \$207,376.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and December 31, 2004
Unaudited
(Continued)**

For 2004:

The Village amended its General Fund budget a few times to reflect changing circumstances. Final budgeted receipts were slightly more than expected.

Final disbursements were budgeted at \$3,602,100 while actual disbursements were \$3,577,469. The Village spent very close to budgeted amounts as demonstrated by the minor reported variances. The result is the increase in fund balance of \$52,133.

Capital Assets and Debt

The Village maintains a listing of its capital assets and infrastructure. It is updated by Industrial Appraisal Company annually. As of December 31, 2005, the Village's outstanding principal on all loans and notes was \$10,309,882. Of this amount:

- \$5,473,923 is for 2 loans with the Ohio Water Development Authority (OWDA) that are secured by assessments. They loans were for a water project which began in 1995.
- \$1,162,739 is for a non interest loan with the Ohio Public Works Commission (OPWC), also for the water project.
- \$298,220 is for a non interest loan with OPWC for a wastewater project.
- \$2,000,000 is for a Street Improvement Note with Key Bank which is renewed annually. Only interest has been paid on that note since 2000. Principal payments will be required beginning in 2006.
- \$1,100,000 is for a Library Note with Key Bank which is renewable annually. It will be renewed for the amount not collected in donations.
- \$275,000 is for a Service Garage Addition Note with Key Bank which is renewable annually. Principal payments will be required in 2011.

See details in the "Notes to the Basic Financial Statements".

As of December 31, 2004 the Village's outstanding principal and interest for all loans was \$9,307,878. Of this amount:

- \$5,744,626 is for 2 loans with OWDA that are secured by assessments. They were for a water project which began in 1995.
- \$1,245,792 is for a non interest loan with OPWC, also for the water project.
- \$317,460 is for a no interest loan with OPWC for a wastewater project.
- \$2,000,000 is for a Street Improvement Note with Key Bank which is renewed annually. Only interest has been paid on that note since 2000. Principal payments will be required beginning in 2006.

See details in the "Notes to the Basic Financial Statements".

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and December 31, 2004
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Current Issues

The challenge for the Village is to provide quality services to the public while staying within the restrictions imposed by limited funding. There is no industry to support the tax base. The income from the outside levies is fixed, yet the expenses have been growing with inflation. A new tax levy was passed by the voters in 2005 and Council is looking at other sources of income, including gas wells, charging for services, and selling property.

The Administration is actively trying to renovate a blighted downtown district. Part of the project is being funded by donations; part by advances from other funds; part by rental income.

Contacting the Village's Financial Management

This financial report is designed to provide the citizens, taxpayers, and creditors with a general overview of the Village's finances and to reflect the Village's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jo Ann Lechman, Finance Administrator, Village of Gates Mills Town Hall, 1470 Chagrin River Road, P.O. Box 339, Gates Mills, Ohio 44040.

VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Statement of Net Assets - Modified Cash Basis
December 31, 2005

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$527,382	\$0	\$527,382
Investments	3,941,335	438,908	4,380,243
<i>Total Assets</i>	<u>\$4,468,717</u>	<u>\$438,908</u>	<u>\$4,907,625</u>
Net Assets			
Restricted for:			
Capital Projects	\$3,093,042	\$0	\$3,093,042
Debt Service	12,270	0	12,270
Other Purposes	214,801	0	214,801
Unrestricted	1,148,604	438,908	1,587,512
<i>Total Net Assets</i>	<u>\$4,468,717</u>	<u>\$438,908</u>	<u>\$4,907,625</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

*Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2005*

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$1,252,585	\$291,482	\$0	\$0	(\$961,103)	\$0	(\$961,103)
Security of Persons and Property	1,410,119	0	3,662	0	(1,406,457)	0	(1,406,457)
Public Health Services	7,894	3,500	0	0	(4,394)	0	(4,394)
Leisure Time Activities	299,127	75,298	24,042	0	(199,787)	0	(199,787)
Community Environment	33,446	0	0	0	(33,446)	0	(33,446)
Basic Utility Services	274,757	0	0	0	(274,757)	0	(274,757)
Transportation	950,250	0	110,676	0	(839,574)	0	(839,574)
Capital Outlay	1,829,653	36,767	0	211,183	(1,581,703)	0	(1,581,703)
Principal Retirement	2,000,000	0	0	0	(2,000,000)	0	(2,000,000)
Interest and Fiscal Charges	45,275	0	0	0	(45,275)	0	(45,275)
<i>Total Governmental Activities</i>	<u>8,103,106</u>	<u>407,047</u>	<u>138,380</u>	<u>211,183</u>	<u>(7,346,496)</u>	<u>0</u>	<u>(7,346,496)</u>
Business Type Activity							
Water	724,039	650,544	0	0	0	(73,495)	(73,495)
Wastewater	50,939	2,696	0	0	0	(48,243)	(48,243)
<i>Total Business Type Activities</i>	<u>774,978</u>	<u>653,240</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(121,738)</u>	<u>(121,738)</u>
Total	<u>\$8,878,084</u>	<u>\$1,060,287</u>	<u>\$138,380</u>	<u>\$211,183</u>	<u>(\$7,346,496)</u>	<u>(\$121,738)</u>	<u>(\$7,468,234)</u>
General Receipts							
Property Taxes Levied for:							
General Purposes					1,420,344		1,420,344
Police Pension					53,586		53,586
Conservation					178,620		178,620
Municipal Income Taxes					1,414,267		1,414,267
Estate Tax					1,414,361		1,414,361
Grants and Entitlements not							
Restricted to Specific Programs					358,874		358,874
Notes Issued					3,375,000		3,375,000
Premium on Debt Issue					16,099		16,099
Sale of Capital Assets					84,965		84,965
Interest					128,613		128,613
Miscellaneous					510		510
<i>Total General Receipts</i>					<u>8,445,239</u>		<u>8,445,239</u>
Transfers							
					(57,000)	57,000	
Total General Receipts & Transfers					<u>8,388,239</u>	<u>57,000</u>	<u>8,445,239</u>
Change in Net Assets							
					1,041,743	(64,738)	977,005
<i>Net Assets Beginning of Year</i>							
					<u>3,426,974</u>	<u>503,646</u>	<u>3,930,620</u>
<i>Net Assets End of Year</i>							
					<u><u>\$4,468,717</u></u>	<u><u>\$438,908</u></u>	<u><u>\$4,907,625</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005

