

**CITY OF MAPLE HEIGHTS
CUYAHOGA COUNTY, OHIO**

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2011**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

City Council
City of Maple Heights
5353 Lee Road
Maple Heights, Ohio 44137

We have reviewed the *Independent Auditor's Report* of the City of Maple Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

September 9, 2013

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**CITY OF MAPLE HEIGHTS
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011**

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Members of City Council
City of Maple Heights, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Maple Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2011, 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 of Maple Heights, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.


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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Maple Heights, Ohio, as of December 31, 2011, and the respective changes in financial position, and cash flows, where applicable, 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.

As discussed in Note 3, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and restated its December 31, 2010 net assets of the Governmental Activities and fund balances of the Governmental Funds and Fiduciary Funds due to a change in fund structure and understatement of capital assets and accounts receivable.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2013, on our consideration of the City of Maple Heights, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as noted in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting 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 assurance.


James G. Zupka, CPA, Inc.
Certified Public Accountants

June 21, 2013

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

The management's discussion and analysis of the City of Maple Heights' (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2011 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$39,628,649. Of this amount, \$2,816,102 is considered unrestricted.
- The City's total net assets increased in 2011. Net assets of governmental activities decreased \$217,496, which represents a 0.6 percent decrease from 2010. Net assets of business-type activities increased by \$591,689 in 2011.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$137,726. Approximately \$(1,842,138) of the total fund balance is considered unassigned (deficit) at December 31, 2011.
- The general fund reported a fund balance of \$(586,334) at the end of the current fiscal year. The unassigned (deficit) fund balance for the General Fund is \$(716,643).

Using this Annual Financial Report

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

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

Statement of Net Assets and the Statement of Activities

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

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

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

- **Governmental activities:** most of the City's basic services are reported here, including the police, fire, street maintenance, parks and recreation, and general administration. Income tax, state and county taxes, licenses, permits and charges for services finance most of these activities.
- **Business-type activities:** the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's solid waste system and advertising banner activity are reported here.

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

Fund Financial Statements

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

Governmental Funds

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

The City maintains 32 individual governmental funds. Information is presented separately in the governmental funds' balance sheet and in the governmental funds' statement of revenues, expenditures, and changes in fund balances for the General Fund.

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

Proprietary Funds

There are two different types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its solid waste system and advertising banner activity. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City does not maintain any internal service funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

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

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the City's own programs. The fiduciary fund financial statements can be found starting on page 24 of this report.

Notes to the Basic Financial Statements

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

Government-wide Financial Analysis – The City as a Whole

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

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

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

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

Table 1 provides a summary of the City's net assets for 2011 as compared to 2010.

Table 1 - Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010 *	2011	2010	2011	2010 *
Assets						
Current and Other Assets	\$ 14,259,264	\$ 15,414,511	\$ 1,438,684	\$ 844,882	\$ 15,697,948	\$ 16,259,393
Capital Assets	52,251,479	53,104,717	-	-	52,251,479	53,104,717
Total Assets	66,510,743	68,519,228	1,438,684	844,882	67,949,427	69,364,110
Liabilities						
Long-term Liabilities	21,514,186	22,672,425	-	-	21,514,186	22,672,425
Other Liabilities	6,676,894	7,309,644	129,698	127,585	6,806,592	7,437,229
Total Liabilities	28,191,080	29,982,069	129,698	127,585	28,320,778	30,109,654
Net Assets						
Invested in Capital Assets, Net of Related Debt	34,081,108	33,999,632	-	-	34,081,108	33,999,632
Restricted	2,731,439	2,424,309	-	-	2,731,439	2,424,309
Unrestricted	1,507,116	2,113,218	1,308,986	717,297	2,816,102	2,830,515
Total Net Assets	\$ 38,319,663	\$ 38,537,159	\$ 1,308,986	\$ 717,297	\$ 39,628,649	\$ 39,254,456

* Restated

Net assets may serve over time as a useful indicator of a government's financial position. For the City, total assets exceeded total liabilities by \$39,628,649 as of December 31, 2011. At the end of the current year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole as well as for its separate governmental and business-type activities.

The largest portion of the City's net assets (86.0 percent) reflects the investments in capital assets less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets reflects resources that are subject to restrictions as to how they may be used. The remaining balance of the City's net assets may be used to meet the government's on-going obligations to citizens and creditors. It is important to note that the total unrestricted net assets are \$2,816,102; the net assets of the City's business-type activities may not be used to fund governmental activities.

Total assets for 2011 decreased \$1,414,683 or 2.0 percent when compared to 2010. The decrease in total assets was mainly due to a decrease in equity in pooled cash and cash equivalents. The City's total liabilities decreased \$1,788,876 from 2010 to 2011. This is primarily from a decrease in annual debt service payments; therefore, total net assets increased by \$374,193 from 2010 to 2011.

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

In order to further understand what makes up the changes in net assets for the current year, Table 2 provides further details regarding the results of activities for the current year.

Table 2 - Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010 *	2011	2010	2011	2010 *
Revenues						
Program Revenues:						
Charges for Services	\$ 3,749,919	\$ 4,130,107	\$ 2,041,405	\$ 1,850,896	\$ 5,791,324	\$ 5,981,003
Operating Grants and Contributions	803,952	997,859	-	-	803,952	997,859
Capital Grants and Contributions	1,397,010	2,752,829	-	-	1,397,010	2,752,829
General Revenues:						
Property Taxes	5,423,264	5,196,686	-	-	5,423,264	5,196,686
Income Taxes	7,121,939	6,960,229	-	-	7,121,939	6,960,229
Investment Earnings	2,087	964	-	-	2,087	964
Grants and Entitlements	2,581,987	3,082,022	-	-	2,581,987	3,082,022
Gain on Sale of Capital Assets	3,583	-	-	-	3,583	-
Other	310,727	408,877	-	-	310,727	408,877
Total Revenues	21,394,468	23,529,573	2,041,405	1,850,896	23,435,873	25,380,469
Program Expenses						
Security of Persons and Property	10,337,082	11,356,371	-	-	10,337,082	11,356,371
Public Health	96,777	97,077	-	-	96,777	97,077
Leisure Time Activities	881,271	1,094,354	-	-	881,271	1,094,354
Community Development	842,075	1,684,712	-	-	842,075	1,684,712
Basic Utility Services	925,306	2,112,979	-	-	925,306	2,112,979
Transportation	1,822,181	1,636,337	-	-	1,822,181	1,636,337
General Government	5,967,985	5,782,854	-	-	5,967,985	5,782,854
Interest and Fiscal Charges	739,287	677,681	-	-	739,287	677,681
Solid Waste Collection	-	-	1,449,716	1,535,802	1,449,716	1,535,802
Recreation Banner	-	-	-	16,419	-	16,419
Total Program Expenses	21,611,964	24,442,365	1,449,716	1,552,221	23,061,680	25,994,586
Change in Net Assets	(217,496)	(912,792)	591,689	298,675	374,193	(614,117)
Net Assets, Beginning of Year, as Restated	38,537,159	39,449,951	717,297	418,622	39,254,456	39,868,573
Net Assets, End of Year	\$ 38,319,663	\$ 38,537,159	\$ 1,308,986	\$ 717,297	\$ 39,628,649	\$ 39,254,456

Governmental Activities

Governmental activities decreased the City's net assets by \$217,496. The decrease in net assets was mostly attributable to less revenue in 2011. Several types of revenue fund our governmental activities, with the City income tax being the largest contributor. The income tax rate was 2.5 percent for 2011. Both residents of the city and non-residents who work inside the City are subject to the income tax; however, if residents work in a municipality that has an income tax, the City provides 100 percent credit up to 2.5 percent for those who pay income tax to another city.

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

The income tax revenue for 2011 was \$7,121,939. Of the \$21,394,468 in total revenues, income tax accounts for 33.3 percent of that total. The slight increase in income tax revenues from 2010 was due to improving economic conditions. Property taxes of \$5,423,264 account for 25.3 percent of total revenues and operating grants and contributions, capital grants and contributions, general revenues from grant entitlements, gain on sale of capital asset and investment earnings account for 22.4 percent of total revenues and charges for services and other revenues make up the remaining 19.0 percent. The City monitors its source of revenues very closely for fluctuation, especially income tax.

Governmental Activities' total expenses decreased by \$2,830,401 from 2010 which was mainly attributed to increases in Transportation, Interest and Fiscal Charges, and General Government, which was offset by decreases in Security of Persons and Property, Community Development, Basic Utility Services, and Leisure Time Activities. The largest program function for the City relates to Security of Persons and Property. In 2011, 47.8 percent of program expenses for governmental activities were for Security of Persons and Property, which includes police, fire, jail, auxiliary police, school guards and safety dispatch. The next largest functions for expenses were General Government for 27.6 percent and Transportation, which accounted for 8.4 percent of the expenses in 2011.

Business-Type Activities

The Business-type activities increased the City's net assets by \$591,689.

Program revenue exceeded program expense in the amount of \$591,689 for the Solid Waste Collection operations for 2011. This is due to increased receivable on refuse billings through special assessments charged by the Cuyahoga County Auditor's office.

