

City of Shaker Heights, Ohio

Basic Financial Statements

For the Year Ended December 31, 2005



Mary Taylor, CPA
Auditor of State

City Council
City of Shaker Heights
3400 Lee Road
Shaker Heights, Ohio 44120

We have reviewed the *Independent Auditors' Report* of the City of Shaker Heights, Cuyahoga County, prepared by Ciuni & Pinichi, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Shaker Heights is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 16, 2007

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City of Shaker Heights, Ohio

For the Year Ended December 31, 2005

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City of Shaker Heights, Ohio

For the Year Ended December 31, 2005

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Independent Auditors' Report

Members of the City Council
Shaker Heights, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Shaker Heights, Ohio as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Shaker Heights, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Shaker Heights, Ohio, as of December 31, 2005, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2005, the City of Shaker Heights implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", and GASB Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries".

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2006 on our consideration of the City of Shaker Heights, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the City Council
Shaker Heights, Ohio

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Cioni & Paricki, Inc.

Cleveland, Ohio
November 29, 2006

City of Shaker Heights, Ohio

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2005

The discussion and analysis of the City of Shaker Heights' financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the basic financial statements and the accompanying notes to those financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- ◆ The assets of the City of Shaker Heights exceeded its liabilities at the close of the most recent fiscal year by \$85.2 million. Of this amount, \$15.9 million may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets increased by \$2,918,782, which represents an increase of approximately 2.25 percent over 2004. The biggest changes were a \$2.0 million increase in Cash and Cash Equivalents and a \$3.8 million increase in Capital Assets offset by a \$3.6 million decrease in receivables.
- ◆ Total liabilities increased by \$661,863, which represents an increase of 1.5 percent over 2004. The main factors contributing to this change was a net increase of \$3.7 million in notes payable issued to finance the acquisition of capital equipment and economic development costs and a net decrease of \$1.1 million in accounts payable from a twenty-year, interest free loan used to finance a waterline improvement project.
- ◆ In total, net assets in governmental activities increased by \$2.3 million during 2005. This represents a 3 percent increase from 2004.

Using this Annual Financial Report

This discussion and analysis are intended to serve as an introduction to the City of Shaker Heights' basic financial statements. The City of Shaker Heights' basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets presents information on all the City of Shaker Heights' assets and liabilities, with the difference between the two reported as *net assets*. Over time, increase or decrease in net assets may serve as a useful indicator of whether the financial position of the City of Shaker Heights is improving or deteriorating. However, in evaluating the overall position of the City, non-financial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered. Both the Statement of Net Assets and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies.

City of Shaker Heights, Ohio

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2005

This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities: virtually of the City of Shaker Heights' basic services are reported here, including the police, fire, street maintenance, parks and recreation, and general administration. Income taxes, property taxes, and state and federal grants finance most of these activities.
- Business-type activities: the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City has no business-type activities.

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

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The City of Shaker Heights, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Shaker Heights can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

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

The City of Shaker Heights maintains 26 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General Fund and the Capital Fund, both of which are considered to be major funds. Data from the other governmental funds are combined into single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Shaker Heights adopts an annual appropriated budget for each of its funds. A budgetary comparison statement (non-GAAP basis) has been provided for each governmental and proprietary fund to demonstrate budgetary compliance.

City of Shaker Heights, Ohio

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2005

Proprietary Funds

The City of Shaker Heights maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City has no activity that fits this category. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City maintains 4 individual internal service funds. Because these activities predominately benefit governmental rather than business functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide combined information for the self-insurance, stores, printing and garage operations, all of which are considered to be nonmajor funds. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found starting on page 21 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources are not available to support the City's own programs. The City of Shaker Heights has only agency funds to report within the Fiduciary Fund category. Agency funds are reported on a full accrual basis and only present a statement of assets and liabilities.

Notes to the Financial Statements

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

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

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

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

- Assets
- Liabilities
- Net Assets (Assets minus Liabilities)
- Program Expenses and Revenues
- General Revenues
- Net Assets Beginning and End of Year

Table 1 on the following page provides a summary of the City's net assets for 2005 as compared to 2004.

City of Shaker Heights, Ohio

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2005

Table 1
City of Shaker Heights' Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current and Other Asset	\$ 72,882,537	\$ 73,750,955
Capital Assets, Net	<u>58,358,272</u>	<u>54,571,072</u>
<i>Total Assets</i>	<u>131,240,809</u>	<u>128,322,027</u>
Liabilities		
Current Liabilities and Other Liabilities	12,714,382	22,737,973
Long-term Liabilities:		
Due Within One Year	1,292,691	262,666
Due In More Than One Year	<u>32,011,865</u>	<u>22,356,436</u>
<i>Total Liabilities</i>	<u>46,018,938</u>	<u>45,357,075</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	28,686,344	32,387,135
Restricted for:		
Capital Projects	32,600,572	29,667,802
Other Purpose	7,998,216	2,781,854
Unrestricted	<u>15,936,739</u>	<u>18,128,161</u>
<i>Total Net Assets</i>	<u>\$ 85,221,871</u>	<u>\$ 82,964,952</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the City of Shaker Heights, assets exceed liabilities by \$85,221,871 as of December 31, 2005. The second largest portion of the City's net assets (44.0%) reflects investments in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), net of any related debt to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently these net assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total assets increased by \$2,918,782 from 2004 to 2005 while total liabilities increased by \$661,863. The most significant change was an increase in capital assets where there was an increase of \$3,787,200 during the fiscal year, mainly from the acquisition of property and infrastructure improvements related to the City's redevelopment projects. The increase in liabilities was due mainly due to the issuance of new debt during 2005. During 2005, the City increased the note borrowings that temporarily financed its redevelopment projects by \$4,630,000 (from \$2.215 to \$6.845 million). The total net assets of the City increased by \$2,256,920, mainly due to a 2005 increase of \$4,122,818 in income tax revenue over the amount realized in 2004.

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

City of Shaker Heights, Ohio

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2005

Table 2 provides a summary of the City's change in net assets for 2005 as compared to 2004.

Table 2
Changes in Net Assets

	<u>2005</u>	<u>2004</u>
Program Revenues		
Charges for Services	\$ 11,413,096	\$ 9,338,810
Operating Grants, Contributions and Interest	3,397,965	4,539,781
Capital Grants and Contributions	<u>1,941,615</u>	<u>181,446</u>
<i>Total Program Revenues</i>	<u>16,752,676</u>	<u>14,060,037</u>
General Revenues		
Property Taxes	7,384,160	7,264,319
Income and Other Taxes	22,653,723	18,530,905
Grants and Entitlements	4,903,785	7,615,993
Investments Earnings	1,024,160	399,676
Miscellaneous Income	<u>6,393</u>	<u>-</u>
<i>Total Revenues</i>	<u>52,724,897</u>	<u>47,870,930</u>
Program Expenses		
General Government	6,186,733	6,454,681
Security of Persons and Property	23,038,851	22,909,631
Public Health Services	538,756	632,970
Leisure Time Activities	3,751,953	3,992,118
Housing and Community Development	7,165,612	7,489,338
Sanitation and Sewer Services	2,688,129	4,076,738
Street Maintenance and Repair	1,513,229	2,962,286
Public Works – Other	4,810,977	3,922,743
Interest and Fiscal Charges	<u>773,737</u>	<u>491,535</u>
<i>Total Program Expenses</i>	<u>50,467,977</u>	<u>52,932,040</u>
<i>Changes in Net Assets</i>	\$ <u>2,256,920</u>	\$ <u>(5,061,110)</u>

City of Shaker Heights, Ohio

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2005

Governmental Activities

Governmental activities increased the City's net assets by \$2,256,920. This resulted mainly from an overall increase in revenue of \$4,853,967 over the amount recognized in 2004. This increase is primarily the result of an increase of \$4,122,818 in income tax revenue and an increase in revenue from charges for services of \$2,074,286. The increase in income tax revenue includes approximately \$1.4 million in revenue from unusually large payments by taxpayers (from such sources as lottery winnings) that are not expected to recur in 2006. These increases are offset by decreases in grant revenues of \$2,093,855 over the amount realized in 2004. 2005 program expenses decreased by \$2,464,063 over the amount expended in 2004, mainly due to planned decreases in the street and sewer maintenance activities.

Several revenue sources serve as the primary funding sources for the City's governmental activities, with the income tax being the biggest contributor followed by revenue from property taxes, grants and entitlements and charges for services. The City's income tax rate was 1.75% for 2004. The City's tax rate has been stable since the voters last increased it in 1981. Both residents of the City and non-residents who work inside the City are subject to the income tax. The City grants an income tax credit to residents who work in a locality that has a municipal income tax. The City provides a credit of up to one-half of the first one percent of the tax rate of the resident's workplace community's income tax rate. City Council could by ordinance choose to vary that income tax credit thereby creating additional revenue for the City. Due to the City's recent history of income tax collection increases, which have averaged 1.3% since 2000 after factoring out the extraordinary revenue received in 2003, the City has realized an increase in its net assets making such a consideration unnecessary, but a future option.

Income and other tax revenue for 2005 was \$22,653,723, accounting for 43% of the City's total 2005 revenue of \$52,724,897. Property taxes of \$7,384,160 account for 14% of total revenues. Charges for Services of \$11,413,096 account for 21% of total revenues. Unrestricted Grants and Entitlements of \$4,903,785 account for 9% of total revenue. All other revenue of \$6,370,133 accounts for the remaining 13% of the City's 2005 revenue. The City monitors its sources of revenue very closely for fluctuations throughout the year, especially income tax.

During 2005, City expenditures continued to be dominated by its three largest departments, Police, Fire and Public Works. These three departments account for approximately 65.0% of the City's total 2005 program expenditures of \$50,467,977. Expenditures for Security of Persons and Property (primarily the City's Police and Fire Departments) accounted for 45% of the City's 2005 expenditure total. Expenditures for Sanitation and Sewer Services (5%), Street Maintenance (5%) and other Public Works activities (6%) accounted for 23.8% of the City's 2005 expenditure total. The next largest expenditure category was General Government, which accounted for 14.0% of the City's expenditure total. 12% of City expenditures were for Housing and Development activities (building and housing inspection, planning, economic development and neighborhood revitalization activities) while expenditures for Leisure Time Activities (primarily recreation and parks maintenance activities) account for 10% of total expenditures. Public Health and Interest and Fiscal Charges account for the remaining 3% of the City's total expenditures for 2005. For the most part, City expenditures closely paralleled inflation during 2005; however it should be noted that the ever-increasing cost of providing employee health care negatively impacted the 2005 budget. This trend is expected to continue into the future.

City of Shaker Heights, Ohio

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2005

The City's Funds

Governmental Funds

As noted earlier, The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Information about the City's major governmental funds starts on page 16. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year. Governmental funds use the modified accrual basis of accounting to account for their assets, liabilities, revenues and expenditures.

As of December 31, 2005, the City's governmental funds reported combined ending fund balances of \$47,500,228 of which \$26,050,323 constitutes unreserved fund balances. The City's unreserved fund balance is available for spending at the City's discretion, subject to contractual or legal constraints. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchases of the prior period or ongoing appropriations. As of December 31, 2005, \$21,449,905 of the total governmental fund balance was reserved for purchase commitments or capital project appropriations.