	General	Debt Service Fund	Capital Improvement Fund	Historic Downtown Fund	Library Fund	Other Governmental Funds	Total Governmental Funds
Assets							
Equity in Pooled Cash and Cash Equivalents	\$527,382	\$0	\$0	\$0	\$0	\$0	\$527,382
Investments	621,222	12,270	637,877	1,632,656	822,510	214,800	3,941,335
<i>Total Assets</i>	<u>\$1,148,604</u>	<u>\$0</u>	<u>\$637,877</u>	<u>\$1,632,656</u>	<u>\$822,510</u>	<u>\$214,800</u>	<u>\$4,468,717</u>
Fund Balances							
Unreserved:							
Undesignated (Deficit), Reported in:							
General Fund	\$1,148,604	\$0	\$0	\$0	\$0	\$0	\$1,148,604
Special Revenue Funds	0	0	0	0	0	66,378	66,378
Debt Service Funds	0	12,270	0	0	0	0	12,270
Capital Improvement Funds	0	0	637,877	1,632,656	822,510	0	3,093,043
Permanent Fund	0	0	0	0	0	148,422	148,422
<i>Total Fund Balances</i>	<u>\$1,148,604</u>	<u>\$12,270</u>	<u>\$637,877</u>	<u>\$1,632,656</u>	<u>\$822,510</u>	<u>\$214,800</u>	<u>\$4,468,717</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Modified-Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2005*

	General	Debt Service Fund	Capital Improvement Fund	Historic Downtown Fund	Library Fund	Other Governmental Funds	Total Governmental Funds
Receipts							
Municipal Income Taxes	\$1,414,267	\$0	\$0	\$0	\$0	\$0	\$1,414,267
Property and Other Local Taxes	1,420,344	0	0	0	0	232,206	1,652,550
Special Assessments	36,767	0	0	0	0	0	36,767
Charges for Services	187,852	0	0	0	0	78,798	266,650
Fines, Licenses and Permits	104,140	0	0	0	0	0	104,140
Intergovernmental	328,789	0	1,414,361	0	0	144,423	1,887,573
Interest	100,006	0	0	0	25,901	2,706	128,613
Donations	0	0	0	0	211,183	24,042	235,225
<i>Total Receipts</i>	<u>3,592,165</u>	<u>0</u>	<u>1,414,361</u>	<u>0</u>	<u>237,084</u>	<u>482,175</u>	<u>5,725,785</u>
Disbursements							
Current:							
General Government	1,232,972	0	0	0	0	19,613	1,252,585
Security of Persons and Property	1,248,601	0	0	0	0	161,518	1,410,119
Public Health Services	0	0	0	0	0	7,894	7,894
Leisure Time Activities	11,594	0	0	0	0	287,533	299,127
Community Environment	33,446	0	0	0	0	0	33,446
Basic Utility Services	274,757	0	0	0	0	0	274,757
Transportation	845,271	0	0	0	0	104,979	950,250
Capital Outlay	0	0	660,380	226,356	942,917	0	1,829,653
Principal Retirement	0	2,000,000	0	0	0	0	2,000,000
Interest and Fiscal Charges	0	4,220	41,055	0	0	0	45,275
<i>Total Disbursements</i>	<u>3,646,641</u>	<u>2,004,220</u>	<u>701,435</u>	<u>226,356</u>	<u>942,917</u>	<u>581,537</u>	<u>8,103,106</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(54,476)</u>	<u>(2,004,220)</u>	<u>712,926</u>	<u>(226,356)</u>	<u>(705,833)</u>	<u>(99,362)</u>	<u>(2,377,321)</u>
Other Financing Sources (Uses)							
Notes Issued	0	2,000,000	275,000	0	1,100,000	0	3,375,000
Premium (Discount) on Debt Issue	0	9,540	1,312	0	5,247	0	16,099
Sale of Capital Assets	0	0	84,965	0	0	0	84,965
Transfers In	0	0	0	0	0	95,900	95,900
Transfers Out	(152,900)	0	0	0	0	0	(152,900)
Advances In	0	0	0	1,625,000	0	0	1,625,000
Advances Out	0	0	(1,625,000)	0	0	0	(1,625,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(152,900)</u>	<u>2,009,540</u>	<u>(1,263,723)</u>	<u>1,625,000</u>	<u>1,105,247</u>	<u>95,900</u>	<u>3,419,064</u>
<i>Net Change in Fund Balances</i>	<u>(207,376)</u>	<u>5,320</u>	<u>(550,797)</u>	<u>1,398,644</u>	<u>399,414</u>	<u>(3,462)</u>	<u>1,041,743</u>
<i>Fund Balances Beginning of Year</i>	<u>1,355,980</u>	<u>6,950</u>	<u>1,188,674</u>	<u>234,012</u>	<u>423,096</u>	<u>218,262</u>	<u>3,426,974</u>
<i>Fund Balances End of Year</i>	<u>\$1,148,604</u>	<u>\$12,270</u>	<u>\$637,877</u>	<u>\$1,632,656</u>	<u>\$822,510</u>	<u>\$214,800</u>	<u>\$4,468,717</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2005*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Municipal Income Taxes	\$1,300,000	\$1,300,000	\$1,414,267	\$114,267
Property and Other Local Taxes	1,421,027	1,421,027	1,420,344	(683)
Special Assessments	28,500	28,500	36,767	8,267
Charges for Services	175,500	175,500	187,342	11,842
Fines, Licenses and Permits	170,000	170,000	104,140	(65,860)
Intergovernmental	545,891	545,242	328,789	(216,453)
Interest	50,000	50,000	100,006	50,006
Miscellaneous	5,000	5,000	510	(4,490)
<i>Total receipts</i>	<u>3,695,918</u>	<u>3,695,269</u>	<u>3,592,165</u>	<u>(103,104)</u>
Disbursements				
Current:				
General Government	1,198,500	1,198,500	1,232,972	(34,472)
Security of Persons and Property	1,275,000	1,275,000	1,248,601	26,399
Leisure Time Activities	11,500	11,500	11,594	(94)
Community Environment	63,400	63,400	33,446	29,954
Basic Utility Services	265,800	265,800	274,757	(8,957)
Transportation	895,500	895,500	845,271	50,229
<i>Total Disbursements</i>	<u>3,709,700</u>	<u>3,709,700</u>	<u>3,646,641</u>	<u>63,059</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(13,782)</u>	<u>(14,431)</u>	<u>(54,476)</u>	<u>(40,045)</u>
Other Financing Sources (Uses)				
Transfers Out	(144,900)	(152,900)	(152,900)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(144,900)</u>	<u>(152,900)</u>	<u>(152,900)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(158,682)</u>	<u>(167,331)</u>	<u>(207,376)</u>	<u>(40,045)</u>
<i>Fund Balance Beginning of Year</i>	<u>1,355,980</u>	<u>1,355,980</u>	<u>1,355,980</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$1,197,298</u></u>	<u><u>\$1,188,649</u></u>	<u><u>\$1,148,604</u></u>	<u><u>(\$40,045)</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
December 31, 2005