The City's Funds

Governmental Funds

As of December 31, 2011, the City's governmental funds reported an ending combined fund balance of \$137,726, a decrease of \$835,617 in comparison with the prior year. \$(1,838,422) of the ending combined fund balance for 2011 constitutes *assigned and unassigned fund balance* combined, which is available for spending at the governments discretion. The remaining components of the combined fund balance are *nonspendable, restricted or committed* which indicate that fund balances are not available for new spending because the fund balances are not in spendable form or have already been restricted or committed by external or internal constraints.

Information about the City's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$22,981,399 and total expenditures and other financing uses of \$23,817,016. The net change in fund balance for the year in the General Fund showed a decrease in fund balance of \$439,763.

The City has experienced a financial shortfall which has resulted in deficit cash spending in the General Fund of \$723,063 and deficits in other less significant funds at December 31, 2011. Continued operations are dependent upon the City's ability to meet financing requirements and current obligations. See Note 19 for more information regarding the Going Concern.

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

General Fund Budgeting Highlights

For the General Fund, final budget basis revenue, including other financing sources was \$2,939 over the original budget estimates of \$14,781,241. Original General Fund budgeted expenditures, including other financing uses, were \$14,511,566; amended budgeted expenditures were \$15,286,536. Actual General Fund expenditures, including other financing uses were \$15,038,403, \$248,133 less than budgeted.

The difference between the General Fund's final budgeted revenues and actual receipts is mainly due to actual property tax projections offset against actual intergovernmental receipts and charges for service being lower than anticipated.

Business-Type Funds

The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the Solid Waste Collection, and Recreation Banner funds. The proprietary fund financial statements can be found on page 21 through 23 of this report.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2011, the City had \$52,251,479 invested in land, construction-in-progress, buildings, equipment, vehicles, and infrastructure.

Table 3 shows fiscal year 2011 balances of Capital Assets as compared to 2010:

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

	Governmental Activities	
	2011	2010 *
Land	\$ 262,331	\$ 262,331
Construction-in-progress	729,744	1,589,212
Buildings	11,508,700	11,281,736
Equipment	1,455,094	1,420,905
Vehicles	4,955,265	4,965,627
Infrastructures:		
Roads	30,738,625	30,096,174
Traffic Signals	2,895,701	2,895,701
Storm Sewers	22,718,131	21,703,762
Sidewalks	1,424,833	1,424,833
Less: Accumulated Depreciation	(24,436,945)	(22,535,564)
Total Capital Assets	\$ 52,251,479	\$ 53,104,717

* Restated

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Vehicles, such as trucks for snow plowing and police cruisers, are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame. The older vehicles are generally traded in to the dealers when a new vehicle is purchased.

Capital assets for governmental activities decreased \$853,238, mainly due to current year depreciation expense exceeding capital asset additions for 2011.

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

Debt

At December 31, 2011, the City had \$17,826,321 in outstanding bonds, notes, and loans of which \$13,240,000 was in general obligation bonds. Table 4 summarizes the outstanding obligation of the City.

Table 4 - Outstanding Debt at December 31

	Governmental Activities	
	2011	2010
General Obligation Bonds	\$13,240,000	\$13,635,000
Capital Appreciation Bonds	1,647,911	1,901,035
OWDA Loans	1,025,357	1,228,285
OPWC Loans	1,224,029	1,313,477
Capital Lease Payable	349,655	307,600
Accrued police and fire pension liability	339,369	347,648
Total Outstanding Debt	\$ 17,826,321	\$ 18,733,045

The City's general obligation bonds rated by Moody's Investor Services, Inc. are "A2".

The general obligation bonds are composed of 2000 Capital Purpose Bonds, 2004 Various Purpose Bonds, and 2010 Various Purpose and Refunding Bonds. The OWDA and OPWC loans are reported with governmental activities with some of the debt costs paid from revenues collected from storm sewer charges. The OPWC loan for the East 141st Street and Maple Heights improvement is pending upon completion of the project in 2012. As of December 31, 2011, \$333,013 of the original projected loan of \$355,420 has been received by the City.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10.5 percent of total assessed valuation. The City's net legal debt margin within the 10.5 percent limit was \$27,007,415 at December 31, 2011.

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

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2011

Current Related Financial Activities

The City's unanticipated loss of commercial activity tax and local government receipts in 2011 drove a need for additional cuts in 2012. The City was able to re-negotiate union contracts and change non-union benefits to find additional savings. Union and non-union cuts included furlough days, increased health care contributions, less overtime pay, and longevity and other extra union negotiated pays being reduced or eliminated. Along with the re-allocation of committed rail road settlement receipts, the City is expecting an improved financial condition in 2012. Major factors that could still influence the City's financial condition are the continued decrease in property tax values, additional cuts at by the state in local government funding, and increases in health care costs.

Contacting the City of Maple Heights' Finance Department

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance at the City of Maple Heights, 5353 Lee Road, Maple Heights, Ohio 44137, telephone 216-662-6000, or e-mail to edean@mapleheightsohio.com.

Basic Financial Statements

City of Maple Heights, Ohio

Statement of Net Assets

December 31, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 436,351	\$ 149,023	\$ 585,374
Materials and Supplies Inventory	130,192	-	130,192
Accounts Receivable	529,793	-	529,793
Intergovernmental Receivable	3,206,881	-	3,206,881
Prepaid Items	92,363	-	92,363
Income Taxes Receivable	3,200,529	-	3,200,529
Property Taxes Receivable	6,031,398	-	6,031,398
Special Assessments Receivable	390,501	1,289,661	1,680,162
Deferred Charges	241,256	-	241,256
Nondepreciable Capital Assets	992,075	-	992,075
Depreciable Capital Assets	51,259,404	-	51,259,404
Total Assets	66,510,743	1,438,684	67,949,427
LIABILITIES			
Accounts Payable	199,834	129,394	329,228
Accrued Wages and Benefits	207,924	-	207,924
Intergovernmental Payable	1,107,472	304	1,107,776
Matured Compensated Absences Payable	34,609	-	34,609
Accrued Interest Payable	70,121	-	70,121
Claims Payable	341,495	-	341,495
Deferred Revenue	4,715,439	-	4,715,439
Long-term Liabilities:			
Due within one year	1,629,632	-	1,629,632
Due in more than one year	19,884,554	-	19,884,554
Total Liabilities	28,191,080	129,698	28,320,778
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	34,081,108	-	34,081,108
Restricted for:			
Capital Projects	835,452	-	835,452
Debt Service	291,714	-	291,714
Sewer Maintenance	893,032	-	893,032
Streets and Highway	329,090	-	329,090
Other Purposes	382,151	-	382,151
Unrestricted	1,507,116	1,308,986	2,816,102
Total Net Assets	\$ 38,319,663	\$ 1,308,986	\$ 39,628,649

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

City of Maple Heights, Ohio

Statement of Activities

For the Year Ended December 31, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
Security of Persons and Property	\$ 10,337,082	\$ 692,797	\$ 27,299	\$ -
Public Health	96,777	2,395	-	-
Leisure Time Activities	881,271	54,234	590	-
Community Development	842,075	1,434,215	-	31,413
Basic Utility Services	925,306	733,925	-	15,830
Transportation	1,822,181	119,192	776,063	-
General Government	5,967,985	713,161	-	1,349,767
Interest and Fiscal Charges	739,287	-	-	-
Total Governmental activities	<u>21,611,964</u>	<u>3,749,919</u>	<u>803,952</u>	<u>1,397,010</u>
Business-type activities:				
Solid Waste Collection	1,449,716	2,041,405	-	-
Total Business-type activities	<u>1,449,716</u>	<u>2,041,405</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 23,061,680</u>	<u>\$ 5,791,324</u>	<u>\$ 803,952</u>	<u>\$ 1,397,010</u>

General Revenues:

- Property Taxes levied for:
 - General Purposes
 - Debt Service Purpose
 - Other Purposes
- Income Taxes levied for:
 - General Purposes
- Grants & Entitlements not restricted to specific programs
- Investment Income
- Gain on Sale of Capital Assets
- All Other Revenues
- Total General Revenues
- Change in Net Assets

Net Assets - Beginning of Year, as Restated

Net Assets - End of Year

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

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (9,616,986)	\$ -	\$ (9,616,986)
(94,382)	-	(94,382)
(826,447)	-	(826,447)
623,553	-	623,553
(175,551)	-	(175,551)
(926,926)	-	(926,926)
(3,905,057)	-	(3,905,057)
(739,287)	-	(739,287)
<u>(15,661,083)</u>	<u>-</u>	<u>(15,661,083)</u>
<u>-</u>	<u>591,689</u>	<u>591,689</u>
<u>-</u>	<u>591,689</u>	<u>591,689</u>
<u>(15,661,083)</u>	<u>591,689</u>	<u>(15,069,394)</u>
2,569,487	-	2,569,487
912,021	-	912,021
1,941,756	-	1,941,756
7,121,939	-	7,121,939
2,581,987	-	2,581,987
2,087	-	2,087
3,583	-	3,583
310,727	-	310,727
<u>15,443,587</u>	<u>-</u>	<u>15,443,587</u>
(217,496)	591,689	374,193
<u>38,537,159</u>	<u>717,297</u>	<u>39,254,456</u>
<u>\$ 38,319,663</u>	<u>\$ 1,308,986</u>	<u>\$ 39,628,649</u>