All governmental funds had total revenues and net other financing sources of \$67,943,545 and expenditures of \$58,106,254 resulting in an operating deficit of \$9,837,291. This deficit is primarily the result of intergovernmental revenue received in 2004 and not expended until 2005 for capital projects as well as the expenditure of debt proceeds. The City finances its current year general capital program from Estate Tax revenue received in the previous year. The Estate Tax revenue received in the current year is then carried over to the ensuing year to finance that year's capital program. In addition, a portion of the 2005 capital program was financed using borrowed funds which were refinanced on a long-term basis in the current year. As a result, the capital project fund had a net increase in fund balance from 2004 to 2005 of \$9,427,770 and the other non-major governmental funds had a net reduction in fund balance of \$1,213,908. The General Fund had an increase in its fund balance of \$1,623,429 over the same period of time.

The General Fund is the primary operating fund of the City. As of December 31, 2005, the total fund balance of the General Fund was \$9,421,518, of which \$618,498 (7.0%) was reserved and \$8,803,020 (93.0%) was unreserved. As a measure of the General Fund's liquidity and the City's ability to react to unanticipated economic events, it may be useful to compare the unreserved fund balance to total fund expenditures. As of December 31, 2005 the City's unreserved fund balance was equal to 19.8% of its total operating 2005 budget basis expenditures of \$35,431,733 plus its transfers to other funds of \$1,953,500.

During 2005, the fund balance of the General Fund increased by \$1,623,429. This increase is primarily the result of increased income tax collections including approximately \$1.4 million non-recurring revenue.

During 2005, the fund balance of the Capital Projects Fund increased by \$9,427,770. This was primarily the result of the City's decision; described above, to transfer \$1,367,163 to the Non Major Governmental Funds and the result of refinancing notes on a long-term basis. In addition, at this point in the timeline of the Sussex and Shaker Towne Centre Tax Increment Financing Projects the cash flow from the payments-in-lieu-of-taxes (PILOTs) is insufficient to meet their current debt service obligations. Resources from these projects are being used to finance the current debt service on these projects until the construction begins to generate sufficient PILOT revenue. Approximately \$5.2 million in Estate Tax revenue was recognized in 2005. This amount will be used by the City to finance its 2006 general capital improvement program.

City of Shaker Heights, Ohio

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2005

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public; the budget is adopted at fund level by City Council. Within each fund, appropriations may be transferred between line items or departments with the approval of the Mayor or Chief Administrative Officer and the respective department head. Council must approve any revisions in the budget that alter the fund totals or require the transfer of moneys between funds. All recommendations for budget revisions are reviewed by the Finance Committee of City Council before being presented to the whole Council for consideration for enactment by ordinance. The most significant budgeted fund is the General Fund. During the course of 2005, the City used this process to amend its General Fund budget on three occasions. The difference between the General Fund's original and final amended budget were minor in nature. The Chief Administrative Officer and the Finance Department monitor all departmental budgets closely to monitor compliance with allocated budgets and provide monthly reports to City Council depicting monthly and year-to-date activity.

The original budgeted revenues for the General Fund were \$29,868,601; the final budgeted revenues were \$29,816,184. The City's ending unencumbered fund balance, computed using a modified cash basis of accounting, was \$8,293,882 which was \$6,753,179 more than the final budgeted fund balance of \$(1,540,703). In recognition of the importance of maintaining an adequate level of fund equity, the City Council adopted a fund balance policy for the General Fund. While not legally binding, City Council established the following goal:

The City should, as a financial goal, endeavor to carry forward at the beginning of each fiscal year an unobligated General Fund balance of not less than twenty percent of budgeted operating fund expenditures, excluding recreation activity expenditures. Any amount in excess of twenty percent shall become available for transfer to the Capital Fund.

The City's ending budgetary fund balance was the equivalent of 19.4% of its general operating budget, excluding recreation expenditures, effectively meeting this goal. During 2005, the General Fund temporarily advanced \$555,289 to grant funds to finance those programs until grant reimbursements are received in 2006 at which time these Interfund loans will be repaid. Had these advances not been necessary, the budgetary General Fund balance would have been the equivalent of 21.0% of the General Fund budget, excluding recreation activities.

The City Council also adopted a fund balance policy for the Capital Fund. While not legally binding, City Council established the following goal:

The City should, as a financial goal, endeavor to begin each fiscal year with an annual Capital Fund unobligated fund balance that, at a minimum, is equal to the current year's Capital Fund debt funding requirement plus the total of all Estate Tax revenue received by the City and credited to the General Capital Fund in the prior year.

The City exceeded this financial goal by approximately \$8.6 million.

City of Shaker Heights, Ohio

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2005

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the City of Shaker Heights had \$58,358,272 million invested in land, buildings, and equipment.

Table 3 shows fiscal 2005 balances of Capital Assets as compared to 2004:

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

	<u>Governmental</u>	
	<u>Activities</u>	
	<u>2005</u>	<u>2004</u>
Land	\$ 15,957,474	\$ 15,759,427
Buildings and Improvements	12,045,058	8,751,561
Machinery and Equipment	6,398,016	6,227,100
Infrastructure:		
Street	10,638,322	10,036,618
Water Lines	1,767,490	1,580,993
Sanitary and Storm Sewer System	5,120,088	4,769,857
Traffic Signals System	1,766,497	1,814,293
Construction in Progress	<u>4,665,327</u>	<u>5,631,223</u>
Total Capital Assets	\$ <u>58,358,272</u>	\$ <u>54,571,072</u>

Total capital assets of the City as of December 31, 2005 were \$3,787,200 greater than 2004. The most significant increases in the City's capital assets came in Building and Improvements. These changes were due to the property acquired for and the improvements completed on the Sussex and Shaker Towne Centre redevelopment projects. The City is committed to a long-term goal of not only meeting its infrastructure, equipment and facility needs, but also satisfying those needs in a continued high quality manner. To meet this need, the City has developed a five-year capital improvement plan that is updated and revised annually.

With regards to the infrastructure, the City's Public Works Department maintains a comprehensive listing of all the streets, culverts and sewer lines in the City. As part of the City's annual road maintenance program, the Public Works Director evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or cracksealed and in the case of concrete roads, either replaced or repaired. After approval from Council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the current operating funds of the City. In the case of a major resurfacing project on two of the main arteries in the City of Shaker Heights, as mentioned before, the City has effectively pursued external sources of grant funding to finance up to eighty percent of the project thereby reducing the total amount to be funded by the City. The City also was awarded a \$4.6 million, twenty year, interest-free loan by the Ohio Public Works Commission to finance the relining or replacement of ten waterlines in the City. This project was completed during 2005.

City of Shaker Heights, Ohio

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2005

More detailed information about the City's capital asset activity is presented in the notes to the basic financial statements.

Debt

At December 31, 2005, the City of Shaker Heights had \$33,304,556 in debt and compensated absences outstanding, of which \$1,292,691 is due within one year. Table 4 summarizes the City's debt outstanding as of December 31, 2005 and 2004:

Table 4
Outstanding Debt at Year End

	<u>2005</u>	<u>2004</u>
General Obligation Bonds	\$ 15,155,000	\$ 15,265,000
Urban Renewal Temporary Bonds	6,845,000	2,215,000
Bond Anticipation Notes	3,365,000	4,280,000
OPWC Loans	4,306,928	4,021,900
Compensated Absences	<u>3,632,628</u>	<u>3,332,202</u>
Total	\$ <u>33,304,556</u>	\$ <u>29,114,102</u>

State statutes limit the total amount of general obligation debt that a city may issue to 10 ½% of total assessed valuation and limits the total amount of general obligation debt that a city may issue without voter approval to 5 ½% of total assessed valuation. At December 31, 2005, the City's overall legal debt margin was \$86,798,999 and its unvoted debt margin was \$42,684,189.

During 2003, the City issued a \$15.3 million general obligation bond to fund its urban renewal projects in the Shaker Towne Centre and Sussex Districts of the City. The City was awarded an Aa1 rating by Standard & Poors and Fitch Rating Services. The Shaker Towne Centre project includes the construction of a new firehouse to replace the fire station that is currently located at City Hall. This issue will be retired using tax increment financing (TIF). Payments in lieu of taxes made by the property owners will be used to retire this debt. The City also issued a \$6.845 million urban renewal temporary bond for this project during construction. Of this amount, \$350,000 will be retired from project income; the remaining \$6,495,000 will be funded by payments in lieu of taxes.

The City began 2005 with \$4.28 million in short-term notes payable. These notes were issued to partially refinance earlier notes issued to finance the acquisition of two fire trucks (originally issued in 2000 and 2002), an ambulance (originally issued in 2001), public works equipment (originally issued in 2002), replacement of roofs at the Service Center, Police-Court Building and Thornton Park Ice Arena (issued in 2002) and for the renovation of the former Moreland School Building to serve as the new main branch of the Shaker Heights Public Library (originally issued in 1992). These notes also included \$2.16 million first borrowed in 2004 to finance the replacement of the City's public safety computer system (\$800,000), the City's portion of the citywide traffic signalization system replacement project not funded by grants (\$510,000), street maintenance (\$455,000) and the portion of the Lee Road reconstruction project not funded

City of Shaker Heights, Ohio

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2005

by grants (\$455,000). At maturity, the City retired \$915,000 of this issue and issued a new note in the amount of \$3.365 million to refinance the balance.

With the exception of the library improvements, the City plans to retire the remaining portions of the note over the next one to nine years from general resources. The library improvements will be retired over the next six years from the proceeds of the City's lease with the Shaker Heights Public Library.

The Ohio Public Works Commission (OPWC) issued the City a twenty-year, interest free loan in 1994 for the Shelburne Road Sanitary Sewer Project. This loan is being repaid by the City using revenue from the sewer system user fee assessed to all system users in the City. The City has been awarded by the OPWC a \$4.1 million, twenty-year, interest free loan to replace or reline water lines serving the City. As of December 31, 2005 the City had drawn approximately \$4 million of this loan. It is anticipated that construction on this project will be completed during 2006 and the remaining funds drawn down. It is anticipated that semiannual payments on this loan will begin in 2006.

More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

Current Related Financial Activities

The City of Shaker Heights is both strong financially and well managed, as evidenced by the Aa1 bond rating awarded the City by Standard and Poors and Fitch Rating Services. The City is one of the few suburbs in Ohio to have been awarded this prestigious rating. It is the result of the City's history of creative planning and the combined cooperation of the elected officials, professional administration and employees and, most importantly, its residents. In addition, the City's systems of budgeting and internal controls are well regarded. The City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Shaker Heights with full disclosure of the financial position of the City.

Contacting the City of Shaker Heights' Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director Robert Baker, at the City of Shaker Heights, 3400 Lee Road, Shaker Heights, Ohio 44120, and (216) 491-1420.