	Business-Type Activities		
	Wastewater Fund	Water Fund	Total Proprietary Funds
Assets			
Investments	\$21,190	\$417,718	\$438,908
<i>Total Assets</i>	<u>\$21,190</u>	<u>\$417,718</u>	<u>\$438,908</u>
Net Assets			
Unrestricted	\$21,190	\$417,718	\$438,908
	<u>\$21,190</u>	<u>\$417,718</u>	<u>\$438,908</u>

See accompanying notes to the basic financial statements.

VILLAGE OF GATES MILLS

CUYAHOGA COUNTY

Statement of Cash Receipts,

Disbursements and Changes in Fund Net Assets - Modified Cash Basis

Proprietary Funds

For the Year Ended December 31, 2005

	Business-Type Activities		
	Wastewater Fund	Water Fund	Total Proprietary Funds
Operating Receipts			
Charges for Services	\$2,696	\$11,333	\$14,029
<i>Total Operating Receipts</i>	<u>2,696</u>	<u>11,333</u>	<u>14,029</u>
Operating Disbursements			
Contractual Services	27,552	15,843	43,395
Materials and Supplies	4,147	149	4,296
<i>Total Operating Disbursements</i>	<u>31,699</u>	<u>15,992</u>	<u>47,691</u>
<i>Operating Income (Loss)</i>	(29,003)	(4,659)	(33,662)
Non-Operating Receipts and (Disbursements)			
Special Assessments		639,211	639,211
Redemption of Principal	(19,240)	(353,756)	(372,996)
Interest and Other Fiscal Charges		(354,291)	(354,291)
<i>Total Non-Operating Receipts and (Disbursements)</i>	<u>(19,240)</u>	<u>(68,836)</u>	<u>(88,076)</u>
<i>Income (Loss) before Transfers</i>	(48,243)	(73,495)	(121,738)
Transfers In	57,000		57,000
<i>Change in Net Assets</i>	8,757	(73,495)	(64,738)
<i>Net Assets Beginning of Year</i>	<u>12,433</u>	<u>491,213</u>	<u>503,646</u>
<i>Net Assets End of Year</i>	<u>\$21,190</u>	<u>\$417,718</u>	<u>\$438,908</u>

See accompanying notes to the basic financial statements.

VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
December 31, 2005

	<u>Agency</u>
Assets	
Investments	\$91,447
<i>Total Assets</i>	<u>\$91,447</u>
Net Assets	
Held in Trust for Building Deposits	<u>\$91,447</u>

See accompanying notes to the basic financial statements.

VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Statement of Net Assets - Modified Cash Basis
December 31, 2004

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$498,030	\$0	\$498,030
Investments	2,928,944	503,646	3,432,590
<i>Total Assets</i>	<u>\$3,426,974</u>	<u>\$503,646</u>	<u>\$3,930,620</u>
Net Assets			
Restricted for:			
Capital Projects	\$1,845,781	\$0	\$1,845,781
Debt Service	6,950	0	6,950
Other Purposes	218,263	0	218,263
Unrestricted	1,355,980	503,646	1,859,626
<i>Total Net Assets</i>	<u>\$3,426,974</u>	<u>\$503,646</u>	<u>\$3,930,620</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

*Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2004*

	General Fund	Debt Service Fund	Capital Improvement Fund	Library Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$498,030	\$0	\$0	\$0	\$0	\$498,030
Investments	857,950	6,950	1,188,674	423,096	452,274	2,928,944
<i>Total Assets</i>	<u>\$1,355,980</u>	<u>\$6,950</u>	<u>\$1,188,674</u>	<u>\$423,096</u>	<u>\$452,274</u>	<u>\$3,426,974</u>
Fund Balances						
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	\$1,355,980	\$0	\$0	\$0	\$0	\$1,355,980
Special Revenue Funds	0	0	0	0	68,076	68,076
Debt Service Fund	0	6,950	0	0	0	6,950
Capital Project Funds	0	0	1,188,674	423,096	234,011	1,845,781
Permanent Funds	0	0	0	0	150,187	150,187
<i>Total Fund Balances</i>	<u>\$1,355,980</u>	<u>\$6,950</u>	<u>\$1,188,674</u>	<u>\$423,096</u>	<u>\$452,274</u>	<u>\$3,426,974</u>

See accompanying notes to the basic financial statements.

VILLAGE OF GATES MILLS
CUYAHOGA COUNTY

Statement of Cash Receipts, Disbursements and Changes in Modified-Cash Basis Fund Balances

Governmental Funds

For the Year Ended December 31, 2004

	General Fund	Debt Service Fund	Capital Improvement Fund	Library Fund	Other Governmental Funds	Total Governmental Funds
Receipts						
Municipal Income Taxes	\$1,206,773	\$0	\$0	\$0	\$0	\$1,206,773
Property and Other Local Taxes	1,421,377	0	0	0	232,492	1,653,869
Special Assessments	31,043	0	0	0	0	31,043
Charges for Services	231,850	0	0	0	48,570	280,420
Fines, Licenses and Permits	144,901	0	0	0	2,828	147,729
Intergovernmental	683,760	0	774,948	0	255,476	1,714,184
Interest	57,798	0	0	3,335	1,051	62,184
Donations	0	0	0	457,363	25,621	482,984
<i>Total Receipts</i>	<u>3,777,502</u>	<u>0</u>	<u>774,948</u>	<u>460,698</u>	<u>566,038</u>	<u>5,579,186</u>
Disbursements						
Current:						
General Government	1,269,475	0	0	37,702	35,087	1,342,264
Security of Persons and Property	1,217,609	0	0	0	166,684	1,384,293
Public Health Services	0	0	0	0	5,951	5,951
Leisure Time Activities	17,120	0	0	0	283,977	301,097
Community Environment	59,321	0	0	0	0	59,321
Basic Utility Services	232,631	0	0	0	0	232,631
Transportation	781,313	0	0	0	103,776	885,089
Capital Outlay	0	0	357,938	0	115,552	473,490
Debt Service:	0	0	0	0	0	0
Principal Retirement	0	2,000,000	0	0	0	2,000,000
Interest and Fiscal Charges	0	0	0	0	28,000	28,000
<i>Total Disbursements</i>	<u>3,577,469</u>	<u>2,000,000</u>	<u>357,938</u>	<u>37,702</u>	<u>739,027</u>	<u>6,712,136</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>200,033</u>	<u>(2,000,000)</u>	<u>417,010</u>	<u>422,996</u>	<u>(172,989)</u>	<u>(1,132,950)</u>
Other Financing Sources (Uses)						
Notes Issued	0	2,000,000	0	0	0	2,000,000
Premium (Discount) on Debt Issue	0	4,220	0	0	0	4,220
Transfers In	0	0	0	0	102,900	102,900
Transfers Out	(147,900)	0	0	0	0	(147,900)
Advances In	50,000	0	0	50,000	0	100,000
Advances Out	(50,000)	0	0	(50,000)	0	(100,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(147,900)</u>	<u>2,004,220</u>	<u>0</u>	<u>0</u>	<u>102,900</u>	<u>1,959,220</u>
<i>Net Change in Fund Balances</i>	52,133	4,220	417,010	422,996	(70,089)	826,270
<i>Fund Balances Beginning of Year</i>	<u>1,303,847</u>	<u>2,730</u>	<u>771,664</u>	<u>100</u>	<u>522,363</u>	<u>2,600,704</u>
<i>Fund Balances End of Year</i>	<u>\$1,355,980</u>	<u>\$6,950</u>	<u>\$1,188,674</u>	<u>\$423,096</u>	<u>\$452,274</u>	<u>\$3,426,974</u>

See accompanying notes to the basic financial statements.

VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Municipal Income Taxes	\$1,450,000	\$1,200,000	\$1,206,773	\$6,773
Property and Other Local Taxes	1,758,000	1,737,645	1,745,611	7,966
Special Assessments	26,500	31,500	31,043	(457)
Charges for Services	235,000	234,000	231,850	(2,150)
Fines, Licenses and Permits	175,000	150,000	144,901	(5,099)
Intergovernmental	359,500	359,500	359,526	26
Interest	50,000	50,000	57,798	7,798
<i>Total receipts</i>	4,054,000	3,762,645	3,777,502	14,857
Disbursements				
Current:				
General Government	1,232,800	1,232,800	1,269,475	(36,675)
Security of Persons and Property	1,261,100	1,261,100	1,217,609	43,491
Leisure Time Activities	11,500	11,500	17,120	(5,620)
Community Environment	62,000	62,000	59,321	2,679
Basic Utility Services	240,600	240,600	232,631	7,969
Transportation	794,100	794,100	781,313	12,787
<i>Total Disbursements</i>	3,602,100	3,602,100	3,577,469	24,631
<i>Excess of Receipts Over (Under) Disbursements</i>	451,900	160,545	200,033	39,488
Other Financing Sources (Uses)				
Transfers Out	(100,900)	(147,900)	(147,900)	0
Advances In	50,000	50,000	50,000	0
Advances Out	(50,000)	(50,000)	(50,000)	0
<i>Total Other Financing Sources (Uses)</i>	(100,900)	(147,900)	(147,900)	0
<i>Net Change in Fund Balance</i>	351,000	12,645	52,133	39,488
<i>Fund Balance Beginning of Year</i>	1,303,847	1,303,847	1,303,847	0
<i>Fund Balance End of Year</i>	\$1,654,847	\$1,316,492	\$1,355,980	\$39,488

See accompanying notes to the basic financial statements

VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
December 31, 2004

	Business-Type Activities		
	Wastewater Fund	Water Fund	Total Proprietary Funds
Assets			
Investments	\$12,433	\$491,213	\$503,646
<i>Total Assets</i>	12,433	491,213	503,646
Net Assets			
Unrestricted	\$12,433	\$491,213	\$503,646

See accompanying notes to the basic financial statements.

VILLAGE OF GATES MILLS

CUYAHOGA COUNTY

Statement of Cash Receipts,

Disbursements and Changes in Fund Net Assets - Modified Cash Basis

Proprietary Funds

For the Year Ended December 31, 2004

	Business-Type Activities		
	Wastewater Fund	Water Fund	Total Proprietary Funds
Operating Receipts			
Charges for Services	\$3,126	\$0	\$3,126
<i>Total Operating Receipts</i>	<u>3,126</u>	<u>0</u>	<u>3,126</u>
Operating Disbursements			
Contractual Services	47,311	15,757	63,068
Materials and Supplies	4,649	177	4,826
<i>Total Operating Disbursements</i>	<u>51,960</u>	<u>15,934</u>	<u>67,894</u>
<i>Operating Income (Loss)</i>	(48,834)	(15,934)	(64,768)
Non-Operating Receipts and (Disbursements)			
Special Assessments	0	629,153	629,153
Redemption of Principal	(19,240)	(337,968)	(357,208)
Interest and Other Fiscal Charges	0	(370,079)	(370,079)
<i>Total Non-Operating Receipts and (Disbursements)</i>	<u>(19,240)</u>	<u>(78,894)</u>	<u>(98,134)</u>
<i>Income (Loss) before Transfers</i>	(68,074)	(94,828)	(162,902)
Transfers In	45,000	0	45,000
<i>Change in Net Assets</i>	(23,074)	(94,828)	(117,902)
<i>Net Assets Beginning of Year</i>	<u>35,507</u>	<u>586,041</u>	<u>621,548</u>
<i>Net Assets End of Year</i>	<u>\$12,433</u>	<u>\$491,213</u>	<u>\$503,646</u>

See accompanying notes to the basic financial statements.

VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds - Agency Funds
December 31, 2004

	<u>Agency</u>
Assets	
Investments	\$71,463
<i>Total Assets</i>	<u>\$71,463</u>
Net Assets	
Held in Trust for Building Deposits	<u>\$71,463</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 1 – Reporting Entity

The Village of Gates Mills, Cuyahoga County, Ohio, (the Village) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio and the Village Charter dated November 1972.

The Mayor, elected by the voters for a four-year term, is the head of the municipal government for ceremonial, administrative, and executive purposes, performs the judicial functions of the Village and presides at Council meetings. The chief conservator of the peace, she oversees the enforcement of all laws and ordinances. She also appoints with Council approval all department heads, and together with the Clerk or Treasurer executes all contracts, conveyances, and evidences of indebtedness of the Village.

Legislative authority is vested in a seven member council with all seven members elected at large for a term of four years. Council enacts ordinances and resolutions relating to tax levies; appropriates and borrows money; and accepts bids for materials and services and other municipal purposes.

A. Primary Government

The 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 Village consists of all funds, departments, boards and agencies that are not legally separate from the Village. The primary government provides the following services to its citizens: police and fire protection, recreation, planning, zoning, street maintenance and repair, refuse collection, recycling and general administrative services.

B. Component Units

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Village, are accessible to the Village and are significant in amount to the Village. There are no component units included as part of this report.

The Village is associated with a jointly governed organization, the East Suburban Regional Council of Governments. This organization is presented in Note 16 to the basic financial statements.

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Village does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the Village's accounting policies.

A. Basis of Presentation

The Village's basic financial statements consist of government-wide financial 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 Village as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Village that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services and transfers from the General Fund.

The statement of net assets presents the cash balance of the governmental and business-type activities of the Village at year- end. The statement of activities compares disbursements with program receipts for each of the Village's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Village is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function or business type activity is self-financing on a modified cash basis or draws from the Village's general receipts.

