



**Auditor of State
Betty Montgomery**

CITY OF LYNDHURST
CUYAHOGA COUNTY

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CITY OF LYNDHURST
CUYAHOGA COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Lyndhurst
Cuyahoga County
5301 Mayfield Road
Lyndhurst, Ohio 44124

To the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Lyndhurst, Cuyahoga County, Ohio, (the City) as of and for the years ended December 31, 2004 and December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Lyndhurst, Cuyahoga County, Ohio, as of December 31, 2004 and December 31, 2003, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended December 31, 2003, the City implemented GASB Statement No. 34, *Basic Financial Statements – Management Discussion and Analysis – for State and Local Governments* and restated Notes Payable which was classified as Long Term Liabilities as noted in Note 2 in Fiscal Year 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should be read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

August 22, 2005

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2004***

Unaudited

The discussion and analysis of the City of Lyndhurst's (the City) financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

- ❑ In total, net assets decreased approximately \$5.2 million, which represents a 5.1% decrease from 2003.
- ❑ General revenues accounted for approximately \$10.7 million in revenue or 76.2% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for 23.8% of total revenues of approximately \$14.1 million.
- ❑ The City had approximately \$19.3 million in expenses related to governmental activities; only approximately \$3.4 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of approximately \$10.7 million and reserves were adequate to provide for these programs.
- ❑ Among major funds, the general fund had approximately \$11 million in revenues and approximately \$11.5 million in expenditures. The general fund's fund balance decreased \$1,696,173 to \$5,265,400.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2004***

Unaudited

Government-wide Statements

The government-wide statements report information about the City as a whole using accepting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net-assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as property tax base, income tax base, current property tax laws, conditions of the City's streets and continued growth within the City.

The government-wide financial statements of the City are divided into two categories:

- *Governmental Activities* – The City's programs and services that are reported here include security of persons and property, public health and welfare services, leisure time activities, community environment, basic utility services, transportation and general government.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City has no business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

Governmental Funds – Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance City activities. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2004***

Unaudited

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets.

The presentation of the City's major funds begins on page 14. The City's major funds are the General Fund, General Obligation Bond Retirement Fund, the Permanent Improvement Fund, the Street Improvement Fund and the Capital Reserve Fund.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a comparison of the City's net assets as of December 31, 2003 and 2004:

| | Governmental Activities | |
|--|----------------------------|----------------------|
| | 2004 | 2003 |
| Current and other assets | \$24,782,416 | \$27,954,172 |
| Capital assets, Net | 83,308,764 | 85,886,087 |
| Total assets | 108,091,180 | 113,840,259 |
| Long-term liabilities | 4,120,648 | 4,858,795 |
| Other liabilities | 6,165,974 | 5,927,406 |
| Total liabilities | 10,286,622 | 10,786,201 |
| Net assets | | |
| Invested in capital assets, net of related debt | 79,668,764 | 81,425,087 |
| Restricted | 11,045,240 | 11,150,587 |
| Unrestricted | 7,090,554 | 10,478,384 |
| Total net assets | <u>\$97,804,558</u> | <u>\$103,054,058</u> |

Total assets of the City's governmental activities decreased by \$5,749,079. This was due primarily to a decline in cash related to income tax revenue caused by the elimination of the TRW separation benefits received in 2003. The decrease was further enhanced by substantial refunds issued in 2004 in direct association with those separation benefits. Additionally, the decline in total assets was related to the depreciation associated with the governmental activities capital assets.

Total liabilities of the City's governmental activities decreased by \$499,579. This was due primarily to a decline in long-term debt liabilities by making principal payments on the debt. Also, there was no new long-term debt issued during 2004.

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2004**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2003 and 2004:

| | Governmental Activities | |
|--------------------------------------|----------------------------|---------------|
| | 2004 | 2003 |
| Revenues | | |
| Program revenues: | | |
| Charges for Services and Sales | \$1,831,056 | \$2,017,335 |
| Operating Grants and Contributions | 1,067,155 | 1,010,877 |
| Capital Grants and Contributions | 453,892 | 342,096 |
| General revenues: | | |
| Property Taxes | 4,414,720 | 3,946,976 |
| Municipal Income Taxes | 3,814,550 | 9,439,711 |
| Other Local Taxes | 159,977 | 139,888 |
| Unrestricted Grants and Entitlements | 1,923,587 | 3,176,832 |
| Investment Earnings | 232,687 | 367,972 |
| Miscellaneous | 190,561 | 102,272 |
| Total revenues | 14,088,185 | 20,543,959 |
| Program Expenses | | |
| Security of Persons and Property | 7,010,958 | 6,101,544 |
| Public Health and Welfare Services | 48,016 | 47,365 |
| Leisure Time Activities | 1,188,480 | 1,431,149 |
| Community Environment | 578,878 | 644,912 |
| Basic Utility Services | 3,047,988 | 2,259,942 |
| Transportation | 3,427,392 | 4,158,871 |
| General Government | 3,914,768 | 3,884,671 |
| Interest and Fiscal Charges | 121,205 | 208,145 |
| Total expenses | 19,337,685 | 18,736,599 |
| Total Change in Net Assets | (5,249,500) | 1,807,360 |
| Net Assets Beginning of Year | 103,054,058 | 101,246,698 |
| Net Assets End of Year | \$97,804,558 | \$103,054,058 |

Governmental Activities

Net assets of the City's governmental activities decreased by \$5,249,500. This was due primarily to a decline in income tax revenue caused by the elimination of the TRW separation benefits received in 2003. The decrease was further enhanced by substantial refunds issued in 2004 in direct association with those separation benefits. Additionally, the decline in net assets is a result of an increase in operating costs for 2004.

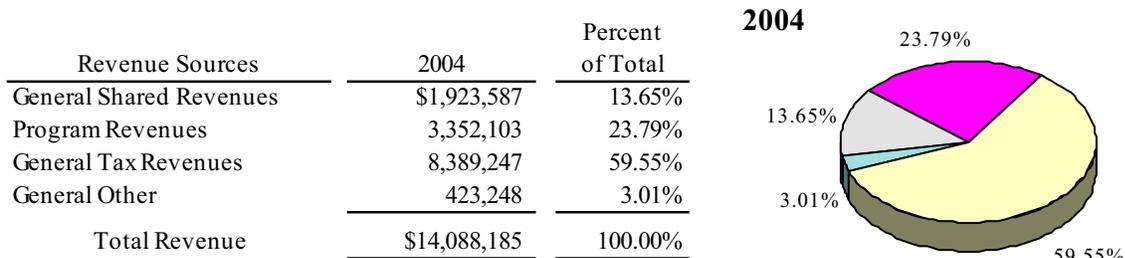
The City also receives an income tax, which is based on 1.5% of all salaries, wages, commissions and other compensation earned from residents living within the City and from nonresidents for work done or services performed or rendered in the City. Residents who work outside the City and are subject to a municipal income tax receive a 50% credit against the income tax liability due to Lyndhurst.

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2004**

Unaudited

Property taxes and income taxes made up 31.3% and 27.1%, respectively of revenues for governmental activities for the City in fiscal year 2004. The City's reliance upon tax revenues is demonstrated by the following graph indicating approximately 60% of total revenues from general tax revenues:



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$16,054,806, which is a decrease from last year's balance of \$17,766,817. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2004 and 2003:

| | Fund Balance December 31, 2004 | Fund Balance December 31, 2003 | Increase (Decrease) |
|------------------------------------|-----------------------------------|-----------------------------------|------------------------|
| General | \$5,265,400 | \$6,961,573 | (\$1,696,173) |
| General Obligation Bond Retirement | 336,218 | 284,775 | 51,443 |
| Permanent Improvement | 3,825,710 | 3,813,982 | 11,728 |
| Capital Reserve | 3,207,216 | 3,142,076 | 65,140 |
| Street Improvement | 202,341 | 481,574 | (279,233) |
| Other Governmental | 3,217,921 | 3,082,837 | 135,084 |
| Total | <u>\$16,054,806</u> | <u>\$17,766,817</u> | <u>(\$1,712,011)</u> |

General Fund – The City's General Fund balance decrease is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

| | 2004 Revenues | 2003 Revenues | Increase (Decrease) |
|---------------------------|---------------------|---------------------|------------------------|
| Taxes | \$8,345,234 | \$10,311,058 | (\$1,965,824) |
| Intergovernmental Revenue | 1,066,252 | 1,082,371 | (16,119) |
| Charges for Services | 152,171 | 134,344 | 17,827 |
| Fines and Forfeitures | 1,193,819 | 1,418,661 | (224,842) |
| All Other Revenue | 252,527 | 131,940 | 120,587 |
| Total | <u>\$11,010,003</u> | <u>\$13,078,374</u> | <u>(\$2,068,371)</u> |

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2004***

Unaudited

General Fund revenues in 2004 decreased approximately 16% compared to revenues in fiscal year 2003. The most significant factor contributing to this decrease was municipal income tax collection and decreases in fines and forfeitures.

| | 2004 | 2003 | Increase |
|------------------------------------|---------------------|---------------------|-------------------|
| | <u>Expenditures</u> | <u>Expenditures</u> | <u>(Decrease)</u> |
| Security of Persons and Property | \$5,668,946 | \$5,413,247 | \$255,699 |
| Public Health and Welfare Services | 48,016 | 47,365 | 651 |
| Leisure Time Activities | 730,352 | 728,123 | 2,229 |
| Community Environment | 356,990 | 410,150 | (53,160) |
| Basic Utility Services | 1,201,222 | 1,251,149 | (49,927) |
| General Government | <u>3,401,080</u> | <u>3,305,943</u> | <u>95,137</u> |
| Total | <u>\$11,406,606</u> | <u>\$11,155,977</u> | <u>\$250,629</u> |

General Fund expenditures increased by \$250,629 or 2.2% over the prior year mostly due to increases in salary and wages, retirement contributions, and health insurance premiums for the City's employees. In addition, operating expenses associated with community environment decreased due to completion of a major retail center in 2003.

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

During the course of fiscal year 2004 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of approximately \$10.9 million did not significantly change over the original budget estimates of approximately \$11.2 million. The General Fund had an adequate fund balance to cover expenditures.

CITY OF LYNDHURST, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2004*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004 the City had \$83,308,764 net of accumulated depreciation invested in land, improvements, infrastructure, buildings and machinery and equipment. The following table shows fiscal year 2004 and 2003 balances (net of accumulated depreciation):

| | Governmental Activities | | Increase (Decrease) |
|-----------------------------------|----------------------------|--------------|------------------------|
| | 2004 | 2003 | |
| Land | \$394,193 | \$394,193 | \$0 |
| Improvements Other than Buildings | 1,511,382 | 1,607,951 | (96,569) |
| Infrastructure | 70,837,321 | 73,418,115 | (2,580,794) |
| Buildings | 7,253,130 | 7,394,553 | (141,423) |
| Machinery and Equipment | 3,312,738 | 3,071,275 | 241,463 |
| Totals | \$83,308,764 | \$85,886,087 | (\$2,577,323) |

The primary increase occurred in machinery and equipment, which resulted from the acquisition of several large service based items including refuse, recycling and dump trucks, and a catch basin cleaner. Additional information on the City's capital assets can be found in Note 8.

Debt

At December 31, 2004, the City had approximately \$2.7 million in bonds outstanding, \$159,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2004 and 2003:

| | 2004 | 2003 |
|-------------------------------|-------------|-------------|
| Governmental Activities: | | |
| General Obligation Bonds | \$2,670,000 | \$3,185,000 |
| Special Assessment Bonds | 20,000 | 26,000 |
| Short-Term Notes | 300,000 | 300,000 |
| Long-Term Notes | 650,000 | 950,000 |
| Compensated Absences | 780,648 | 697,795 |
| Total Governmental Activities | \$4,420,648 | \$5,158,795 |

State statutes limit the amount of unvoted general obligation debt the City may issue. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions with other political subdivisions. The actual aggregate amount of the City's unvoted debt, when added to that of other political subdivisions within the county in which Lyndhurst lies, is limited to 11.5 mills. At December 31, 2004, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 12.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2004***

Unaudited

ECONOMIC FACTORS

The TRW Corporation, a major employer in the City of Lyndhurst, was purchased by another aerospace corporation in 2002, and ceased operations within the City of Lyndhurst in 2003. During 2003 the separation pay and benefits for the top paid officials increased withholdings considerably. Additionally, these separations continued to impact the city's withholding tax into 2004 as estimated tax filings were completed to final returns with substantial refunds due to some individual taxpayers.

The Cleveland Clinic now operates administrative functions within the closed TRW facility. These operations continue to increase as the Clinic proceeds to include this new facility within its Master Plan. Legacy Village, a premier retail district, now occupies 67 acres of the once undeveloped land and is a leading contributor to the economic balance of the City. Additionally, 8.68 acres of the TRW undeveloped land is now part of a new housing development known as Rivercreek. Rivercreek is comprised of 33 single family and 3 duplex homes all priced in the upper \$400,000 range.