City of Maple Heights, Ohio
Balance Sheet – Governmental Funds
December 31, 2011

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ -	\$ 436,351	\$ 436,351
Materials and Supplies Inventory	44,018	86,174	130,192
Accounts Receivable	285,771	244,022	529,793
Interfund Receivable	-	1,132,265	1,132,265
Intergovernmental Receivable	969,734	2,237,147	3,206,881
Prepaid Items	86,291	6,072	92,363
Income Taxes Receivable	3,200,529	-	3,200,529
Property Taxes Receivable	2,858,056	3,173,342	6,031,398
Special Assessments Receivable	390,501	-	390,501
Total Assets	\$ 7,834,900	\$ 7,315,373	\$ 15,150,273
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 57,075	\$ 142,759	\$ 199,834
Accrued Wages and Benefits	160,291	47,633	207,924
Intergovernmental Payable	328,582	778,890	1,107,472
Matured Compensated Absences Payable	1,738	32,871	34,609
Interfund Payable	786,529	345,736	1,132,265
Claims Payable	341,495	-	341,495
Deferred Revenue	6,745,524	5,243,424	11,988,948
Total Liabilities	8,421,234	6,591,313	15,012,547
Fund Balances (Deficits):			
Nonspendable	130,309	92,246	222,555
Restricted	-	923,718	923,718
Committed	-	829,875	829,875
Assigned	-	3,716	3,716
Unassigned (Deficit)	(716,643)	(1,125,495)	(1,842,138)
Total Fund Balances (Deficits)	(586,334)	724,060	137,726
Total Liabilities and Fund Balances	\$ 7,834,900	\$ 7,315,373	\$ 15,150,273

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

City of Maple Heights, Ohio
Reconciliation of Total Governmental Funds
To Net Assets of Governmental Activities

December 31, 2011

Total Governmental Fund Balances \$ 137,726

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 52,251,479

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

Property taxes	1,315,959	
Income taxes	2,598,330	
Special assessments	390,501	
Intergovernmental	2,186,591	
Charges for services	350,779	
Water Use	431,349	
Total	7,273,509	7,273,509

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. (70,121)

Bond issuance costs on general obligation bonds will be amortized over the life of the bonds on the statement of net assets. 241,256

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

General obligation bonds	(13,240,000)	
Capital appreciation bonds	(1,647,911)	
OWDA loans	(1,025,357)	
OPWC loans	(1,224,029)	
Capital leases	(349,655)	
Police and Fire pension liability	(339,369)	
Compensated absences	(2,825,233)	
Accretion on bonds	(179,213)	
Premium on bonds	(725,906)	
Deferred amount on refunding	42,487	
Total	(21,514,186)	(21,514,186)

Net Assets of Governmental Activities **\$ 38,319,663**

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

City of Maple Heights, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds

For the Year Ended December 31, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Property Taxes	\$ 2,439,402	\$ 2,714,820	\$ 5,154,222
Income Taxes	7,245,712	-	7,245,712
Intergovernmental	2,271,026	2,310,303	4,581,329
Interest	2,087	-	2,087
Fines, Licenses and Permits	1,787,225	194,994	1,982,219
Charges for Services	193,582	1,324,984	1,518,566
Special Assessments	145,937	132,150	278,087
All Other Revenues	179,679	149,914	329,593
Total Revenues	<u>14,264,650</u>	<u>6,827,165</u>	<u>21,091,815</u>
EXPENDITURES			
Security of Persons and Property	6,128,744	3,829,395	9,958,139
Public Health	96,777	-	96,777
Leisure Time Activities	693,117	38,456	731,573
Community Development	661,393	190,833	852,226
Basic Utility Service	359,781	152,658	512,439
Transportation	-	1,055,512	1,055,512
General Government	5,362,055	558,015	5,920,070
Capital Outlay	-	1,037,394	1,037,394
Debt Service:			
Principal Retirement	8,671	1,015,985	1,024,656
Interest and Fiscal Charges	890	865,688	866,578
Total Expenditures	<u>13,311,428</u>	<u>8,743,936</u>	<u>22,055,364</u>
Excess of Revenues Over (Under) Expenditures	<u>953,222</u>	<u>(1,916,771)</u>	<u>(963,549)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Sale of Capital Assets	-	10,000	10,000
Inception of Capital Lease	-	117,932	117,932
Transfer In	-	1,761,652	1,761,652
Transfer Out	(1,392,985)	(368,667)	(1,761,652)
Total Other Financing Sources (Uses)	<u>(1,392,985)</u>	<u>1,520,917</u>	<u>127,932</u>
Net Change in Fund Balances	(439,763)	(395,854)	(835,617)
Fund Balances (Deficit) - Beginning of Year, Restated	(146,571)	1,119,914	973,343
Fund Balances (Deficit) - End of Year	<u>\$ (586,334)</u>	<u>\$ 724,060</u>	<u>\$ 137,726</u>

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

City of Maple 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, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (835,617)

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	1,176,437	
Depreciation	<u>(2,023,258)</u>	
Total		(846,821)

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. (6,417)

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

Property taxes	269,042	
Income taxes	(123,773)	
Special assessments	(50,368)	
Intergovernmental	223,824	
Charges for services	(9,108)	
Water use	<u>(10,547)</u>	
Total		299,070

Repayment of bonds, loans, capital lease, and accrued police and fire pension principal are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,024,656

Proceeds from debt issuances, reported as an other financing source, provide current financial resources to Governmental funds, but increases long-term liabilities in the statement of net assets. (117,932)

In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in Governmental funds a bond issuance cost expenditure is reported when bonds are issued. (16,867)

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	138,274	
Accrued interest on bonds	30,917	
Annual accretion on bonds	76,972	
Amortization of bond premium	42,890	
Amortization of loss on refunding	<u>(6,621)</u>	
Total		<u>282,432</u>

Change in Net Assets of Governmental Activities \$ (217,496)

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

City of Maple Heights, Ohio

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual – General Fund For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Income Taxes	\$ 7,082,540	\$ 7,085,479	\$ 7,161,179	\$ 75,700
Property Taxes	2,259,905	2,259,905	2,439,402	179,497
Intergovernmental	2,900,707	2,900,707	2,246,714	(653,993)
Charges for Services	325,000	325,000	181,576	(143,424)
Fees, Licenses, and Permits	1,615,000	1,615,000	1,532,862	(82,138)
Special assessments	200,000	200,000	145,937	(54,063)
Interest Income	3,089	3,089	2,087	(1,002)
Other	180,000	180,000	170,063	(9,937)
Total Revenues	14,566,241	14,569,180	13,879,820	(689,360)
Expenditures:				
Current:				
Security of Persons and Property	6,451,300	6,510,925	6,244,511	266,414
Public Health	98,000	96,777	96,777	-
Leisure Time Activities	789,050	804,525	797,081	7,444
Community Development	639,900	672,393	672,066	327
Basic Utility Services	487,450	485,850	454,685	31,165
General Government	4,636,305	5,313,520	5,370,737	(57,217)
Debt				
Principal	8,671	8,671	8,671	-
Interest	890	890	890	-
Total Expenditures	13,111,566	13,893,551	13,645,418	248,133
Excess of Revenues Over (Under) Expenditures	1,454,675	675,629	234,402	(441,227)
Other Financing Sources (Uses)				
Transfer In	215,000	215,000	242,594	27,594
Transfer Out	(1,400,000)	(1,392,985)	(1,392,985)	-
Total Other Financing Sources (Uses)	(1,185,000)	(1,177,985)	(1,150,391)	27,594
Net Change in Fund Balance	269,675	(502,356)	(915,989)	(413,633)
Fund Balance at Beginning of Year	136,793	136,793	136,793	-
Prior Year Encumbrances Appropriated	20,756	20,756	20,756	
Fund Balance- End of Year	\$ 427,224	\$ (344,807)	\$ (758,440)	\$ (413,633)

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

City of Maple Heights, Ohio

Statement of Fund Net Assets – Proprietary Funds

December 31, 2011

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Solid</u>	<u>Recreation</u>	<u>Total</u>
	<u>Waste</u>	<u>Banner</u>	
	<u>Collection</u>		
ASSETS			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 149,022	\$ 1	\$ 149,023
Special Assessments Receivable	1,289,661	-	1,289,661
Total Assets	<u>1,438,683</u>	<u>1</u>	<u>1,438,684</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	129,394	-	129,394
Intergovernmental Payable	304	-	304
Total Liabilities	<u>129,698</u>	<u>-</u>	<u>129,698</u>
NET ASSETS			
Unrestricted	1,308,985	1	1,308,986
Total Net Assets	<u>\$ 1,308,985</u>	<u>\$ 1</u>	<u>\$ 1,308,986</u>

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

City of Maple Heights, Ohio
Statement of Revenues, Expenses, and Changes in Fund Net Assets –
Proprietary Funds