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at this more detailed level. The focus of governmental and enterprise 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. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transaction from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

The Village uses fund accounting 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. Funds are used to segregate resources that are restricted as to use. The funds of the Village are divided into three categories, governmental, proprietary and fiduciary.

Governmental Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. In 2005, the Village's major governmental funds are the General Fund, Debt Service Fund, Capital Improvement Fund, Historic Downtown Fund and the Library Fund. In 2004, the Village reported the same major funds, except for the Historic Downtown Fund. The Village's major funds are as follows

General Fund - The Fund 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 Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt Service Fund – This fund is used to accumulate resources for the payment of bonds and note indebtedness except those required to be accounted for in another fund.

Capital Improvement Fund - This fund is used to track money received for and spent on capital projects. Sources of money include Inheritance tax, advances and transfers, plus repayment of expenditures from this Fund. Expenditures are for capital projects and transfers to the General Fund when deemed necessary by Village Council.

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

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

The other governmental funds of the Village account for grants and other resources whose use is restricted to a particular purpose. Included in these funds are the Village's Permanent Funds: the Mayor's Discretionary Fund, Purcell Fund and the Storer Fund.

Proprietary Funds

The Village classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as enterprise. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Village's major funds are the Water and Wastewater Funds.

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

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

Proprietary Funds (Continued)

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

Fiduciary Funds

Fiduciary funds include pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs. The Village has no trust funds. Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village's agency fund accounts for building bond deposits from various contractors, developers or individuals to insure compliance with various Village ordinances.

C. Basis of Accounting

The Village's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Village's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Village are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Village Council may appropriate.

The appropriations ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established at the fund level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk/Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Village Council.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

D. Budgetary Process (Continued)

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Village Council during the year.

E. Cash and Investments

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

During 2005 and 2004, the Village invested in a money market fund, U.S. Treasury Notes and STAR Ohio. The U.S. Treasury Notes are reported at cost. The money market fund is recorded at the amount reported by Key Bank at December 31, 2005 and December 31, 2004.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2005 and December 31, 2004.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 and 2004 were \$100,006 and \$57,798, which includes \$74,301 and \$34,929 assigned from other Village funds.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Village has no restricted assets.

G. Inventory and Prepaid Items

The Village reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

H. Capital Assets

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

I. Interfund Receivables/Payables

The Village reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

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

K. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

The Village's modified cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid. The Village had no lease payments.

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for debt service include resources restricted for the retirement of a \$2,000,000 street improvement note. Net assets restricted for capital projects include resources restricted for the library and historic downtown projects. Net assets restricted for other purposes include streets, police and land conservation.

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

N. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing source/uses in governmental funds and after nonoperating receipts /disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

Note 3 – Change in Basis of Accounting and Restatement of Fund Equity

As of December 31, 2003, the Village reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. For the year ended December 31, 2004, the Village has implemented the modified cash basis of accounting described in Note 2. The fund financial statements now present each major fund in a separate column with non-major funds aggregated and presented in a single column, rather than a column for each fund type.

Also, the water and wastewater funds previously reported as Other Governmental Funds (Capital Projects Funds) were reclassified as Proprietary (Enterprise) Funds.

The restatement of the business type activities is as follows:

	Other Governmental Funds	Enterprise Funds
Fund Balance - December 31, 2003	\$1,143,911	\$
Reclassification of Wastewater Fund	(35,507)	35,507
Reclassification of Water Fund	(586,041)	586,041
Adjusted Net Assets – December 31, 2003	\$522,363	\$621,548

Note 4 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund and is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The outstanding advances as of December 31, 2005 were as follows:

Downtown Fund owes the Capital Improvement Fund \$4,119,900
Wastewater Fund owes the Capital Improvement Fund \$300,000

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 5 – Deposits and Investments

Monies held by the Village are classified by State statute into three categories.

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

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

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

Pursuant to the Village's investment policy, interim monies held by the Village can be deposited or invested in the following securities:

1. U.S. Treasury Bills, Notes, and Bonds maturing 5 years from date of settlement unless the investment is matched to a specific obligation or debt of the Village, the investment is specifically approved by Council, and it will be held until its maturity.
2. Certificates of Deposit from eligible institutions.
3. No more than 25% of investment funds in No-load money market mutual funds rated in the highest category by at least one nationally recognized rating agency, investing exclusively in the same types of eligible securities as defined under 135.35 ORC.
4. Repurchase agreements for no more than 30 days with any eligible institution mentioned in Section 135.32 ORC. The market value of securities subject to a repurchase agreement must exceed the principal value of the repurchase amount by at least 2%.
5. The State Treasurer's Investment Pool (STAR Ohio).

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by collateral pledged to the Village by the financial institution, or by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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 Village, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party.

