



**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

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

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

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

As described in Note 3, during the year ended December 31, 2004, the City restated their capital assets which included their infrastructure.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 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.

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 5, 2005

**CITY OF MAYFIELD HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

The discussion and analysis of the City of Mayfield Heights' (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 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 basic financial statements and the notes to those financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

This is the City of Mayfield Heights' second publication of its financial statements under the new GASB Statement No. 34 reporting model.

Total assets of the City of Mayfield Heights decreased from \$58,500,880 to \$57,933,246, a total of \$567,634. This decrease can be attributed to the restatement of capital assets for 2003 and inclusion of historical infrastructure assets (see Note 3).

Total liabilities of the City of Mayfield Heights decreased from \$17,419,216 to \$16,610,546, a total of \$808,670. The most significant reduction can be attributed to the pay down of \$700,000 in Municipal Complex Notes.

Total net assets increased from \$41,081,664 to \$41,322,700, a total of \$241,036. This is mainly due to a slight increase in infrastructure improvements and a reduction in debt. See the above note on total liabilities.

Using This Annual Financial Report

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

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

**CITY OF MAYFIELD HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

Reporting the City of Mayfield Heights as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

Reporting the City of Mayfield Heights' Most Significant Funds

Fund Financial Statements

The presentation of the City's major funds begins on page 13. The City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements and identify certain services and activities provided to our residents. However, these fund financial statements focus on the City's most significant funds. The City's major funds are the General Fund and the Municipal Complex Improvement fund.

**CITY OF MAYFIELD HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

Governmental Funds

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

The City of Mayfield Heights As a Whole

Government-wide Financial Analysis

As noted earlier, the Statement of Net Assets looks at the City as a whole and can be used as an indicator of the City's financial position. The Statement of Net Assets in Table 1 provides a summary of the City's net assets for 2004 compared to 2003.

Table 1 - Net Assets

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003 *</u>
<u>Assets</u>		
Current and Other Assets	\$ 27,614,473	\$ 27,898,878
Capital Assets	<u>30,318,773</u>	<u>30,602,002</u>
Total Assets	<u>\$ 57,933,246</u>	<u>\$ 58,500,880</u>
<u>Liabilities</u>		
Long-Term Liabilities	\$ 10,296,167	\$ 10,940,327
Other Liabilities	<u>6,314,379</u>	<u>6,478,889</u>
Total Liabilities	<u>16,610,546</u>	<u>17,419,216</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Debt	23,853,581	23,418,458
Restricted	1,673,841	2,103,962
Unrestricted	<u>15,795,278</u>	<u>15,559,244</u>
Total Net Assets	<u>\$ 41,322,700</u>	<u>\$41,081,664</u>

* Restated - see Note 3

**CITY OF MAYFIELD HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

Total assets for the City are \$57,933,246. The largest portion of the City's assets is in capital assets totaling \$30,318,773, which represents 52.33 percent of the total.

Total liabilities for the City are \$16,610,546. The most significant liability is Municipal Complex Bond Anticipation Notes Payable for \$6,300,000, which represents 37.93 percent of the total.

Total net assets for the City are \$41,322,700. The most significant portions of these assets are represented by unrestricted net assets of \$15,795,278 and Invested in Capital Assets of \$23,853,581, which 38.22 percent and 57.73 percent of the total, respectively.

Table 2 shows the changes in net assets for the years ended December 31, 2004 and December 31, 2003 and corresponds to the Statement of Activities on page 12.