City of Shaker Heights, Ohio

Statement of Net Assets

December 31, 2005

Assets:

Cash and cash equivalents	\$	51,033,127
Accounts receivable		1,379,690
Accrued interest receivable		304,664
Intergovernmental receivable		2,475,568
Inventory of supplies		244,254
Prepaid items		1,745
Special assessments receivable		2,061,427
Lease receivable		1,735,017
Restricted cash and cash equivalents		100,758
Taxes receivable		13,546,287
Nondepreciable capital assets		20,622,801
Depreciable capital assets, net		<u>37,735,471</u>
Total assets		<u>131,240,809</u>

Liabilities:

Accounts payable		1,332,802
Accrued wages and benefits		2,776,244
Compensated absences		2,164,982
Unearned revenue		5,076,974
Claims payable		1,154,812
Notes and bonds interest payable		162,258
Notes and bonds premium payable		46,310
Long-term liabilities:		
Due within one year		1,292,691
Due in more than one year		<u>32,011,865</u>
Total liabilities		<u>46,018,938</u>

Net assets:

Invested in capital assets, net of related debt		28,686,344
Restricted for:		
Capital projects		32,600,572
Other purposes		7,998,216
Unrestricted		<u>15,936,739</u>
Total net assets	\$	<u><u>85,221,871</u></u>

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

City of Shaker Heights, Ohio

Statement of Activities

For The Year Ended December 31, 2005

	Program Revenues				Total Governmental Funds
	Expense	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Security of persons and property:					
Police	\$ 14,518,079	\$ 150,857	\$ 3,183,976	\$ -	\$ (11,183,246)
Fire	7,831,955	544,396	32,307	37,722	(7,217,530)
Other	688,817	302,619	45,760	-	(340,438)
Public health services	538,756	84,582	20,657	-	(433,517)
Leisure time activities:					
Culture and recreation	3,145,500	2,002,191	5,626	-	(1,137,683)
Parks and public land maintenance	606,453	-	-	-	(606,453)
Housing and community					
development	7,165,612	1,130,108	45,009	738,451	(5,252,044)
Sanitation and sewer services	2,688,129	1,506,353	38,000	-	(1,143,776)
Street maintenance and repair	1,513,229	410,546	26,630	1,165,442	89,389
Public works – other	4,810,977	427,956	-	-	(4,383,021)
General government:					
Legislative and executive	4,134,979	2,551,487	-	-	(1,583,492)
Judicial system	2,051,754	2,302,001	-	-	250,247
Interest and fiscal charges	773,737	-	-	-	(773,737)
Total governmental activities	\$ <u>50,467,977</u>	\$ <u>11,413,096</u>	\$ <u>3,397,965</u>	\$ <u>1,941,615</u>	<u>(33,715,301)</u>
General revenues:					
Property taxes levied for:					
General purposes					6,680,705
Police and fire pension					523,316
Debt service					180,139
Municipal Income taxes levied for:					
General purposes					22,571,515
Other local taxes levied for:					
General purposes					82,208
Grants and entitlements not restricted to specific programs					4,903,785
Interest earnings					1,024,160
Miscellaneous income					6,393
Total general revenues					<u>35,972,221</u>
Change in net assets					2,256,920
Net assets at beginning of year					<u>82,964,951</u>
Net assets at end of year					\$ <u>85,221,871</u>

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

City of Shaker Heights, Ohio

Governmental Funds Balance Sheet

December 31, 2005

	<u>General</u>	<u>Capital Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ 7,716,638	\$ 32,554,211	\$ 7,187,954	\$ 47,458,803
Taxes receivable	13,086,605	-	459,682	13,546,287
Accounts receivable	570,350	-	809,147	1,379,497
Special assessments receivable	3,219	-	2,058,208	2,061,427
Lease receivable	158,322	1,576,695	-	1,735,017
Interfund receivable	711,847	46,310	553,189	1,311,346
Accrued interest receivable	304,664	-	-	304,664
Intergovernmental receivable	1,072,268	272,513	1,130,787	2,475,568
Inventory of supplies	207,591	-	-	207,591
Restricted assets:				
Cash and cash equivalents	-	100,758	-	100,758
Total assets	\$ <u>23,831,504</u>	\$ <u>34,550,487</u>	\$ <u>12,198,967</u>	\$ <u>70,580,958</u>
Liabilities and fund balances:				
Liabilities:				
Accounts payable	\$ 436,829	\$ 329,943	\$ 480,383	\$ 1,247,155
Accrued wages	1,887,987	-	819,278	2,707,265
Compensated absences	1,795,187	-	194,506	1,989,693
Interfund payable	119,729	7,479	1,242,904	1,370,112
Unearned revenue	<u>10,170,254</u>	<u>1,612,493</u>	<u>3,983,758</u>	<u>15,766,505</u>
Total liabilities	<u>14,409,986</u>	<u>1,949,915</u>	<u>6,720,829</u>	<u>23,080,730</u>
Fund balances:				
Reserved for encumbrances	618,498	5,597,584	608,083	6,824,165
Reserved for appropriations	-	14,625,740	-	14,625,740
Unreserved:				
Undesignated, reported in:				
General fund	8,803,020	-	-	8,803,020
Special revenue funds	-	-	4,227,083	4,227,083
Debt service fund	-	-	642,972	642,972
Capital projects fund	-	<u>12,377,248</u>	-	<u>12,377,248</u>
Total fund balances	<u>9,421,518</u>	<u>32,600,572</u>	<u>5,478,138</u>	<u>47,500,228</u>
Total liabilities and fund balances	\$ <u>23,831,504</u>	\$ <u>34,550,487</u>	\$ <u>12,198,967</u>	\$ <u>70,580,958</u>

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

City of Shaker Heights, Ohio

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

December 31, 2005

Total Governmental Funds balances \$ 47,500,228

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the funds

Nondepreciable capital assets	\$ 20,622,801
Depreciable capital assets	<u>37,735,471</u>

Total 58,358,272

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

Delinquent property taxes	497,846
Municipal income taxes	4,097,648
Intergovernmental	3,379,747
Charges for service	<u>2,714,290</u>

Total 10,689,531

Internal service funds are used by management to charge the costs of certain activities, such as insurance, worker's compensation, printing supplies, and maintenance and repair of the City's fleet of vehicles to individual funds. The assets and liabilities of the Internal Service Fund are included in Governmental Activities in the Statement of Net Assets

2,186,964

Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds

Bonds payable	(15,155,000)
OPWC loans	(4,306,928)
Notes payable	(10,210,000)
Interest payable	(162,258)
Premium payable	(46,310)
Compensated absences	<u>(3,632,628)</u>

Total (33,513,124)

Net Assets of Governmental Activities \$ 85,221,871

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

City of Shaker Heights, Ohio

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

December 31, 2005

	<u>General</u>	<u>Capital Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 6,735,431	\$ -	\$ 595,758	\$ 7,331,189
Municipal income taxes	21,861,847	-	-	21,861,847
Other local taxes	82,208	-	-	82,208
Intergovernmental	2,916,203	5,842,134	3,694,252	12,452,589
Charges for services	4,429,244	-	2,201,348	6,630,592
Fees, and licenses and permits	509,945	-	-	509,945
Fines and forfeitures	716,777	-	167,699	884,476
Special assessments	-	-	1,421,099	1,421,099
Interest earnings	756,785	97,107	95,877	949,769
Other revenue	<u>587,881</u>	<u>214,250</u>	<u>180,203</u>	<u>982,334</u>
Total revenues	<u>38,596,321</u>	<u>6,153,491</u>	<u>8,356,236</u>	<u>53,106,048</u>
Expenditures:				
Current operations and maintenance:				
Security of persons and property:				
Police	9,063,334	620,070	4,790,422	14,473,826
Fire	6,422,389	369,066	1,109,273	7,900,728
Other	39,358	-	561,252	600,610
Public health services	455,874	-	92,048	547,922
Leisure time activities:				
Culture and recreation	2,888,484	130,091	-	3,018,575
Park and public land maintenance	703,176	-	-	703,176
Housing and community development	3,461,765	2,152,649	1,438,740	7,053,154
Sanitation and sewer services	2,909,307	574,095	1,199,213	4,682,615
Street maintenance and repair	1,127,391	978,932	974,048	3,080,371
Public works – other	2,274,555	1,888,596	805,956	4,969,107
General government:				
Legislative and executive	3,795,175	219,526	4,539	4,019,240
Judicial system	1,878,584	-	160,708	2,039,292
Debt service:				
Principal retirement	-	-	182,850	182,850
Interest and fiscal charges	-	106,251	458,918	565,169
Total expenditures	<u>35,019,392</u>	<u>7,039,276</u>	<u>11,777,967</u>	<u>53,836,635</u>
Excess of revenues over (under) expenditures	<u>3,576,929</u>	<u>(885,785)</u>	<u>(3,421,731)</u>	<u>(730,587)</u>
Other financing sources (uses):				
Issuance of debt	-	10,567,878	-	10,567,878
Transfers in	-	1,112,840	3,156,779	4,269,619
Transfers out	<u>(1,953,500)</u>	<u>(1,367,163)</u>	<u>(948,956)</u>	<u>(4,269,619)</u>
Total other financing sources (uses)	<u>(1,953,500)</u>	<u>10,313,555</u>	<u>2,207,823</u>	<u>10,567,878</u>
Net change in fund balances	1,623,429	9,427,770	(1,213,908)	9,837,291
Fund balances at beginning of year	<u>7,798,089</u>	<u>23,172,802</u>	<u>6,692,046</u>	<u>37,662,937</u>
Fund balances at end of year	\$ <u>9,421,518</u>	\$ <u>32,600,572</u>	\$ <u>5,478,138</u>	\$ <u>47,500,228</u>

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

City of Shaker Heights, Ohio

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

December 31, 2005

Net Change in Fund Balances - Total Governmental Funds \$ 9,837,291

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

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

Capital outlay	\$ 5,527,510	
Depreciation	<u>(1,740,310)</u>	3,787,200

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

Delinquent property taxes	(52,324)	
Municipal income taxes	709,668	
Special assessments	2,061,427	
Intergovernmental	(1,734,814)	
Charges for services	<u>(1,458,902)</u>	(474,945)

Other financing sources in the Governmental Funds that increase long-term liabilities in the Statement of Net Assets. These sources were attributed to issuance of OPWC notes.

(10,567,878)

Repayment of bond principal, interest and premium are expenditures in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Principal	182,850	
Interest and fiscal charges	(162,258)	
Premium	<u>(46,310)</u>	(25,718)

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

(300,426)

Internal service funds are used by management to charge to costs of certain activities, such as insurance worker's compensation, printing supplies and maintaining and repairing the City's fleet of vehicles to individual funds that are not reported in the city wide statement of activities. The net revenue (expense) of the Internal Service Fund is reported with Governmental Activities.