REQUESTS FOR INFORMATION

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 the money it receives. If you have questions about this report or need additional financial information contact the Finance Department by calling 440-442-5777 or writing to City of Lyndhurst Finance Department, 5301 Mayfield Road, Lyndhurst, Ohio 44124.

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CITY OF LYNDHURST, OHIO

Statement of Net Assets
December 31, 2004

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Cash and Cash Equivalents | \$ 8,774,297 |
| Investments | 7,633,301 |
| Receivables: | |
| Taxes | 6,197,736 |
| Accounts | 23,857 |
| Intergovernmental | 1,084,359 |
| Interest | 17 |
| Special Assessments | 927,087 |
| Inventory of Supplies at Cost | 35,758 |
| Prepaid Items | 106,004 |
| Capital Assets: | |
| Capital Assets Not Being Depreciated | 394,193 |
| Capital Assets Being Depreciated, Net | 82,914,571 |
| Total Assets | 108,091,180 |
| Liabilities: | |
| Accounts Payable | 492,871 |
| Accrued Wages and Benefits | 667,607 |
| Deferred Revenue | 4,689,665 |
| Accrued Interest Payable | 15,831 |
| General Obligation Notes Payable | 300,000 |
| Long-Term Liabilities: | |
| Due Within One Year | 1,022,220 |
| Due in More Than One Year | 3,098,428 |
| Total Liabilities | 10,286,622 |
| Net Assets: | |
| Invested in Capital Assets, Net of Related Debt | 79,668,764 |
| Restricted For: | |
| Capital Projects | 7,760,280 |
| Debt Service | 462,241 |
| Other Purposes | 2,822,719 |
| Unrestricted | 7,090,554 |
| Total Net Assets | \$ 97,804,558 |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

Statement of Activities
For the Year Ended December 31, 2004

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---|----------------------|--------------------------------------|--|--|--|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | | |
| Current: | | | | | |
| Security of Persons and Property | \$ 7,010,958 | \$ 335,362 | \$ 10,768 | \$ 2,125 | \$ (6,662,703) |
| Public Health and Welfare Services | 48,016 | 0 | 0 | 0 | (48,016) |
| Leisure Time Activities | 1,188,480 | 148,583 | 0 | 0 | (1,039,897) |
| Community Environment | 578,878 | 116,746 | 197,968 | 0 | (264,164) |
| Basic Utility Services | 3,047,988 | 30,257 | 327,304 | 451,767 | (2,238,660) |
| Transportation | 3,427,392 | 38,256 | 531,115 | 0 | (2,858,021) |
| General Government | 3,914,768 | 1,161,852 | 0 | 0 | (2,752,916) |
| Interest and Fiscal Charges | 121,205 | 0 | 0 | 0 | (121,205) |
| Total Governmental Activities | \$ 19,337,685 | \$ 1,831,056 | \$ 1,067,155 | \$ 453,892 | (15,985,582) |
| General Revenues | | | | | |
| Property Taxes | | | | | 4,414,720 |
| Municipal Income Taxes | | | | | 3,814,550 |
| Other Local Taxes | | | | | 159,977 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 1,923,587 |
| Investment Earnings | | | | | 232,687 |
| Miscellaneous | | | | | 190,561 |
| Total General Revenues | | | | | 10,736,082 |
| Change in Net Assets | | | | | (5,249,500) |
| Net Assets Beginning of Year | | | | | 103,054,058 |
| Net Assets End of Year | | | | | \$ 97,804,558 |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

Balance Sheet
Governmental Funds
December 31, 2004

| | <u>General</u> | <u>General Obligation Bond Retirement</u> | <u>Permanent Improvement</u> |
|---|----------------------|---|----------------------------------|
| Assets: | | | |
| Cash and Cash Equivalents | \$ 2,272,669 | \$ 132,964 | \$ 1,810,021 |
| Investments | 2,722,115 | 203,254 | 2,171,342 |
| Receivables: | | | |
| Taxes | 4,281,410 | 1,476,706 | 187,204 |
| Accounts | 5,526 | 0 | 6,071 |
| Intergovernmental | 649,972 | 96,924 | 0 |
| Interest | 0 | 0 | 0 |
| Special Assessments | 0 | 152 | 0 |
| Inventory of Supplies, at Cost | 0 | 0 | 0 |
| Prepaid Items | 106,004 | 0 | 0 |
| Total Assets | <u>\$ 10,037,696</u> | <u>\$ 1,910,000</u> | <u>\$ 4,174,638</u> |
| Liabilities: | | | |
| Accounts Payable | 72,107 | 0 | 2,125 |
| Accrued Wages and Benefits Payable | 426,224 | 0 | 0 |
| Deferred Revenue | 4,273,965 | 1,573,782 | 46,803 |
| General Obligation Notes Payable | 0 | 0 | 300,000 |
| Total Liabilities | <u>4,772,296</u> | <u>1,573,782</u> | <u>348,928</u> |
| Fund Balances: | | | |
| Reserved for Encumbrances | 244,920 | 0 | 420,216 |
| Reserved for Prepaid Items | 106,004 | 0 | 0 |
| Reserved for Supplies Inventory | 0 | 0 | 0 |
| Reserved for Debt Service | 0 | 336,218 | 0 |
| Undesignated/Unreserved in: | | | |
| General Fund | 4,914,476 | 0 | 0 |
| Special Revenue Funds | 0 | 0 | 0 |
| Capital Projects Funds | 0 | 0 | 3,405,494 |
| Total Fund Balances | <u>5,265,400</u> | <u>336,218</u> | <u>3,825,710</u> |
| Total Liabilities and Funds Balances | <u>\$ 10,037,696</u> | <u>\$ 1,910,000</u> | <u>\$ 4,174,638</u> |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

| <u>Capital Reserve</u> | <u>Street Improvement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|------------------------|-------------------------------|---|---|
| \$ 1,458,100 | \$ 254,505 | \$ 2,846,038 | \$ 8,774,297 |
| 1,749,116 | 304,934 | 482,540 | 7,633,301 |
| 0 | 0 | 252,416 | 6,197,736 |
| 0 | 0 | 12,260 | 23,857 |
| 0 | 0 | 337,463 | 1,084,359 |
| 0 | 0 | 17 | 17 |
| 0 | 0 | 926,935 | 927,087 |
| 0 | 0 | 35,758 | 35,758 |
| 0 | 0 | 0 | 106,004 |
| <u>\$ 3,207,216</u> | <u>\$ 559,439</u> | <u>\$ 4,893,427</u> | <u>\$ 24,782,416</u> |
| 0 | 357,098 | 61,541 | 492,871 |
| 0 | 0 | 241,383 | 667,607 |
| 0 | 0 | 1,372,582 | 7,267,132 |
| 0 | 0 | 0 | 300,000 |
| <u>0</u> | <u>357,098</u> | <u>1,675,506</u> | <u>8,727,610</u> |
| 0 | 116,219 | 500,114 | 1,281,469 |
| 0 | 0 | 0 | 106,004 |
| 0 | 0 | 35,758 | 35,758 |
| 0 | 0 | 0 | 336,218 |
| 0 | 0 | 0 | 4,914,476 |
| 0 | 0 | 1,775,120 | 1,775,120 |
| 3,207,216 | 86,122 | 906,929 | 7,605,761 |
| <u>3,207,216</u> | <u>202,341</u> | <u>3,217,921</u> | <u>16,054,806</u> |
| <u>\$ 3,207,216</u> | <u>\$ 559,439</u> | <u>\$ 4,893,427</u> | <u>\$ 24,782,416</u> |

CITY OF LYNDHURST, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
December 31, 2004***

| | |
|--|------------------------------------|
| Total Governmental Fund Balances | \$ 16,054,806 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because</i> | |
| Capital Assets used in governmental activities are not resources and therefore are not reported in the funds. | 83,308,764 |
| Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds. | 2,577,467 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | <u>(4,136,479)</u> |
| <i>Net Assets of Governmental Funds</i> | <u><u>\$ 97,804,558</u></u> |

See accompanying notes to the basic financial statements

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CITY OF LYNDHURST, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

| | General | General Obligation Bond Retirement | Permanent Improvement |
|---|---------------------|--|----------------------------------|
| | <u>General</u> | <u>Obligation Bond Retirement</u> | <u>Permanent Improvement</u> |
| Revenues: | | | |
| Property Taxes | \$ 2,817,868 | \$ 1,338,391 | \$ 0 |
| Municipal Income Tax | 5,527,366 | 0 | 0 |
| Other Local Taxes | 0 | 0 | 97,417 |
| Intergovernmental Revenues | 1,066,252 | 181,306 | 698,878 |
| Charges for Services | 152,171 | 0 | 0 |
| Investment Earnings | 0 | 10,728 | 79,904 |
| Special Assessments | 0 | 7,936 | 0 |
| Fines and Forfeitures | 1,193,819 | 0 | 0 |
| All Other Revenue | 252,527 | 0 | 8,834 |
| Total Revenue | <u>11,010,003</u> | <u>1,538,361</u> | <u>885,033</u> |
| Expenditures: | | | |
| Current: | | | |
| Security of Persons and Property | 5,668,946 | 0 | 341,624 |
| Public Health and Welfare Services | 48,016 | 0 | 0 |
| Leisure Time Activities | 730,352 | 0 | 97,952 |
| Community Development | 356,990 | 0 | 1,272 |
| Basic Utility Services | 1,201,222 | 0 | 375,736 |
| Transportation | 0 | 0 | 45,232 |
| General Government | 3,401,080 | 657 | 50,745 |
| Debt Service: | | | |
| Principal Retirement | 0 | 521,000 | 300,000 |
| Interest & Fiscal Charges | 0 | 128,480 | 8,100 |
| Total Expenditures | <u>11,406,606</u> | <u>650,137</u> | <u>1,220,661</u> |
| Excess (Deficiency) of Revenues | | | |
| Over Expenditures | (396,603) | 888,224 | (335,628) |
| Other Financing Sources (Uses): | | | |
| Sale of Capital Assets | 0 | 0 | 39,256 |
| General Obligation Notes Issued | 0 | 0 | 0 |
| Transfers In | 0 | 130,000 | 308,100 |
| Transfers Out | (1,299,570) | (966,781) | 0 |
| Total Other Financing Sources (Uses) | <u>(1,299,570)</u> | <u>(836,781)</u> | <u>347,356</u> |
| Net Change in Fund Balances | (1,696,173) | 51,443 | 11,728 |
| Fund Balances at Beginning of Year | 6,961,573 | 284,775 | 3,813,982 |
| Increase in Inventory Reserve | 0 | 0 | 0 |
| Fund Balances End of Year | <u>\$ 5,265,400</u> | <u>\$ 336,218</u> | <u>\$ 3,825,710</u> |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

| Capital Reserve | Street Improvement | Other Governmental Funds | Total Governmental Funds |
|---------------------|-----------------------|--------------------------------|--------------------------------|
| \$ 0 | \$ 0 | \$ 228,783 | \$ 4,385,042 |
| 0 | 0 | 0 | 5,527,366 |
| 0 | 0 | 62,560 | 159,977 |
| 0 | 0 | 589,680 | 2,536,116 |
| 0 | 0 | 0 | 152,171 |
| 65,140 | 17,443 | 59,472 | 232,687 |
| 0 | 0 | 891,672 | 899,608 |
| 0 | 0 | 334,200 | 1,528,019 |
| 0 | 0 | 88,649 | 350,010 |
| <u>65,140</u> | <u>17,443</u> | <u>2,255,016</u> | <u>15,770,996</u> |
| 0 | 0 | 879,919 | 6,890,489 |
| 0 | 0 | 0 | 48,016 |
| 0 | 0 | 202,976 | 1,031,280 |
| 0 | 0 | 199,552 | 557,814 |
| 0 | 0 | 846,960 | 2,423,918 |
| 0 | 1,234,676 | 639,072 | 1,918,980 |
| 0 | 0 | 235,264 | 3,687,746 |
| 0 | 650,000 | 0 | 1,471,000 |
| 0 | 8,681 | 0 | 145,261 |
| <u>0</u> | <u>1,893,357</u> | <u>3,003,743</u> | <u>18,174,504</u> |
| 65,140 | (1,875,914) | (748,727) | (2,403,508) |
| 0 | 0 | 302 | 39,558 |
| 0 | 650,000 | 0 | 650,000 |
| 0 | 946,681 | 881,570 | 2,266,351 |
| <u>0</u> | <u>0</u> | <u>0</u> | <u>(2,266,351)</u> |
| <u>0</u> | <u>1,596,681</u> | <u>881,872</u> | <u>689,558</u> |
| 65,140 | (279,233) | 133,145 | (1,713,950) |
| 3,142,076 | 481,574 | 3,082,837 | 17,766,817 |
| <u>0</u> | <u>0</u> | <u>1,939</u> | <u>1,939</u> |
| <u>\$ 3,207,216</u> | <u>\$ 202,341</u> | <u>\$ 3,217,921</u> | <u>\$ 16,054,806</u> |