For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds		
	Solid		
	Waste Collection	Recreation Banner	Total
OPERATING REVENUES			
Charges for Services	\$ 2,041,405	\$ -	\$ 2,041,405
Total Operating Revenues	<u>2,041,405</u>	<u>-</u>	<u>2,041,405</u>
OPERATING EXPENSES			
Salaries	10,304	-	10,304
Contractual Services	1,439,412	-	1,439,412
Total Operating Expense	<u>1,449,716</u>	<u>-</u>	<u>1,449,716</u>
Change in Net Assets	591,689	-	591,689
Net Assets - Beginning of Year	<u>717,296</u>	<u>1</u>	<u>717,297</u>
Net Assets - End of Year	<u>\$ 1,308,985</u>	<u>\$ 1</u>	<u>\$ 1,308,986</u>

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

City of Maple Heights, Ohio

Statement of Cash Flows – Proprietary Funds

For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds		
	Solid		
	Waste Collection	Recreation Banner	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 1,497,045	\$ -	\$ 1,497,045
Cash Payments to Employees for Services	(10,000)	-	(10,000)
Cash Payments for Goods and Services	(1,437,603)	-	(1,437,603)
Net Cash Provided by Operating Activities	49,442	-	49,442
Cash and Cash Equivalents - Beginning of Year	99,580	1	99,581
Cash and Cash Equivalents - End of Year	\$ 149,022	\$ 1	\$ 149,023
RECONCILIATION OF OPERATING INCOME			
(LOSS) TO NET CASH PROVIDED BY OPERATING			
ACTIVITIES			
Operating Income (Loss)	\$ 591,689	\$ -	\$ 591,689
(Increase) Decrease in Assets:			
Accounts Receivable	(544,360)	-	(544,360)
Increase (Decrease) in Liabilities:			
Accounts Payable	1,809	-	1,809
Intergovernmental Payable	304	-	304
Net Cash Provided by Operating Activities	\$ 49,442	\$ -	\$ 49,442

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

City of Maple Heights, Ohio
Statement of Fiduciary Assets and Liabilities –
Fiduciary Funds

December 31, 2011

	<u>Agency Funds</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 1,116,898</u>
Total Assets	<u><u>\$ 1,116,898</u></u>
LIABILITIES	
Intergovernmental Payable	\$ 24,667
Deposits Held and Due to Others	<u>1,092,231</u>
Total Liabilities	<u><u>\$ 1,116,898</u></u>

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 1: **THE REPORTING ENTITY**

The City of Maple Heights (the “City”) is a home rule municipal corporation established under the laws of the State of Ohio which operates under its own Charter. The current Charter, which provides for a Council/Mayor form of government, was adopted in 1932. Legislative authority is vested in an eight-member Council. The President of Council is elected at-large, and seven members are elected from districts, all for two-year terms. The Mayor is elected to a four-year term.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. The City provides various services including police and fire protection, health, parks and recreation, street maintenance, planning and zoning, sewer services, Mayor’s court, community development, public transit, senior adult and general administrative services. The operation of these activities is directly controlled by Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

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

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 local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB codification, pronouncements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The most significant of the City’s accounting policies are described below.

A. Basis of Presentation

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

A. Basis of Presentation (Continued)

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 statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

Fund Financial Statements

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

B. Fund Accounting

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

B. Fund Accounting (Continued)

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used.

Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The General Fund accounts for all financial resources except those required to be accounted for in another fund. The balance of the General Fund 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.

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

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

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds.

Solid Waste Collection Fund – The Solid Waste Collection Fund accounts for the operations of the refuse pick-up and hauling system provided by the City.

Recreation Banner Fund – The Recreation Banner Fund accounts for revenues from sales of advertising banners at City parks.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

B. Fund Accounting (Continued)

Fiduciary Funds - Fiduciary fund reporting focuses on net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. 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 held for contractors and developers.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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 Net Assets. The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents increases (i.e., revenues) and decreases (i.e., 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.

D. Basis of Accounting

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

D. Basis of Accounting (Continued)

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the 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. Available period for the City is sixty days after year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned.

Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, licenses and permits, interest, grants 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, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Grants and entitlements not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances. Council appropriations are made to personal costs (including benefits), other costs, capital outlay, debt service and transfer accounts for each department. The legal level of budgetary control is at the object level (i.e. personal costs) whereby the City maintains this control by not permitting expenditures to exceed appropriations for departments of the City without approval of City Council. Adjustments to the budget can only be made within a department and then within each category. Further legislation is needed in order to move budget authority from personnel costs to other costs or vice versa, or between departments.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original 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 enacted by Council.

The appropriation ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year. The amounts reported as the final budgeted amount represent the final appropriation amounts passed by Council during the year.

F. Cash and Cash Equivalents

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

F. Cash and Cash Equivalents (Continued)

Investments are reported at fair value, which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price.

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

In applying GASB Statement No. 31, the City utilized the following methods and assumptions as of December 31, 2011:

The portfolio was limited to nonparticipating interest-earning investment contracts and State Treasury Asset Reserve of Ohio (STAR Ohio). Most of the City's investments are reported at fair value, which is the quoted market price as of the valuation date. For investments in STAR Ohio, fair value is determined by the pool's share price. Exceptions to the fair value requirement include money market investments.

Money market investments, including U.S. Treasury and agency obligations that had a remaining maturity of one year or less at the time of purchase by the City, are reported at amortized cost.

Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss exceeding the cumulative value of those investments are subject to GASB Statement No. 31. The gain/loss resulting from valuation will be reported within the investment earnings account on the Statement of Activities. The City's policy is to hold investments until market values equal or exceed cost.

During 2011, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), STAR Ohio is an investment pool managed by the State Treasurer's Office. STAR Ohio allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2011.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2011 amounted to \$2,087, which all has been assigned from other funds of the City.

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

G. Inventory

Inventories are stated at cost, on the first-in, first-out basis. At December 31, 2011, the General Fund and Street Construction, Maintenance, and Repair non-major special revenue fund maintained the only significant inventory. The costs of governmental fund type inventories are recorded as expenditures in the fund when purchased. The reserve for inventory indicates that a portion of the fund balance is not available for future expenditures. For proprietary funds, inventory is expended when consumed.

H. Prepays

Payments made to vendors for services that will benefit periods beyond December 31, 2011 are recorded as prepaid items using the allocation method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year which it was consumed.

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of curbs, sidewalks, storm sewers, streets and traffic signals. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized. All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	65 years
Equipment	5 to 20 years
Vehicles	5 to 15 years
Infrastructure	20 to 75 years

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivables/payables”. Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees. 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. 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.

L. Accrued Liabilities and Long-Term Obligations

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

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not spendable in form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of the City’s Council. Those committed amounts cannot be used for any other purpose unless the City’s Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by City Council.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classification. In the other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resource first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide Statement of Net Assets reports \$2,731,439 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for police services, fire services, ambulance and grants.

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

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for waste collection. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this description are reported as non-operating.

P. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. There were no such transactions in 2011.

Q. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. 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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2011.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

S. **Estimates**

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

NOTE 3: **CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR PERIOD'S NET ASSETS AND FUND BALANCES**

A. **Changes in Accounting Principles**

For 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 59, *Financial Instruments Omnibus*.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classification that can be more consistently applied and by clarifying the existing governmental fund type definitions. The implementation of this Statement resulted in the reclassification of fund balances on the City's governmental fund financial statements.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirement of certain financial instruments and external investment pools. The implementation of this Statement did not have an effect on the City's financial statements.

B. **Restatement of Prior Period's Net Assets**

A restatement of prior period's governmental activities' net assets was necessary to properly record the Grass and Tree Maintenance Fund as a Special Revenue Fund and to properly record accounts receivable and capital assets. The restatement is as follows:

Net Assets as of December 31, 2010	\$ 37,076,325
Restatement:	
Reclassification of Fiduciary Fund to Special Revenue Fund	7,448
Capital Assets	1,299,120
Accounts Receivable	154,266
Net Assets as of December 31, 2010, as Restated	<u>\$ 38,537,159</u>

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 3: **CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR PERIOD'S NET ASSETS AND FUND BALANCES** (Continued)

C. **Restatement of Prior Period's Fund Balances**

Fund reclassifications are required in order to report funds in accordance with GASB Statement No. 54. These fund reclassifications and restatement of accounts receivable had the following effect on the City's governmental fund balances as previously reported:

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Fiduciary Funds</u>
Fund Balance, December 31, 2010	\$ (205,887)	\$ 1,167,882	\$ -
Restatement:			
Equity in Pooled Cash and Cash Equivalents	-	7,448	(7,448)
Accounts Receivable	3,900	-	-
Change in Fund Structure	55,416	(55,416)	-
Deposits Held and Due to Others	-	-	7,448
Fund Balance, December 31 2010, Restated	<u>\$ (146,571)</u>	<u>\$ 1,119,914</u>	<u>\$ -</u>

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City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 4: FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Other Governmental Funds	Total
<i>Nonspendable</i>			
Prepaid Items	\$ 86,291	\$ 6,072	\$ 92,363
Inventories	44,018	86,174	130,192
<i>Total Nonspendable</i>	130,309	92,246	222,555
<i>Restricted for</i>			
Clerk of Court Computerization	\$ -	\$ 96,081	\$ 96,081
Streets and Highways	-	121,097	121,097
Sewers	-	277,513	277,513
Other Law Enforcement	-	181,236	181,236
Housing Foreclosure	-	138,388	138,388
Housing Revitalization	-	2,963	2,963
DARE Program	-	10,218	10,218
Parks	-	590	590
Other Sources	-	424	424
Commissary	-	30,027	30,027
Capital projects	-	65,181	65,181
<i>Total Restricted</i>	-	923,718	923,718
<i>Committed to</i>			
EMS Services	-	11,070	11,070
Railroad Expansion	-	818,805	818,805
<i>Total Committed</i>	-	829,875	829,875
<i>Assigned to</i>			
Senior Programs	-	3,716	3,716
<i>Total Assigned</i>	-	3,716	3,716
<i>Unassigned (Deficit)</i>	(716,643)	(1,125,495)	(1,842,138)
Total Fund Balances	\$ (586,334)	\$ 724,060	\$ 137,726

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are identified as follows:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/Expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to constrain that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a part of restricted, committed, or assigned fund balance for Governmental Funds, and note disclosure for Proprietary Funds (GAAP basis).