1,396

Change in Net Assets of Governmental Activities \$ 2,256,920

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

City of Shaker Heights, Ohio

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

For The Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 7,689,474	\$ 7,637,057	\$ 6,735,431	\$ (901,626)
Municipal Income Taxes	14,900,989	14,900,989	20,768,944	5,867,955
Other Local Taxes	38,606	38,606	53,809	15,203
State Levied Shared Taxes	1,106,152	1,106,152	1,541,751	435,599
Intergovernmental	1,043,411	1,043,411	1,454,303	410,892
Charges for Services	3,203,502	3,203,502	4,465,029	1,261,527
Fees, Licenses and Permits	365,867	365,867	509,944	144,077
Investment Earnings	522,489	522,489	728,243	205,754
Fines and Forfeitures	504,836	504,836	703,639	198,803
Other Revenues	457,402	457,402	637,525	180,123
Total Revenues	<u>29,832,728</u>	<u>29,780,311</u>	<u>37,598,618</u>	<u>7,818,307</u>
Expenditures:				
Current:				
Security of Persons and Property	16,047,600	16,084,100	15,526,425	557,675
Public Health Services	447,500	451,500	450,487	1,013
Culture and Recreation	3,261,000	3,261,000	2,967,599	293,401
Parks and Public Lands Maintenance	709,100	709,100	632,177	76,923
Housing and Community Development	4,305,500	4,305,500	4,134,283	171,217
Sanitation and Sewer Services	2,997,900	2,997,900	3,032,964	(35,064)
Street Maintenance and Repair	613,100	613,100	694,582	(81,482)
Public Works - Other	1,902,300	1,902,300	1,886,184	16,116
Legislative and Executive	4,490,900	4,490,900	4,260,064	230,836
Judicial System	1,842,900	1,842,900	1,846,968	(4,068)
Total Expenditures	<u>36,617,800</u>	<u>36,658,300</u>	<u>35,431,733</u>	<u>1,226,567</u>
Excess of Revenues Over Expenditures	<u>(6,785,072)</u>	<u>(6,877,989)</u>	<u>2,166,885</u>	<u>9,044,874</u>
Other Financing Sources (Uses):				
Transfers out	(1,946,600)	(1,953,500)	(1,953,500)	-
Advances in	35,873	35,873	50,000	14,127
Advances out	-	-	(555,289)	(555,289)
Total Other Financing Sources (Uses)	<u>(1,910,727)</u>	<u>(1,917,627)</u>	<u>(2,458,789)</u>	<u>(541,162)</u>
Net Change in Fund Balance	(8,695,799)	(8,795,616)	(291,904)	8,503,712
Beginning Cash Fund Balance	8,524,551	8,524,551	8,524,551	-
Prior Year's Reserve For Encumbrances				
Outstanding At December 31	(106,363)	(106,363)	(106,363)	-
Current Year Cash Expenditures				
Against Prior Year's Cash Fund				
Balance Reserved For Encumbrance	<u>(1,163,275)</u>	<u>(1,163,275)</u>	<u>(1,030,607)</u>	<u>132,668</u>
Ending unreserved cash fund balance	\$ <u>(1,440,886)</u>	\$ <u>(1,540,703)</u>	7,095,677	\$ <u>8,636,380</u>
Reserved for Encumbrances – all budget years			<u>1,198,205</u>	
Total cash fund balance - December 31			\$ <u>8,293,882</u>	

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

City of Shaker Heights, Ohio

Statement of Fund Net Assets Proprietary Fund

December 31, 2005

	Governmental Activities - Internal Service Fund
Assets:	
Equity in city treasury cash	\$ 3,574,324
Accounts receivable	193
Interfund receivable	101,195
Inventory of supplies	36,663
Prepaid items	1,745
Total assets	<u>3,714,120</u>
Liabilities:	
Accounts payable	85,647
Accrued wages and benefits	68,979
Compensated absences	175,289
Interfund payable	42,429
Claims payable	1,154,812
Total liabilities	<u>1,527,156</u>
Net assets:	
Unrestricted	\$ <u>2,186,964</u>

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

City of Shaker Heights, Ohio

Statement of Revenues, Expenses and Changes In Fund Net Assets Proprietary Fund

For The Year Ended December 31, 2005

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ <u>1,634,043</u>
Operating expenses:	
Personal services	1,021,642
Travel and education	1,421
Contractual services	250,705
Materials and supplies	<u>433,270</u>
Total operating expenses	<u>1,707,038</u>
Operating loss	<u>(72,995)</u>
Non operating revenues:	
Interest earnings	<u>74,391</u>
Change in net assets	1,396
Net assets at beginning of year	<u>2,185,568</u>
Net assets at end of year	\$ <u><u>2,186,964</u></u>

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

City of Shaker Heights, Ohio

Statement of Cash Flows Proprietary Fund

For The Year Ended December 31, 2005

	Governmental Activities - Internal Service Fund
Increase (decrease) in cash and cash equivalents:	
Cash flows from operating activities:	
Cash received for interfund services	\$ 1,633,850
Cash payments to suppliers for services	(1,371,836)
Cash payments to employees	(1,003,238)
Net cash used for operating activities	<u>(741,224)</u>
Cash flows from investing activities:	
Interest earned on investments	<u>74,391</u>
Decrease in cash and cash equivalents	(666,833)
Cash and cash equivalents at beginning of year	<u>4,241,157</u>
Cash and cash equivalents at end of year	\$ <u><u>3,574,324</u></u>
Reconciliation of operating loss to net cash from operating activities:	
Operating loss	\$ (72,995)
Adjustments to reconcile operating loss to net cash from operating activities:	
Adjustments:	
(Increase)/ decrease in assets:	
Accounts receivable	(193)
Materials and supplies inventory	(20,015)
Prepaid items	(124)
Increase/ (decrease) in liabilities:	
Accounts payable	33,994
Accrued wages and benefits	(6,508)
Compensated absences	25,012
Self insurance claims payable	<u>(700,395)</u>
Total adjustments	<u>(668,229)</u>
Net cash used by operating activities	\$ <u><u>(741,224)</u></u>

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

City of Shaker Heights, Ohio

Statement of Fiduciary Net Assets Fiduciary Funds

December 31, 2005

	<u>Agency</u>
Assets:	
Equity pooled in cash and cash equivalents	\$ 1,343,574
Cash and cash equivalents in segregated accounts	517,960
Mortgage loan receivable	<u>495,569</u>
Total assets	\$ <u>2,357,103</u>
Liabilities:	
Intergovernmental payable	\$ 276,697
Deposits held	<u>2,080,406</u>
Total liabilities	\$ <u>2,357,103</u>

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

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 1 – Description of the City and Reporting Entity

The City of Shaker Heights (the City) was incorporated under the laws of the State of Ohio in 1912. The City has operated as a home rule municipal corporation under its own charter since the charter's adoption by the residents in 1931. The charter provides that the City operate under the Mayor/Council form of government, with the legislative power vested in the seven-member Council. The Mayor is the Chief Executive Officer of the City. The Mayor appoints the Chief Administrative Officer of the City.

Reporting Entity

The City provides various services including police and fire protection, public health, parks and recreation, street maintenance, planning and zoning, community preservation and development and other general governmental services. None of these services are provided by legally separate organizations; therefore, these operations are included in the primary government.

The City is a member of the Northeast Ohio Public Energy Council (“NOPEC”). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting the Board Chairman, 1615 Clark Avenue, Cleveland, Ohio 44109.

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB Statement No. 14), the financial reporting entity consists of the City (the primary government), as well as its component units. Component units are defined as legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability of the primary government to impose its will on the component unit, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the foregoing criteria, these financial statements do not include any component units.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies

The financial reporting practices of the City conform to generally accepted accounting principles as applicable to local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City's accounting policies are described below.

A. Basis of Presentation

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

Government - Wide Financial Statements – The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid doubling up revenues and expenses.

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

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

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

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

Capital Projects Fund – To account for financial resources to be used for the acquisition or construction of major capital facilities.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no enterprise funds.

Internal Service Funds - To account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City maintains four separate internal service funds to account for its self-insurance activity, inventory of consumable supplies, copier management, and its municipal garage (fleet maintenance).

Fiduciary Funds – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the City's own programs. The City has no trust funds. The City's agency funds are custodial in nature (assets equal liabilities) and thus do not involve the measurement of the results of operations. The City's agency funds are for the public art fund, obstruction permit deposits, excavating permit deposits, unclaimed monies, Fund for the Future of Shaker Heights, contractor deposits and the municipal court.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (continued)

C. Measurement Focus

Government - Wide Financial Statements The government-wide statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets, except for fiduciary funds. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g. expenses) in total net assets.

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reports on the financial statements. Government-wide financial statements as well as fiduciary funds are prepared using the accrual basis of accounting. Proprietary funds also use the accrual basis of accounting.

Governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenue Recognition - In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: municipal income taxes withheld by employers, inheritance taxes, sewerage surcharges, investment earnings, fines and forfeitures and state levied locally shared taxes (including motor vehicle fees). Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Revenue received by the City within 60 days after year end are deemed to be available. Reimbursements for federally funded grant projects are accrued as revenue at the time the eligible expenditures are made. Property taxes and special assessments though measurable are not available soon enough in the subsequent year to finance current period obligations. Income taxes and sewerage surcharges are considered to be measurable when billed, however, these revenue sources are not considered to be available until they have been received by the collecting agency. Accordingly, these items are recorded and revenue recognition is deferred until they become available.

All other revenue sources, including licenses and permits, certain charges for services and non-employer withheld income taxes are recorded as revenue when received in cash because they generally are not measurable until actually received by the City.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related liability is incurred except for unmatured principal and interest on general long-term debt which is recognized when paid. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary fund types consider all highly liquid investments that are both readily convertible to known amounts of cash, with a maturity of three months or less when purchased to be cash equivalents.

To improve cash management, cash received by the City is pooled. Monies for all funds, including the private purpose trust fund, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2005, investments were limited to U.S. Treasury Notes and Bonds, non-negotiable certificates of deposit and repurchase agreements.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on, quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposit and repurchase agreements are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amounted to \$756,785.

Investments with an original maturity of three months or less and investments of the cash management pool are presented on the financial statements as cash equivalents.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid item at the time of the purchase and the expenditure/expense in the year in which the services are consumed.

G. Inventory

Inventory is stated at weighted average cost. The cost of inventory items is recorded as expenditures in the governmental funds types when purchased and expenses in the proprietary funds types when used. Obsolete inventory has not been valued for financial reporting purposes.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City's capitalization threshold is ten thousand dollars. The City's infrastructure consists of curbs, sidewalks, sewers, streets, and other general capital assets that are immovable and of value only to the City. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings	10 to 60 years
Equipment	5 to 30 years
Improvements	10 to 50 years
Infrastructure	40 to 100 years

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (continued)

I. Interfund Balances

During the course of normal operations, the City had numerous transactions between funds, most of which are in the form of transfers of resources to provide services or to service debt. The accompanying financial statements generally reflect such transactions as transfers. The City also advances money between funds throughout the year. To the extent that certain transactions between funds had not been paid or received as of December 31, 2005, interfund amounts receivable or payable have been recorded as Interfund Payables and Interfund Receivables. Interfund balance amounts are eliminated in the Statement of Net Assets.

J. Compensated Absences

In accordance with Governmental Accounting Standards Board (GASB) Statement Number 16, the City has accrued a liability for compensated absences (vacation and sick leave) at December 31, 2005 along with any salary-related benefit liabilities associated with the payment of compensated absences. The City uses the vesting method to calculate this liability. The entire compensated absence liability is reported on the government-wide financial statements.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances and appropriations.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (continued)

M. Net Assets

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

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

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

P. Estimates

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

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (continued)

R. Budgetary Process

Tax Budget – A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources – The County Budget Commission certifies its actions relative to the submitted tax budget to the City by September 1. As a part of this certification, the City receives the official certificate of estimated resources, which states the projected resources of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. The City must then revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations – A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. For all operating funds except capital projects and trust and agency funds, an annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The City, however, follows a practice of adopting an operating budget for a year before the end of the preceding year. The appropriation measure may be amended during the year as new information becomes available provided that total appropriations do not exceed estimated resources as certified. Trust and Agency Funds are deemed to be appropriated for their intended purpose upon receipt. The City appropriates Capital Project Funds on a project by project basis.

For all funds, except capital projects funds, unencumbered appropriation balances lapse at year end and revert to the respective funds from which they were originally appropriated, thus becoming available for future appropriation. Capital projects are appropriated on a project basis. Project appropriation balances lapse upon completion of the project; therefore their unencumbered appropriation balances are carried over to the subsequent fiscal year.