CITY OF LYNDHURST, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended December 31, 2004***

Net Change in Fund Balances - Total Governmental Funds \$ (1,713,950)

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. (2,461,866)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets net of proceeds received. (115,457)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (1,722,369)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 821,000

In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. 24,056

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (80,914)

Change in Net Assets of Governmental Activities \$ (5,249,500)

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2004**

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| Revenues: | | | | |
| Property Taxes | \$ 2,791,057 | \$ 2,791,057 | \$ 2,817,868 | \$ 26,811 |
| Municipal Income Tax | 5,707,101 | 5,713,401 | 5,461,812 | (251,589) |
| Intergovernmental Revenue | 1,291,783 | 952,791 | 1,077,350 | 124,559 |
| Charges for Services | 120,400 | 119,900 | 151,290 | 31,390 |
| Fines and Forfeitures | 1,141,300 | 1,141,300 | 1,280,147 | 138,847 |
| All Other Revenues | 150,550 | 184,145 | 253,857 | 69,712 |
| Total Revenues | <u>11,202,191</u> | <u>10,902,594</u> | <u>11,042,324</u> | <u>139,730</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Security of Persons and Property | 6,131,182 | 6,144,784 | 5,861,047 | 283,737 |
| Public Health and Welfare Services | 47,365 | 48,020 | 48,016 | 4 |
| Leisure Time Activities | 739,327 | 764,547 | 737,878 | 26,669 |
| Community Environment | 385,355 | 386,105 | 373,355 | 12,750 |
| Basic Utility Services | 1,331,005 | 1,332,980 | 1,299,727 | 33,253 |
| General Government | 3,800,097 | 3,903,647 | 3,556,300 | 347,347 |
| Total Expenditures | <u>12,434,331</u> | <u>12,580,083</u> | <u>11,876,323</u> | <u>703,760</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (1,232,140) | (1,677,489) | (833,999) | 843,490 |
| Other Financing Sources (Uses): | | | | |
| Transfers Out | (1,281,570) | (1,299,570) | (1,299,570) | 0 |
| Total Other Financing Sources (Uses): | <u>(1,281,570)</u> | <u>(1,299,570)</u> | <u>(1,299,570)</u> | <u>0</u> |
| Net Change In Fund Balance | (2,513,710) | (2,977,059) | (2,133,569) | 843,490 |
| Fund Balance at Beginning of Year | 6,838,892 | 6,838,892 | 6,838,892 | 0 |
| Fund Balance at End of Year | <u>\$ 4,325,182</u> | <u>\$ 3,861,833</u> | <u>\$ 4,705,323</u> | <u>\$ 843,490</u> |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

***Statement of Net Assets
Fiduciary Funds
December 31, 2004***

| | <u>Agency</u> |
|---------------------------|----------------|
| Assets: | |
| Cash and Cash Equivalents | \$ 918,699 |
| Total Assets | <u>918,699</u> |
| Liabilities: | |
| Intergovernmental Payable | 293,704 |
| Due to Others | <u>624,995</u> |
| Total Liabilities | <u>918,699</u> |
| Total Net Assets | <u>\$ 0</u> |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lyndhurst, Ohio (the City) was incorporated on January 16, 1951 and is a home rule municipal corporation created under the laws of the State of Ohio. The City operates a Mayor-Council form of government.

The accompanying basic financial statements of the City are presented as of December 31, 2004 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

A legally separate organization is a component unit of the primary government if (1) the primary government is financially accountable for the organization, (2) the nature and significance of the relationship between the primary government and the organization are such that the exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete, or (3) the organization is closely related to or financially integrated with the primary government. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, agencies, boards and commissions that are part of the primary government, which includes the following services: fire and police protection, emergency medical response, parks, recreation, planning, zoning, street construction and maintenance, refuse collection and other governmental services.

The City is associated with three organizations, two are defined as joint ventures and one is defined as a jointly governed organization. The joint venture organizations are the Tri-City Consortium on Aging and the South Euclid-Lyndhurst Recreation Commission. The jointly governed organization is the Northeast Ohio Public Energy Council. These organizations are presented in Notes 13 and 14 of the notes to the basic financial statements.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the basic financial statements. The following fund types are used by the City:

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Governmental Funds

The governmental funds are those funds through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary fund) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's major governmental funds:

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

General Obligation Bond Retirement Fund - This fund is used for the accumulation of resources for, and the payment of, principal and interest on general obligation debt.

Permanent Improvement Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Capital Reserve Fund - This fund is used to account for financial resources set aside by other capital projects funds to be used for the acquisition or construction of major capital facilities.

Street Improvement Fund - This fund is used to account for financial resources to be used for street improvements.

Fiduciary Funds

Agency Funds - These funds are used to account for assets held by a government unit as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Basis of Presentation – Financial Statements

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 City has no activities considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements, and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 31 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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. Revenue from property taxes is recognized in the period in which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, interest on investments, and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenue, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, is recorded as revenue when received in cash because it is generally not measurable until received.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent periods when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Property taxes which are measurable at December 31, 2004, but which are not intended to finance 2004 operations or are recorded as deferred revenue as further described in Note 5.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year. All funds, other than agency funds, are legally required to be budgeted and appropriated; however, only the General Fund is required to be reported. Budgetary modifications above the major object level by fund may only be made by ordinance of the City Council.

1. Tax Budget

The Mayor submits an annual tax budget for the following fiscal year to City Council by July 15 for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2004.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level, and may be modified during the year by ordinance of the City Council. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. Expenditures may not legally exceed budgeted appropriations at the object level. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual—General Fund" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budgetary basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying basic financial statements.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Lapsing of Appropriations

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

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

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

| | <u>Net Change In Fund Balance</u> |
|--|-----------------------------------|
| | <u>General Fund</u> |
| GAAP Basis (as reported) | (\$1,696,173) |
| Increase (Decrease): | |
| Accrued Revenues at December 31, 2004 received during 2005 | (671,364) |
| Accrued Revenues at December 31, 2003 received during 2004 | 703,685 |
| Accrued Expenditures at December 31, 2004 paid during 2005 | 498,331 |
| Accrued Expenditures at December 31, 2003 paid during 2004 | (684,583) |
| 2003 Prepays for 2004 | 103,579 |
| 2004 Prepays for 2005 | (106,004) |
| Outstanding Encumbrances | <u>(281,040)</u> |
| Budgetary Basis | <u><u>(\$2,133,569)</u></u> |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, the State Treasury Asset Reserve (STAR Ohio) and short-term certificates of deposit. The certificates of deposit are considered cash equivalents because they are highly liquid investments with original maturity dates of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and cash equivalents represents the balance on hand as if each fund maintained its own cash and cash equivalent account. See Note 4, "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit) which are reported at cost. The City allocates interest among the various funds based upon applicable legal and administrative requirements. See Note 4, "Cash, Cash Equivalents and Investments."

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

H. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds. The cost of inventory items are recorded as expenditures in the governmental funds when purchased.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets and Depreciation

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

2. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

| Description | Estimated Lives (in years) |
|--|----------------------------|
| Buildings | 15 - 50 |
| Improvements other than Buildings | 25 |
| Infrastructure | 10 - 65 |
| Machinery, Equipment, Furniture and Fixtures | 5 - 10 |

K. Long-Term Debt

Long-term debt is being repaid from the following funds:

| Obligation | Fund |
|--|--|
| General Obligation Bonds | General Bond Retirement Fund |
| Special Assessment Bonds | General Bond Retirement Fund |
| Compensated Absences | General Fund Street Construction, Maintenance and Repair Fund |
| Intergovernmental Payable - Accrued Pension | General Fund Street Construction, Maintenance and Repair Fund Court Special Projects Fund Community Center Fund, Court EDP Fund Sewer Maintenance Fund Police Pension Fund Fire Pension Fund |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences

In accordance with GASB Statement No. 16, "*Accounting for Compensated Absences*," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

Compensated absences accumulated by governmental fund type employees are reported as an expense when earned in the government-wide financial statements. For governmental fund financial statements, that portion of unpaid compensated absences expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid. The noncurrent portion of the liability is not reported.

M. Net Assets

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

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

N. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Interfund Activity

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

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for supplies inventory, prepaid items, debt service and encumbered amounts that have not been accrued at year end.

Q. Estimates

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

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 Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

CITY OF LYNDHURST, OHIO

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2004*

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets of governmental funds as reported in the government-wide statement of net assets. The following is a detailed listing of those reconciling items that are net adjustments or a combination of several transactions:

Other long-term assets not available to pay for current-period expenditures:

| | |
|--------------------------------------|--------------------|
| Delinquent Income Tax Revenue | \$667,381 |
| Delinquent Property Tax Revenue | 148,413 |
| Unrestricted Grants and Entitlements | 834,586 |
| Special Assessment Revenue | 927,087 |
| | <u>\$2,577,467</u> |

Long-Term liabilities not reported in the funds:

| | |
|------------------------------------|----------------------|
| General Obligation Bonds Payable | (\$2,670,000) |
| Special Assessment Bonds Payable | (20,000) |
| Accrued Interest on Long-Term Debt | (15,831) |
| Long-Term Notes Payable | (650,000) |
| Compensated Absences Payable | (780,648) |
| | <u>(\$4,136,479)</u> |

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CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government – wide statement of activities. The following is a detailed listing of those reconciling items that are net adjustments or a combination of several transactions:

Amount by which depreciation exceeded capital outlay in the current period:

| | |
|----------------------|--------------------|
| Capital Outlay | \$873,123 |
| Depreciation Expense | <u>(3,334,989)</u> |
| | (\$2,461,866) |

Governmental revenues not reported in the funds:

| | |
|--|---------------|
| Decrease in Delinquent Income Tax Revenue | (\$1,712,816) |
| Increase in Delinquent Property Tax | 29,678 |
| Decrease in Unrestricted Grants and Entitlements | (62,576) |
| Increase in Special Assessment Revenue | <u>23,345</u> |
| | (\$1,722,369) |

Expenses not requiring the use of current financial resources:

| | |
|--|--------------|
| Increase in Compensated Absences Payable | (\$82,853) |
| Increase in supplies inventory | <u>1,939</u> |
| | (\$80,914) |

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

Encumbrance System – Ohio Revised Code requires the City to reserve (encumber) appropriations when commitments are made. The City did not properly use the encumbrance method of accounting. For December 31, 2004, the City was in violation of ORC 5705.41 (D) for failure to certify the availability of funds for expenditure transactions.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of a majority of individual funds are combined to form a pool of cash and investments. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents." Ohio law requires the classification of funds held by the City into three categories:

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "cash equivalent" status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States Treasury notes, bills, bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- 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;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;
- Bonds and other obligations of the State of Ohio;
- 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
- The State Treasurer's Investment Fund (STAR Ohio).

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Investments:

- Category 1 Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the City's name.

A. Deposits

At year end the carrying amount of the City's deposits was \$575,215, and the bank balance was \$956,961. Federal depository insurance covered \$200,000 of the bank balance. All remaining deposits were classified as Category 3.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments

The City's investments at December 31, 2004 are summarized below:

| <u>Categorized Investments</u> | <u>Category 1</u> | <u>Category 3</u> | <u>Fair Value</u> |
|---|-------------------|--------------------|---------------------|
| City of Lyndhurst Special Assessment Bonds | | | |
| Portage Commodore S.A. Bond | \$20,000 | \$0 | \$20,000 |
| | <u>20,000</u> | <u>0</u> | <u>20,000</u> |
| Federal National Mortgage Association Notes | 0 | 4,231,595 | 4,231,595 |
| Federal Home Loan Corporation Notes | 0 | 3,381,706 | 3,381,706 |
| Total Categorized Investments | <u>20,000</u> | <u>7,613,301</u> | <u>7,633,301</u> |
| <u>Noncategorized Investments</u> | | | |
| STAR Ohio | N/A | N/A | 9,117,781 |
| Total Investments | <u>\$20,000</u> | <u>\$7,613,301</u> | <u>\$16,751,082</u> |

STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Investments with an original maturity of three months or less are treated as cash and cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per items A and B of this note are as follows:

| | <u>Cash and Cash Equivalents</u> | <u>Investments</u> |
|--------------------------|--------------------------------------|---------------------|
| Financial Statements | \$9,692,996 | \$7,633,301 |
| STAR Ohio | (9,117,781) | 9,117,781 |
| Per GASB Statement No. 3 | <u>\$575,215</u> | <u>\$16,751,082</u> |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 5 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2004 were levied after October 1, 2003 on assessed values as of January 1, 2003, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be reappraised every six years, and equalization adjustments are made in the third year following reappraisal. The last revaluation was completed in 2000. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value for capital assets and 23 percent of its true value for inventory. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually: the first payment is due April 30; 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. Public utility tangible personal property is assessed at varying percentages of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Lyndhurst. 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, 2004 was \$11.50 per \$1,000 of assessed value. The assessed value upon which the 2004 levy was based was \$463,036,002. This amount constitutes \$447,730,390, in real property assessed value, \$5,998,180 in public utility assessed value and \$9,307,432 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is 1.15% (11.5 mills) of assessed value.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 5 – TAXES (Continued)

B. Income Tax

The City levies a tax of 1.5% on substantially all income earned within the City. In addition, residents of the City are required to pay City income tax on income they earn outside the City. However, the City allows a credit of a maximum of 50% of the first one and one-half percent of income tax paid to another municipality.

