



**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2010



Dave Yost • Auditor of State

**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mayfield Heights, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mayfield Heights, Cuyahoga County, Ohio, as of December 31, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

July 29, 2011

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2010

The discussion and analysis of the City of Mayfield Heights' (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements and the notes to those financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Total assets of the City decreased from \$64,122,677 to \$60,957,605, a total decrease of \$3,165,072. This can be attributed to depreciable capital assets decreasing along with decreases in equity in pooled cash and cash equivalents, investments and income tax receivables.

Total liabilities of the City decreased from \$15,005,431 to \$14,279,873, a total decrease of \$725,558. This can most significantly be attributed to a decrease in long-term liabilities as the City continues to pay down its debt service obligations.

Total net assets decreased from \$49,117,246 to \$46,677,732, a total decrease of \$2,439,514. This is a decrease of 4.97 percent. See the above explanations on total assets and total liabilities as to explain why net assets decreased.

Using This Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. These statements are prepared and organized so the reader can understand the City of Mayfield Heights as a financial whole, or as an entire operating entity. The statements provide a detailed look at the City's specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2010

Reporting the City of Mayfield Heights as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets presents information, excluding Fiduciary Funds, on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, an increase or decrease in net assets may serve as a useful indication of whether the financial position of the City is improving or deteriorating. However, in evaluating the overall position of the City, non-financial factors such as the City's tax base, change in tax laws, and the condition of capital assets should also be considered. Both the Statement of Net Assets and the Statement of Activities use the accrual basis of accounting similar to the accounting method used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

- Assets
- Liabilities
- Net Assets
- Program Revenue and Expenses
- General Revenues
- Net Assets Beginning of Year and End of Year

Reporting the City of Mayfield Heights' Most Significant Funds

Fund Financial Statements

The presentation of the City's major funds begins on page 13. The City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements and identify certain services and activities provided to our residents. However, these fund financial statements focus on the City's most significant funds. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The City's major funds are the General Fund, the General Bond Retirement Fund and the Sanitary Sewer Improvement Fund.

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2010

Governmental Funds

Governmental funds are used to account for all activities which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information assists in determining whether there are more or less financial resources available in the near future for important City services. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund 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.

Proprietary Funds

There are different types of proprietary funds: enterprise funds and internal service funds. The City does not maintain any enterprise funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City maintains such a fund for its self-insurance of workers compensation related costs. The internal service fund is presented on the proprietary fund financial statements and has been included with governmental activities in the government-wide financial statements.

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 statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2010

The City of Mayfield Heights as a Whole

Government-wide Financial Analysis

As noted earlier, the Statement of Net Assets looks at the City as a whole and can be used as an indicator of the City's financial position. The Statement of Net Assets in Table 1 provides a summary of the City's net assets for 2010 compared to 2009.

Table 1 - Net Assets

	Governmental Activities	
	2010	2009
<u>Assets</u>		
Current and Other Assets	\$ 26,200,440	\$ 28,146,952
Capital Assets	34,757,165	35,975,725
Total Assets	60,957,605	64,122,677
<u>Liabilities</u>		
Long-term Liabilities	8,088,528	8,869,472
Other Liabilities	6,191,345	6,135,959
Total Liabilities	14,279,873	15,005,431
<u>Net Assets</u>		
Invested in Capital Assets Net of Debt	30,098,679	31,054,678
Restricted	984,544	528,078
Unrestricted	15,594,509	17,534,490
Total Net Assets	\$ 46,677,732	\$ 49,117,246

Total assets for the City are \$60,957,605. The largest portion of the City's assets is in capital assets totaling \$34,757,165, which represents 57.02 percent of the total.

Total liabilities for the City are \$14,279,873. The most significant liability is the Municipal Complex Bond Anticipation Notes payable for \$3,000,000 and Judgment Notes Payable for \$500,000. When combined, the long-term notes payable represent 24.51 percent of the total.

Total net assets for the City are \$46,677,732. The most significant portions of these assets are represented by unrestricted net assets of \$15,594,509 and Invested in Capital Assets, Net of Related Debt of \$30,098,679, which represents 33.41 percent and 64.48 percent of the total, respectively.

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2010

Table 2 shows the changes in net assets for the years ended December 31, 2010 and December 31, 2009, and corresponds to the Statement of Activities on page 12.

Table 2 - Change in Net Assets

	Governmental Activities	
	2010	2009
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 1,914,143	\$ 1,505,723
Operating Grants and Contributions	726,422	729,076
Capital Grants and Contributions	223,572	71,623
General Revenues:		
Property Taxes	4,994,569	5,191,256
Income Taxes	9,929,204	9,744,729
Other Taxes	162,374	104,302
Grants and Entitlements	2,415,114	2,231,255
Other	375,862	520,178
Total Revenues	20,741,260	20,098,142
<u>Program Expenses</u>		
Security of Persons and Property	11,344,517	11,034,865
Public Health Services	331,866	306,959
Leisure Time Activities	1,614,856	1,534,430
Community Environment	1,049,423	868,816
Basic Utility Services	1,080,768	1,166,976
Transportation	5,283,386	5,789,405
General Government	2,436,810	2,460,342
Interest and Fiscal Charges	39,148	118,979
Total Program Expenses	23,180,774	23,280,772
Increase in Net Assets	(2,439,514)	(3,182,630)
Net Assets, Beginning of Year,	49,117,246	52,299,876
Net Assets, End of Year	\$ 46,677,732	\$ 49,117,246

Total revenue increased in 2010 over 2009 by \$643,118, or an increase of 3.20 percent. The increase is mainly attributed to increases in charges for services, capital grants and contributions, and income taxes offset by decreases in property taxes and other revenues.

Charges for services saw the largest increase in revenues which was partly due to the City beginning to bill for its ambulance service in 2010. In addition, capital grants and contributions increased by \$151,949 due to the City receiving grant funds from the CDBG program and the OHIO EPA SWIF grant. Property taxes decreased by \$196,687 due to the continuing downturn in the economy.

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2010

Total program expenses slightly decreased overall by \$99,998, a percentage of 0.43 percent. Transportation expense had the most significant decrease of \$506,019 and was mainly due to the City's 2010 road program which was not capitalized due to the program consisting mainly of routine repairs and maintenance to various City roads.

Governmental Activities

Several revenue sources fund the City's governmental activities. The most significant revenue source is municipal income tax. The income tax rate is 1 percent and residents of the City who work in another community receive a .50 percent credit for the first 1 percent paid to another community. The rate of 1 percent and .50 percent credit have been in effect since 1982. Income tax as a revenue source was first enacted in 1967. The City has a significant commercial tax base, which provides financial stability. Major employers such as Rockwell Automation, Parker Hannifin, Meridia Hillcrest Hospital (Cleveland Clinic), and Progressive Casualty Insurance continue to contribute to the City's tax base. In 2010, the City's revenue from income tax was \$9,929,204.