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

	<u>General</u>
GAAP Basis	\$ (439,763)
Revenue Accruals	(130,467)
Expenditure Accruals	(298,613)
Excess of revenues and other financing sources and over (under) expenditures and other financing uses:	
Cable TV	(11,769)
Encumbrances (Budget Basis) outstanding at year end	<u>(35,377)</u>
Budget Basis	<u>\$ (915,989)</u>

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

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

Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies may be deposited or invested in the following securities:

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

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.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

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

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by eligible securities pledged to and deposited either within the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred and five percent of the deposits being secured.

At year-end, the carrying amount of the City's deposits was \$1,690,956 and the bank balance was \$2,264,506, of which \$469,093 was covered by Federal depository insurance. At December 31, 2011, the City had \$3,000 in undeposited cash on hand, which is included as part of "equity in pooled cash and investments".

Investments

Investments are reported at fair value. As of December 31, 2011, the City had the following investments:

<u>Investment type</u>	<u>Fair Value</u>	<u>Less than 1 Year</u>
STAR Ohio	<u>\$ 8,316</u>	<u>\$ 8,316</u>

Interest Rate Risk

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City investment policy also limits security purchases to those that mature within two years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than one year.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

Custodial Risk

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

Credit Risk

Credit risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that the portfolio be diversified both by types of investment and issuer. All investments of the city are registered and carry a rating AAAM by Standard & Poor's.

Concentration of Credit Risk

Concentration of credit risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio and indicates that no more than 20 percent of available funds are to be invested in individual U.S. Government Securities.

NOTE 7: **RECEIVABLES**

A. **Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the state statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable the following June 20.

Tangible personal property tax revenue received in calendar year 2011 (other than public utility property tax) represents the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010, on the value as of December 31, 2010.

Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 7: **RECEIVABLES** (Continued)

The County treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Maple Heights. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2011, was \$15.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

Property Category	Assessed Value	Percent
Real Estate	\$391,110,970	98.02 %
Public Utility	7,892,130	1.98
Total	\$399,003,100	100.00 %

B. Income Taxes

The residents of the City are required to pay City income taxes on income they earn outside the City. Prior to January 1, 1990, 100 percent tax credit was allowed for all income taxes paid to other municipalities. Effective January 1, 1990, the credit against a person's City income tax liability for municipal income taxes paid at a rate of 2 percent on the same income to another municipal corporation was reduced from 100 percent to 75 percent.

Effective January 1, 1995 the credit was increased from 75 percent to 80 percent. The City levies an income tax of 2.5 percent on all income earned within the City as well as income of residents earned outside the City. The City allows a 100 percent credit on the income tax rate of 2.5 percent on the income earned outside the City and paid to another municipality. Employers within the City are required to withhold income tax on employee compensation and remit this tax to an intermediary collection agency (Regional Income Tax Agency) at least quarterly. Corporations and self-employed individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually with the collection agency. The collection agency remits taxes collected to the City each month.

C. Intergovernmental Receivables

Revenue Description	Amount
Local Government	\$ 741,535
Homestead and Rollback	388,784
Gasoline and Auto Registration tax	386,983
Permissive tax	10,470
CAT tax reimbursement	16,520
Water use fees	536,013
Grants	1,081,481
Court Costs	45,095
Total	\$ 3,206,881

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 8: CAPITAL ASSETS

	Restated Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
<u>Governmental Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 262,331	\$ -	\$ -	\$ 262,331
Construction in progress	1,589,212	1,058,505	(1,917,973)	729,744
Total non-depreciable assets	1,851,543	1,058,505	(1,917,973)	992,075
Capital Assets, being depreciated:				
Buildings	11,281,736	226,964	-	11,508,700
Equipment	1,420,905	34,189	-	1,455,094
Vehicles	4,965,627	117,932	(128,294)	4,955,265
Infrastructure:				
Roads	30,096,174	642,451	-	30,738,625
Traffic Signals	2,895,701	-	-	2,895,701
Storm Sewers	21,703,762	1,014,369	-	22,718,131
Sidewalks	1,424,833	-	-	1,424,833
Total Capital Assets, being depreciated	73,788,738	2,035,905	(128,294)	75,696,349
Less Accumulated depreciation:				
Buildings	(5,029,406)	(341,090)	-	(5,370,496)
Equipment	(627,161)	(140,601)	-	(767,762)
Vehicles	(2,534,965)	(308,846)	121,877	(2,721,934)
Infrastructure:				
Roads	(7,932,740)	(756,169)	-	(8,688,909)
Traffic Signals	(1,416,641)	(144,785)	-	(1,561,426)
Storm Sewers	(4,520,045)	(296,146)	-	(4,816,191)
Sidewalks	(474,606)	(35,621)	-	(510,227)
Total Accumulated depreciation	(22,535,564)	(2,023,258)	121,877	(24,436,945)
Total Capital Assets being depreciated, net	51,253,174	12,647	(6,417)	51,259,404
Governmental Activities Capital Assets, net	\$ 53,104,717	\$ 1,071,152	\$ (1,924,390)	\$ 52,251,479

Depreciation expense was charged to governmental activities as follows:

Security of Persons and Property	\$ 471,582
Transportation	936,576
General Government	96,892
Leisure Time Activities	85,501
Basic Utility Services	432,707
	\$ 2,023,258

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 9: LONG-TERM OBLIGATIONS

The original issue date, interest rates and original issuance amount for each of the City's bonds and long-term notes follow:

<u>Debt Issue</u>	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
General Obligation Bonds			
Capital Purpose Bonds	2000	4.70%-5.25%	2,995,000
General Obligation Various Purpose	2004	2.00%-5.25%	4,110,000
General Obligation Various Purpose	2010	.88%-4.87%	11,275,000
Capital Appreciation Bonds	2010	7.25%-7.5%	1,647,911
OWDA Loan			
Kenyon/Gardenview Sewer Improvement	1996	4.16%	2,515,205
Phase I Sewer Improvement	1996	4.35%	765,161
Phase II Sewer Improvement	1997	4.04%	110,426
OPWC Loan			
Maplewood/Northwood Sewers Improvements	1994	0%	686,898
Southgate Park/Lee Road South Improvements	1997	0%	185,649
Industrial Avenue/E. 141st Improvement	2003	0%	556,403
Northfield Road Improvements	2005	0%	360,000
East 141st Street and Maple Heights Improvements	2009	0%	333,013

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 9: LONG-TERM OBLIGATIONS (Continued)

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2011 was as follows:

	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011	Due in One Year
Governmental Activities					
General Obligations Bonds					
Capital Purpose and Refunding, due 2011	\$ 253,124	\$ -	\$ (253,124)	\$ -	\$ -
Accretion on Bonds	215,261	21,615	(236,876)	-	-
Various Purpose Bonds, due 2018	2,360,000	-	(310,000)	2,050,000	335,000
Unamortized Premium	44,834	-	(5,604)	39,230	-
Various Purpose and Refunding, due 2030	11,275,000	-	(85,000)	11,190,000	90,000
Capital Appreciation Bonds, due 2024	1,647,911	-	-	1,647,911	-
Accretion on Bonds	40,924	138,289	-	179,213	-
Unamortized Premium	723,962	-	(37,286)	686,676	-
Deferred Amount of Refunding	(49,108)	-	6,621	(42,487)	-
Total general Obligation Bonds	<u>16,511,908</u>	<u>159,904</u>	<u>(921,269)</u>	<u>15,750,543</u>	<u>425,000</u>
OWDA Loans					
Kenyon/Gardenview Sewer, due 2016	908,387	-	(150,237)	758,150	156,553
Phase I Sewer, due 2016	279,428	-	(46,013)	233,415	48,036
Phase II Sewer, due 2016	40,470	-	(6,678)	33,792	6,950
Total OWDA Loans	<u>1,228,285</u>	<u>-</u>	<u>(202,928)</u>	<u>1,025,357</u>	<u>211,539</u>
OPWC Loans					
Maplewood/Northwood Sewers, due 2016	188,897	-	(34,345)	154,552	34,345
Southgate Park/Lee Road South, due 2109	78,905	-	(9,283)	69,622	9,283
Industrial Avenue/E.141, due 2023	361,662	-	(27,820)	333,842	27,820
Northfield Road, due 2030	351,000	-	(18,000)	333,000	18,000
East 141st Street and Maple Heights	333,013	-	-	333,013	17,771
Total OPWC Loans	<u>1,313,477</u>	<u>-</u>	<u>(89,448)</u>	<u>1,224,029</u>	<u>107,219</u>
Other long-term obligations:					
Capital leases payable	307,600	117,932	(75,877)	349,655	80,823
Accrued compensated absences	2,963,507	616,868	(755,142)	2,825,233	796,416
Accrued police and fire pension liability	347,648	-	(8,279)	339,369	8,635
Total other long-term obligations	<u>3,618,755</u>	<u>734,800</u>	<u>(839,298)</u>	<u>3,514,257</u>	<u>885,874</u>
Total governmental Long-term Liabilities	<u>\$ 22,672,425</u>	<u>\$ 894,704</u>	<u>\$ (2,052,943)</u>	<u>\$ 21,514,186</u>	<u>\$ 1,629,632</u>