Employers within the City are required to withhold income tax on employees compensation and remit the tax either monthly or quarterly, as required, to the Regional Income Tax Agency which serves as the City’s agent for collection of their income tax. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. All income tax proceeds are received by the General Fund.

NOTE 6 - RECEIVABLES

Receivables at December 31, 2004 consisted of taxes, special assessments, interest, accounts receivable and intergovernmental receivables arising from shared revenues. All receivables other than those offset by deferred revenues are considered collectible in full.

NOTE 7 - TRANSFERS

The following is a summary of transfers in and out for all funds for 2004:

| | Transfers In: | | | | |
|--|---|----------------------------------|-------------------------------|-----------------------------------|-------------|
| | General Obligation Bond Retirement Fund | Permanent Improvement Fund | Street Improvement Fund | Nonmajor Governmental Funds | Total |
| General Fund | \$130,000 | \$0 | \$946,681 | \$222,889 | \$1,299,570 |
| General Obligation Bond Retirement Fund | 0 | 308,100 | 0 | 658,681 | 966,781 |
| | \$130,000 | \$308,100 | \$946,681 | \$881,570 | \$2,266,351 |

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 8 – CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2004:

Historical Cost:

| Class | December 31, 2003 | Additions | Deletions | December 31, 2004 |
|---|----------------------|------------------|--------------------|----------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$394,193 | \$0 | \$0 | \$394,193 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings | 9,672,438 | 52,159 | 0 | 9,724,597 |
| Improvements Other than Buildings | 2,499,873 | 3,059 | 0 | 2,502,932 |
| Infrastructure | 108,916,309 | 0 | 0 | 108,916,309 |
| Machinery and Equipment | 6,042,131 | 817,905 | (122,799) | 6,737,237 |
| Total Cost | <u>\$127,524,944</u> | <u>\$873,123</u> | <u>(\$122,799)</u> | <u>\$128,275,268</u> |

Accumulated Depreciation:

| Class | December 31, 2003 | Additions | Deletions | December 31, 2004 |
|-----------------------------------|-----------------------|------------------------|----------------|-----------------------|
| Buildings | (\$2,277,885) | (\$193,582) | \$0 | (\$2,471,467) |
| Improvements Other than Buildings | (891,922) | (99,628) | 0 | (991,550) |
| Infrastructure | (35,498,194) | (2,580,794) | 0 | (38,078,988) |
| Machinery and Equipment | (2,970,856) | (460,985) | 7,342 | (3,424,499) |
| Total Depreciation | <u>(\$41,638,857)</u> | <u>(\$3,334,989) *</u> | <u>\$7,342</u> | <u>(\$44,966,504)</u> |
| <i>Net Value:</i> | <u>\$85,886,087</u> | | | <u>\$83,308,764</u> |

* Depreciation expenses were charged to governmental functions as follows:

| | |
|----------------------------------|--------------------|
| Security of Persons and Property | \$187,819 |
| Leisure Time Activities | 6,556 |
| Community Development | 212,005 |
| Basic Utility Services | 1,122,988 |
| Transportation | 1,554,936 |
| General Government | 250,685 |
| Total Depreciation Expense | <u>\$3,334,989</u> |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 9 – DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Ohio Public Employees Retirement System (the "Ohio PERS")

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD 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 MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2004, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2004 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.55% to fund the pension and 4.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2004, 2003 and 2002 were \$515,705, \$490,877 and \$462,167, respectively, which were equal to the required contributions for each year.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

The Ohio PERS provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2004 employer contribution rate (identified above) that was used to fund health care for the year 2004 was 4.0% of covered payroll which amounted to \$152,238.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2003 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 369,885. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2003 (the latest information available) was \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

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

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2004, 2003 and 2002 were \$384,883, \$369,946 and \$373,179 for police and \$377,695, \$374,560 and \$392,339 for firefighters, respectively, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2004 covered payroll that was used to fund postemployment health care benefits was \$152,966 representing 7.75% of covered payroll for police and \$121,964 representing 7.75% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2003, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,662 for police and 10,474 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2003 (the latest information available) were \$150,853,148, which was net of member contributions of \$17,207,506.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 10 – COMPENSATED ABSENCES

The costs of vacation and sick leave benefits are recorded as they are earned. Employees earn sick and vacation leave at varying rates based upon length of service. Upon retirement, and in certain instances, termination, an individual will be compensated for their accumulated sick leave at a maximum rate of 45% of the balance.

At December 31, 2004, the City's accumulated, unpaid compensated absences amounted to \$780,648, which is recorded as a liability of the Governmental Activities.

NOTE 11 - NOTES PAYABLE

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to, and payable no later than, those principal maturities required if the bonds had been issued at the expiration of the initial five year period. Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or from available funds of the City or a combination of these sources.

| Issue | Balance 1/1/2004 | Issued (Retired) | Balance 12/31/2004 |
|--------------------------|---------------------|---------------------|-----------------------|
| Bond Anticipation Notes: | | | |
| 1.350% Community Center | \$300,000 | (\$300,000) | \$0 |
| 1.350% Community Center | 0 | 300,000 | 300,000 |
| Total Notes Payable | <u>\$300,000</u> | <u>\$0</u> | <u>\$300,000</u> |

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CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 12 - LONG-TERM DEBT

Long-term debt of the City at December 31, 2004 was as follows:

| | | Balance December 31, 2003 | Issued | (Retired) | Balance December 31, 2004 | Due Within One Year |
|--|------|---------------------------------|-------------|---------------|---------------------------------|---------------------------|
| Governmental Activities: | | | | | | |
| General Obligation Bonds: | | | | | | |
| 5.625% Street Improvement | 1977 | | | | | |
| Various Purpose Bonds | | \$360,000 | \$0 | (\$360,000) | \$0 | \$0 |
| 2.000% Recreational Facilities | 2003 | 2,825,000 | 0 | (155,000) | 2,670,000 | 155,000 |
| Total General Obligation Bonds | | 3,185,000 | 0 | (515,000) | 2,670,000 | 155,000 |
| Special Assessment Bonds: | | | | | | |
| 10.000% Richmond Road Sewer | 1984 | 2,000 | 0 | (2,000) | 0 | 0 |
| 8.000% Portage Commodore | 1989 | 24,000 | 0 | (4,000) | 20,000 | 4,000 |
| Total Special Assessment Bonds with Governmental Commitment | | 26,000 | 0 | (6,000) | 20,000 | 4,000 |
| Long-Term Notes: | | | | | | |
| 1.350% Community Center | 2003 | 300,000 | 0 | (300,000) | 0 | 0 |
| 1.350% Street Improvement | 2003 | 650,000 | 650,000 | (650,000) | 650,000 | 650,000 |
| Total Long-Term Notes | | 950,000 | 650,000 | (950,000) | 650,000 | 650,000 |
| Compensated Absences | | 697,795 | 780,648 | (697,795) | 780,648 | 213,220 |
| Total Governmental Activities | | \$4,858,795 | \$1,430,648 | (\$2,168,795) | \$4,120,648 | \$1,022,220 |

Special assessment debt service is financed by assessments to affected property owners. However, the City is ultimately responsible for the debt service if the assessments are not collected. Delinquent special assessments related to outstanding special assessment bonded debt at year end were \$152.

The City's future long-term obligation funding requirements, including principal and interest payments as of December 31, 2004, follow:

| Years | General Obligation Bonds | | Special Assessment Bonds | |
|-----------|--------------------------|-----------|--------------------------|----------|
| | Principal | Interest | Principal | Interest |
| 2005 | \$155,000 | \$53,400 | \$4,000 | \$1,600 |
| 2006 | 160,000 | 50,300 | 4,000 | 1,280 |
| 2007 | 165,000 | 57,698 | 4,000 | 960 |
| 2008 | 165,000 | 63,510 | 4,000 | 640 |
| 2009 | 170,000 | 63,788 | 4,000 | 320 |
| 2010-2014 | 950,000 | 282,271 | 0 | 0 |
| 2015-2018 | 905,000 | 96,854 | 0 | 0 |
| Totals | \$2,670,000 | \$667,821 | \$20,000 | \$4,800 |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During 2004 the City contracted with several different insurance providers for various insurance coverages, as follows:

| <u>Insurance Provider</u> | <u>Coverage</u> | <u>Deductible</u> |
|----------------------------------|----------------------------|---|
| Clarendon Insurance Company | Automobile | \$250 Comprehensive; \$1,000 Collision |
| Clarendon Insurance Company | General Liability | \$0 |
| Great American Insurance Company | Property Casualty | \$1,000 |
| Great American Insurance Company | Inland Marine | \$500 |
| Great American Insurance Company | Boiler and Machinery | \$1,000 |
| Clarendon Insurance Company | Police Liability | \$10,000 |
| Clarendon Insurance Company | Public Officials Liability | \$10,000 |
| Clarendon Insurance Company | Employment Practices | \$10,000 |
| Clarendon Insurance Company | Umbrella | \$10,000 |

Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years. There has been no significant reduction in insurance coverages from coverages in the prior year.

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.

NOTE 14 – JOINT VENTURES

A. Tri-City Consortium on Aging:

The Tri-City Consortium on Aging (Consortium) is a joint venture among the Cities of South Euclid, Lyndhurst and Highland Heights, formed for the purpose of coordinating among the Cities all matters related to assistance and programs for the aged. Consortium revenues consist of contributions from the member Cities and federal grants. The Consortium is controlled by the Council of Governments composed of the Mayors of the Cities of South Euclid, Lyndhurst and Highland Heights, with the advice of a nine member commission. Continued existence of the Consortium is dependent on the City, however, the City of Lyndhurst has no explicit and measurable equity in the Consortium. The Consortium is not accumulating financial resources or experiencing fiscal stress, which would cause additional financial benefit or burden on the City. In 2004, the City contributed \$133,452. To obtain a copy of the Consortium's financial statements, write to the Tri-City Consortium on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 14 – JOINT VENTURES (Continued)

B. South Euclid-Lyndhurst Recreation Commission:

The South Euclid-Lyndhurst Recreation Commission (SELREC) is a joint venture that is jointly owned and operated by the Cities of South Euclid and Lyndhurst and the South Euclid-Lyndhurst City School District for the purpose of operating the Cities and School District's play fields and indoor recreation centers. Each of these governments supports SELREC through funds that are appropriated in their budgets and each shares in the equity of SELREC.

The operation of the SELREC is controlled by a nine member board consisting of the following: one member appointed by the Mayor of the City of South Euclid and one member appointed by the Mayor of the City of Lyndhurst, three members that are residents of the City of South Euclid, three members that are residents of the City of Lyndhurst and one member that is a resident of the South Euclid-Lyndhurst City School District and that lives in either the City of South Euclid or the City of Lyndhurst (jointly appointed by the Mayors of the City of South Euclid and Lyndhurst). The City has an ongoing financial responsibility because the continued existence of the joint venture depends on the City's continued participation. SELREC is not accumulating significant financial resources or experiencing fiscal stress, which would cause additional benefit or burden on the City. In 2004, the City contributed \$24,949. The City also has measurable equity interest in SELREC because the joint venture agreement stipulates that the participants have a claim to assets and sets forth the method of distribution upon dissolution of the joint venture. SELREC has no capital assets. SELREC is audited on a two-year basis; the latest reported is for the fiscal year ended June 30, 2004. Financial statements can be obtained by contacting the fiscal agent, South Euclid-Lyndhurst City School District, 6044 Mayfield Road, Lyndhurst, Ohio 44124.

NOTE 15 – JOINTLY GOVERNED ORGANIZATION

Northeast Ohio Public Energy Council:

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 112 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.

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 Lyndhurst did not contribute to NOPEC during 2004. Financial information can be obtained by contacting Joseph Migliorini, the Board Chairman, at 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 16 - CONTINGENCIES

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect on the financial condition of the City.

NOTE 17 – SUBSEQUENT EVENTS

On March 13, 2005 the City issued \$850,000 in one year General Obligation Notes to pay for Street Improvements. The notes had an interest rate of 2.65%.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2003***

Unaudited

The discussion and analysis of the City of Lyndhurst's (the City) financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2003 are as follows:

- In total, net assets increased approximately \$1.8 million, which represents a 1.8% increase from 2002.
- General revenues accounted for approximately \$17.6 million in revenue or 85.8% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for 14.2% of total revenues of approximately \$20.5 million.
- The City had approximately \$18.7 million in expenses related to governmental activities; only approximately \$2.9 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of approximately \$17.6 million were adequate to provide for these programs.
- Among major funds, the general fund had approximately \$13 million in revenues and approximately \$12.3 million in expenditures. The general fund's fund balance increased \$742,397 to approximately \$7 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2003***

Unaudited

Government-wide Statements

The government-wide statements report information about the City as a whole using accepting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net-assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as property tax base, income tax base, current property tax laws, conditions of the City's streets and continued growth within the City.