The other major revenue source for the City is the property tax. The City's charter millage is 10.00 and has remained the same since 1951. The tax duplicate for collection year 2010 was \$540,914,590 and has been certified at \$554,270,720 for the 2011 collection year. While this source is not as significant as the income tax, the duplicate has declined due to the elimination of the tangible personal property tax and the overall decline in valuations due to the economy.

The City's Funds

Information about the City's major funds begins on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenue of \$26,491,418 and expenditures of \$28,116,856 (including other financing sources and uses). The most significant fund is the General Fund with a year end fund balance of \$8,520,100, which included an unreserved balance of \$8,350,318 compared to expenditures of \$17,039,450, not including \$1,677,500 that was transferred from the General Fund to help finance various special revenue funds.

The other major funds in 2010 were the General Bond Retirement Fund and the Sanitary Sewer Improvement Fund. The General Bond Retirement Fund recorded \$4,563,915 in expenditures. The full amount was related to the repayment of the long-term notes. The Sanitary Sewer Improvement Fund recorded \$44,430 in expenditures. A majority of the fund's expenditures are related to the annual principal payment for the Ohio Public Works Commission loan.

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2010

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. An annual appropriation budget is prepared and presented to City Council for approval. A detailed line item budget for all departments is provided as part of the appropriation process. During the year, several amendments were made to the General Fund budget, with the major amendment being at the end of the year to adjust various line item amounts.

The City's original conservative revenue estimate of \$17,328,146 was lower than the final estimate of \$17,811,128, due mainly to an increase in the estimate of income taxes and intergovernmental revenues. The original expenditure budget of \$19,325,325 was increased by several amended appropriations to a total of \$19,657,200, for an increase of \$331,875.

Capital Assets and Debt Administration

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

	Governmental Activities	
	2010	2009
Land	\$ 3,024,620	\$ 3,024,620
Construction-in-progress	6,426,556	6,335,515
Land Improvements	264,517	297,617
Buildings	6,394,274	6,354,297
Machinery and Equipments	767,777	757,299
Furniture and Equipment	256,489	312,869
Vehicles	1,488,388	1,307,243
Infrastructures:		
Roads	7,363,989	8,560,872
Water Mains	701,466	723,439
Sanitary Sewers	6,565,220	6,749,466
Storm Sewers	1,503,869	1,552,488
Total Capital Assets	\$ 34,757,165	\$ 35,975,725

Total capital assets for governmental activities of the City for 2010 were \$34,757,165, a decrease of \$1,218,560 from 2009. The reason for this decrease can be attributed to the capital asset additions not exceeding current year depreciation expenses.

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2010

Long-Term Obligations

As of December 31, 2010, the City had \$5,158,486 in long-term notes and OPWC loans outstanding with \$53,602 due in a year (see Note 13).

Table 4 - Outstanding Debt at December 31

	Governmental Activities	
	2010	2009
Long-Term Bond Anticipation Notes	\$ 3,500,000	\$ 4,500,000
OPWC Loans	1,658,486	1,621,047
Total Outstanding Debt	\$ 5,158,486	\$ 6,121,047

As of December 31, 2010, the City had no outstanding general obligation bonds. The amount of long-term (based on maturity dates) general obligation bond anticipation notes is \$3,500,000. Notes were first issued in 2002 to finance the Municipal Complex Improvement Project and in 2006 for the Shemo Settlement. The City has utilized loans from the Ohio Public Works Commission (OPWC) to fund several of its major capital improvement projects. The City continues to have no long-term debt. Therefore, the City has not recently been rated by Moody's Investor Services.

Current Financial Related Activities

The City continues its strong financial position, which can be attributed to its conservative approach in fiscal management. The City has adopted a policy of limited short-term debt issuances. Most capital improvements and equipment replacements are financed from current revenues.

Contacting the City's Finance Department

This financial report is designed to provide our residents, taxpayers, creditors, and investors with a general overview of the City's finances and demonstrate the City's accountability for all money it receives, spends, and invests. If you have questions concerning this report or need additional financial information, contact the Director of Finance, Robert G. Tribby, at Mayfield Heights City Hall, 6154 Mayfield Road, Mayfield Heights, Ohio 44124, by telephone at 440-442-2626, ext. 201, or by e-mail at roberttribby@mayfieldheights.org

City of Mayfield Heights, Ohio

Statement of Net Assets December 31, 2010

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 4,725,712
Investments	11,921,220
Materials and Supplies Inventory	71,027
Accounts Receivable	204,419
Accrued Interest Receivable	54,272
Intergovernmental Receivable	1,303,212
Prepaid Items	59,391
Income Taxes Receivable	2,267,139
Property Taxes Receivable	5,566,166
Special Assessments Receivable	27,882
Nondepreciable Capital Assets	9,451,176
Depreciable Capital Assets	25,305,989
Total Assets	<u>60,957,605</u>
LIABILITIES	
Accounts Payable	316,253
Contracts Payable	209,080
Accrued Wages and Benefits	177,702
Intergovernmental Payable	613,644
Accrued Interest Payable	15,000
Retainage Payable	50,075
Deferred Revenue	4,809,591
Long-term Liabilities:	
Due within one year	964,207
Due in more than one year	7,124,321
Total Liabilities	<u>14,279,873</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	30,098,679
Restricted for:	
Debt Service	218,419
Other Purposes	766,125
Unrestricted	15,594,509
Total Net Assets	<u><u>\$ 46,677,732</u></u>

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

City of Mayfield Heights, Ohio

Statement of Activities For the Year Ended December 31, 2010

<u>Functions</u>	<u>Expenses</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
Security of Persons and Property	\$11,344,517	\$ 891,075	\$ 51,429	\$ -	\$ (10,402,013)
Public Health and Welfare	331,866	-	-	-	(331,866)
Leisure Time Activities	1,614,856	396,074	-	66,000	(1,152,782)
Community Development	1,049,423	401,744	643	65,916	(581,120)
Basic Utility Services	1,080,768	3,834	-	-	(1,076,934)
Transportation	5,283,386	11,408	671,756	91,656	(4,508,566)
General Government	2,436,810	210,008	2,594	-	(2,224,208)
Interest and Fiscal Charges	39,148	-	-	-	(39,148)
Total Governmental Activities	<u>\$23,180,774</u>	<u>\$1,914,143</u>	<u>\$ 726,422</u>	<u>\$ 223,572</u>	<u>(20,316,637)</u>
General Revenues:					
Property Taxes levied for:					
General Purposes					3,755,337
Debt Service Purpose					939,558
Other Purposes					299,674
Income Taxes levied for:					
General Purposes					9,929,204
Other Taxes					162,374
Grants & Entitlements not restricted to specific programs					2,415,114
Investment Income					230,129
All Other Revenues					145,733
Total General Revenues					<u>17,877,123</u>
Change in Net Assets					<u>(2,439,514)</u>
Net Assets - Beginning of Year					<u>49,117,246</u>
Net Assets - End of Year					<u>\$ 46,677,732</u>