Table 2- Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 1,224,879	\$ 1,119,142
Operating Grants and Contributions	659,455	660,035
Capital Grants and Contributions	78,829	174,136
General Revenues		
Property Taxes	4,730,702	4,656,925
Income Taxes	10,450,121	8,811,751
Other Taxes	60,574	89,074
Grants and Entitlements	1,982,958	1,932,069
Other	<u>315,659</u>	<u>438,512</u>
Total Revenues	<u>19,503,177</u>	<u>17,881,644</u>
<u>Program Expenses</u>		
Security of Persons and Property	9,116,762	8,594,582
Public Health Services	266,818	224,762
Leisure Time Activities	1,320,213	1,397,603
Community Environment	681,579	602,168
Basic Utility Services	943,122	559,039
Transportation	4,259,376	4,790,395
General Government	2,546,014	3,697,842
Interest and Fiscal Charges	<u>128,257</u>	<u>149,673</u>
Total Program Expenses	<u>19,262,141</u>	<u>20,016,064</u>
<i>Increase (Decrease) in Net Assets</i>	241,036	(2,134,420)
Net Assets, Beginning of Year, as Restated (Note 3)	<u>41,081,664</u>	<u>43,216,084</u>
Net Assets, End of Year	<u>\$ 41,322,700</u>	<u>\$41,081,664</u>

**CITY OF MAYFIELD HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

Total revenue increased in 2004 over 2003 by \$1,621,533, a percentage of 9.1 percent. The increase is attributed almost entirely to the growth in the income tax revenue source.

Total program expenses decreased overall by \$753,923, a percentage of 3.77 percent. Security of persons and property increased by \$522,180, but it was offset by decreases in transportation, (\$531,019), and general government, (\$1,151,828).

Governmental Activities

Several revenue sources fund the City's governmental activities. The most significant revenue source is municipal income tax. The income tax rate is 1 percent and residents of the City who work in another community receive a .50 percent credit for the first 1 percent paid to another community. The rate of 1 percent and .50 percent credit have been in effect since 1982. Income tax as a revenue source was first enacted in 1967. The City has a significant commercial tax base, which provides financial stability. Major employers such as Rockwell Automation, Parker Hannifin, Meridia Hillcrest Hospital (Cleveland Clinic), and Progressive Casualty Insurance continue to contribute to the City's tax base. In 2004, the City's revenue from income tax was \$10,450,121. No single commercial entity provides more than 10 percent of annual collections, a fact which further stabilizes the City's major revenue source.

The other major revenue source for the City is the property tax. The City's charter millage is 10 and has remained the same since 1951. The tax duplicate for collection year 2004 was \$545,040,765 and has been certified at \$548,507,574 for the 2005 collection year. While this source is not as significant as the income tax, the duplicate has continued to grow and is a stable source of revenue.

The City's Funds

Information about the City's major funds begins on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenue of \$18,712,065 and expenditures of \$25,945,098 (excluding other financial sources and uses). The most significant fund is the General Fund with a year end fund balance of \$9,400,884, which included an unreserved balance of \$9,311,978 compared to expenditures of \$13,676,769. During 2004, \$3,495,000 was transferred from the general fund to help finance various capital improvements.

The other major fund in 2004 was the Municipal Complex Improvement Fund, which recorded \$7,243,770 in expenditures. \$296,859 was related to the completion of the construction of the new facilities and \$6,850,000 was disbursed for the rollover and pay down of short term notes.

**CITY OF MAYFIELD HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The most significant budget fund is the General Fund. An annual appropriation budget is prepared and presented to City Council for approval. A detailed line item budget for all departments is provided as part of the appropriation process. During the year, several amendments were made in order to increase funds for some capital improvements. The General Fund budget was amended at the end of the year to adjust various line item amounts and to transfer a portion of the unencumbered balance to the Road Improvement Fund.

The City of Mayfield Heights' original, conservative revenue estimate of \$15,794,832 was exceeded by \$713,904, due mainly to additional income tax collections. The original expenditure budget of \$16,191,981 was increased by several amended appropriations to a total of \$17,149,245, for an increase of \$957,264. The most significant item was for transfers to capital improvement funds, especially for road improvements.