The government-wide financial statements of the City are divided into two categories:

- *Governmental Activities* – The City's programs and services that are reported here include security of persons and property, public health and welfare services, leisure time activities, community environment, basic utility services, transportation and general government.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City has no business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

Governmental Funds – Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance City activities. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2003***

Unaudited

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets.

The presentation of the City's major funds begins on page 60. The City's major funds are the General Fund, General Obligation Bond Retirement Fund, the Permanent Improvement Fund and the Capital Reserve Fund.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior year's information is not available. A comparative analysis will be provided in future years when prior year's information is available.

| | Governmental Activities |
|--|-----------------------------|
| | <u>2003</u> |
| Current and other assets | \$27,954,172 |
| Capital assets, Net | <u>85,886,087</u> |
| Total assets | 113,840,259 |
| Long-term liabilities | 4,858,795 |
| Other liabilities | <u>5,927,406</u> |
| Total liabilities | 10,786,201 |
| Net assets | |
| Invested in capital assets, net of related debt | 81,425,087 |
| Restricted | 11,150,587 |
| Unrestricted | <u>10,478,384</u> |
| Total net assets | <u><u>\$103,054,058</u></u> |

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2003***

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2003:

| | <u>Governmental Activities</u> |
|--------------------------------------|------------------------------------|
| | <u>2003</u> |
| Revenues | |
| Program revenues: | |
| Charges for Services and Sales | \$2,017,335 |
| Operating Grants and Contributions | 555,787 |
| Capital Grants and Contributions | 342,096 |
| General revenues: | |
| Property Taxes | 3,946,976 |
| Municipal Income Taxes | 9,439,711 |
| Other Local Taxes | 139,888 |
| Unrestricted Grants and Entitlements | 3,631,922 |
| Investment Earnings | 367,972 |
| Miscellaneous | <u>102,272</u> |
| Total revenues | 20,543,959 |
| Program Expenses | |
| Security of Persons and Property | 6,101,544 |
| Public Health and Welfare Services | 47,365 |
| Leisure Time Activities | 1,431,149 |
| Community Environment | 644,912 |
| Basic Utility Services | 2,259,942 |
| Transportation | 4,158,871 |
| General Government | 3,884,671 |
| Interest and Fiscal Charges | <u>208,145</u> |
| Total expenses | 18,736,599 |
| Total Change in Net Assets | 1,807,360 |
| Net Assets Beginning of Year | <u>101,246,698</u> |
| Net Assets End of Year | <u>\$103,054,058</u> |

Governmental Activities

Net assets of the City's governmental activities increased by \$1,807,360. This was due primarily to an increase in income tax revenue, while holding operating expenses to a minimal increase. The income tax revenue increase was a result of an increased withholdings at TRW due to employees' separation benefits.

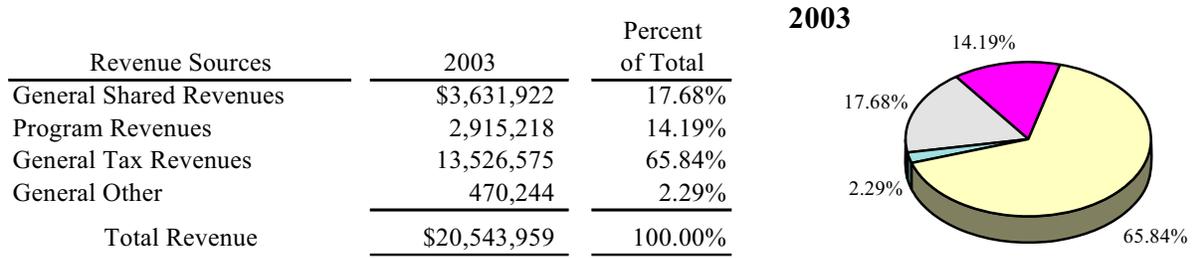
The City also receives an income tax, which is based on 1.5% of all salaries, wages, commissions and other compensation earned from residents living within the City and from nonresidents for work done or services performed or rendered in the City. Residents who work outside the City and are subject to a municipal income tax receive a 50% credit against the income tax liability due to Lyndhurst.

CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

Unaudited

Property taxes and income taxes made up 19.2% and 46%, respectively of revenues for governmental activities for the City in fiscal year 2003. The City's reliance upon tax revenues is demonstrated by the following graph indicating approximately 66% of total revenues from general tax revenues:



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$17,766,817, which is an increase from last year's balance of \$14,901,532. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2003 and 2002:

| | Fund Balance December 31, 2003 | Fund Balance December 31, 2002 | Increase (Decrease) |
|------------------------------------|-----------------------------------|-----------------------------------|------------------------|
| General | \$6,961,573 | \$6,219,176 | \$742,397 |
| General Obligation Bond Retirement | 284,775 | 560,651 | (275,876) |
| Permanent Improvement | 3,813,982 | 1,471,359 | 2,342,623 |
| Capital Reserve | 3,142,076 | 3,076,677 | 65,399 |
| Other Governmental | 3,564,411 | 3,573,669 | (9,258) |
| Total | \$17,766,817 | \$14,901,532 | \$2,865,285 |

General Fund – The City's General Fund balance increase is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

| | 2003 Revenues | 2002 Revenues | Increase (Decrease) |
|---------------------------|---------------------|---------------------|------------------------|
| Taxes | \$10,311,058 | \$7,926,821 | \$2,384,237 |
| Intergovernmental Revenue | 1,082,371 | 2,673,006 | (1,590,635) |
| Charges for Services | 134,344 | 94,100 | 40,244 |
| Fines and Forfeitures | 1,418,661 | 1,027,461 | 391,200 |
| All Other Revenue | 131,940 | 171,149 | (39,209) |
| Total | \$13,078,374 | \$11,892,537 | \$1,185,837 |

CITY OF LYNDHURST, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2003*

Unaudited

General Fund revenues in 2003 increased approximately 10% compared to revenues in fiscal year 2002. The most significant factor contributing to this increase was municipal income tax collection and increases in fines and forfeitures. The increases offset losses in the intergovernmental revenues.

| | 2003 | 2002 | Increase |
|------------------------------------|---------------------|---------------------|-------------------|
| | <u>Expenditures</u> | <u>Expenditures</u> | <u>(Decrease)</u> |
| Security of Persons and Property | \$5,413,247 | \$5,091,193 | \$322,054 |
| Public Health and Welfare Services | 47,365 | 45,073 | 2,292 |
| Leisure Time Activities | 728,123 | 618,474 | 109,649 |
| Community Environment | 410,150 | 377,568 | 32,582 |
| Basic Utility Services | 1,251,149 | 1,192,043 | 59,106 |
| General Government | <u>3,305,943</u> | <u>2,929,398</u> | <u>376,545</u> |
| Total | <u>\$11,155,977</u> | <u>\$10,253,749</u> | <u>\$902,228</u> |

General Fund expenditures increased by \$902,228 or 8.8% over the prior year mostly due to increases in salary and wages, retirement contributions, and health insurance premiums for the City's employees. In addition, operating expenses associated with community environment increased due to residential and business growth during 2003.

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

During the course of fiscal year 2003 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of approximately \$11.3 million did not significantly change over the original budget estimates of approximately \$11.35 million. The General Fund had an adequate fund balance to cover expenditures.

CITY OF LYNDHURST, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2003*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2003 the City had \$85,886,087 net of accumulated depreciation invested in land, improvements, infrastructure, buildings and machinery and equipment. The following table shows fiscal year 2003 and 2002 balances (net of accumulated depreciation):

| | Governmental Activities | | Increase (Decrease) |
|-----------------------------------|----------------------------|--------------|------------------------|
| | 2003 | 2002 * | |
| Land | \$394,193 | \$394,193 | \$0 |
| Improvements Other than Buildings | 1,607,951 | 1,104,378 | 503,573 |
| Infrastructure | 73,418,115 | 75,998,909 | (2,580,794) |
| Buildings | 7,394,553 | 6,916,225 | 478,328 |
| Machinery and Equipment | 3,071,275 | 2,819,468 | 251,807 |
| Totals | \$85,886,087 | \$87,233,173 | (\$1,347,086) |

* Restated – see Note 2.

The primary increases occurred in buildings and improvements other than buildings. The increase in buildings resulted from the completion of the bathhouse (\$619,000). The increase in improvements other than buildings resulted from the completion of the pool (\$454,000).

As of December 31, 2003, the City has contractual commitments of \$179,812. These projects include a sewer rehabilitation project and asphalt resurfacing project. Additional information on the City's capital assets can be found in Note 9.

Debt

At December 31, 2003, the City had \$3.2 million in bonds outstanding, \$521,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2003 and 2002:

| | 2003 | 2002 |
|-------------------------------|-------------|-------------|
| Governmental Activities: | | |
| General Obligation Bonds | \$3,185,000 | \$855,000 |
| Special Assessment Bonds | 26,000 | 33,000 |
| Short-Term Notes | 300,000 | 3,050,000 |
| Long-Term Notes | 950,000 | 1,250,000 |
| Compensated Absences | 697,795 | 642,110 |
| Total Governmental Activities | \$5,158,795 | \$5,830,110 |

State statutes limit the amount of unvoted general obligation debt the City may issue. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions with other political subdivisions. The actual aggregate amount of the City's unvoted debt, when added to that of other political subdivisions within the county in which Lyndhurst lies, is limited to 11.5 mills. At December 31, 2003, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 14.

CITY OF LYNDHURST, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2003***

Unaudited

ECONOMIC FACTORS

The TRW Corporation, a major employer in the City of Lyndhurst, was purchased by another aerospace corporation, which closed the TRW facility. The City had an income tax revenue increase due to the increased withholdings at TRW resulting from employees' termination benefits.

With the closure of TRW, the City added, in the same facility, the Cleveland Clinic administration offices. In an undeveloped portion of the TRW site, the property was developed as Legacy Village, and upscale commercial center.

REQUESTS FOR INFORMATION

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 the money it receives. If you have questions about this report or need additional financial information contact the Finance Department by calling 440-442-5777 or writing to City of Lyndhurst Finance Department, 5301 Mayfield Road, Lyndhurst, Ohio 44124.

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CITY OF LYNDHURST, OHIO

Statement of Net Assets
December 31, 2003

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Cash and Cash Equivalents | \$ 10,001,273 |
| Investments | 8,022,988 |
| Receivables: | |
| Taxes | 7,893,770 |
| Accounts | 16,195 |
| Intergovernmental | 978,795 |
| Interest | 11 |
| Special Assessments | 903,742 |
| Inventory of Supplies at Cost | 33,819 |
| Prepaid Items | 103,579 |
| Capital Assets: | |
| Capital Assets Not Being Depreciated | 394,193 |
| Capital Assets Being Depreciated, Net | <u>85,491,894</u> |
| Total Assets | <u>113,840,259</u> |
| Liabilities: | |
| Accounts Payable | 455,111 |
| Accrued Wages and Benefits | 789,085 |
| Deferred Revenue | 4,343,323 |
| Accrued Interest Payable | 39,887 |
| General Obligation Notes Payable | 300,000 |
| Long-Term Liabilities: | |
| Due Within One Year | 1,635,826 |
| Due in More Than One Year | <u>3,222,969</u> |
| Total Liabilities | <u>10,786,201</u> |
| Net Assets: | |
| Invested in Capital Assets, Net of Related Debt | 81,425,087 |
| Restricted For: | |
| Capital Projects | 7,941,100 |
| Debt Service | 382,515 |
| Other Purposes | 2,826,972 |
| Unrestricted | <u>10,478,384</u> |
| Total Net Assets | <u>\$ 103,054,058</u> |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

Statement of Activities
For the Year Ended December 31, 2003

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---|--------------------------------------|--|--|----------------------------|--|
| Expenses | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | |
| Governmental Activities: | | | | | |
| Security of Persons and Property | \$ 6,101,544 | \$ 304,114 | \$ 33,545 | \$ 62,460 | \$ (5,701,425) |
| Public Health and Welfare Services | 47,365 | 0 | 0 | 0 | (47,365) |
| Leisure Time Activities | 1,431,149 | 163,326 | 0 | 0 | (1,267,823) |
| Community Environment | 644,912 | 335,013 | 205,076 | 0 | (104,823) |
| Basic Utility Services | 2,259,942 | 17,123 | 317,166 | 279,636 | (1,646,017) |
| Transportation | 4,158,871 | 40,174 | 0 | 0 | (4,118,697) |
| General Government | 3,884,671 | 1,157,585 | 0 | 0 | (2,727,086) |
| Interest and Fiscal Charges | 208,145 | 0 | 0 | 0 | (208,145) |
| Total Governmental Activities | \$ 18,736,599 | \$ 2,017,335 | \$ 555,787 | \$ 342,096 | (15,821,381) |
| General Revenues | | | | | |
| Property Taxes | | | | | 3,946,976 |
| Municipal Income Taxes | | | | | 9,439,711 |
| Other Local Taxes | | | | | 139,888 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 3,631,922 |
| Investment Earnings | | | | | 367,972 |
| Miscellaneous | | | | | 102,272 |
| Total General Revenues | | | | | 17,628,741 |
| Change in Net Assets | | | | | 1,807,360 |
| Restated Net Assets Beginning of Year (See Note 2) | | | | | 101,246,698 |
| Net Assets End of Year | | | | | \$ 103,054,058 |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