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

City of Mayfield Heights, Ohio

Balance Sheet – Governmental Funds December 31, 2010

	General Fund	General Bond Retirement	Sanitary Sewer Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in Pooled Cash and Cash Equivalents	\$ 38,270	\$ 490,740	\$ 1,494,224	\$ 2,702,478	\$ 4,725,712
Investments	6,742,011	-	1,157,883	4,021,326	11,921,220
Materials and Supplies Inventory	31,387	-	-	39,640	71,027
Accrued Interest Receivable	51,717	-	-	2,555	54,272
Accounts Receivable	198,183	-	-	6,236	204,419
Interfund Receivable	25,000	-	-	160,000	185,000
Intergovernmental Receivable	827,561	51,731	-	423,920	1,303,212
Prepaid Items	58,505	-	-	886	59,391
Income Taxes Receivable	2,267,139	-	-	-	2,267,139
Property and Other Taxes Receivable	4,515,297	717,859	-	333,010	5,566,166
Special Assessments Receivable	-	-	-	27,882	27,882
Total Assets	\$ 14,755,070	\$ 1,260,330	\$ 2,652,107	\$ 7,717,933	\$ 26,385,440
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 237,928	\$ -	\$ -	\$ 78,325	\$ 316,253
Accrued Wages	161,311	-	-	16,391	177,702
Contracts Payable	-	-	336	208,744	209,080
Intergovernmental Payable	446,845	-	-	166,799	613,644
Retainage Payable	-	-	-	50,075	50,075
Interfund Payable	56,190	-	-	185,000	241,190
Deferred Revenue	5,332,696	769,590	-	609,925	6,712,211
Total Liabilities	6,234,970	769,590	336	1,315,259	8,320,155
Fund Balances:					
Reserved for:					
Encumbrances	79,890	-	-	191,661	271,551
Inventory	31,387	-	-	39,640	71,027
Prepaid Items	58,505	-	-	886	59,391
Unreserved:					
Designated for:					
Accrued Compensation Reserve	-	-	-	553,388	553,388
Undesignated, Reported in:					
General Fund	8,350,318	-	-	-	8,350,318
Special Revenue Funds	-	-	-	539,762	539,762
Debt Service Funds	-	490,740	-	90,968	581,708
Capital Projects Funds	-	-	2,651,771	4,986,369	7,638,140
Total Fund Balance	8,520,100	490,740	2,651,771	6,402,674	18,065,285
Total Liabilities and Fund Balance	\$ 14,755,070	\$ 1,260,330	\$ 2,652,107	\$ 7,717,933	\$ 26,385,440

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

City of Mayfield Heights, Ohio

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities December 31, 2010

Total Governmental Fund Balances	\$ 18,065,285
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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.	34,757,165
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:

Property taxes	740,595	
Municipal income taxes	217,208	
Special assessments	27,882	
Intergovernmental	840,241	
Charges for services	76,694	
Total	<u>1,902,620</u>	1,902,620

In the Statement of Activities, interest is accrued on outstanding debt, whereas in Governmental funds, an interest expenditure is reported when due.	(15,000)
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

OPWC loans	(1,658,486)	
Bond anticipation notes	(3,500,000)	
Compensated absences	(2,873,852)	
Total	<u>(8,032,338)</u>	(8,032,338)

Net Assets of Governmental Activities	<u>\$ 46,677,732</u>
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The notes to the basic financial statements are an integral part of this statement

City of Mayfield Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended December 31, 2010

	General Fund	General Bond Retirement	Sanitary Sewer Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 3,570,291	\$ 949,287	\$ -	\$ 288,484	\$ 4,808,062
Income Taxes	10,672,503	-	-	-	10,672,503
Other Taxes	162,374	-	-	-	162,374
Intergovernmental	2,203,805	157,202	-	966,066	3,327,073
Interest	215,624	2,659	-	11,846	230,129
Fines, Licenses and Permits	627,550	-	-	755	628,305
Charges for Services	896,547	-	2	334,031	1,230,580
Special Assessments	-	-	-	2,646	2,646
All Other Revenues	86,913	695	-	48,796	136,404
Total Revenues	18,435,607	1,109,843	2	1,652,624	21,198,076
EXPENDITURES					
Security of Persons and Property	10,486,618	-	-	797,679	11,284,297
Public Health	331,641	-	-	11,260	342,901
Leisure Time Activities	1,294,862	-	-	515,507	1,810,369
Community Development	598,806	-	-	424,514	1,023,320
Basic Utility Service	894,360	-	4,180	-	898,540
Transportation	1,090,325	-	-	3,013,788	4,104,113
General Government	2,342,838	7,665	-	15,461	2,365,964
Debt Service:					
Principal Retirement	-	4,500,000	40,250	13,352	4,553,602
Interest and Fiscal Charges	-	56,250	-	-	56,250
Total Expenditures	17,039,450	4,563,915	44,430	4,791,561	26,439,356
Excess of Revenues Over (Under) Expenditures	1,396,157	(3,454,072)	(44,428)	(3,138,937)	(5,241,280)
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	-	-	-	24,801	24,801
OPWC Loans Issued	-	-	-	91,041	91,041
Notes Issued	-	3,500,000	-	-	3,500,000
Transfer In	-	-	-	1,677,500	1,677,500
Transfer Out	(1,677,500)	-	-	-	(1,677,500)
Total Other Financing Sources (Uses)	(1,677,500)	3,500,000	-	1,793,342	3,615,842
Net Change in Fund Balances	(281,343)	45,928	(44,428)	(1,345,595)	(1,625,438)
Fund Balances - Beginning of Year	8,808,512	444,812	2,696,199	7,720,784	19,670,307
Increase (Decrease) in Reserve for Inventory	(7,069)	-	-	27,485	20,416
Fund Balances - End of Year	\$ 8,520,100	\$ 490,740	\$ 2,651,771	\$ 6,402,674	\$ 18,065,285

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

City of Mayfield Heights, Ohio

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (1,625,438)

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

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

Capital Outlay	970,190	
Depreciation	<u>(2,128,602)</u>	
Total		(1,158,412)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (60,148)

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

Property and other taxes	186,507	
Municipal income taxes	(743,299)	
Special assessments	(23,860)	
Intergovernmental	63,011	
Charges for services	<u>60,825</u>	
Total		(456,816)