State law mandates that a fund's total obligations may not exceed the total amount appropriated for the fund. For all funds except fiduciary and capital project funds, the City maintains its legal level of budgetary control at the fund level. For fiduciary funds, the legal level of budgetary control is maintained at the fund level. For capital project funds, the City maintains its legal level of budgetary control at the project level. Management control is exercised at the department level within each fund. Administrative control is maintained through the establishment of more detailed line item budgets. The Mayor and Chief Administrative Officer are authorized to transfer budgeted amounts between departments within a fund so long as the total amount appropriated for the fund is not exceeded.

As provided by the City's Charter and State Law, amendments to the 2005 appropriation ordinance were approved by City Council.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (continued)

S. Comparative Data/Reclassifications

Prior year data presented in Management's Discussion and Analysis have been reclassified in order to be comparative and provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2004 financial statements in order to conform to the 2005 presentation.

Note 3 – Change in Accounting Principle

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

GASB Statement No. 40 established disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk, and foreign currency risk.

GASB Statement No. 42 established accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

The implementation of GASB Statements No. 40 and 42 did not affect the presentation of the financial statements of the City.

Note 4 – Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund equity on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts and disbursements. The Statements of Revenue, Expenditure, Encumbrance and Changes in Fund Balance-Budget (Non – GAAP Basis) and Actual for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results to the budget. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash or encumbered (budget) as opposed to when susceptible to accrual (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Investments reported at fair value (GAAP) rather than cost (budget).

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 4 – Budgetary Basis of Accounting (continued)

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

	<u>Net Change in Fund Balance</u>
GAAP Basis	\$ 1,623,429
Net Adjustment for Revenue Accruals	(1,544,673)
Fair Value Adjustment for Investments 2004	(607,683)
Fair Value Adjustment for Investments 2005	275,666
Net Adjustment for Expenditure Accruals	(2,161,092)
Encumbrances	<u>2,122,449</u>
Budget Basis	\$ <u><u>(291,904)</u></u>

Note 5 – Deposits and Investments

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

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

Inactive deposits are monies 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 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 monies may be deposited or invested in the following securities:

1. United States Treasury notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 5 – Deposits and Investments (continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily; and the term of the agreement must not exceed thirty days;
4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of City funds shall be required to pledge as security for repayment of all public moneys.

At year-end, the carrying amount of the City's deposits was \$3,701,001 and the bank balance was \$3,259,813. Of the bank balance, \$472,409 was covered by Federal depository insurance, and \$2,787,404 was collateralized with securities held by the pledging institution's agent in the City's name.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 5 – Deposits and Investments (continued)

Investments

Investments are reported at fair value. As of December 31, 2005, the City had the following investments.

	<u>Fair Value</u>	<u>Maturity (Days)</u>
US Treasury Notes	\$ 40,825,918	Less than 2 years
US Treasury Notes	3,932,500	3 to 5 years
Repurchase Agreement	<u>4,536,000</u>	January 31, 2006
Total Portfolio	<u>\$ 49,294,418</u>	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, 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 City investment policy also limits security purchases to those that mature five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than five years.

Custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the City must meet a set of prescribed standards and be periodically reviewed.

Credit risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that portfolio be diversified both by types of investment and issuer. The U.S. Treasury Notes are explicitly guaranteed by the U.S. Government and are not considered to have credit risk. All other investments of the City are registered and carry a rating AAA by Standard & Poor's.

Concentration of credit risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations.

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
US Treasury Notes	90.8%
Repurchase Agreements	9.2%

Note 6 – Receivables

Receivables at December 31, 2005, consisted primarily of municipal income taxes, property and other taxes, accounts, special assessments, interest, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are deemed collectible in full.

Special assessments are expected to be collected in within one year.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 6 – Receivables (continued)

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. The City receives property taxes from the following sources:

Real Estate - Residential, commercial and public utility real property is taxed at 35% of market value.

Tangible Personal Property - The true value of personal property is based upon composite annual allowances and is assessed at 88%, except for the following:

Electric Utility Production Equipment	-	Assessed at 100% of true value (50% of cost).
Rural Electric Companies	-	Assessed at 50% of true value.
Railroads	-	Assessed at 25% of true value.
Telephone Utility	-	Effective in tax year 1995, all interchange telephone personal property is assessed at 25% of true value. Local exchange telephone personal property added to the tax roles during tax year 1995 and thereafter is assessed at 25% of true value; existing personal property is assessed at 88% of true value.

Real property taxes (other than public utility property) are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by the Cuyahoga County Auditor at 35% of the current market value, and reappraisal of all property is required every six years with a triennial update. The last reappraisal was completed for tax year 2003 affecting collections beginning in 2004.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due January 20 with the remainder payable by June 20. Taxes not paid become delinquent after December 31 of the year in which payable. Under certain circumstances, state statute permits earlier or later payment dates to be established.

Taxpayers become liable for tangible personal property taxes (other than public utility property) on January 1 of the current calendar year based on tax rates determined in the preceding year and assessed values determined as of the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. Since 1992, tangible personal property used in business (except for public utilities) was assessed for ad valorem taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30, if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20. Under Ohio law, personal property taxes do not attach as a lien on the personal property.

Public utility real and tangible personal property taxes collected during the calendar year were levied in the preceding calendar year based on assessed values as of January 1 of that preceding year, the lien date. The majority of public utility tangible personal property currently is assessed at 35% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 6 – Receivables (continued)

A. Property Taxes (continued)

While property tax rates are levied by the City, the Cuyahoga County Auditor is statutorily responsible for administering and collecting real property taxes on the behalf of all taxing authorities in the county, including the City.

The assessed values per category applicable to the 2005 and 2004 collections are as follows:

	Tax Collection/Valuation Year	
	<u>2005/2006</u>	<u>2004/2005</u>
Real Estate (other than public utility)	\$ 802,638,290	\$ 806,356,400
Public Utilities Real and Tangible Personal Property	14,062,560	15,654,670
Tangible Personal Property (other than public utility)	<u>9,956,280</u>	<u>10,246,645</u>
Total Valuation	\$ <u>826,657,130</u>	\$ <u>832,257,715</u>

The tax rate levied to finance the City's services for the years ended December 31, 2005 and December 31, 2004 was \$9.90 per \$1,000 of real estate and personal property valuation.

The receivable and related deferred revenue does not include property tax entitlements in the amount of \$988,485 that the City expects to receive in 2006 from the State of Ohio to finance 2006 operations. These entitlements are based upon 2005 local property tax relief granted by the State to qualified classes of real property owners in the form of Homestead Exemptions and tax rollbacks.

B. Municipal Income Taxes

The City income tax is applied to the gross salaries, wages and other personal service compensation earned by residents of the City and to the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. The tax rate was 1-3/4% of earnings for 2005 and 2006. Residents of the City are granted a credit up to one-half of 1% for taxes paid to other municipalities. A receivable totaling \$5,952,957 has been recorded in the General Fund. This total includes \$3,996,451 for the portion of taxes that is due in December, but not received until January of the following year, and \$1,956,506 which has been billed, but is not available in the current period.

C. Intergovernmental Receivable

A summary of intergovernmental receivables at December 31, 2005, include the following:

<u>Governmental Activities</u>	<u>Amounts</u>
Local Government Contracts	\$ 363,908
Auto Registration Fees	12,231
Gas Tax	388,736
Liquor Tax	2,529
Estate Tax	129,624
Local Government – State	186,758
Local Government – County	703,812
Federal Grants	666,703
Other	<u>21,267</u>
Total	\$ <u>2,475,568</u>

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 7 – Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Balances</u> <u>12/31/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/2005</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 15,759,427	\$ 198,047	\$ -	\$ 15,957,474
Construction in progress	<u>5,631,223</u>	<u>2,875,791</u>	<u>3,841,687</u>	<u>4,665,327</u>
Total capital assets not being depreciated	<u>21,390,650</u>	<u>3,073,838</u>	<u>3,841,687</u>	<u>20,622,801</u>
Capital assets being depreciated:				
Buildings	10,304,947	3,697,469	-	14,002,416
Improvements	4,635,766	10,195	-	4,645,961
Machinery and equipment	13,331,155	1,048,205	-	14,379,360
Infrastructure:				
Streets	12,885,875	914,578	-	13,800,453
Storm and sanitary sewers	5,082,120	404,727	-	5,486,847
Water lines	1,614,581	204,688	-	1,819,269
Traffic signals	<u>2,516,148</u>	<u>15,497</u>	<u>-</u>	<u>2,531,645</u>
Total capital assets being depreciated	<u>50,370,592</u>	<u>6,295,359</u>	<u>-</u>	<u>56,665,951</u>
Less accumulated depreciation:				
Buildings	(4,417,842)	(231,304)	-	(4,649,146)
Improvements	(1,771,310)	(182,863)	-	(1,954,173)
Machinery and equipment	(7,104,055)	(877,289)	-	(7,981,344)
Infrastructure:				
Streets	(2,849,257)	(312,874)	-	(3,162,131)
Storm and sanitary sewers	(312,263)	(54,496)	-	(366,759)
Water lines	(33,588)	(18,191)	-	(51,779)
Traffic signals	<u>(701,855)</u>	<u>(63,293)</u>	<u>-</u>	<u>(765,148)</u>
Total accumulated depreciation	<u>(17,190,170)</u>	<u>(1,740,310)</u>	<u>-</u>	<u>(18,930,480)</u>
Net capital assets being depreciated	<u>33,180,422</u>	<u>4,555,049</u>	<u>-</u>	<u>37,735,471</u>
Governmental activities				
capital assets, net	\$ <u>54,571,072</u>	\$ <u>7,628,887</u>	\$ <u>3,841,687</u>	\$ <u>58,358,272</u>

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 7 – Capital Assets (continued)

Depreciation expense was charged to governmental activities as follows:

Security of persons and property	\$ 516,802
Public health services	1,531
Leisure time activities	98,257
Housing and community development	92,014
Sanitation and sewer services	287,930
Street maintenance and repair	463,612
Public works – other	262,481
General government – legislative and executive	9,871
General government – judicial system	<u>7,812</u>
Total	\$ <u>1,740,310</u>

Note 8 – Compensated Absences

Vacation is earned by City employees at varying rates based upon length of service. No employee may accumulate vacation time in excess of three times the individual's annual rate of accrual. In the case of death, termination or retirement an employee (or the employee's estate), is paid for the accumulated, unused vacation leave.

All full-time employees earn sick leave at a rate of fifteen (15) workdays per year. In November of each year full-time employees of the City have the right to convert accumulated sick leave days earned during the last year in excess of a total accumulation of ninety (90) days at the ratio of three days of accumulated sick leave for one day's pay. Sick leave not converted under this option may be used through time off from work. Dependent upon bargaining unit membership, full-time employees with minimum continuous service with the City ranging from five to fifteen years who terminate employment for other than disciplinary reasons may receive payment for their accumulated sick leave according to various formulae with maximums ranging from 600 to 1,300 hours. Compensated absences are charged to various funds of the City in accordance to where an employee's salary is charged.