**Balance Sheet
Governmental Funds
December 31, 2003**

| | General | General Obligation Bond Retirement | Permanent Improvement | Capital Reserve | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|---|--------------------------|---------------------|--------------------------------|--------------------------------|
| Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 3,427,663 | \$ 67,818 | \$ 1,815,923 | \$ 1,529,628 | \$ 3,160,241 | \$ 10,001,273 |
| Investments | 3,505,978 | 216,957 | 1,914,236 | 1,612,448 | 773,369 | 8,022,988 |
| Taxes | 5,698,534 | 1,350,438 | 611,996 | 0 | 232,802 | 7,893,770 |
| Accounts | 5,975 | 0 | 9,614 | 0 | 606 | 16,195 |
| Intergovernmental | 660,090 | 89,787 | 0 | 0 | 228,918 | 978,795 |
| Interest | 0 | 0 | 0 | 0 | 11 | 11 |
| Special Assessments | 0 | 325 | 0 | 0 | 903,417 | 903,742 |
| Inventory of Supplies, at Cost | 0 | 0 | 0 | 0 | 33,819 | 33,819 |
| Prepaid Items | 103,579 | 0 | 0 | 0 | 0 | 103,579 |
| Total Assets | <u>\$ 13,401,819</u> | <u>\$ 1,725,325</u> | <u>\$ 4,351,769</u> | <u>\$ 3,142,076</u> | <u>\$ 5,333,183</u> | <u>\$ 27,954,172</u> |
| Liabilities: | | | | | | |
| Accounts Payable | 138,390 | 0 | 84,788 | 0 | 231,933 | 455,111 |
| Accrued Wages and Benefits Payable | 546,193 | 0 | 0 | 0 | 242,892 | 789,085 |
| Deferred Revenue | 5,755,663 | 1,440,550 | 152,999 | 0 | 1,293,947 | 8,643,159 |
| General Obligation Notes Payable | 0 | 0 | 300,000 | 0 | 0 | 300,000 |
| Total Liabilities | <u>6,440,246</u> | <u>1,440,550</u> | <u>537,787</u> | <u>0</u> | <u>1,768,772</u> | <u>10,187,355</u> |
| Fund Balances: | | | | | | |
| Reserved for Encumbrances | 244,595 | 0 | 391,425 | 0 | 712,945 | 1,348,965 |
| Reserved for Prepaid Items | 103,579 | 0 | 0 | 0 | 0 | 103,579 |
| Reserved for Supplies Inventory | 0 | 0 | 0 | 0 | 33,819 | 33,819 |
| Reserved for Debt Service | 0 | 284,775 | 0 | 0 | 0 | 284,775 |
| Undesignated/Unreserved in: | | | | | | |
| General Fund | 6,613,399 | 0 | 0 | 0 | 0 | 6,613,399 |
| Special Revenue Funds | 0 | 0 | 0 | 0 | 1,640,346 | 1,640,346 |
| Capital Projects Funds | 0 | 0 | 3,422,557 | 3,142,076 | 1,177,301 | 7,741,934 |
| Total Fund Balances | <u>6,961,573</u> | <u>284,775</u> | <u>3,813,982</u> | <u>3,142,076</u> | <u>3,564,411</u> | <u>17,766,817</u> |
| Total Liabilities and Fund Balances | <u>\$ 13,401,819</u> | <u>\$ 1,725,325</u> | <u>\$ 4,351,769</u> | <u>\$ 3,142,076</u> | <u>\$ 5,333,183</u> | <u>\$ 27,954,172</u> |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
December 31, 2003***

| | |
|--|-------------------------------------|
| Total Governmental Fund Balances | \$ 17,766,817 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because</i> | |
| Capital Assets used in governmental activities are not resources and therefore are not reported in the funds. | 85,886,087 |
| Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds. | 4,299,836 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | <u>(4,898,682)</u> |
| <i>Net Assets of Governmental Funds</i> | <u><u>\$ 103,054,058</u></u> |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2003

| | General | General Obligation Bond Retirement | Permanent Improvement | Capital Reserve | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---|--------------------------|---------------------|--------------------------------|--------------------------------|
| Revenues: | | | | | | |
| Property Taxes | \$ 2,928,680 | \$ 823,037 | \$ 0 | \$ 0 | \$ 205,394 | \$ 3,957,111 |
| Municipal Income Tax | 7,382,378 | 0 | 0 | 0 | 0 | 7,382,378 |
| Other Local Taxes | 0 | 0 | 75,906 | 0 | 63,982 | 139,888 |
| Intergovernmental Revenues | 1,082,371 | 111,746 | 1,672,453 | 0 | 448,749 | 3,315,319 |
| Charges for Services | 134,344 | 0 | 0 | 0 | 0 | 134,344 |
| Investment Earnings | 0 | 23,409 | 125,757 | 106,161 | 112,645 | 367,972 |
| Special Assessments | 0 | 7,717 | 0 | 0 | 878,626 | 886,343 |
| Fines and Forfeitures | 1,418,661 | 0 | 0 | 0 | 302,257 | 1,720,918 |
| All Other Revenue | 131,940 | 0 | 0 | 0 | 108,656 | 240,596 |
| Total Revenue | 13,078,374 | 965,909 | 1,874,116 | 106,161 | 2,120,309 | 18,144,869 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Security of Persons and Property | 5,413,247 | 0 | 155,590 | 40,762 | 839,335 | 6,448,934 |
| Public Health and Welfare Services | 47,365 | 0 | 0 | 0 | 0 | 47,365 |
| Leisure Time Activities | 728,123 | 0 | 1,582,095 | 0 | 179,080 | 2,489,298 |
| Community Environment | 410,150 | 0 | 2,916 | 0 | 216,179 | 629,245 |
| Basic Utility Services | 1,251,149 | 0 | 356,021 | 0 | 590,815 | 2,197,985 |
| Transportation | 0 | 0 | 14,973 | 0 | 1,558,648 | 1,573,621 |
| General Government | 3,305,943 | 576 | 207,206 | 0 | 222,034 | 3,735,759 |
| Debt Service: | | | | | | |
| Principal Retirement | 0 | 502,000 | 600,000 | 0 | 650,000 | 1,752,000 |
| Interest & Fiscal Charges | 0 | 137,234 | 42,884 | 0 | 12,675 | 192,793 |
| Total Expenditures | 11,155,977 | 639,810 | 2,961,685 | 40,762 | 4,268,766 | 19,067,000 |
| Excess (Deficiency) of Revenues Over Expenditures | 1,922,397 | 326,099 | (1,087,569) | 65,399 | (2,148,457) | (922,131) |
| Other Financing Sources (Uses): | | | | | | |
| Sale of Capital Assets | 0 | 0 | 15,892 | 0 | 0 | 15,892 |
| General Obligation Bonds Issued | 0 | 0 | 2,825,000 | 0 | 0 | 2,825,000 |
| General Obligation Notes Issued | 0 | 0 | 300,000 | 0 | 650,000 | 950,000 |
| Transfers In | 0 | 60,700 | 289,300 | 0 | 1,492,675 | 1,842,675 |
| Transfers Out | (1,180,000) | (662,675) | 0 | 0 | 0 | (1,842,675) |
| Total Other Financing Sources (Uses) | (1,180,000) | (601,975) | 3,430,192 | 0 | 2,142,675 | 3,790,892 |
| Net Change in Fund Balances | 742,397 | (275,876) | 2,342,623 | 65,399 | (5,782) | 2,868,761 |
| Fund Balances at Beginning of Year | 6,219,176 | 560,651 | 1,471,359 | 3,076,677 | 3,573,669 | 14,901,532 |
| Decrease in Inventory Reserve | 0 | 0 | 0 | 0 | (3,476) | (3,476) |
| Fund Balances End of Year | \$ 6,961,573 | \$ 284,775 | \$ 3,813,982 | \$ 3,142,076 | \$ 3,564,411 | \$ 17,766,817 |

CITY OF LYNDHURST, OHIO

Reconciliation Of The Statement Of Revenues, Expenditures And Changes In Fund Balances Of Governmental Funds To The Statement Of Activities For The Fiscal Year Ended December 31, 2003

Net Change in Fund Balances - Total Governmental Funds \$ 2,868,761

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. (1,306,701)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets net of proceeds received. (40,385)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 2,383,198

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. (2,023,000)

In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. (15,352)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (59,161)

Change in Net Assets of Governmental Activities \$ 1,807,360

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2003**

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|-----------------|--------------|--------------|---|
| Revenues: | | | | |
| Property Taxes | \$ 2,936,539 | \$ 2,933,874 | \$ 2,928,680 | \$ (5,194) |
| Municipal Income Tax | 5,557,000 | 5,957,000 | 7,356,086 | 1,399,086 |
| Intergovernmental Revenue | 1,472,022 | 1,035,468 | 1,068,621 | 33,153 |
| Charges for Services | 90,460 | 90,460 | 133,815 | 43,355 |
| Fines and Forfeitures | 1,125,518 | 1,125,518 | 1,412,352 | 286,834 |
| All Other Revenues | 173,900 | 173,900 | 133,610 | (40,290) |
| Total Revenues | 11,355,439 | 11,316,220 | 13,033,164 | 1,716,944 |
| Expenditures: | | | | |
| Current: | | | | |
| Security of Persons and Property | 5,617,965 | 5,551,965 | 5,425,305 | 126,660 |
| Public Health and Welfare Services | 47,365 | 47,365 | 47,365 | 0 |
| Leisure Time Activities | 736,737 | 765,237 | 734,737 | 30,500 |
| Community Environment | 362,240 | 434,440 | 431,821 | 2,619 |
| Basic Utility Services | 1,276,104 | 1,279,604 | 1,277,247 | 2,357 |
| General Government | 3,393,482 | 3,355,282 | 3,256,302 | 98,980 |
| Total Expenditures | 11,433,893 | 11,433,893 | 11,172,777 | 261,116 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (78,454) | (117,673) | 1,860,387 | 1,978,060 |
| Other Financing Sources (Uses): | | | | |
| Transfers Out | (1,080,000) | (1,180,000) | (1,180,000) | 0 |
| Total Other Financing Sources (Uses): | (1,080,000) | (1,180,000) | (1,180,000) | 0 |
| Net Change In Fund Balance | (1,158,454) | (1,297,673) | 680,387 | 1,978,060 |
| Fund Balance at Beginning of Year | 5,746,467 | 5,746,467 | 5,746,467 | 0 |
| Prior Year Encumbrances | 141,099 | 141,099 | 141,099 | 0 |
| Fund Balance at End of Year | \$ 4,729,112 | \$ 4,589,893 | \$ 6,567,953 | \$ 1,978,060 |

See accompanying notes to the basic financial statements

CITY OF LYNDHURST, OHIO

***Statement of Net Assets
Fiduciary Funds
December 31, 2003***

| | <u>Agency</u> |
|---------------------------|----------------|
| Assets: | |
| Cash and Cash Equivalents | \$ 559,191 |
| Total Assets | <u>559,191</u> |
| Liabilities: | |
| Intergovernmental Payable | 161,771 |
| Due to Others | <u>397,420</u> |
| Total Liabilities | <u>559,191</u> |
| Total Net Assets | <u>\$ 0</u> |

See accompanying notes to the basic financial statements

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CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lyndhurst, Ohio (the City) was incorporated on January 16, 1951 and is a home rule municipal corporation created under the laws of the State of Ohio. The City operates a Mayor-Council form of government.

The accompanying basic financial statements of the City are presented as of December 31, 2003 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

A legally separate organization is a component unit of the primary government if (1) the primary government is financially accountable for the organization, (2) the nature and significance of the relationship between the primary government and the organization are such that the exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete, or (3) the organization is closely related to or financially integrated with the primary government. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, agencies, boards and commissions that are part of the primary government, which includes the following services: fire and police protection, emergency medical response, parks, recreation, planning, zoning, street construction and maintenance, refuse collection and other governmental services.

The City is associated with three organizations, two are defined as joint ventures and one is defined as a jointly governed organization. The joint venture organizations are the Tri-City Consortium on Aging and the South Euclid-Lyndhurst Recreation Commission. The jointly governed organization is the Northeast Ohio Public Energy Council. These organizations are presented in Notes 16 and 17 of the notes to the basic financial statements.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the basic financial statements. The following fund types are used by the City:

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Governmental Funds

The governmental funds are those funds through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's major governmental funds:

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

General Obligation Bond Retirement Fund - This fund is used for the accumulation of resources for, and the payment of, principal and interest on general obligation debt.