Other financing sources in the Governmental funds that increase long-term liabilities in the Statement of Net Assets. These sources were attributed to the issuance of bond anticipation notes and OPWC loans. (3,591,041)

Repayment of bond and note principal are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 4,553,602

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

Compensated absences	(125,427)	
Change in inventory	20,416	
Accrued interest	<u>3,750</u>	
Total		(101,261)

Change in Net Assets of Governmental Activities \$ (2,439,514)

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

City of Mayfield 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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$ 3,846,219	\$ 3,570,291	\$ 3,570,291	\$ -
Municipal Income Tax	9,561,826	10,092,277	10,092,277	-
Other Taxes	153,804	162,336	162,336	-
Charges for Services	796,924	841,134	841,134	-
Fines, Licenses and Permits	599,308	632,555	632,555	-
Intergovernmental	2,095,891	2,212,162	2,212,162	-
Investment Income	206,814	218,287	218,287	-
All Other Revenues	67,360	82,086	82,086	-
Total Revenues	<u>17,328,146</u>	<u>17,811,128</u>	<u>17,811,128</u>	<u>-</u>
Expenditures:				
Current:				
Security of Persons & Property	10,884,830	10,919,830	10,554,880	364,950
Public Health Services	320,867	370,667	355,352	15,315
Leisure Time Activities	1,318,673	1,360,223	1,304,224	55,999
Community Environment	633,754	633,754	605,907	27,847
Basic Utility Services	878,100	888,100	890,829	(2,729)
Transportation	1,133,927	1,173,927	1,098,163	75,764
General Government	2,435,174	2,565,699	2,358,096	207,603
Total Expenditures	<u>17,605,325</u>	<u>17,912,200</u>	<u>17,167,451</u>	<u>744,749</u>
Excess of Revenues Over (Under) Expenditures	<u>(277,179)</u>	<u>(101,072)</u>	<u>643,677</u>	<u>744,749</u>
Other Financing Sources (Uses)				
Transfers Out	(1,720,000)	(1,720,000)	(1,677,500)	42,500
Advances Out	-	(25,000)	(25,000)	-
Total Other Financing Sources (Uses)	<u>(1,720,000)</u>	<u>(1,745,000)</u>	<u>(1,702,500)</u>	<u>42,500</u>
Net Change in Fund Balance	(1,997,179)	(1,846,072)	(1,058,823)	787,249
Fund Balance - Beginning of Year	7,582,872	7,582,872	7,582,872	-
Prior Year Encumbrances Appropriated	96,029	96,029	96,029	-
Fund Balance - End of Year	<u>\$ 5,681,722</u>	<u>\$ 5,832,829</u>	<u>\$ 6,620,078</u>	<u>\$ 787,249</u>

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

City of Mayfield Heights, Ohio

Statement of Fund Net Assets Proprietary Fund December 31, 2010

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets:	
Interfund Receivable	\$ 56,190
Total Assets	<u>56,190</u>
LIABILITIES	
Current Liabilities:	
Claims Payable	23,291
Noncurrent Liabilities:	
Claims Payable	32,899
Total Liabilities	<u>56,190</u>
NET ASSETS	
Unrestricted	-
Total Net Assets	<u>\$ -</u>

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

City of Mayfield Heights, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Fund For the Year Ended December 31, 2010

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges for Services	\$ 56,190
Total Operating Revenues	<u>56,190</u>
OPERATING EXPENSES	
Claims	<u>56,190</u>
Total Operating Expense	<u>56,190</u>
Change in Net Assets	-
Net Assets - Beginning of Year	<u>-</u>
Net Assets - End of Year	<u><u>\$ -</u></u>

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

City of Mayfield Heights, Ohio

**Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2010**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Cash Provided by (Used in) Operating Activities	<u>\$ -</u>
Net Increase (Decrease) in Cash and Cash Equivalents	-
Cash and Cash Equivalents - Beginning of Year	-
Cash and Cash Equivalents - End of Year	<u><u>\$ -</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ -
Adjustments:	
(Increase) Decrease in Assets:	
Interfund Receivable	(56,190)
Increase (Decrease) in Liabilities:	
Claims Payable	56,190
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ -</u></u>

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

City of Mayfield Heights, Ohio

Statement of Fiduciary Net Assets Fiduciary Funds December 31, 2010

	<u>Agency Funds</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 288,094
Total Assets	<u>\$ 288,094</u>
LIABILITIES	
Accounts Payable	21,233
Deposits Held and Due to Others	266,861
Total Liabilities	<u>\$ 288,094</u>

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

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City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2010

NOTE 1: **REPORTING ENTITY**

The City of Mayfield Heights, Ohio (the “City”) is a home-rule municipal corporation established under the laws of the State of Ohio. The City operates under its own charter. The current charter, which provides for a council-mayor form of government, was adopted by the voters on July 2, 1951.

The City, in order to provide the necessary services to its citizens, is segmented into many different departments. Among these are the police, fire fighting, street maintenance, planning and zoning, emergency medical technicians, parks and recreation system, public improvements department, and general administrative staff to provide support to these service groups. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. All are responsible to the citizens of the City and are included as part of the primary government.

A legally separate organization is a component unit of the primary government if **1)** the primary government is financially accountable for the organization, **2)** the nature and significance of the relationship between the primary government and the organization are such that exclusion would cause the reporting entity’s basic financial statements to be misleading or incomplete, or **3)** the organization is closely related to or financially integrated with the primary government. Components units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

The City is associated with certain organizations which are identified as jointly governed organizations. The jointly governed organizations are the Eastern Suburban Regional Council of Governments and the Mayfield Union Cemetery as presented in Note 17 to the basic financial statements. The City is also associated with an organization defined as a risk sharing pool (Notes 14 and 15).

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described on the following pages. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund unless those pronouncements conflict with or contradict GASB pronouncements.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

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

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

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of 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 Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

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

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

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

Sanitary Sewer Improvement Fund The Sanitary Sewer Improvement Fund accounts for the financial resources collected for improvement of the City's sanitary sewers and for the annual debt service payment to the Ohio Public Works Commission.

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 does not have any enterprise funds.

Internal Service Fund Internal Service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports on a self-insurance program for the City's workers' compensation retrospective rating plan.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investments trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for deposits and monies held for contractors, developers, community activities, and police bond account.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses, and changes in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements along with the statement presented for proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and the presentation of expenses versus expenditures.

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the exchange on which the tax is imposed takes place. Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and entitlements, and rentals.

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

Property taxes, for which there is an enforceable legal claim as of December 31, 2010, but which were levied to finance year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash, Cash Equivalents, and Investments

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

The City complies with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. As a governmental entity other than an external investment pool in accordance with GASB Statement No. 31, the City's investments are stated at market value, except for interest-earnings investment contracts (Note 6).