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 9: **LONG-TERM OBLIGATIONS** (Continued)

General Obligation Bonds will be paid from the Bond Retirement Debt Service Fund. The accrued police and fire pension liability will be paid from levied taxes in the Police Pension Fund and Fire Pension Special Revenue Funds. Compensated absences will be paid from the fund which the employees' salaries are paid from. The Ohio Water Development Authority (OWDA) and Ohio Public Works Commission (OPWC) loans will be paid from sewer user charges, which are paid from the Sewer Maintenance Special Revenue Fund and Bond Retirement Fund Debt Service Fund. See Note 10 for further detail on capital leases.

The OPWC loan for the East 141st Street and Maple Heights Improvements is pending upon completion of the project in 2011. As of December 31, 2011, \$333,013 of the original projected loan of \$355,420 has been received.

In prior years, the City defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. The refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the City's government-wide financial statements. As of December 31, 2011, the amount of defeased debt outstanding but removed from the financial statements amounted to \$715,000.

The City's overall legal debt margin was \$27,007,415 at December 31, 2011.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2011 were as follows:

Year	Governmental Activities				
	General Obligation Bonds		OPWC Loans	OWDA Loans	
	Principal	Interest	Principal	Principal	Interest
2012	\$ 425,000	\$ 539,824	\$ 107,219	\$ 211,539	\$ 40,852
2013	435,000	526,131	107,219	220,515	31,876
2014	710,000	511,394	107,219	229,873	22,518
2015	725,000	489,894	107,219	239,833	12,764
2016	755,000	457,644	107,219	123,597	2,597
2017-2021	3,740,502	2,351,229	334,363	-	-
2022-2026	3,497,409	3,318,460	220,586	-	-
2027-2031	4,600,000	514,381	132,985	-	-
	\$ 14,887,911	\$ 8,708,957	\$ 1,224,029	\$ 1,025,357	\$ 110,607

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 9: **LONG-TERM OBLIGATIONS** (Continued)

Year	Governmental Activities	
	Accrued Police and Fire Pension	
	Principal	Interest
2012	\$ 8,635	\$ 14,352
2013	9,007	13,980
2014	9,394	13,593
2015	9,798	13,189
2016	10,219	12,767
2017-2021	58,082	56,853
2022-2026	71,694	43,240
2027-2031	88,498	26,434
2032-2035	74,042	6,434
	\$ 339,369	\$ 200,842

NOTE 10: **CAPITAL LEASE**

The City has entered into lease agreements as lessee for financing which relate to various equipment and vehicles. These leases are long-term agreements which meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*. These amounts represent the present value of the minimum lease payments at the inception of the leases.

	Governmental Activities
Assets:	
Equipment	\$ 145,353
Vehicles	202,378
Building	118,234
Less: Accumulated Depreciation	(70,443)
Total	\$ 395,522

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments.

Year	Governmental Activities
2012	\$ 92,836
2013	92,836
2014	116,096
2015	87,286
2016	13,050
Total minimum lease payments	402,104
Less: Amount representing interest	(52,449)
Present value of minimum lease payments	\$ 349,655

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 10: **CAPITAL LEASE** (Continued)

Lease payments are made from the General Fund, Capital Projects Fund and Ambulance Billing Service Fund. The lease payment amounts will be paid with current, available resources that have accumulated in the fund for payment early in the following year.

NOTE 11: **COMPENSATED ABSENCES**

City employees earn vacation leave at graduated rates based on length of service. The City accrues the vacation leave benefits as earned. The City's current vacation policy specifies that accumulated vacation leave must be used prior to December 31 of the year following the year in which it is earned. City employees are paid for earned unused vacation leave at the time of termination or retirement.

City employees earn sick leave which, if not taken, accumulates until retirement. Sick leave is accumulated at the rate for 4.6 hours for every 80 hours worked. Upon retirement, an employee is paid up to 25 percent to 40 percent of accumulated sick leave, subject to certain limitations and depending on number of service years, calculated at current wage rates.

NOTE 12: **PENSION PLANS**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional and Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.html> , writing to OPERS, 277 East 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 2011, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension plan.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 12: **PENSION PLANS** (Continued)

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

For the year ended December 31, 2011, the members of all three plans were required to contribute 10.0 percent of their annual covered salary to fund pension obligations. The City contributed 14.0 percent of covered payroll.

The City's required contributions for pension obligations to the Traditional and Combined plans for the years ended December 31, 2011, 2010, and 2009, were \$476,539, \$485,697, and \$435,095, respectively; 92.70 percent has been contributed for 2011 and 100 percent for 2010 and 2009.

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 pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by state statute. The City's contributions to the Fund for police and firefighters were \$410,697 and \$504,259, respectively, for the year ended December 31, 2011, \$406,754 and \$508,004, respectively, for the year ended December 31, 2010, and \$432,706 and \$511,891, respectively, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. For 2011, 47.30 percent for police and 49.81 percent for firefighters has been contributed, with the remainder being reported as a liability.

NOTE 13: **POST-EMPLOYMENT BENEFITS**

A. **Ohio Public Employees Retirement System**

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 13: **POST-EMPLOYMENT BENEFITS** (Continued)

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

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-retirement health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. 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. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.html>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

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. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, the City contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. 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 the post-employment health care benefits. For 2011, the employer contribution allocated to the health care plan was 4.0% during calendar year 2011. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care for the years ended December 31, 2011, 2010, and 2009, were \$190,615, \$280,473, and \$314,648, respectively; 92.70 percent has been contributed for 2011 and 100 percent has been contributed for 2010 and 2009.

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.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 13: **POST-EMPLOYMENT BENEFITS** (Continued)

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

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment 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.

OP&F provides access to post-retirement 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, Ohio 43215-5164.

The Ohio Revised Code provides for contribution requirements of the participating employers and of the 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, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of the covered payroll for police employer units and 24.0 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, 2011, the employer contribution allocated to 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 Sections 1150 and 401(h).

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 13: **POST-EMPLOYMENT BENEFITS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

The City's contributions to OP&F for police and fire for the years ending December 31, 2011, 2010, and 2009, were \$628,125 and \$701,578, \$622,094 and \$706,789, and \$597,600 and \$700,866, respectively, of which \$217,428 and \$197,319, \$215,340 and \$198,784, and \$164,894 and \$188,975, respectively, was allocated to the health care plan. The full amount has been contributed for 2010 and 2009. For 2011, 47.30 percent for police and 49.81 percent for firefighters has been contributed, with the remainder being reported as a liability.

NOTE 14: **RISK MANAGEMENT**

The Northern Ohio Risk Management Association (NORMA) is jointly owned and operated by the cities of Bedford Heights, Chagrin Falls, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon, South Euclid and University Heights for the purpose of enabling its members to obtain maximum exposure protection at the least possible cost. The pool has a complete package of coverage, including property, general liability, automobile liability, employee dishonesty, boiler and machinery, and other coverages, supplemented by an umbrella liability policy. 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 one representative from each of the participating members. Each entity must commit to the joint venture for terms of three years.

Each member provides operating resources to NORMA based on actuarially determined rates and shares in NORMA's residual equity based on the City's percentage of contributions. In the event of losses, the first \$1,000 to \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$100,000 per occurrence, will be paid from the self-insurance pool with any excess paid from the stop loss coverage carried by the pool. As of December 31, 2011, NORMA had an aggregate stop loss ranging from \$400,000 to \$750,000 per policy year. Any losses over these amounts would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment. This has not been necessary throughout the 20-year history of the pool.