Permanent Improvement Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Capital Reserve Fund - This fund is used to account for financial resources set aside by other capital projects funds to be used for the acquisition or construction of major capital facilities.

Fiduciary Funds

Agency Funds - These funds are used to account for assets held by a government unit as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Basis of Presentation – Financial Statements

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 City has no activities considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements, and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 31 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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. Revenue from property taxes is recognized in the period in which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, interest on investments, and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenue, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, is recorded as revenue when received in cash because it is generally not measurable until received.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent periods when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Property taxes which are measurable at December 31, 2003, but which are not intended to finance 2003 operations or are recorded as deferred revenue as further described in Note 6.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year. All funds, other than agency funds, are legally required to be budgeted and appropriated; however, only the General Fund is required to be reported. Budgetary modifications above the major object level by fund may only be made by ordinance of the City Council.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

1. Tax Budget

The Mayor submits an annual tax budget for the following fiscal year to City Council by July 15 for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level, and may be modified during the year by ordinance of the City Council. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. Expenditures may not legally exceed budgeted appropriations at the object level. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual—General Fund" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

CITY OF LYNDHURST, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2003***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budgetary basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying basic financial statements.

5. Lapsing of Appropriations

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

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CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

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

| Net Change In Fund Balance | |
|--|--------------|
| | General Fund |
| GAAP Basis (as reported) | \$742,397 |
| Increase (Decrease): | |
| Accrued Revenues at December 31, 2003 received during 2004 | (703,685) |
| Accrued Revenues at December 31, 2002 received during 2003 | 658,475 |
| Accrued Expenditures at December 31, 2003 paid during 2004 | 684,583 |
| Accrued Expenditures at December 31, 2002 paid during 2003 | (450,970) |
| 2002 Prepays for 2003 | 124,105 |
| 2003 Prepays for 2004 | (103,579) |
| Fund Debt: | |
| Note Proceeds | 0 |
| Note Retirements | 0 |
| Outstanding Encumbrances | (270,939) |
| Budgetary Basis | \$680,387 |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, the State Treasury Asset Reserve (STAR Ohio) and short-term certificates of deposit. The certificates of deposit are considered cash equivalents because they are highly liquid investments with original maturity dates of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and cash equivalents represents the balance on hand as if each fund maintained its own cash and cash equivalent account. See Note 5, "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit) which are reported at cost. The City allocates interest among the various funds based upon applicable legal and administrative requirements. See Note 5, "Cash, Cash Equivalents and Investments."

The City has invested funds in the STAR Ohio during 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2003.

H. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds. The cost of inventory items are recorded as expenditures in the governmental funds when purchased.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets and Depreciation

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

2. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

| Description | Estimated Lives (in years) |
|--|----------------------------|
| Buildings | 15 - 40 |
| Improvements other than Buildings | 25 |
| Infrastructure | 10 - 65 |
| Machinery, Equipment, Furniture and Fixtures | 5 - 10 |

K. Long-Term Debt

Long-term debt is being repaid from the following funds:

| Obligation | Fund |
|--|--|
| General Obligation Bonds | General Bond Retirement Fund |
| Special Assessment Bonds | General Bond Retirement Fund |
| Compensated Absences | General Fund Street Construction, Maintenance and Repair Fund |
| Intergovernmental Payable - Accrued Pension | General Fund Street Construction, Maintenance and Repair Fund Court Special Projects Fund Community Center Fund, Court EDP Fund Sewer Maintenance Fund Police Pension Fund Fire Pension Fund |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences

In accordance with GASB Statement No. 16, "*Accounting for Compensated Absences*," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

Compensated absences accumulated by governmental fund type employees are reported as an expense when earned in the government-wide financial statements. For governmental fund financial statements, that portion of unpaid compensated absences expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid. The noncurrent portion of the liability is not reported.

M. Net Assets

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

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

N. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Interfund Activity

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

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for supplies inventory, prepaid items, debt service and encumbered amounts that have not been accrued at year end.

Q. Estimates

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

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 Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2003.

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2003, the City has implemented GASB Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*”; GASB Statement No. 37, “*Basic Financial Statements for State and Local Governments: Omnibus*”; GASB Statement No. 38, “*Certain Financial Statement Note Disclosures*”; and GASB Interpretation No. 6, “*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement.*” At December 31, 2002, there was no effect on fund balance as a result of implementing GASB Statements 36, 37 and 38, or Interpretation No. 6.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE (Continued)

A. Changes in Accounting Principles (Continued)

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

The government-wide financial statements split the City's programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the accrual basis of accounting.

B. Prior Period Adjustments

The fund balances of several funds were restated to correct accounting errors in the recognition of special assessment bonds being held by the City as investments, the reporting of accrued pension as long-term debt, the reporting of notes payable as short-term debt and the reporting of interest payable. The correction of these errors resulted in the following changes to the fund balances at December 31, 2002.

| | General Fund | General Obligation Bond Retirement Fund | Permanent Improvement Fund | Capital Reserve Fund | Other Governmental Funds | Total |
|---|--------------------|---|----------------------------------|----------------------------|--------------------------------|---------------------|
| Fund Balance December 31, 2002 (as reported) | \$6,324,962 | \$647,651 | \$862,032 | \$3,076,677 | \$3,120,770 | \$14,032,092 |
| Reclassified fund from Expendable Trust | | | | | | |
| Fund to Special Revenue Funds | 0 | 0 | 0 | 0 | 100 | 100 |
| Correction of Investments | 0 | (87,000) | 0 | 0 | 0 | (87,000) |
| Correction of Accrued Pension | (105,786) | 0 | 0 | 0 | (207,306) | (313,092) |
| Correction of Interest Payable | 0 | 0 | 9,327 | 0 | 10,105 | 19,432 |
| Correction of Notes Payable | 0 | 0 | 600,000 | 0 | 650,000 | 1,250,000 |
| Fund Balance December 31, 2002 (as restated) | <u>\$6,219,176</u> | <u>\$560,651</u> | <u>\$1,471,359</u> | <u>\$3,076,677</u> | <u>\$3,573,669</u> | <u>\$14,901,532</u> |

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE (Continued)

C. Restatement of Fund Balance

The change to the beginning fund balance, as well as the transition from fund balance to net assets of the governmental activities is as follows:

| | Governmental Activities |
|--|----------------------------|
| Fund Balance December 31, 2002 (as restated) | \$14,901,532 |
| GASB 34 Adjustments: | |
| Capital Assets | 87,233,173 |
| Long-Term Liabilities | (2,804,645) |
| Long-Term (Deferred) Assets | 1,916,638 |
| Net Assets, December 31, 2002 | \$101,246,698 |

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets of governmental funds as reported in the government-wide statement of net assets. The following is a detailed listing of those reconciling items that are net adjustments or a combination of several transactions:

Other long-term assets not available to pay for current-period expenditures:

| | |
|--------------------------------------|-------------|
| Delinquent Income Tax Revenue | \$2,380,197 |
| Delinquent Property Tax Revenue | 118,735 |
| Unrestricted Grants and Entitlements | 897,162 |
| Special Assessment Revenue | 903,742 |
| | \$4,299,836 |

Long-Term liabilities not reported in the funds:

| | |
|------------------------------------|---------------|
| General Obligation Bonds Payable | (\$3,185,000) |
| Special Assessment Bonds Payable | (26,000) |
| Accrued Interest on Long-Term Debt | (39,887) |
| Long-Term Notes Payable | (950,000) |
| Compensated Absences Payable | (697,795) |
| | (\$4,898,682) |

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government – wide statement of activities. The following is a detailed listing of those reconciling items that are net adjustments or a combination of several transactions:

Amount by which depreciation exceeded capital outlay in the current period:

| | |
|----------------------|--------------------|
| Capital Outlay | \$1,911,231 |
| Depreciation Expense | <u>(3,217,932)</u> |
| | (\$1,306,701) |

Governmental revenues not reported in the funds:

| | |
|--|-----------------|
| Increase in Delinquent Income Tax Revenue | \$2,057,333 |
| Decrease in Delinquent Property Tax | (10,135) |
| Increase in Unrestricted Grants and Entitlements | 412,608 |
| Decrease in Special Assessment Revenue | <u>(76,608)</u> |
| | \$2,383,198 |

Expenses not requiring the use of current financial resources:

| | |
|--|----------------|
| Increase in Compensated Absences Payable | (\$55,685) |
| Decrease in supplies inventory | <u>(3,476)</u> |
| | (\$59,161) |

NOTE 4 - COMPLIANCE AND ACCOUNTABILITY

Encumbrance System – Ohio Revised Code requires the City to reserve (encumber) appropriations when commitments are made. The City did not properly use the encumbrance method of accounting. For December 31, 2003, the City was in violation of ORC 5705.41 (D) for failure to certify the availability of funds for expenditure transactions.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of a majority of individual funds are combined to form a pool of cash and investments. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents." Ohio law requires the classification of funds held by the City into three categories:

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "cash equivalent" status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States Treasury notes, bills, bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- 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;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;
- Bonds and other obligations of the State of Ohio;
- 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
- The State Treasurer's Investment Fund (STAR Ohio).

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Investments:

- Category 1 Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the City's name.

A. Deposits

At year end the carrying amount of the City's deposits was \$1,064,608, and the bank balance was \$1,090,221. Federal depository insurance covered \$200,000 of the bank balance. All remaining deposits were classified as Category 3.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments

The City's investments at December 31, 2003 are summarized below:

| <u>Categorized Investments</u> | <u>Category 1</u> | <u>Category 3</u> | <u>Fair Value</u> |
|---|-------------------|--------------------|---------------------|
| City of Lyndhurst Special Assessment Bonds | | | |
| Richmond Road Sewer S.A. Bond | \$2,000 | \$0 | \$2,000 |
| Portage Commodore S.A. Bond | 24,000 | 0 | 24,000 |
| | <u>26,000</u> | <u>0</u> | <u>26,000</u> |
| Federal National Mortgage Association Notes | 0 | 6,996,988 | 6,996,988 |
| Federal Home Loan Corporation Notes | 0 | 1,000,000 | 1,000,000 |
| Total Categorized Investments | <u>26,000</u> | <u>7,996,988</u> | <u>8,022,988</u> |
| <u>Noncategorized Investments</u> | | | |
| STAR Ohio | N/A | N/A | 9,495,856 |
| Total Investments | <u>\$26,000</u> | <u>\$7,996,988</u> | <u>\$17,518,844</u> |

STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Investments with an original maturity of three months or less are treated as cash and cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per items A and B of this note are as follows:

| | <u>Cash and Cash Equivalents</u> | <u>Investments</u> |
|--------------------------|--------------------------------------|---------------------|
| Financial Statements | \$10,560,464 | \$8,022,988 |
| STAR Ohio | (9,495,856) | 9,495,856 |
| Per GASB Statement No. 3 | <u>\$1,064,608</u> | <u>\$17,518,844</u> |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 6 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2003 were levied after October 1, 2002 on assessed values as of January 1, 2002, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be reappraised every six years, and equalization adjustments are made in the third year following reappraisal. The last revaluation was completed in 2000. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 24 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually: the first payment is due April 30; 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 is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Lyndhurst. 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, 2003 was \$11.50 per \$1,000 of assessed value. The assessed value upon which the 2003 levy was based was \$428,840,955. This amount constitutes \$414,106,850 in real property assessed value, \$6,024,750 in public utility assessed value and \$8,709,355 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is 1.15% (11.5 mills) of assessed value.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 6 – TAXES (Continued)

B. Income Tax

The City levies a tax of 1.5% on substantially all income earned within the City. In addition, residents of the City are required to pay City income tax on income they earn outside the City. However, the City allows a credit of a maximum of 50% of the first one and one-half percent of income tax paid to another municipality.

Employers within the City are required to withhold income tax on employees compensation and remit the tax either monthly or quarterly, as required, to the Regional Income Tax Agency which serves as the City’s agent for collection of their income tax. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. All income tax proceeds are received by the General Fund.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2003 consisted of taxes, special assessments, interest, accounts receivable and intergovernmental receivables arising from shared revenues. All receivables other than those offset by deferred revenues are considered collectible in full.