In applying GASB Statement No. 31, the City utilized the following methods and assumptions as of December 31, 2010:

The portfolio of the City was limited to United States Agency securities and nonparticipating interest-earning investment contracts. Nonparticipating investment contracts, such as non-negotiable certificates of deposit, are reported at cost.

Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss resulting from the valuation will be recognized within the General Fund to the extent its cash and investment balance exceeds the cumulative value of those investments subject to GASB Statement No. 31.

The City's policy is to hold investments until maturity or until market values equal or exceed cost.

Interest revenue credited to the General Fund during fiscal year 2010 amounted to \$215,624, which includes \$123,487 assigned from other funds.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash, Cash Equivalents, and Investments (Continued)

For presentation on the statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Materials and Supplies Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of the governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as expenditures in the governmental fund types when purchased.

Inventory consists of expendable supplies.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2010 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Capital Assets

The City's only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$2,500. Interest incurred during the construction of capital assets is not capitalized.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method utilizing the half-year convention over the following useful lives:

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

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

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future (those employees who will be eligible to receive termination benefits in the next twenty years). The amount is based on accumulated sick leave and employee wage rates at year-end, taking into consideration any limits specified in the City's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances, inventories, and prepaid items. The City also maintains a designation of unreserved fund balance for an account titled "Accrued Compensation Reserve."

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of governments. The City has no net assets which are restricted by enabling legislation. Net assets that are restricted for other purposes are mostly comprised of the Street Construction, Maintenance and Repair Fund, State Highway Fund, and the Summer Day Camp Fund.

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

M. Interfund Activity

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

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. The City had no extraordinary or special items during 2010.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Estimates

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

P. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

An annual appropriation budget is prepared for all funds other than the agency funds of the City. Budgetary comparisons are presented in this report on the budgetary basis.

The legal level of budgetary control is at the personal services and other object levels within each department for the General Fund, the Street Construction, Maintenance and Repair Fund, the State Highway Improvement Fund, the Summer Day Camp Fund, and the Juvenile Diversion Program Fund, and at the other object level for the remaining funds. Any budgetary modifications at this level may only be made by resolution of City Council.

Tax Budget - A tax budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 15 of each year for the period January 1 to December 31, of the following year. A proposed budget of estimated revenues and expenditures is submitted by the Mayor to members of City Council by November 15 of each year for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. On or about January 1, the certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

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

P. **Budgetary Data** (Continued)

The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time the final appropriations were passed by Council.

Appropriations - A temporary appropriation measure to control disbursements may be passed on or about January 1 of each year for the period from January 1 to March 31. The annual appropriations ordinance must be passed by April 1 and may be amended or supplemented during the year as new information becomes available, provided that total fund appropriations at the personal services and other object levels within each department for the General Fund, the Street Construction, Maintenance, and Repair Fund, the State Highway Improvement Fund, the Summer Day Camp Fund, and the Juvenile Diversion Program Fund, and at the other object level for the remaining funds (legal level of control) do not exceed current estimated resources, as certified. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the appropriation amounts passed by Council during the year.

Encumbrances - As part of formal budgetary control, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

NOTE 3: **CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2010, the City implemented GASB Statements No. 51, *Accounting and Financial Reporting for Intangible Assets*, No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

GASB Statement No. 51 improves the quality of financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 3: **CHANGES IN ACCOUNTING PRINCIPLES** (Continued)

GASB Statement No. 53 improves the quality of financial reporting by requiring governments to measure derivative instruments, with the exception of synthetic guaranteed investment contract that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements.

GASB Statement No. 58 improves the quality of financial reporting by providing more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy.

The implementation of the aforementioned GASB Statements did not affect the presentation of the financial statements of the City.

NOTE 4: **ACCOUNTABILITY**

Fund balance at December 31, 2010 included the following individual fund deficits:

Nonmajor Special Revenue Funds

CDBG Fund	\$ 75,838
Ohio EPA SWIF Fund	12,839
Street Light Special Assessment Operating Fund	5,063
Police Pension Fund	64,822
Fire Pension Fund	<u>64,822</u>
Total	<u>\$ 223,384</u>

The deficits in the CDBG Fund, Ohio EPA SWIF Fund, Street Light Special Assessment Operating Fund, Police Pension and Fire Pension Special Revenue funds resulted from accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5: **BUDGETARY BASIS OF ACCOUNTING**

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 5: **BUDGETARY BASIS OF ACCOUNTING** (Continued)

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the related liabilities are incurred (GAAP basis).
- c. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
- d. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statement for the General Fund.

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$ (281,343)
Increase (Decrease) Due to:	
Revenue Accruals	(624,479)
Expenditure Accruals	716
Advances Out	(25,000)
Net Impact of Encumbrances	<u>(128,717)</u>
Budgetary Basis	<u><u>\$(1,058,823)</u></u>

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS**

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

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

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any Federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All Federal agency securities shall be direct issuances of Federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provide that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

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

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

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

A. Cash on Hand

At December 31, 2010, the City had \$2,350 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents".

B. Deposits

At December 31, 2010, the carrying amount of the City's deposits was \$6,511,456 (including \$1,500,000 in certificates of deposit). Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2010, \$2,222,537 of the City's bank balance was covered by Federal Depository Insurance and \$4,806,425 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

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

C. Investments

The City has a formal investment policy. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. At December 31, 2010, fair value was \$26,598 above the City's net cost for investments. At December 31, 2009, fair value was \$24,349 above net cost. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

D. Interest Rate Risk

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

E. Credit Risk

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

F. Custodial Credit Risk

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

G. Concentration of Credit Risk

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

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

Cash and investments at year-end were as follows:

<u>Investment Type:</u>	Fair Value	Credit Rating (*)	Investment Maturities (in Years)	
			1-3	3-5
U.S. Agencies	\$10,421,220	Aaa/AAA	\$ 3,029,051	\$ 7,392,169
Carrying Amount of Deposits	6,511,456			
Petty Cash	2,350			
Total	\$16,935,026			

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

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2010, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments, and accounts (billing for rental and permits, etc.). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

A. **Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2010 for real and public property taxes represents collections of 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) are for 2010 taxes.

2010 real property taxes are levied after October 1, 2010 on the assessed value as of January 1, 2010, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2010 real property taxes are collected in and intended to finance 2011 operations.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2010 public utility property taxes which became a lien at December 31, 2009 are levied after October 1, 2010, and are collected in 2011 with real property taxes.