As of December 31, 2005 the carrying value was \$527,382 and \$100,000 of the Village's bank balance of \$620,530 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 5 – Deposits and Investments (Continued)

As of December 31, 2004 the carrying value was \$498,030 and \$100,000 of the Village's bank balance of \$604,570 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name

The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of December 31, 2005 and December 31, 2004, the Village had the following investments:

December 31, 2005	Carrying Value	Maturity	December 31, 2004	Carrying Value	Maturity
Money Market	\$4,592	1 Day	Money Market	16,722	
U.S. Treasury Notes	400,343	1 Month	U.S. Treasury Notes	199,905	7 Months
U.S. Treasury Notes	300,258	2 Months	U.S. Treasury Notes	401,033	13 months
U.S. Treasury Notes	200,100	4 Months	U.S. Treasury Notes	300,773	14 months
U.S. Treasury Notes	300,282	6 Months	U.S. Treasury Notes	200,299	16 months
U.S. Treasury Notes	451,125	7 Months	U.S. Treasury Notes	300,844	18 months
U.S. Treasury Notes	200,271	8 Months	U.S. Treasury Notes	452,317	19 months
U.S. Treasury Notes	200,031	19 Months	U.S. Treasury Notes	200,076	20 months
STAR Ohio	<u>2,414,688</u>		STAR Ohio	<u>1,432,084</u>	
Total Investments	4,471,690		Total Investments	3,504,053	
Demand Deposits	<u>527,382</u>		Demand Deposits	<u>498,030</u>	
Total	<u>\$4,999,072</u>		Total	<u>\$4,002,083</u>	

Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. While the Village's investment policy does not address interest rate risk, the Village's investment portfolio is structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments as reflected in the above table, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

The Money Market fund carries a rating of P-1 and A-1 by Moody's and Standards and Poor's and STAR Ohio carries a rating of AAAM by Standards and Poor's. The Village has no investment policy dealing with investment credit risk beyond the requirements of state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated the highest category at the time of purchase by at least one nationally recognized standard rating service.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 5 – Deposits and Investments (Continued)

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The U.S. Treasury Notes are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Village's name. The Village has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investment to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

Note 6 – Income Taxes

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village. All income taxes received are placed in the General Fund.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village's tax collection agent, the Central Collection Agency, monthly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

Note 7 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2005 and 2004 represent the collection of 2004 and 2003 taxes. Real property taxes received in 2005 and 2004 were levied after October 1, 2004 and October 1, 2003, on the assessed values as of January 1, 2004 and January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2005 and 2004 represent the collection of 2004 and 2003 taxes. Public utility real and tangible personal property taxes received in 2004 and 2003 became a lien on December 31, 2004 and 2003, were levied after October 1, 2004 and October 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2005 and 2004 (other than public utility property) represent the collection of 2005 and 2004 taxes. Tangible personal property taxes received in 2005 and 2004 were levied after October 1, 2004 and October 1, 2003, on the true value as of December 31, 2004 and December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 7 – Property Taxes (Continued)

The full tax rate for all Village operations for the year ended December 31, 2005 and December 31, 2004, was \$10.90 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 and 2004 property tax receipts were based are as follows:

	2005	2004
Real Estate , Agriculture, Residential	\$197,810,070	\$197,864,790
Other Real Estate	3,937,640	3,789,830
New Construction	1,097,760	2,636,084
Public Utility Tangible	2,631,060	2,647,650
Tangible Personal Property	212,540	291,375
Total Assessed Value	<u>\$205,689,070</u>	<u>\$204,593,645</u>

Note 8 – Risk Management

The Village has obtained commercial insurance for the following risks:

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

The Village provides health and dental insurance to full-time employees through a private carrier.

Note 9 – Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of 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 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 9 – Defined Benefit Pension Plans (Continued)

A. Ohio Public Employees Retirement System (Continued)

For the year ended December 31, 2005 and 2004, the Village's OPERS members contributed 8.5% of their gross wages and the Village contributed an amount equal to 9.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2005. Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, and 2004 were \$105,423 and \$108,565, respectively. The full amount has been contributed for 2005 and 2004.

B. Ohio Police and Fire Pension Fund

The Village 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 the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Contribution rates are also prescribed by the Ohio Revised Code. For 2005 and 2004, members of OP&F contributed 10% of their wages to OP&F and the Village contributed an amount equal to 11.75% of their wages. The Village's required contributions to the Fund for the years ended December 31, 2005 and 2004 were \$56,954 and \$55,042. The Village has paid all contributions required through December 31, 2005.

Note 10 - 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 with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers"*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 and 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, 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 .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually after eight years.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 10 - Postemployment Benefits (Continued)

A. Ohio Public Employees Retirement System (Continued)

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 and 2004 which were used to fund postemployment benefits were \$44,156 and \$45,472. 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, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

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

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 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 the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis.

The total police employer contribution rate is 19.5 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees and survivors 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 Village's actual contributions for 2005 and 2004 that were used to fund postemployment benefits were \$35,984 and \$34,776 for police. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 11 – Notes Payable

The Village's notes outstanding for the year ended December 31, 2005, was as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Balance 1/1/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 1/1/2005</u>
Library Note	3.75%	\$0	\$1,100,000	\$0	\$1,100,000
Service Garage Note	3.75%	0	275,000	0	275,000
Street Improvement Note	3.75%	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
Total		<u>\$2,000,000</u>	<u>\$3,375,000</u>	<u>\$2,000,000</u>	<u>\$3,375,000</u>

The above Notes are all due in 2006 and are collateralized by the Village's taxing authority.

The Village's note outstanding for the year ended December 31, 2004, was as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Balance 1/1/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 1/1/2004</u>
Street Improvement Note	1.40%	<u>\$2,000,000</u>	<u>\$2,000,000</u>	<u>\$2,000,000</u>	<u>\$2,000,000</u>

The above Note was due in 2005 and is collateralized by the Village's taxing authority.