NOTE 8 - TRANSFERS

The following is a summary of transfers in and out for all funds for 2003:

| | Transfers In: | | | |
|--|---|----------------------------------|-----------------------------------|-------------|
| Transfers Out: | General Obligation Bond Retirement Fund | Permanent Improvement Fund | Nonmajor Governmental Funds | Total |
| General Fund | \$60,700 | \$289,300 | \$830,000 | \$1,180,000 |
| General Obligation Bond Retirement Fund | 0 | 0 | 662,675 | 662,675 |
| | \$60,700 | \$289,300 | \$1,492,675 | \$1,842,675 |

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 9 – CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2003:

| <i>Historical Cost:</i> | Restated | | | |
|--|----------------------------------|------------------------|--------------------|-------------------------|
| Class | December 31, 2002 | Additions | Deletions | December 31, 2003 |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$394,193 | \$0 | \$0 | \$394,193 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings | 9,017,117 | 655,321 | 0 | 9,672,438 |
| Improvements Other than Buildings | 1,937,105 | 562,768 | 0 | 2,499,873 |
| Infrastructure | 108,916,309 | 0 | 0 | 108,916,309 |
| Machinery and Equipment | 5,575,005 | 693,142 | (226,016) | 6,042,131 |
| Total Cost | <u>\$125,839,729</u> | <u>\$1,911,231</u> | <u>(\$226,016)</u> | <u>\$127,524,944</u> |
| <i>Accumulated Depreciation:</i> | | | | |
| Class | Restated December 31, 2002 | Additions | Deletions | December 31, 2003 |
| Buildings | (\$2,100,892) | (\$176,993) | \$0 | (\$2,277,885) |
| Improvements Other than Buildings | (832,727) | (59,195) | 0 | (891,922) |
| Infrastructure | (32,917,400) | (2,580,794) | 0 | (35,498,194) |
| Machinery and Equipment | (2,755,537) | (400,950) | 185,631 | (2,970,856) |
| Total Depreciation | <u>(\$38,606,556)</u> | <u>(\$3,217,932) *</u> | <u>\$185,631</u> | <u>(\$41,638,857)</u> |
| <i>Net Value:</i> | <u>\$87,233,173</u> | | | <u>\$85,886,087</u> |

* Depreciation expenses were charged to governmental functions as follows:

| | |
|----------------------------------|--------------------|
| Security of Persons and Property | \$171,708 |
| Leisure Time Activities | 149,454 |
| Community Development | 8,663 |
| Basic Utility Services | 61,957 |
| Transportation | 2,593,974 |
| General Government | 232,176 |
| Total Depreciation Expense | <u>\$3,217,932</u> |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 10 – DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Ohio Public Employees Retirement System (the "Ohio PERS")

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, "*Accounting for Pensions by State and Local Government Employers.*"

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD 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 MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2003 employer contribution rate for local government employer units was 13.55%, of covered payroll, 8.55% to fund the pension and 5.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2003, 2002 and 2001 were \$490,877, \$462,617 and \$445,424, respectively, which were equal to the required contributions for each year.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

The Ohio PERS provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2003 employer contribution rate (identified above) that was used to fund health care for the year 2003 was 5.0% of covered payroll which amounted to \$181,135.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2002 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 369,885. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2003 is \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

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

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (the “OP&F Fund”) (Continued)

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2003, 2002 and 2001 were \$369,946, \$373,179 and \$331,389 for police and \$374,560, \$392,339 and \$303,473 for firefighters, respectively, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2003 covered payroll that was used to fund postemployment health care benefits was \$147,030 representing 7.75% of covered payroll for police and \$120,952 representing 7.75% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2003, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,662 for police and 10,474 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2003 were \$150,858,148, which was net of member contributions of \$17,207,506.

NOTE 11 – COMPENSATED ABSENCES

The costs of vacation and sick leave benefits are recorded as they are earned. Employees earn sick and vacation leave at varying rates based upon length of service. Upon retirement, and in certain instances, termination, an individual will be compensated for their accumulated sick leave at a maximum rate of 45% of the balance.

At December 31, 2003, the City's accumulated, unpaid compensated absences amounted to \$697,795, which is recorded as a liability of the Governmental Activities.

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 12 - CONSTRUCTION COMMITMENTS

As of December 31, 2003, the City had the following commitments with respect to capital projects:

| Project | Remaining Construction Commitment | Expected Date of Completion |
|----------------------|---|--------------------------------|
| Sewer Rehabilitation | \$98,834 | June 2004 |
| Asphalt Program | 80,978 | May 2004 |
| Total | \$179,812 | |

NOTE 13 - NOTES PAYABLE

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to, and payable no later than, those principal maturities required if the bonds had been issued at the expiration of the initial five year period. Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or from available funds of the City or a combination of these sources.

| Issue | Balance 1/1/2003 | Issued (Retired) | Balance 12/31/2003 |
|------------------------------|---------------------|---------------------|-----------------------|
| Bond Anticipation Notes: | | | |
| 1.350% Community Center | \$0 | \$300,000 | \$300,000 |
| 1.950% Community Center | 300,000 | (300,000) | 0 |
| 1.700% Recreation Facilities | 2,750,000 | (2,750,000) | 0 |
| Total Notes Payable | \$3,050,000 | (\$2,750,000) | \$300,000 |

CITY OF LYNDHURST, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 14 - LONG-TERM DEBT

Long-term debt of the City at December 31, 2003 was as follows:

| | | Balance December 31, 2002 | Issued | (Retired) | Balance December 31, 2003 | Due Within One Year |
|--|------|---------------------------------|--------------------|----------------------|---------------------------------|---------------------------|
| Governmental Activities: | | | | | | |
| General Obligation Bonds: | | | | | | |
| 5.625% Street Improvement | 1977 | | | | | |
| Various Purpose Bonds | | \$855,000 | \$0 | (\$495,000) | \$360,000 | \$360,000 |
| 2.000% Recreational Facilities | 2003 | 0 | 2,825,000 | 0 | 2,825,000 | 155,000 |
| Total General Obligation Bonds | | 855,000 | 2,825,000 | (495,000) | 3,185,000 | 515,000 |
| Special Assessment Bonds: | | | | | | |
| 10.000% Richmond Road Sewer | 1984 | 4,000 | 0 | (2,000) | 2,000 | 2,000 |
| 8.000% Portage Commodore | 1989 | 29,000 | 0 | (5,000) | 24,000 | 4,000 |
| Total Special Assessment Bonds with Governmental Commitment | | 33,000 | 0 | (7,000) | 26,000 | 6,000 |
| Long-Term Notes: | | | | | | |
| 1.350% Community Center | 2003 | 600,000 | 300,000 | (600,000) | 300,000 | 300,000 |
| 1.350% Street Improvement | 2003 | 650,000 | 650,000 | (650,000) | 650,000 | 650,000 |
| Total Long-Term Notes | | 1,250,000 | 950,000 | (1,250,000) | 950,000 | 950,000 |
| Compensated Absences | | 642,110 | 697,795 | (642,110) | 697,795 | 164,826 |
| Total Governmental Activities | | <u>\$2,780,110</u> | <u>\$4,472,795</u> | <u>(\$2,394,110)</u> | <u>\$4,858,795</u> | <u>\$1,635,826</u> |

Special assessment debt service is financed by assessments to affected property owners. However, the City is ultimately responsible for the debt service if the assessments are not collected. Delinquent special assessments related to outstanding special assessment bonded debt at year end were \$325.

The City's future long-term obligation funding requirements, including principal and interest payments as of December 31, 2003, follow:

| Years | General Obligation Bonds | | Special Assessment Bonds | |
|-----------|--------------------------|------------------|--------------------------|----------------|
| | Principal | Interest | Principal | Interest |
| 2004 | \$515,000 | \$72,520 | \$6,000 | \$2,120 |
| 2005 | 155,000 | 53,400 | 4,000 | 1,600 |
| 2006 | 160,000 | 50,300 | 4,000 | 1,280 |
| 2007 | 165,000 | 57,698 | 4,000 | 960 |
| 2008 | 165,000 | 63,510 | 4,000 | 640 |
| 2009-2013 | 915,000 | 301,659 | 4,000 | 320 |
| 2014-2018 | 1,110,000 | 141,254 | 0 | 0 |
| Totals | <u>\$3,185,000</u> | <u>\$740,341</u> | <u>\$26,000</u> | <u>\$6,920</u> |

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 15 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During 2003 the City contracted with several different insurance providers for various insurance coverages, as follows:

| <u>Insurance Provider</u> | <u>Coverage</u> | <u>Deductible</u> |
|----------------------------------|----------------------|---|
| Clarendon Insurance Company | Automobile | \$250 Comprehensive; \$1,000 Collision |
| Clarendon Insurance Company | General Liability | \$0 |
| Clarendon Insurance Company | Property Casualty | \$1,000 |
| Great American Insurance Company | Inland Marine | \$500 |
| Great American Insurance Company | Boiler and Machinery | \$1,000 |
| Clarendon Insurance Company | Police Liability | \$10,000 |

Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years. There has been no significant reduction in insurance coverages from coverages in the prior year.

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.

NOTE 16 – JOINT VENTURES

A. Tri-City Consortium on Aging:

The Tri-City Consortium on Aging (Consortium) is a joint venture among the Cities of South Euclid, Lyndhurst and Highland Heights, formed for the purpose of coordinating among the Cities all matters related to assistance and programs for the aged. Consortium revenues consist of contributions from the member Cities and federal grants. The Consortium is controlled by the Council of Governments composed of the Mayors of the Cities of South Euclid, Lyndhurst and Highland Heights, with the advice of a nine member commission. Continued existence of the Consortium is dependent on the City, however, the City of Lyndhurst has no explicit and measurable equity in the Consortium. The Consortium is not accumulating financial resources or experiencing fiscal stress, which would cause additional financial benefit or burden on the City. In 2003, the City contributed \$125,387. To obtain a copy of the Consortium's financial statements, write to the Tri-City Consortium on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 16 – JOINT VENTURES (Continued)

B. South Euclid-Lyndhurst Recreation Commission:

The South Euclid-Lyndhurst Recreation Commission (SELREC) is a joint venture that is jointly owned and operated by the Cities of South Euclid and Lyndhurst and the South Euclid-Lyndhurst City School District for the purpose of operating the Cities and School District's play fields and indoor recreation centers. Each of these governments supports SELREC through funds that are appropriated in their budgets and each shares in the equity of SELREC.

The operation of the SELREC is controlled by a nine member board consisting of the following: one member appointed by the Mayor of the City of South Euclid and one member appointed by the Mayor of the City of Lyndhurst, three members that are residents of the City of South Euclid, three members that are residents of the City of Lyndhurst and one member that is a resident of the South Euclid-Lyndhurst City School District and that lives in either the City of South Euclid or the City of Lyndhurst (jointly appointed by the Mayors of the City of South Euclid and Lyndhurst). The City has an ongoing financial responsibility because the continued existence of the joint venture depends on the City's continued participation. SELREC is not accumulating significant financial resources or experiencing fiscal stress, which would cause additional benefit or burden on the City. In 2003, the City contributed \$24,949. The City also has measurable equity interest in SELREC because the joint venture agreement stipulates that the participants have a claim to assets and sets forth the method of distribution upon dissolution of the joint venture. SELREC has no capital assets. SELREC is audited on a two-year basis; the latest reported is for the fiscal year ended June 30, 2004. Financial statements can be obtained by contacting the fiscal agent, South Euclid-Lyndhurst City School District, 6044 Mayfield Road, Lyndhurst, Ohio 44124.

NOTE 17 – JOINTLY GOVERNED ORGANIZATION

Northeast Ohio Public Energy Council:

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 112 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.

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 Lyndhurst did not contribute to NOPEC during 2003. Financial information can be obtained by contacting Joseph Migliorini, the Board Chairman, at 175 South Main Street, Akron, Ohio 44308 or at the website www.nopecinfo.org.

CITY OF LYNDHURST, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 18 - CONTINGENCIES

The City is a party to various legal proceedings, which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect on the financial condition of the City.

NOTE 19 – SUBSEQUENT EVENTS

On March 13, 2004 the City issued \$300,000 in one year General Obligation Notes to pay for a Community Center. The notes had an interest rate of 1.35%.

On March 13, 2004 the City issued \$650,000 in one year General Obligation Notes to pay for Street Improvements. The notes had an interest rate of 1.35%.



**Auditor of State
Betty Montgomery**

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

City of Lyndhurst
Cuyahoga County
5301 Mayfield Road
Lyndhurst, Ohio 44124

To the City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lyndhurst, Cuyahoga County, Ohio, (the City) as of and for the years ended December 31, 2004 and December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 22, 2005, wherein we noted the City implemented GASB Statement No. 34, *Basic Financial Statements – Management Discussion and Analysis – for State and Local Governments* and restated Notes Payable which was classified as Long Term Liabilities as noted in Note 2 in Fiscal Year 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated August 22, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the City's management dated August 22, 2005, we reported other matters related to noncompliance we deemed immaterial.

City of Lyndhurst
Cuyahoga County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and City Council. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

August 22, 2005

CITY OF LYNDHURST
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003

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

| | |
|----------------|----------|
| Finding Number | 2004-001 |
|----------------|----------|

FISCAL OFFICER CERTIFICATION

Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify 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.

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

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

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

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

Sixteen percent of the transactions tested were not certified by the Director of Finance at the time of commitment was incurred and there was no evidence that the City followed the aforementioned exception. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**CITY OF LYNDHURST
CUYAHOGA COUNTY**

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

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

| | |
|-----------------------|-----------------|
| Finding Number | 2004-001 |
|-----------------------|-----------------|

FISCAL OFFICER CERTIFICATION (Continued)

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



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF LYNDHURST

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
DECEMBER 20, 2005**