2010 collections of Tangible personal property assessments have been phased out.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

The full tax rate for all City operations for the year ended December 31, 2010 was \$10.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

Real Property	\$ 534,677,930
Public Utility Tangible Property	<u>6,236,660</u>
Total	<u>\$ 540,914,590</u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due by September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2010, and for which there is an enforceable legal claim. In the General, Police Pension, Fire Pension, and General Bond Retirement Funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2010 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. **Municipal Income Taxes**

An income tax of 1.0 percent is levied on substantially all income earned within the City. In addition, residents of the City are required to pay City income taxes on income earned outside the City; however, credit is allowed for income taxes paid to other municipalities up to 50 percent of the first percent paid. The allocation of income tax revenue to the City's General Fund is determined by City Ordinance.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 7: **RECEIVABLES** (Continued)

B. **Municipal Income Taxes** (Continued)

Employers within the City are required to withhold income tax on employee compensation and remit this tax to the City's collection agency at least quarterly. Major employers are required to remit withholdings to the City's collection agency at least monthly. Corporations and self-employed individual taxpayers are required to pay estimated taxes quarterly and file a declaration annually. The Regional Income Tax Agency administers and collects income taxes for the City. Payments are remitted monthly, net of collection fees of 3 percent.

C. **Special Assessments**

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project. As of December 31, 2010, the City does not have any assessments for debt obligations.

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

All special assessments are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the combined balance sheet.

Special assessments expected to be collected in more than one year amount to \$27,882. At December 31, 2010, the amount of delinquent special assessments was \$2,696.

D. **Other Local Taxes**

With certain exceptions, a tax of 5 percent is levied by the City on individuals, companies and organizations which collect an admission charge. Additionally, the City levies a transient guest tax on individuals staying at motels located in the City at a rate of 3 percent. These other local taxes are recorded in the General Fund.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 7: **RECEIVABLES** (Continued)

E. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amount</u>
Local Government	\$ 412,920
Estate Tax	214,335
Gasoline/Motor Vehicle License/Permissive Taxes	342,328
Homestead and Rollback Reimbursement	249,330
Utility Property Tax Loss Reimbursement	11,938
Other	72,361
Total Governmental Activities	<u><u>\$ 1,303,212</u></u>

NOTE 8: **INTERFUND TRANSACTIONS**

A. **Interfund Transfers**

As of December 31, 2010, interfund transfers were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 1,677,500
Nonmajor Governmental Funds	1,677,500	-
Total	<u><u>\$ 1,677,500</u></u>	<u><u>\$ 1,677,500</u></u>

Interfund transfers were needed to provide additional resources for current operations. The above interfund transfers were eliminated on the government-wide statement of net assets because they were between governmental funds.

B. **Interfund Receivables and Payables**

As of December 31, 2010, interfund receivables and payables were as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 25,000	\$ 56,190
Nonmajor Governmental Funds	160,000	185,000
Internal Service Fund	56,190	-
Total	<u><u>\$ 241,190</u></u>	<u><u>\$ 241,190</u></u>

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 8: INTERFUND TRANSACTIONS

B. Interfund Receivables and Payables (Continued)

Interfund receivables and payables were used to provide the initial cash for expenditure driven grant funds and to fund the creation of the City's self-insurance internal service fund. The above interfund receivables and payable were eliminated on the government-wide statement of net assets because they were between governmental activities.

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2010 follows:

	Balance 12/31/2009	Additions	Reductions	Balance 12/31/2010
<u>Governmental Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 3,024,620	\$ -	\$ -	\$ 3,024,620
Construction in Progress	6,335,515	91,041	-	6,426,556
Total Capital Assets Not Being Depreciated	<u>9,360,135</u>	<u>91,041</u>	<u>-</u>	<u>9,451,176</u>
Capital Assets, being depreciated:				
Land Improvements	1,220,330	-	-	1,220,330
Buildings	9,057,890	271,621	-	9,329,511
Machinery and Equipment	2,107,938	159,236	(11,220)	2,255,954
Furniture and Fixtures	845,821	5,749	(34,716)	816,854
Vehicles	3,610,348	442,543	(223,932)	3,828,959
Infrastructure				
Roads	26,892,631	-	-	26,892,631
Water Mains	1,098,642	-	-	1,098,642
Sanitary Sewers	9,212,285	-	-	9,212,285
Storm Sewers	2,430,957	-	-	2,430,957
Totals at Historical Cost	<u>56,476,842</u>	<u>879,149</u>	<u>(269,868)</u>	<u>57,086,123</u>
Less Accumulated Depreciation:				
Land Improvements	(922,713)	(33,100)	-	(955,813)
Buildings	(2,703,593)	(231,644)	-	(2,935,237)
Machinery and Equipment	(1,350,639)	(139,612)	2,074	(1,488,177)
Furniture and Fixtures	(532,952)	(38,696)	11,283	(560,365)
Vehicles	(2,303,105)	(233,829)	196,363	(2,340,571)
Infrastructure				
Roads	(18,331,759)	(1,196,883)	-	(19,528,642)
Water Mains	(375,203)	(21,973)	-	(397,176)
Sanitary Sewers	(2,462,819)	(184,246)	-	(2,647,065)
Storm Sewers	(878,469)	(48,619)	-	(927,088)
Total Accumulated Depreciation	<u>(29,861,252)</u>	<u>(2,128,602)</u>	<u>209,720</u>	<u>(31,780,134)</u>
Total Capital Assets, being Depreciated, Net	<u>26,615,590</u>	<u>(1,249,453)</u>	<u>(60,148)</u>	<u>25,305,989</u>
Governmental Activities Capital Assets, Net	<u>\$ 35,975,725</u>	<u>\$ (1,158,412)</u>	<u>\$ (60,148)</u>	<u>\$ 34,757,165</u>

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 9: CAPITAL ASSETS (Continued)

*Depreciation expense was charge to governmental functions as follows:

	Other Capital Assets	Infrastructure	Total
Security of Persons and Property	\$ 326,092	\$ -	\$ 326,092
Basic Utilities	65,078	254,838	319,916
Community Environment	18,586	-	18,586
Leisure Time Activities	79,873	-	79,873
Transportation	63,749	1,196,883	1,260,632
General Government	123,503	-	123,503
Total Deprecation Expense	<u>\$ 676,881</u>	<u>\$ 1,451,721</u>	<u>\$ 2,128,602</u>

NOTE 10: COMPENSATED ABSENCES

City employees generally earn vacation ranging from two to five weeks based on length of service. It is fully vested when earned. Normally, all vacation time should be taken in the year available unless written approval for carryover of vacation is obtained. Upon termination of employment the employee receives all accumulated vacation time and the pro-rated portion earned for the current year. All employees, earn sick leave of 15 days per year; 4.615 hours for every 80 hours paid (excluding overtime). Employees who have at least 10 years of service receive, upon termination of employment, one half of the first 1,000 hours of accumulated sick leave and then one-third of anything over 1,000 hours.