Starting in 2009, the City has provided employees (and eligible dependents) medical and prescription drug benefits on a partially self-insured basis. Medical Mutual of Ohio Inc. serves as third party administrator to process and pay claims. Upon meeting the required employee contributions as well as staying within a Medical Mutual provider, maximum coverage is provided by the plan parameters. However, if an individual seeks care at a non-Medical Mutual provider, then 70 percent of the cost is covered. Furthermore, the plan allows for catastrophic (stop-loss) coverage of \$50,000 per occurrence. Employee medical benefits are charged to the General Fund.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 14: **RISK MANAGEMENT** (Continued)

The claims liability of \$341,495 reported in the General Fund at December 31, 2011, is based on an estimate of costs relating to incurred but not reported claims. Changes in the fund's claim liability amount were:

	<u>Balance at</u> <u>Beginning of Year</u>	<u>Current Year</u> <u>Claims</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at</u> <u>End of Year</u>
2011	\$ 352,441	\$ 1,781,548	\$ 1,792,494	\$ 341,495
2010	343,765	1,546,367	1,537,691	352,441
2009	-	1,810,668	1,466,903	343,765

Workers' compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

The City also pays unemployment claims to the State of Ohio as incurred.

The City continues to carry commercial insurance for other risks of loss, including employee health, dental and life insurance. There were no reductions in insurance coverage from the previous year, nor have settlements exceeded insurance coverage in any of the prior three fiscal years.

NOTE 15: **CONTINGENCIES/PENDING LITIGATION**

The City received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2011.

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 16: **INTERFUND TRANSFERS AND BALANCES**

A. Interfund Transfers

Interfund transfers for the year ended December 31, 2011, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 1,392,985
Non-major Governmental Funds	1,761,652	368,667
Total	<u>\$ 1,761,652</u>	<u>\$ 1,761,652</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; and to provide additional resources for current operations.

The Non-major Governmental Funds transfers consisted of \$118,667 to the Street Construction Maintenance and Repair Fund for street repair expenditures and \$250,000 to the Ambulance Billing Fund to return money initially transferred to the Fire Truck Capital Fund for the purchase of a Fire Truck and returned in 2011 due to a rescinded agreement in accordance with Ohio Revised Code Section 5705.13(C). The transfers were proper and in accordance with Ohio Revised Code 5705.14, 5705.15, and 5705.16.

B. Interfund Balances

Interfund balances for the year ended December 31, 2011, consisted of the following:

	<u>Receivables</u>	<u>Payables</u>
Major Funds		
General	\$ -	\$ (786,529)
Non-major Governmental Funds		
<i>Special Revenue Funds:</i>		
Police Pension Fund	-	(160,644)
Fire Pension Fund	-	(185,092)
Sewer Maintenance	176,519	-
Housing Foreclosure	108,669	-
Railroad Retribution	783,611	-
<i>Capital Projects Fund:</i>		
Northfield Road Improvement	63,466	-
	<u>\$ 1,132,265</u>	<u>\$ (1,132,265)</u>

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 16: **INTERFUND TRANSFERS AND BALANCES** (Continued)

B. **Interfund Balances** (Continued)

The General Fund received an advance from the Northfield Road Improvement Capital Projects Fund in the amount of \$63,466, which created an interfund receivable/payable. The balance resulted to advance the grant money to the fund that made the original payment for the goods and services before the grant money was received. The interfund loans provided from the Sewer Maintenance Fund, Housing Foreclosure Fund and Railroad Retribution Fund were made to eliminate the negative cash balances in the General Fund (\$723,063), Police Pension Fund (\$160,644), and Fire Pension Fund (\$185,092).

NOTE 17: **JOINTLY GOVERNED ORGANIZATIONS**

A. **Southeast Area Law Enforcement Organization**

The Southeast Area Law Enforcement Organization is comprised of seven municipalities in southeastern Cuyahoga County for the purpose of providing assistance in the form of a SWAT team, Bomb Unit, Investigate Unit, Narcotics Unit, Crisis Negotiation Team, and Communications Unit. In 2011, the City contributed \$20,000 to the organization. The Southeast Area Law Enforcement organization financial statements may be obtained by contacting the Finance Director of the City of Bedford, Ohio.

B. **Chagrin/Southeast Council of Governments**

The Chagrin/Southeast Council of Governments operates the Chagrin/Southeast HazMat Response Team. The team was formed in 1990 to assist local fire departments in responding to incidents involving industrial chemicals. In 2011, the City contributed \$3,500 to the organization. The Chagrin/Southeast Council of Governments financial statements may be obtained by contacting the Finance Director of the City of Bedford Heights, Ohio.

The Council has established two subsidiary organizations, the West Shore Hazardous Materials Committee ("HAZ MAT") which provides hazardous material protection and assistance, and the West Shore Enforcement Bureau which provides extra assistance to cities in the form of a Swat Team.

C. **Northeast Ohio Public Energy Council (NOPEC)**

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 17: **JOINTLY GOVERNED ORGANIZATIONS** (Continued)

C. **Northeast Ohio Public Energy Council (NOPEC)** (Continued)

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Maple Heights did not contribute to NOPEC during 2010. Financial information can be obtained by contacting the Board Chairman, 1615 Clark Avenue, Cleveland, Ohio, 44109.

NOTE 18: **ACCOUNTABILITY AND COMPLIANCE**

A. **Accountability**

There is a deficit in the General Fund of \$586,334 and deficits in the Police Pension, Fire Pension, Police Services, Fire Services, and Housing Revitalization Non-major Special Revenue Funds of \$491,647, \$548,723, \$40,005 and \$45,120, respectively, caused by the application of generally accepted accounting principles to these funds. The General Fund is liable for any deficits in these funds and provides operating transfers when cash is required, not when accruals occur.

B. **Compliance**

The General Fund and the Police Pension Fund and the Fire Pension fund, Non-major Special Revenue Funds had negative cash balances contrary to Ohio Revised Code Section 5705.10 which amounted to \$723,063, \$160,644 and \$185,092, respectively. The Sewer Maintenance Fund, Housing Foreclosure Fund and Railroad Retribution Fund provided interfund loans to eliminate the negative cash balances on the governmental funds' balance sheet.

Contrary to Ohio Revised Code Section 5705.39 the following had final appropriations in excess of estimated resources plus carryover balances:

Fund	Final Estimated Resources plus beginning balance	Final Appropriations	Variance
General Fund	\$ 14,941,729	\$ 15,286,536	\$ (344,807)
Income Tax	\$6,600,000	\$ 7,175,479	\$ (575,479)
Ambulance Billing	\$603,358	\$751,982	\$(148,624)
Police Pension	\$520,000	\$625,100	\$(105,100)
Fire Pension	\$540,000	\$705,005	\$(165,005)
Sewer Maintenance	\$534,097	\$596,948	\$(62,851)
Muni. Motor Vehicle License	\$80,414	\$118,667	\$(38,253)
Capital Projects	\$158,851	\$856,806	\$(697,955)

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 18: **ACCOUNTABILITY AND COMPLIANCE** (Continued)

C. **Compliance** (Continued)

Contrary to Ohio Revised Code Section 5705.41(B) the following had expenditures in excess of final appropriations:

Fund	Final Appropriations	Actual Expenditures	Difference
<u>General Fund</u>			
General Government	\$ 5,313,520	\$ 5,370,737	\$ (57,217)
<u>Sewer Maintenance</u>	\$596,948	\$672,961	\$ (76,013)
<u>Ambulance Billing Services</u>	\$751,982	\$976,095	\$(224,113)

NOTE 19: **GOING CONCERN**

Ohio Revised Code Section 5705.10, in part, requires that money paid into any fund shall be expended only after such fund received monies to cover expenditures. The City has experienced a financial shortfall which has resulted in deficit spending in the general fund of \$723,063 and deficits in other less significant funds at December 31, 2011. Continued operations are dependent upon the City's ability to meet financing requirements and current obligations.

To alleviate the financial shortfall, the City has developed a strategy. In April of 2012, the City passed a resolution allowing for the use of 80% of the previously committed railroad settlement funds to be used for operations. This resulted in \$655,000 being used to offset prior years negative ending fund balance. The City was projecting an additional deficit of \$950,000 in 2012 due to cuts in state shared funding, which include the elimination of the Commercial Activity Tax and a cumulative reduction of 62% to the state sales tax shared revenue allocated to municipal governments through the local government fund program. Due to this, the City met with its union members and was able to secure an estimated \$770,000 in savings by increasing health care contributions, cutting overtime, implementing furlough days, and reducing certain union negotiated incentive payments.

The City is planning on finding the additional savings needed through reductions on programs offered to citizens, and increases in fees for some services. Current projections show the City significantly reducing the deficit balance at the end of the year.

JAMES G. ZUPKA, C.P.A., INC.

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Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Members of City Council
City of Maple Heights, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Maple Heights, Cuyahoga County, Ohio, as of and for the year ended December 31, 2011, which collectively comprise the City of Maple Heights, Ohio's basic financial statements and have issued our report thereon dated June 21, 2013, wherein we noted that the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and restated the December 31, 2010 net assets of the Governmental Activities and fund balances of the Governmental Funds and Fiduciary Funds due to a change in fund structure and understatement of capital assets and accounts receivable. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Maple Heights, Ohio, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Maple Heights, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Maple Heights, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Maple Heights, Ohio'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, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings of Responses as **Finding 2011-002**, that we consider to be a significant deficiency in internal control over financial reporting.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

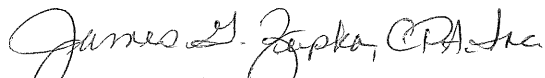
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Maple Heights, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as **Finding 2011-001, Finding 2011-003, Finding 2011-004, and Finding 2011-005**.