Note 9 – Notes Payable

Notes payable at December 31, 2005, consisted of the general obligation bond anticipation notes listed below. All of the debt listed has a term of one year or less and was issued to finance improvements to City owned property and to acquire equipment. The City has been retiring a portion of the notes as they mature and is issuing new notes for the remaining balance. The City will either convert this debt to bonds or pay off the debt within the 20 to 30 year conversion period as required by the laws of the State of Ohio. Temporary Urban Renewal Bonds are dated December 8, 2005 and is due December 8, 2006, at an interest rate of 4.5%. All the other notes are dated May 12, 2005, and due on May 12, 2006, at an interest rate of 4%. Subsequent to year-end, the notes were refinanced. Therefore, the notes payable are recorded as long-term obligations.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 9 – Notes Payable (continued)

A summary of all long-term debt activity for the year ended December 31, 2005, as follows:

<u>General Obligation Bond Anticipation</u>	<u>Balance</u> <u>12/31/2004</u>	<u>Addition</u> <u>(Reduction)</u>	<u>Balance</u> <u>12/31/2005</u>
STC Northwest Quadrant Note, (Renewal 14)	\$ 965,000	\$ (965,000)	\$ -
2000 Fire Truck Acquisition Note, (Renewal 4)	80,000	(80,000)	-
2001 EMS Ambulance Acquisition Note, (Renewal 3)	60,000	(60,000)	-
2002 Fire Truck Acquisition Note, (Renewal 2)	255,000	(255,000)	-
2002 Public Works Projects Note, (Renewal 2)	760,000	(760,000)	-
2004 Public Safety System Note	800,000	(800,000)	-
2004 Traffic Signalization Note	510,000	(510,000)	-
2004 Waterline/Street Note	455,000	(455,000)	-
2004 Lee Rd Construction Note	395,000	(395,000)	-
Sussex Area Revitalization District Bond (Renewal 3)	2,215,000	(2,215,000)	-
STC Northwest Quadrant Note (Renewal 15)	-	810,000	810,000
2001 Ambulance Acquisition Note	-	30,000	30,000
2002 Fire Truck Acquisition Note (Renewal 4)	-	170,000	170,000
2002 Public Works Project Note (Renewal 3)	-	320,000	320,000
2004 City Facility Roof Replacement	-	180,000	180,000
2004 Public Safety System Note	-	640,000	640,000
2001 Traffic Signal Project Note	-	450,000	450,000
2004 Street Restoration Note	-	405,000	405,000
2004 Lee Road Construction Note	-	360,000	360,000
Urban Renewal Temporary Bonds	<u>-</u>	<u>6,845,000</u>	<u>6,845,000</u>
Total notes payable	\$ <u>6,495,000</u>	\$ <u>3,715,000</u>	\$ <u>10,210,000</u>

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 10 – Long Term Obligation

Changes in the City's long-term obligations during the year were as follows:

	Balance <u>12/31/2004</u>	Addition (Reduction)	Balance <u>12/31/2005</u>	Amounts Due in <u>One Year</u>
<u>Bonds Payable @ Various Interest Rates</u>				
Firehouse No. 1 Construction Permanent Urban Renewal Bond, due 12/1/2031	\$ 4,895,000	\$ (110,000)	\$ 4,785,000	\$ 135,000
Sussex Area Revitalization District Permanent Urban Renewal Bond, due 12/1/2031	2,725,000	-	2,725,000	-
Shaker Town Centre Revitalization Permanent Urban Renewal Bond, due 12/1/2031	<u>7,645,000</u>	<u>-</u>	<u>7,645,000</u>	<u>-</u>
Total bonds payable	<u>15,265,000</u>	<u>(110,000)</u>	<u>15,155,000</u>	<u>135,000</u>
<u>Loans Payable Ohio Public Works Commission Loans</u>				
CA611 - Shelburne Road Sanitary Sewer Replacement, due 7/1/2015, semi-annual installment of \$20,188	423,937	(40,375)	383,562	40,375
CA08F - -Water System Improvement, due 07/01/2025, semi-annual installments of \$69,908	2,302,514	354,327	2,656,841	115,125
CA17E - City Water Line Improvements due 07/01/2025, semi-annual installment of \$32,475	<u>1,295,449</u>	<u>3,551</u> <u>(32,475)</u>	<u>1,266,525</u>	<u>64,772</u>
Total loans payable	<u>4,021,900</u>	<u>285,028</u>	<u>4,306,928</u>	<u>220,272</u>
Notes payable	<u>6,495,000</u>	<u>3,715,000</u>	<u>10,210,000</u>	<u>815,000</u>
Compensated absences	<u>3,332,202</u>	<u>448,228</u> <u>(147,802)</u>	<u>3,632,628</u>	<u>122,419</u>
Total long-term obligations	<u>\$ 29,114,102</u>	<u>\$ 4,190,454</u>	<u>\$ 33,304,556</u>	<u>\$ 1,292,691</u>

As of December 31, 2005, the City's future debt service requirements consisted of bonds payable at various interest rates, three non-interests bearing Ohio Public Works Commission Loan numbers CA611, CA08F and CA17E and compensated absences. Also, for governmental activities, compensated absences are generally liquidated by the general fund.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 10 – Long Term Obligation (continued)

The annual debt service requirements are as follows:

<u>Year</u>	<u>Bonds Payable</u>		<u>Loans Payable Principal</u>		
	<u>Principal</u>	<u>Interest</u>	<u>CA611</u>	<u>CA08F</u>	<u>CA17E</u>
2006	\$ 135,000	\$ 686,189	\$ 40,375	\$ 115,125	\$ 35,848
2007	165,000	683,489	40,375	115,125	64,772
2008	270,000	680,189	40,375	115,125	64,772
2009	290,000	673,709	40,375	115,125	64,772
2010	405,000	667,229	40,375	115,125	64,772
2011-2015	2,255,000	2,529,385	161,499	575,625	323,863
2016-2020	2,760,000	2,729,024	20,188	575,625	323,863
2021-2025	3,455,000	2,008,594	-	575,625	323,863
2026-2030	4,405,000	1,074,737	-	354,341	-
2031-2034	<u>1,015,000</u>	<u>138,749</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>15,155,000</u>	\$ <u>11,871,294</u>	\$ <u>383,562</u>	\$ <u>2,656,841</u>	\$ <u>1,266,525</u>

Legal Debt Margin Under the Uniform Bond Act of the Ohio Revised Code, at December 31, 2005, the City's overall debt limitations is \$86,798,999 (10.5% of the City's total assessed property valuation of \$826,657,130) of which \$84,020,046 is available for additional voted and unvoted general obligation debt. Of this total general obligation debt capacity, the City's unvoted general obligation debt capacity is \$45,466,142 (5.5% of the City's total assessed property valuation) at December 31, 2005, of which \$42,684,189 is available.

Note 11 - Pension and Retirement Plans

A. Ohio Public Employees Retirement System (OPERS)

All employees, other than non-administrative full-time police officers and firefighters participate in the Ohio Public Employees Retirement System, (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a post-sharing multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which members invest both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The Combined Plan is a cost-sharing multiple-employer defined benefit pension plan. Under the Combined plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed plan.

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

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 11 - Pension and Retirement Plans (continued)

A. Ohio Public Employees Retirement System (OPERS) (continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The City contributed 13.55 percent of covered payroll, of which 4.0 percent was used to fund health care coverage for retirees. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2005, 2004 and 2003 were \$1,939,868, \$1,859,415, and \$1,783,320 respectively. The full amount has been contributed for all three years.

B. Ohio Police and Fire Pension Fund (OP&F)

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer defined benefit pension plan administered by the OP&F's Board of Trustees. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 10.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the OP&F for the years ended December 31, 2005, 2004 and 2003 were \$2,065,749, \$2,012,160 and \$1,900,571, respectively. The full amount has been contributed for 2004 and 2003. 72.54 percent for police and 72.68 percent for firefighters has been contributed for 2005 with the remainder being reported as a liability.

Note 12 – Post Employment Benefits

A. Ohio Public Employees Retirement System (OPERS)

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

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

In order to qualify for post-retirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 12 – Post Employment Benefits (continued)

A. Ohio Public Employees Retirement System (OPERS) (continued)

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2005, local government employer units contributed at 13.55% of covered payroll. The portion of employer contributions for all employers allocated to health care was 4.0%.

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 8.0%. An annual increase of 4.0%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1.0% to 6.0% for the next eight years. In subsequent years (nine and beyond) health care costs were assumed to increase 4.0% annually.

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

At December 31, 2005, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,109. The City's actual contributions for 2005, which were used to fund postemployment benefits, were \$572,655. The actual contribution and the actuarially required contribution amounts are the same. OPER'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.

B. Ohio Police and Fire Pension Fund (OP&F)

The Ohio Police and Fire Pension Fund (OP&F) provides access to 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.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 12 – Post Employment Benefits (continued)

B. Ohio Police and Fire Pension Fund (OP&F) (continued)

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 OP&F's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll is applied to the postemployment health care program. 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 City's actual contributions for 2005 that were used to fund postemployment benefits were \$377,744 and \$359,810 for police officers and firefighters respectively. The OP&F's total health care expenses for the year ended December 31, 2004, the latest actuarial information available, was \$102,173,796, which was net of member contributions of \$55,665,341. The number of participants eligible to receive health care benefits as of December 31, 2004, the date of the last actuarial valuation available, was 13,812 for police and 10,528 for firefighters.

Note 13 – Interfund Activity

A. Interfund activity for the year ended December 31, 2005 consisted of the following:

	<u>Interfund Payable</u>				<u>Total</u>
	<u>General Fund</u>	<u>Capital Fund</u>	<u>Non Major Funds</u>	<u>Internal Service</u>	
Interfund Receivable					
General Fund	\$ -	\$ -	\$ 669,418	\$ 42,429	\$ 711,847
Capital Fund	-	-	46,310	-	46,310
Nonmajor Governmental Funds	18,534	7,479	527,176	-	553,189
Internal Service Funds	<u>101,195</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>101,195</u>
Total	\$ <u>119,729</u>	\$ <u>7,479</u>	\$ <u>1,242,904</u>	\$ <u>42,429</u>	\$ <u>1,412,541</u>

The interfund receivables and payables listed above result from a difference in the timing of when expenses are recognized in accordance with generally accepted accounting principles and when the related interfund subsidies are budgeted for payment on a cash basis. All of the interfund liabilities listed above are budgeted for payment in 2006.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 13 – Interfund Transfers (continued)

B. Interfund transfers for the year ended December 31, 2005, consisted of the following:

<u>Transfer To</u>	<u>Transfer From</u>			<u>Total</u>
	<u>General Fund</u>	<u>Capital Fund</u>	<u>Non Major Funds</u>	
Capital Fund	\$ 163,884	\$ -	\$ 948,956	\$ 1,112,840
Nonmajor Governmental Funds	<u>1,789,616</u>	<u>1,367,163</u>	-	<u>3,156,779</u>
Totals	\$ <u>1,953,500</u>	\$ <u>1,367,163</u>	\$ <u>948,956</u>	\$ <u>4,269,619</u>

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

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

Note 14 – Direct Financing Leases

As of December 31, 2005, the City has leased three pieces of real property. All of the leases are accounted for as direct financing leases. The value of the City's investment in direct financing leases is reflected as a lease receivable and deferred revenue in the General Fund of \$158,322 and the General Capital Improvement Fund of \$1,576,695.

Former Moreland School Building This property was leased to the Shaker Heights Public Library during 1991 to serve as the library districts' new main library facility. The initial lease term expires in 2013 with four ten-year renewal options. Under the terms of the lease, the Library Board of Directors completed approximately \$4.3 million in renovations to the facility. The lease required the City to finance \$2.6 million of the project. The annual basic lease payment is \$100 plus the annual debt service on the financing amortized over the life of the lease.