NOTE 11: PENSION PLAN

A. Ohio Public Employees Retirement System

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

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

A. Ohio Public Employees Retirement System (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2010, the members of all three plans were required to contribute 10.00 percent of their annual covered salaries. The City's total contribution rate of 14.00 percent funded pension and postemployment benefits. The pension allocation for members of: the Traditional Plan was 8.50 percent from January 1 through February 28, 2010 and 9.00 percent from March 1 through December 31, 2010; the Combined Plan was 9.27 percent from January 1 through February 28, 2010 and 9.77 percent from March 1 through December 31, 2010. The City's required contributions to OPERS for the years ended December 31, 2010, 2009, and 2008 were \$405,085, \$374,278, and \$321,966, respectively; 89.14 percent has been contributed for 2010 and 100 percent has been contributed for 2009 and 2008. The unpaid contribution to fund pension obligations for 2010, in the amount of \$69,239, is recorded as a liability within the respective funds.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.00 percent of their annual covered salary, while the City is required to contribute 19.50 percent and 24.00 percent for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 12.75 percent for police officers and 17.25 percent for firefighters.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

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

B. Ohio Police and Fire Pension Fund (Continued)

The City's required contributions to OP&F for police and firefighters were \$390,422 and \$466,259 for the year ended December 31, 2010, \$375,344 and \$447,038 for the year ended December 31, 2009, and \$370,911 and \$424,685 for the year ended December 31, 2008; 69.95 percent and 71.65 percent, respectively, has been contributed for 2010 and 100 percent for 2009 and 2008. The unpaid contributions to fund pension obligations for 2010 were \$179,449 for police and \$183,904 for firefighters. These amounts have been recorded as liabilities within the respective funds.

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS**

A. Ohio Public Employees Retirement System

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

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, 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-employment health care coverage, age and service retirees under the Traditional Pension and Combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

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

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. The 2010 local government employer contribution rate was 14.00 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00 percent of covered payroll for local government employers. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.50 percent from January 1 through February 28, 2010 and 5.00 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010 and 4.23 percent from March 1 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's actual employer contributions for 2010, 2009 and 2008 which were used to fund post-employment benefits were \$232,754, \$265,567, and \$321,966, respectively; 89.14 percent has been contributed for 2010 and 100 percent has been contributed for 2009 and 2008.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. **Ohio Police and Fire Pension Fund**

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B premium and long term care to retirees, qualifying benefit recipients, and their eligible dependents.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

B. **Ohio Police and Fire Pension Fund** (Continued)

OP&F provides access to post-employment health care coverage for 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. The health care coverage provided by OP&F meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

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

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50 percent of covered payroll for police employer units and 24.00 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of the Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

The City's contributions for 2010, 2009, and 2008 that were used to fund post-employment benefits were \$206,694 for police and \$182,449 for firefighters, \$198,711 for police and \$174,928 for firefighters, and \$196,404 for police and \$166,223 for firefighters, respectively; 69.95 percent and 71.65 percent, respectively, has been contributed for 2010 and 100 percent for 2009 and 2008.

NOTE 13: **LONG-TERM OBLIGATIONS**

Changes in the long-term obligations of the City for the year ended December 31, 2010, are as follows:

	Original Issuance Amount	Maturity Year	Balance 12/31/2009	Increase	Decrease	Balance 12/31/2010	Amount Due In a Year
<u>Long-Term Obligations -</u>							
<u>Governmental Activities</u>							
<i>OPWC Loans:</i>							
OPWC Loan -							
Mayfield Rd./I-271 Interchange, 0.00%	\$ 271,155	2015	\$ 73,432	\$ -	\$ (13,352)	\$ 60,080	\$ 13,352
OPWC Loan -							
Mayfield Rd. Improvements, 0.00%	\$ 1,000,000	2024	823,115	91,041	-	914,156	-
OPWC Loan -							
Mayfield Rd. Sanitary Sewer, 0.00%	\$ 805,000	2028	724,500	-	(40,250)	684,250	40,250
<i>Total OPWC Loans</i>			<u>1,621,047</u>	<u>91,041</u>	<u>(53,602)</u>	<u>1,658,486</u>	<u>53,602</u>
<i>Other Long-Term Liabilities:</i>							
Municipal Complex Improvements -							
Bond Anticipation Notes, 1.25%		8/2011	3,300,000	3,000,000	(3,300,000)	3,000,000	-
Claims and Judgments -							
Bond Anticipation Notes, 1.50%		8/2011	1,200,000	500,000	(1,200,000)	500,000	-
Workers' Compensation Claims Liability			-	56,190	-	56,190	23,291
Compensated Absences			2,748,425	975,609	(850,182)	2,873,852	887,314
<i>Total Other Long-Term Liabilities</i>			<u>7,248,425</u>	<u>4,531,799</u>	<u>(5,350,182)</u>	<u>6,430,042</u>	<u>910,605</u>
Total Long-Term Obligations -							
Governmental Activities			<u>\$ 8,869,472</u>	<u>\$4,622,840</u>	<u>\$ (5,403,784)</u>	<u>\$ 8,088,528</u>	<u>\$964,207</u>

The Ohio Public Works Commission (OPWC) loan - Mayfield Road Improvements' debt obligations will be paid from the Road Improvement Capital Project Fund by revenues transferred from the General Fund. As of December 31, 2010, the City has not completed the projects related to this loan and has not received all available funding. Therefore, an amortization schedule is not available. The OPWC loan - Mayfield Road Sanitary Sewers' debt obligations will be paid from the Sanitary Sewer Improvement Capital Projects Fund. The OPWC loan for the Mayfield Rd./I-271 Interchanges project is paid out of the Road Improvement Capital Projects Fund.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

Municipal Complex Improvement Bond Anticipation Notes (BANs) and Claims and Judgments BANs were reissued in 2010 as one note in anticipation of bond proceeds. The notes will be refinanced until the City determines it to be advantageous to issue bonds. Payment for the combined note will be made from the General Obligation Bond Retirement Fund. Compensated absences will be paid from the respective funds from which the employees' salary is paid. The City will pay workers' compensation claims from the Self-Insurance Fund.

Principal and Interest Requirements

A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2010 follows:

Year	OPWC		OPWC - Sanitary Sewer		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 13,352	\$ -	\$ 40,250	\$ -	\$ 53,602	\$ -
2012	13,352	-	40,250	-	53,602	-
2013	13,352	-	40,250	-	53,602	-
2014	13,352	-	40,250	-	53,602	-
2015	6,672	-	40,250	-	46,922	-
2016-2020	-	-	201,250	-	201,250	-
2021-2025	-	-	201,250	-	201,250	-
2026-2028	-	-	80,500	-	80,500	-
	<u>\$60,080</u>	<u>\$ -</u>	<u>\$ 684,250</u>	<u>\$ -</u>	<u>\$ 744,330</u>	<u>\$ -</u>

The Ohio Revised Code provides that net general obligation debt of the City, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 5.5 percent of the tax valuation of the City. The Ohio Revised Code further provides that total voted and unvoted net debt of the City less the same exempt debt shall never exceed amount equal to 10.5 percent of its tax valuation. The effects of the debt limitations at December 31, 2010, were an overall debt margin of \$52,128,286 and an unvoted debt margin of \$25,082,556.