We noted certain matters that we reported to management of the City of Maple Heights, Ohio, in a separate letter dated June 21, 2013.

The City of Maple Heights, Ohio's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City of Maple Heights, Ohio's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City Council, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.


James G. Zupka, CPA, Inc.
Certified Public Accountants

June 21, 2013

**CITY OF MAPLE HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2011**

Finding Number 2011-001 - Material Noncompliance - Proper Encumbrance of Funds

Condition/Criteria

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

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

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

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

Blanket Certificate - Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

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

**CITY OF MAPLE HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2011
(CONTINUED)**

Finding Number 2011-001 - Material Noncompliance - Proper Encumbrance of Funds
(Continued)

Cause/Effect

During our testing of non-payroll expenditures, we noted 10 out of 20 expenditures tested, or \$28,158 out of \$85,929, were entered into prior to receiving the Finance Director's certification. We also noted that the City currently utilizes Super Blanket certificates, as described above. During our testing of Super Blanket certificates, we noted that 2 out of the 5 Super Blanket certificates were not closed as of year end.

Recommendation

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

We recommend that the City certify the availability of funds prior to entering into any expenditure commitment.

City's Response

Certain expenditures incurred by departments were not properly encumbered due to department heads and authorized purchasing personnel not following City procedures. This procedure has been communicated to each department several times. It is the City's understanding that directors were under the impression that emergency purchases did not have to follow purchasing procedures due to the timing requirements and the need for the item in question. Recently, the City has again communicated that all purchases need a properly encumbered purchase order before ordering. Failure to adhere to City policies will result in appropriate disciplinary measures being taken. The City is also looking into creating a "Then and Now" certificate for emergency situation.

**CITY OF MAPLE HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2011
(CONTINUED)**

Finding Number 2011-002 - Significant Deficiency - Credit Card Purchase

Condition/Criteria

The City has developed a formal written policy for credit cards, but it is lacking in specific detail on what purchases are acceptable uses of public funds. The policy covers the handling of the card and general misuse of credit cards.

We noted that \$234 worth of credit card purchases tested, or approximately 35 percent, did not contain proper supporting documentation or was lacking detailed receipts or any receipt. We also noted that the City paid \$83 sales tax.

Cause/Effect

Expenses paid with the City credit card did not have adequate supporting documentation. Lack of proper supporting documentation made it undeterminable whether the expenses were within City guidelines and proper City operational purposes.

Recommendation

Effective control procedures over City-issued credit cards are essential in deterring the misuse of credit cards. We recommend that the City review its current written policy regarding City credit cards to include specific detail on what purchases are acceptable use of public funds, which will assist the City in reducing the risk of theft or fraud. We also recommend that the City enforce its current policy that credit card purchases be reviewed by the Finance Director to help ensure purchases were for a proper public purpose and the City's policy requirements are met.

City's Response

Credit card purchases related to travel and City events should always include related back-up documentation. City Council is planning on putting additional restrictions on credit card purchases and narrowing what the card can be used for through an amended credit card policy. The City is considering having certain expenditures be paid on a reimbursable basis to avoid any future issues.

**CITY OF MAPLE HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2011
(CONTINUED)**

Finding Number 2011-003 - Material Noncompliance - Negative Cash Fund Balance

Condition/Criteria

Ohio Revised Code Section 5705.10(H) indicates money paid into any fund shall be used only for the purposes for which such fund is established. A fund with a negative fund balance signifies that monies from other funds were used to meet their obligations.

During our review of the City's general ledger, we noted that three funds had negative cash fund balances at December 31, 2011:

<u>Major Fund</u>	<u>Deficit Cash Balance</u>
General Fund	\$ (723,063)
Police Pension Fund	(160,644)
Fire Pension Fund	(185,092)

Cause/Effect

The General Fund deficit cash balance represents the balance after advancing money to other deficit funds.

Negative cash fund balances infer revenues from other sources were borrowed to pay obligations of these funds. Additionally, money spent for purposes other than specified in grant agreements could result in the loss of future grant awards.

For reporting purposes, the deficit cash balances were reported as part of the "interfund payable" liability and the funds with positive cash balances offsetting these deficits reports an "interfund receivable" asset. Since the City's cash is pooled, there was no method to determine which funds' cash was used to offset the deficit balances and consequently the "interfund receivable" amounts related to the deficit cash balances were assigned using certain assumptions.

Recommendation

We recommend that the City ensure its fund appropriations and expenditures are consistent with the purposes for which the funds were established. We also recommend that the City consult with its Law Director when questions arise regarding a fund's intended use. We also recommend that the City monitor its cash fund balances on a regular basis in order to ensure that sufficient cash is on hand to pay for obligations and that the City utilize advances when necessary.

City's Response

Due to unexpected cuts in funding at the State level that were not communicated until June 2011 (implemented during the State's bi-annual budget), the City was left in a position of appropriating expenses with funds no longer expected to be collected. Due to union contract obligations and pension costs already incurred, the City was not able to offset the loss in revenue by the end of the fiscal year. Cuts in funding at the State level will be monitored more closely to avoid deficit spending in the future.

**CITY OF MAPLE HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2011
(CONTINUED)**

Finding Number 2011-004 - Material Noncompliance - Appropriations Exceed Estimated Resources

Condition/Criteria

During our compliance testing, we noted several funds had final appropriations exceeding final estimated resources. Ohio Revised Code §5705.39 provides, in part, that total appropriations from each fund shall not exceed the total estimated resources (estimated revenues plus unencumbered fund balances). This resulted from the final certificate of estimated resources reporting actual cash balance rather than the unencumbered balance as the beginning budgetary fund balance.

<u>Fund</u>	Final Estimated Resources Plus Beginning Balance	Final Appropriations	Variance
General Fund	\$ 14,941,729	\$ 15,286,536	\$ (344,807)
Income Tax Fund	6,600,000	7,175,479	(575,479)
Ambulance Billing Fund	603,358	751,982	(148,624)
Police Pension Fund	520,000	625,100	(105,100)
Fire Pension Fund	540,000	705,005	(165,005)
Sewer Maintenance Fund	534,097	596,948	(62,851)
Municipal Motor Vehicle License Fund	80,414	118,667	(38,253)
Capital Projects Fund	158,851	856,806	(697,955)

Cause/Effect

The City's funds should not have final appropriations that exceed estimated resources at December 31, 2011. Management failed to either amend the City's certificate of estimated resources or adjust the City's final appropriations to ensure compliance with Ohio Revised Code § 5705.39. Final certificate of estimated resources reporting actual cash balance rather than the unencumbered balance as the beginning budgetary fund balance.

Recommendation

We recommend that the City amend the certificate of estimated resources and subsequently amend the appropriations to a level that does not exceed the amended certificate. This will ensure the City's compliance with Ohio Revised Code § 5705.39.

City's Response

Due to unexpected cuts in funding at the State level that were not communicated until June 2011 (implemented during the State's bi-annual budget), the City was left in a position of appropriating expenses with funds no longer expected to be collected. Due to union contract obligations and pension costs already incurred, the City was not able to offset the loss in revenue by the end of the fiscal year. Cuts in funding at the State level will be monitored more closely to avoid deficit spending in the future.

**CITY OF MAPLE HEIGHTS
 CUYAHOGA COUNTY, OHIO
 SCHEDULE OF FINDINGS AND RESPONSES
 DECEMBER 31, 2011
 (CONTINUED)**

Finding Number 2011-005 - Material Noncompliance -Actual Expenditures Exceed Appropriations

Condition/Criteria

During our review of the City's budgetary process, we noted that the following funds had actual expenditures that exceeded final appropriations, which is contrary to Ohio Revised Code §5705.41(B):

<u>Fund</u>	<u>Final Appropriations</u>	<u>Actual Expenditures</u>	<u>Difference</u>
General Fund:			
General Government	\$ 5,313,520	\$ 5,370,737	\$ (57,217)
Sewer Maintenance Fund	596,948	672,961	(76,013)
Ambulance Billing Services Fund	751,982	976,095	(224,113)

Cause/Effect

Expenditures exceeded appropriations in the funds noted for the year ending December 31, 2011. The City did not comply with Ohio Revised Code § 5705.41(B).

Recommendation

We recommend that the City exercise due care to ensure that actual expenditures do not exceed actual final appropriations. This will assist the City in avoiding negative fund balances, as well as ensure the City's compliance with Ohio Revised Code §5705.41(B).

City's Response

Higher than expected expenditures at year-end caused actual expenditures to exceed final appropriations. The City will more closely monitor expenditures to ensure compliance with Ohio Revised Code §5705.41.

**CITY OF MAPLE HEIGHTS, OHIO
STATUS OF PRIOR YEAR CITATIONS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011**

The prior issued audit report, as of December 31, 2010, included one material noncompliance citation.

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected ?</u>
2010-001	Proper Encumbrance of Funds	No. Repeated as Finding 2011-001.

Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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Dave Yost • Auditor of State

CITY OF MAPLE 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
SEPTEMBER 19, 2013**