Note 12 – Debt

The Village's long term debt outstanding for the year ended December 31, 2005, was as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Balance 1/1/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 1/1/2005</u>
OWDA, 1998	6.51%	\$2,716,314	\$0	\$139,206	\$2,577,108
OWDA, 1999	5.86%	3,028,312	0	131,497	2,896,815
OPWC Loan, 1995	0%	1,245,792	0	83,053	1,162,739
OPWC Loan, 2001	0%	<u>317,460</u>	<u>0</u>	<u>19,240</u>	<u>298,220</u>
Total		<u>\$7,307,878</u>	<u>\$0</u>	<u>\$372,996</u>	<u>\$6,934,882</u>

The Village's long term debt outstanding for the year ended December 31, 2004, was as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Balance 1/1/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 1/1/2004</u>
OWDA, 1998	6.51%	\$2,847,012	\$0	\$130,698	\$2,716,314
OWDA, 1999	5.86%	3,152,530	0	124,218	3,028,312
OPWC Loan, 1995	0%	1,328,845	0	83,053	1,245,792
OPWC Loan, 2001	0%	<u>336,700</u>	<u>0</u>	<u>19,240</u>	<u>317,460</u>
Total		<u>\$7,665,087</u>	<u>\$0</u>	<u>\$357,209</u>	<u>\$7,307,878</u>

The Ohio Water Development Authority (OWDA) loans and the 1995 Ohio Public Works Commission (OPWC) loan relate to a water expansion project. The 2001 OPWC loan was for the wastewater treatment plant. The OWDA and OPWC loans are repaid in semiannual payments over 20 years. The OWDA loans are collateralized by assessments.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 12 – Debt (Continued)

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

<u>Year Ending December 31</u>	<u>OWDA Loans</u>	<u>OPWC Loans</u>	<u>Total</u>
2006	\$624,994	\$102,293	\$727,287
2007	624,994	102,293	727,287
2008	624,994	102,293	727,287
2009	624,994	102,293	727,287
2010-2014	3,124,970	511,464	3,636,434
2015-2019	2,492,894	511,464	3,004,358
2020-2021		28,860	28,860
Total	<u>\$8,117,840</u>	<u>\$1,460,960</u>	<u>\$9,578,800</u>

Note 13 – Interfund Transfers

During 2005 and 2004 the following transfers were made:

	<u>2005</u>	<u>2004</u>
Transfers from the General Fund to Other Governmental Funds	\$95,900	\$102,900
Major Enterprise Fund	57,000	45,000
Total Transfers from the General Fund	<u>\$152,900</u>	<u>\$147,900</u>

Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 14 – Construction and Contractual Commitments

The Village had the following significant construction and contractual commitments as of December 31, 2005:

- Construction of Library \$1,037,950
- Construction of Mills Building \$2,170,498

Note 15 – Contingent Liabilities

The Village is not a defendant in any lawsuits.

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements
For the Years Ended December 31, 2005 and 2004
(Continued)**

Note 16 – Jointly Governed Organization

The Village is a member of the Eastern Suburban Regional Council of Governments (ESRCOG). The ESRCOG was formed by written agreement pursuant to Ohio Revised Code Section 167.01 in 1972 to foster cooperation between member municipalities through sharing of resources for mutual benefit. Other members include the communities of Highland Heights, Lyndhurst, Mayfield Heights, Richmond Heights, and Mayfield Village. The governing body of ESRCOG is a Council comprised of one representative from each of the six participating municipalities. The Council adopts a budget for ESRCOG annually. Each member's degree of control is limited to its representation on the Council. ESRCOG established a subsidiary organization, the Suburban Police Anti-Crime Network (SPAN) which provides for the interchange and sharing of police personnel and police equipment to be utilized by all members.

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



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

Village of Gates Mills
Cuyahoga County
1470 Chagrin River Road, P.O. Box 339
Gates Mills, Ohio 44040

To the Village Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Gates Mills, Cuyahoga County, Ohio, (the Village) as of and for the years ended December 31, 2005 and December 31, 2004, which collectively comprise the Village's basic financial statements and have issued our report thereon dated October 5, 2006, in which we noted the Village revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Also, for the year ended December 31, 2004, the Village reclassified the Water and Wastewater Funds from Other Governmental Funds (Capital Projects Funds) to Proprietary Funds. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village'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. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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Village of Gates Mills
Cuyahoga County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Required by
Government Audit Standards
Page 2

We intend this report solely for the information and use of the audit committee, management and Village 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

October 5, 2006

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected ?	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
2003-001	ORC 5705.09, requires that a separate trust fund be established for each trust received. The Village received separate trust money but recorded the funds in the Mayor's Discretionary Fund, contrary to this requirement.	Yes	
2003-002	In reviewing the time sheets/forms used to process payroll, it was noted that there was no approval of hours worked for administrative employees. Also, there was no indication of approval for 10 out of 28 police department personnel time sheets/forms tested.	Yes	
2003-003	In reviewing the revenue reported by the Village for the various events, it was noted that there was no supporting documentation (receipts, sales reports, etc.) maintained for the fees and concession sales from the play held in 2003 when the monies are turned over to the Assistant Clerk. In addition, the 2002 art show sales report which supports the 15% of art work sales revenue due the Village could not be located. Therefore, we could not validate the accuracy of the fee and concession sales revenue collected from the play in fiscal year 2003 or the 2002 art work sales revenue from the art show.	Yes	



**Auditor of State
Betty Montgomery**

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VILLAGE OF GATES MILLS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 9, 2006**