NOTE 14: NORTHERN OHIO RISK MANAGEMENT ASSOCIATION

The Northern Ohio Risk Management Association (NORMA) is a shared risk pool comprised of the cities of Bedford Heights, Highland Heights, Hudson, Mayfield Heights, Richmond Heights, South Euclid, Eastlake, Solon, Maple Heights, University Heights and the Village of Chagrin Falls, for the purpose of enabling its members to obtain property and liability insurance, including vehicle, and provide for a formalized, jointly administered self-insurance fund. The members formed a not-for-profit corporation known as NORMA, Inc. to administer the pool. NORMA is governed by a Board of Trustees that consists of the mayor from each of the participating members. Each entity must remain a member for at least three years from its initial entry date. After the initial three years, each City may extend its term by an additional three years.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 14: NORTHERN OHIO RISK MANAGEMENT ASSOCIATION (Continued)

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$97,500 per occurrence, will come from the self-insurance pool with any excess paid from the stop loss coverage carried by the pool. Any loss over the stop loss coverage would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

In 2010, the City paid \$107,486 in premiums from the General Fund, which represents 7.23 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146.

NOTE 15: RISK MANAGEMENT

NORMA provides a pool of self-insurance for liability and property damage, vehicles, boiler and machinery, theft, bonding of city employees, and public officials' errors and omissions. The City's share of NORMA's claims and expenses are accounted among general fund departments and other funds in proportion to the protection provided for the assets in those general fund departments and other funds. The agreement of formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement.

Settled claims have not exceeded coverage in any of the past three years. Also, there have been no significant reductions in the limits of liability.

All employees of the City are covered by a blanket bond, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The City provides medical, dental, and prescription benefits for all full-time employees. All payments are made from the General Fund based on amounts needed to pay prior and current year claims. Costs are based on actuarial estimations, demographics, and the City's claim history. Starting in 2008, all employees must contribute a portion of the monthly premiums for medical and prescription coverage. For 2010, the employee portion was either \$62.14 or \$51.56 per month for a single contract, or \$112.98 or \$93.72 per month for a family contract (amounts provided are for PPO option and HAS option, respectively).

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 15: RISK MANAGEMENT (Continued)

In 2009, the City began offering a Health Savings Account (HSA) alternative for its employees. The employees that participated in this program had different monthly premiums. In addition, the City fully funded the deductible for the HSA participants, \$2,500 for a single contract, and \$5,000 for a family contract. The funds were deposited directly into the participant's HSA account established with Charter One/Citizens Bank.

Medical and prescription, dental, and vision benefits are provided through Medical Mutual, Guardian, and Ameritas Group, respectively. Payments are made from the General Fund on a monthly basis. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits for the traditional insurance program is \$643.67 for single coverage and \$1,737.92 for family coverage and the monthly premium for the HSA program is \$379.69 for single coverage and \$1,025.17 for family coverage. The monthly premium for dental benefits is \$30.43 for single coverage and \$83.18 for family coverage. The monthly coverage for vision benefits is \$4.62 for single coverage and \$11.00 for family coverage.

As of December 31, 2010, the City completed its first year of participation with the Ohio Bureau of Workers' Compensation (BWC) Retrospective Rating Plan. The plan involves the payment of a minimum premium for administrative services and stop loss coverage plus the actual claim costs for employees injured. The plan is administered by Comp Management Inc. Payments are made directly to the BWC for actual claims processed. The City's Self-Insurance internal service fund pays for all claims, claim reserves and administrative costs of the program. While the City's General Fund pays the annual premium to BWC.

The claims liability of \$56,190 reported at December 31, 2010, was estimated based on actuarial determination of future claims and claim payment trends including the settlement to the Bureau after the tenth year. The liability was based on the requirement of Governmental Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported.

<u>December 31,</u>	<u>Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>End of Year</u>
2010	\$ -	\$ 56,190	\$ -	\$ 56,190

NOTE 16: CONTINGENT LIABILITIES

The City is party to various legal proceedings. City management is of the opinion that ultimate settlement of the majority of such claims not covered by insurance will not result in a material adverse effect on the City's financial position.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2010

NOTE 17: **JOINTLY GOVERNED ORGANIZATIONS**

Eastern Suburban Regional Council of Governments

The Eastern Suburban Regional Council of Governments (ESRCOG) was formed in 1972 to foster cooperation between member municipalities through sharing of facilities for mutual benefit. The governing body of ESRCOG is a council comprised of one representative from each of the six participating municipalities. The Council operates in accordance with a written agreement establishing ESRCOG pursuant to Ohio Revised Code Chapter 167.

The Council established one subsidiary organization, the Suburban Police Anti-Crime Network (SPAN), which provides for the mutual interchange and sharing of police personnel and police equipment to be utilized by all six (6) participating member municipalities. In 2010, all participating municipalities contributed \$102,000.

The Council adopts a budget for ESRCOG annually. Each member municipality's degree of control is limited to its representation on the Council. In 2010, the City contributed \$17,000, which represents 16.7 percent of the total contributions.

Mayfield Union Cemetery

The Mayfield Union Cemetery is a jointly governed organization among three local communities (the Village of Mayfield, the City of Highland Heights, and the City of Mayfield Heights). The jointly governed organization was formed based on the boundaries in relation to the cemetery. Each of the communities contributes a nominal fee for the Maintenance of the cemetery. The Village of Mayfield assumes the daily accounting and reporting of the cemetery finances. The Cemetery Board consists of three Board members, with one council member appointed from each of the three communities. Financial information can be obtained by contacting the Director of Finance at the Village of Mayfield, 6622 Wilson Mills Road, Mayfield Village, Ohio 44143.

NOTE 18: **REVENUE SHARING AGREEMENT**

Since 1996, the City has been sharing income tax revenue with the Mayfield City School District. Several commercial properties were developed and received property tax abatements from the City through the creation of a Community Reinvestment Area (CRA) and an Enterprise Zone.

During 2010, the City disbursed \$657,123 to the District as a result of the revenue sharing agreements.

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Dave Yost • Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mayfield Heights, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated July 29, 2011.

We intend this report solely for the information and use of management, the audit committee, City Council and others within the City. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

July 29, 2011



Dave Yost • Auditor of State

CITY OF MAYFIELD HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 25, 2011**