Warrensville Center Road Center Strip/Parking Lots This lease was entered into with OfficeMax, Inc. during 1996 and is scheduled to expire in 2016. Under the terms of the lease, the City constructed and made necessary improvements to existing parking lots on City owned property along Warrensville Center Road. These parking lots were subsequently leased to OfficeMax, Inc. for their exclusive use. The initial term of the lease is for twenty years with an additional five-year option exercisable by the lessee.

3470 Warrensville Center Road This lease was entered into 1999 and will expire in 2009. Under the terms of the lease, upon expiration, the lessee has the right to renew the lease with scheduled rent increases for two five-year periods.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 14 – Direct Financing Leases (continued)

The following lists the components of the net investment in direct financing leases as of December 31, 2005:

Year Ending December 31,	General Fund	General Capital Fund	Total
2006	\$ 39,300	\$ 173,345	\$ 212,645
2007	39,300	173,345	212,645
2008	39,300	173,345	212,645
2009	26,233	173,345	199,578
2010	14,450	173,345	187,795
Thereafter	<u>200</u>	<u>148,920</u>	<u>149,120</u>
Total minimum lease receivable	158,783	1,015,645	1,174,428
Less: Amounts representing executory costs	<u>(14,350)</u>	<u>(3,850)</u>	<u>(18,200)</u>
Net minimum lease receivable	144,433	1,011,795	1,156,228
Estimated residual value of leased property	<u>13,889</u>	<u>564,900</u>	<u>578,789</u>
Net investment in direct financing leases	<u>\$ 158,322</u>	<u>\$ 1,576,695</u>	<u>\$ 1,735,017</u>

Note 15 – Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During 2005, the City contracted with the following insurance companies:

States Self-Insurers Risk Retention Group, Inc. - provided public entity broad form liability insurance. This insurance included law enforcement, public officials, and emergency medical liability insurance, and is limited to \$10,000,000 with a self-retention of \$250,000. This insurance also included excess insurance for automobile liability with a deductible of \$1,000,000.

Westfield Insurance Company - provided liability insurance for all City-owned vehicles (including scooters) and physical damage for all units valued at \$50,001 and above with a deductible of \$500.

Hartford Insurance Company - provided commercial insurance for property and inland marine. Property insurance, with a deductible of \$5,000, was limited to \$38,346,348 for property and contents and \$1,507,989 for contractor's equipment. This coverage also included coverage of valuable papers and records, which was limited to \$100,000 with a deductible of \$5,000.

CNA – provided commercial crime and public employee dishonesty insurance with an aggregate limit of \$500,000 and a deductible of \$1,000.

Hartford - provided commercial inland marine coverage for the City's vehicle fleet. This insurance coverage has a maximum limit of \$3,000,000 and deductible of \$5,000.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 15 – Risk Management (continued)

The City accounts for its general liability and property insurance premiums in the Self-Insurance Fund (an Internal Service Fund). The claims liability of \$1,043,207 reported in the Self-Insurance Fund at December 31, 2005, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable. Settled claims have not exceeded commercial coverage in any of the past three fiscal years. There were no reductions in 2005 coverage when compared to the prior year.

The City makes available a choice of health care plans for full-time permanent employees and their qualified dependents. The current providers are an HMO and commercial hospitalization insurance carrier. Hospitalization premiums are paid on a monthly basis through the General Fund. Benefits of these plans include hospitalization and dental insurance. Other insurance carriers provide accidental death and dismemberment, disability and life insurance benefits.

Historically, under the Ohio Workers' Compensation System for public employer taxing districts, a city could be fully insured against worker compensation claims. The city paid a premium determined by the "base rate" as modified by the "experience factor." Prior to 1994 and subsequent to 1999, The City was a part of the fully insured program.

Ohio law was amended to permit a plan based on a so called "Retrospective Rating." Ohio employers that meet the eligibility requirements and standards are able to participate in this plan which transfers a certain portion of the claim risk to the employer. Under the terms of the Retrospective Rating Plan, an employer is required to make three forms of payment.

- First a minimum premium payment, which is a fraction of the premium it would have been under the fully insured plan.
- Second, the employer is responsible for all selection year claims paid by the Bureau within the next ten years.
- Third, at the end of the ten-year period, the Bureau will compute a final premium liability for all remaining, unresolved claims.

The City applied for and was accepted into the Retrospective Rating Plan for the years 1994 through 1999. The City's Self-Insurance Fund (an Internal Service Fund) is used to account for and pay Workers' Compensation claims from the accumulated assets of the fund. The City's Retrospective Rating Plan provided for a catastrophic limit per claim and an aggregate claim limit of 200% fully insured premium that would have been payable by the City for the year in which the injury occurred. Beginning in 2000 and for each year since, the City has elected to participate in the fully insured plan of the Ohio Bureau of Workers' Compensation.

At December 31, 2005 \$1,154,812 had been accrued for Self Insurance claims. This represents estimates to be paid for Workers' Compensation and Property and Casualty claims incurred but not yet reported based on the current information available.

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 15 – Risk Management (continued)

A reconciliation of changes in the balances of claims liabilities during the fiscal years 2005 and 2004 were as follows:

	<u>Property and Casualty</u>		<u>Workers' Compensation</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Beginning of the Year Liability	\$ 812,000	\$ 47,000	\$ 1,043,207	\$ 1,136,132
Current Year Claims				
And Changes in Estimates	(690,395)	772,500	-	-
Claim Payment	<u>(10,000)</u>	<u>(7,500)</u>	<u>-</u>	<u>(92,925)</u>
Balance at End of Year	\$ <u>111,605</u>	\$ <u>812,000</u>	\$ <u>1,043,207</u>	\$ <u>1,043,207</u>

Note 16 – Construction Commitments

The City has active construction projects as of December 31, 2005. As of December 31, 2005, the City's construction commitments with contractors were as follows:

<u>Project</u>	<u>Project Expenditures As of December 31, 2005</u>	<u>Remaining Commitment</u>
Street Improvements:		
Shaker Towne Center	\$ 444,314	\$ 31,587
Center Street	92,694	166,491
Chagrin Blvd – East to West Corporation Line	496,416	62,730
Storm and Sanitary Sewer Improvements:		
Shaker Towne Center	106,388	23,955
Center Street	186,385	35,457
Chagrin Blvd – East to West Corporation Line	1,406,840	92,563
Water Line Improvements:		
Center Street	120,366	23,019
Lee Road	160,794	78,580
Weymouth Road	40,353	150
Parkland Drive	92,402	78,580
Tennis Courts Reconstruction	57,233	38,067
Around the World Playground Project	20,588	-
Tennis Courts	57,234	38,067
City-Wide Signalization	439,710	-
	\$ <u>4,665,327</u>	\$ <u>669,246</u>

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 17 – Claims and Judgments

Several claims and lawsuits are pending against the City. It is the opinion of management that such claims and lawsuits will not have a material adverse effect on the financial condition of the City.

The City has received several federal and state grants for specific purposes which are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grants. However, it is the opinion of management that any such disallowances, if any, will be immaterial.

Note 18 – Subsequent Event

On April 24, 2006, City Council passed Ordinance Number 06-41 authorizing the issuance and sale of notes in the aggregate principal amount of not to exceed \$2,550,000 for the following purposes: (i) renovating and improving the former Moreland school building for library and other municipal purposes, (ii) acquiring motorized and mechanized vehicles and equipment for the Safety Department, including fire trucks, together with all necessary appurtenances and equipment thereto, (iii) acquiring motor vehicles for the Public Works Department, together with all necessary equipment and appurtenances thereto, and (iv) improving the Municipal Service Center, the Municipal Police and Court Building and Thornton Park Recreational Building; each by replacing and repairing the roof and making other necessary or related improvements, together with all necessary appurtenances thereto, and (v) improving streets within the City by installing traffic signalization and by resurfacing and reconstructing surfaces, together with all necessary equipment and appurtenances thereto, and (vi) acquiring, installing and equipping a new computer system for the Public Safety Department, together with all necessary appurtenances thereto.

On November 13, 2006, City Council passed Ordinance No. 06-115 authorizing the issuance and sale Temporary Urban Renewal Bonds in the aggregate principal amount of \$6,845,000 to refund outstanding Temporary Urban Renewal Bonds that had been issued for the purpose of paying costs of City urban renewal project activities relating to the Shaker Town Center project and providing a pledge of certain urban renewal service payments. These Bonds are expected to be issued on December 7, 2006 and will mature on November 1, 2007.

Note 19 – Noncompliance

Ohio Revised Code 5705.39 states that the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

At December 31, 2005, the following funds had final appropriations in excess of final estimated resources plus carryover balances in violation of Section 5705.39, Ohio Revised Code:

	Final <u>Certificate</u>	Final <u>Appropriations</u>	<u>Excess</u>
General Fund	\$ 35,207,582	\$ 36,386,500	\$(1,178,918)
Fire Pension	1,149,038	1,170,600	(21,562)
Clerk's Computerization	120,604	162,400	(41,796)
Exterior Home Maintenance	70,000	105,000	(35,000)
Law Enforcement Grants	12,000	72,268	(60,268)

City of Shaker Heights, Ohio

Notes To The Basic Financial Statements

For The Year Ended December 31, 2005

Note 19 – Noncompliance (continued)

	<u>Final Certificate</u>	<u>Final Appropriations</u>	<u>Excess</u>
Ohio Court Security Grant Project	-	6,000	(6,000)
H.I.D.T.A. Grant	2,717,856	4,847,370	(2,129,514)
Urban Renewal Bond Retirement	2,171,428	3,086,600	(915,172)
Central Stores Purchasing	237,820	385,500	(147,680)
Central Printing Operation	91,974	93,800	(1,826)
Central Garage Operation	1,284,561	1,299,600	(15,039)

At December 31, 2005, the following funds had original appropriations in excess of the original estimated resources plus carryover balances in violation of Section 5705.39, Ohio Revised Code:

	<u>Original Certificate</u>	<u>Original Appropriations</u>	<u>Excess</u>
General Fund	\$ 35,259,999	\$ 36,339,100	\$(1,079,101)
Fire Pension	1,150,729	1,170,600	(19,871)
Clerk's Computerization	120,604	162,400	(41,796)
Exterior Home Maintenance	70,000	105,000	(35,000)
Law Enforcement Grants	12,000	21,956	(9,956)
Ohio Court Security Grant Project	-	6,000	(6,000)
H.I.D.T.A. Grant	2,717,856	4,139,370	(1,421,514)
Urban Renewal Bond Retirement	2,171,428	3,086,600	(915,172)
Central Stores Purchasing	237,820	290,000	(52,180)
Central Garage Operation	1,284,561	1,299,600	(15,039)

Note 20 – Fund Deficits

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

<u>Funds</u>	<u>Deficit Fund Balance</u>
Nonmajor Special Revenue Funds:	
High Intensity Drug Trafficking Area	\$ 1,348,419
Drug Free Community Grant	18,452

These fund deficits are the result of the recognition of liabilities in accordance with general accepted accounting principles. Management is analyzing the operations of these funds to determine appropriate steps to eliminate the deficits.

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

Members of the City Council
City of Shaker Heights, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Shaker Heights as of and for the year ended December 31, 2005, which collectively comprise the City of Shaker Heights's basic financial statements and have issued our report thereon dated November 29, 2006, wherein we noted that the City adopted *Government Accounting Standards Board Statements No. 40 and 42*. 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 City of Shaker Heights's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated November 29, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Shaker Heights's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2005-01.

Members of the City Council
City of Shaker Heights, Ohio

This report is intended solely for the information and use of the City Council, Finance Committee, Management, Auditor of State's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cuni & Parichi, Inc.

Cleveland, Ohio
November 29, 2006

**Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

Members of the City Council
City of Shaker Heights, Ohio

Compliance

We have audited the compliance of the City of Shaker Heights with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The City of Shaker Heights's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Shaker Heights's management. Our responsibility is to express an opinion on the City of Shaker Heights's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Shaker Heights's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Shaker Heights's compliance with those requirements.

In our opinion, the City of Shaker Heights complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control over Compliance

The management of the City of Shaker Heights is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Shaker Heights's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Shaker Heights, as of and for the year ended December 31, 2005, and have issued our report thereon dated November 29, 2006, wherein we noted the City adopted *Government Accounting Standards Board Statements No. 40 and 42*.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Shaker Heights, Ohio's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, Finance Committee, management, Auditor of State's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cini & Panichi, Inc.

Cleveland, Ohio
November 29, 2006

City of Shaker Heights, Ohio

Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2005

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Catalog of Federal Domestic Assistance No.</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Federal Cash Receipts</u>	<u>Federal Cash Disbursements</u>
<u>U.S. Department of Health and Human Services</u>					
<u>Drug-Free Communities Support Program Grant</u>					
Drug Free Community Grant	93.276	01-JN-FX-0115	\$ <u>100,000</u>	\$ <u>57,870</u>	\$ <u>82,582</u>
Total Drug Free Communities Support Program Grant			<u>100,000</u>	<u>57,870</u>	<u>82,582</u>
<u>Passed Through the Ohio Department on Aging and the Western Reserve Area Agency on Aging:</u>					
Title III B Senior Adults - 2005	93.044	N/A	<u>36,791</u>	<u>30,305</u>	<u>36,791</u>
Total Department of Health & Human Services			<u>136,791</u>	<u>88,175</u>	<u>119,373</u>
<u>U.S. Department of Housing & Urban Development</u>					
<u>Direct Program:</u>					
Fair Housing Assistance Program State and Local	14.401	FF205K985030	<u>155,000</u>	<u>19,900</u>	<u>22,257</u>
Total Direct Programs			<u>155,000</u>	<u>19,900</u>	<u>22,257</u>
<u>Passed Through Cuyahoga County:</u>					
<u>Community Development Block Grants/Entitlement Grants</u>					
CDBG – 2005 Exterior Maintenance Program	14.218	CE-12590-01	35,000	11,500	19,859
CDBG – Shaker Towne Center	14.218	CE-13779-01	150,000	147,975	150,000
CDBG – 2004 Exterior Maintenance Program	14.218	CE-12590-01	<u>35,000</u>	<u>35,000</u>	<u>35,000</u>
Total Pass-Through Programs			<u>220,000</u>	<u>194,475</u>	<u>204,859</u>
Total U.S. Department of Housing & Urban Development			<u>375,000</u>	<u>214,375</u>	<u>227,116</u>

The accompanying notes are an integral part of this schedule

City of Shaker Heights, Ohio

Schedule of Expenditures of Federal Awards (continued)

For The Year Ended December 31, 2005

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Catalog of Federal Domestic Assistance No.</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Federal Cash Receipts</u>	<u>Federal Cash Disbursements</u>
<u>U.S. Department of Justice Direct Program:</u>					
<u>Local Law Enforcement Block Grants Program</u>					
Local Law Enforcement Block Grants Program - #2	16.592	2003-LB-BX-2418	<u>10,589</u>	<u>-</u>	<u>85</u>
Total Direct Programs			<u>10,589</u>	<u>-</u>	<u>85</u>
<u>Passed Through the State of Ohio Office of Criminal Justice Services:</u>					
<u>Juvenile Accountability Incentive Block Grant Program</u>					
Urban Area Initiative WMD Training Grant	97.008	2004-TU-T4-0015	<u>47,012</u>	<u>30,761</u>	<u>29,779</u>
Total Pass-Through Program			<u>47,012</u>	<u>30,761</u>	<u>29,779</u>
Total U.S. Department of Justice			<u>57,601</u>	<u>30,761</u>	<u>29,864</u>

The accompanying notes are an integral part of this schedule

City of Shaker Heights, Ohio

Schedule of Expenditures of Federal Awards (continued)

For The Year Ended December 31, 2005

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Catalog of Federal Domestic Assistance No.</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Federal Cash Receipts</u>	<u>Federal Cash Disbursements</u>
<u>Executive Office of the President - Office of National Drug Control Policy Direct Program:</u>					
High Intensity Drug Trafficking Area - Ohio - 2000	N/A	I0POHP501	1,301,000	6,644	19,983
High Intensity Drug Trafficking Area - Ohio - 2001	N/A	I1POHP501	2,500,000	45,249	802,836
High Intensity Drug Trafficking Area - Ohio - 2002	N/A	I2POHP501	2,700,000	606,387	623,565
High Intensity Drug Trafficking Area - Ohio - 2003	N/A	I3POHP501	2,500,000	651,590	772,816
High Intensity Drug Trafficking Area - Ohio - 2004	N/A	I4POHP501	3,133,000	1,280,394	981,022
High Intensity Drug Trafficking Area – Toledo DTF - 2004	N/A	I4POH99Z	50,000	5,000	-
High Intensity Drug Trafficking Area – Ohio - 2005	N/A	I4POHP501	<u>2,500,000</u>	<u>390,614</u>	<u>382,874</u>
Total Executive Office of the President			<u>14,684,000</u>	<u>2,985,878</u>	<u>3,583,096</u>
<u>U.S. Department of Transportation Federal Highway Administration Passed Through the Ohio Department of Transportation:</u>					
<u>Highway Planning and Construction</u>					
ISTEA-21 Grant-Shaker Towne Center	20.205	PID 25890	699,600	699,600	699,600
Lee Road Rehabilitation	20.205	PID 15396	1,562,870	598,332	598,332
Lee Road Streetscape	20.205	PID 75393	<u>318,692</u>	<u>58,111</u>	<u>58,111</u>
Total U.S. Department of Transportation Federal Highway Administration			<u>2,581,162</u>	<u>1,356,043</u>	<u>1,356,043</u>

The accompanying notes are an integral part of this schedule

City of Shaker Heights, Ohio

Schedule of Expenditures of Federal Awards (continued)

For The Year Ended December 31, 2005

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Catalog of Federal Domestic Assistance No.</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Federal Cash Receipts</u>	<u>Federal Cash Disbursements</u>
<u>Ohio Department of Public Safety</u>					
<u>Passed Through the Health Resources Services Administration</u>					
Fire Department State EMS Grant-MACRCS Radio	93.889	1U3RMC03843-01-00			
		U3RHS00055-02-04	<u>26,630</u>	<u>26,630</u>	<u>-</u>
Total Ohio Department of Public Safety			<u>26,630</u>	<u>26,630</u>	<u>-</u>
Total Federal Assistance			\$ <u>17,861,184</u>	\$ <u>4,701,861</u>	\$ <u>5,315,492</u>

The accompanying notes are an integral part of this schedule

City of Shaker Heights, Ohio

Notes to the Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2005

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Shaker Heights, Ohio and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: Matching Requirements

Certain Federal programs require that the City contribute Non-Federal (matching) funds to support the Federally Funded programs. The City has complied with the matching requirements. The expenditure of Non-Federal matching funds is not included on the accompanying Schedule.

N/A - Not Applicable

City of Shaker Heights, Ohio

Schedule of Findings OMB Circular A-133, Section .505

December 31, 2005

1. Summary Of Auditor's Results

(d)(I)(I)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(iii)	Was there any material reported noncompliance at the financial statement level (GAGAS)?	Yes
(d)(I)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(I)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(I)(vi)	Are there any reportable findings under Section .510?	No
(d)(I)(vii)	Major Programs	Highway Planning and Construction, CFDA No. 20.205
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Others
(d)(I)(ix)	Low Risk Auditee?	Yes

2. Findings Related To The Financial Statements Required To Be Reported In Accordance With GAGAS

2005-01

Ohio Revised Code 5705.39 states that the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

At December 31, 2005, the following funds had final appropriations in excess of final estimated resources plus carryover balances in violation of Section 5705.39, Ohio Revised Code:

	Final <u>Certificate</u>	Final <u>Appropriations</u>	<u>Excess</u>
General Fund	\$ 38,340,735	\$ 39,881,438	\$(1,540,703)
Fire Pension	1,149,038	1,170,600	(21,562)
Clerk's Computerization	120,604	162,400	(41,796)
Exterior Home Maintenance	70,000	105,000	(35,000)
Law Enforcement Grants	12,000	72,268	(60,268)

City of Shaker Heights, Ohio

Schedule of Findings OMB Circular A-133, Section .505

December 31, 2005

2. Findings Related To The Financial Statements Required To Be Reported In Accordance With GAGAS – Continued

	<u>Final Certificate</u>	<u>Final Appropriations</u>	<u>Excess</u>
Ohio Court Security Grant Project	\$ -	\$ 6,000	\$ (6,000)
H.I.D.T.A. Grant	2,717,856	4,847,370	(2,129,514)
Urban Renewal Bond Retirement	2,171,428	3,086,600	(915,172)
Central Stores Purchasing	237,820	385,500	(147,680)
Central Printing Operation	91,974	93,800	(1,826)
Central Garage Operation	1,284,561	1,299,600	(15,039)

At December 31, 2005, the following funds had original appropriations in excess of the original estimated resources plus carryover balances in violation of Section 5705.39, Ohio Revised Code:

	<u>Original Certificate</u>	<u>Original Appropriations</u>	<u>Excess</u>
General Fund	\$ 38,393,152	\$ 39,834,038	\$(1,440,886)
Fire Pension	1,150,729	1,170,600	(19,871)
Clerk's Computerization	120,604	162,400	(41,796)
Exterior Home Maintenance	70,000	105,000	(35,000)
Law Enforcement Grants	12,000	21,956	(9,956)
Ohio Court Security Grant Project	-	6,000	(6,000)
H.I.D.T.A. Grant	2,717,856	4,139,370	(1,421,514)
Urban Renewal Bond Retirement	2,171,428	3,086,600	(915,172)
Central Stores Purchasing	237,820	290,000	(52,180)
Central Garage Operation	1,284,561	1,299,600	(15,039)

3. Findings For Federal Awards

There were no findings for federal awards to report in 2005.

City of Shaker Heights, Ohio

**Schedule of Prior Audit Findings
OMB Circular A-133, Section .315(B)**

December 31, 2005

There were no prior findings for federal awards to report in 2005.

City of Shaker Heights

3400 Lee Road
Shaker Heights, Ohio 44120
(216) 491-1420

Response to Findings Associated with Audit Conducted
in Accordance with *Government Auditing Standards*
For the Year Ended December 31, 2005

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2005-01	The City will monitor the Certificate of Estimated Resources as compared to appropriations in all Funds which are legally required to be budgeted, to Ensure compliance with the above requirement.	12/31/06	Bob Baker, Interim Finance Director



Mary Taylor, CPA
Auditor of State

CITY OF SHAKER HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 30, 2007**