Capital Assets and Debt Administration

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

	Governmental Activities	
	2004	2003 *
Land	\$ 3,024,620	\$ 3,024,620
Construction in Progress	0	375,000
Land Improvements	473,780	502,374
Buildings	7,329,394	7,528,410
Machinery and Equipment	472,313	526,107
Furniture and Equipment	479,581	515,838
Vehicles	1,661,519	1,362,239
Infrastructure		
Roads	11,126,634	10,851,584
Water Mains	833,303	855,276
Sanitary Sewers	3,355,855	3,454,701
Storm Sewers	1,561,774	1,605,853
Total Capital Assets	<u>\$ 30,318,773</u>	<u>\$ 30,602,002</u>

* Restated - see Note 3.

Total capital assets for governmental activities of the City for 2004 were \$30,318,773, a decrease of \$283,229 from 2003. During 2004, the City had an appraisal conducted on all of its capital assets in order to comply with the new GASB Statement No. 34 reporting model.

**CITY OF MAYFIELD HEIGHTS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
Unaudited**

Long-Term Obligations

As of December 31, 2004, the City had \$6,465,192 in bonds, notes, and loans outstanding with \$718,352 due in a year (see Note 13).

Table 4 - Outstanding Debt at December 31

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Notes	\$ 6,300,000	\$ 7,000,000
OPWC Loans	140,192	153,544
Manuscript Bonds	<u>25,000</u>	<u>30,000</u>
Total Outstanding Debt	<u>\$ 6,465,192</u>	<u>\$ 7,183,544</u>

As of December 31, 2004, the City had no outstanding general obligation bonds. The amount of short-term general obligation bond anticipation notes is \$6,300,000. These notes were first issued in 2002 to finance the Municipal Complex Improvement Project. At the time of issuance, the City successfully obtained an upgrade in its Moody's Investors Services bond rating from A1 to Aa3. The City continues to retain the Aa3 from Moody's Investors Services.

The Ohio Supreme Court found the City liable for a temporary taking of property and ordered the City to begin proceedings in Cuyahoga County Probate Court to determine loss of value for damages. To date, the City's position has been a willingness to settle the case for \$2,000,000. The lowest demand from the property owners has been significantly higher. Given the posture of the property owners, a jury trial is more than likely going to determine the City's exposure. A trial date has not yet been established.

Current Financial Related Activities

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

Contacting the City's Finance Department

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

Basic Financial Statements

CITY OF MAYFIELD HEIGHTS, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	<u>Governmental Activities</u>
<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 5,388,442
Materials and Supplies Inventory	46,876
Accrued Interest Receivable	66,256
Accounts Receivable	126,247
Intergovernmental Receivable	1,205,089
Prepaid Items	219,486
Investments	12,684,265
Taxes Receivable	7,871,022
Special Assessments Receivable	6,790
Nondepreciable Capital Assets	3,024,620
Depreciable Capital Assets, Net	<u>27,294,153</u>
Total Assets	<u>57,933,246</u>
 <u>Liabilities</u>	
Accounts Payable	790,833
Accrued Wages	311,806
Intergovernmental Payable	459,024
Accrued Interest Payable	115,604
Deferred Revenue	4,637,112
Long-Term Liabilities:	
Due Within One Year	1,310,903
Due in More Than One Year	<u>8,985,264</u>
Total Liabilities	<u>16,610,546</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	23,853,581
Restricted for:	
Debt Service	216,135
Other Purposes	1,457,706
Unrestricted	<u>15,795,278</u>
Total Net Assets	<u>\$ 41,322,700</u>

See accompanying notes to the basic financial statements.

CITY OF MAYFIELD HEIGHTS, 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:					
Security of Persons and Property	\$ 9,116,762	\$ 488,224	\$ 78,986	\$ 0	\$ (8,549,552)
Public Health Services	266,818	0	0	0	(266,818)
Leisure Time Activities	1,320,213	249,556	0	0	(1,070,657)
Community Development	681,579	217,795	0	0	(463,784)
Basic Utility Services	943,122	1,767	0	27,434	(913,921)
Transportation	4,259,376	61,961	580,469	51,395	(3,565,551)
General Government	2,546,014	205,576	0	0	(2,340,438)
Interest and Fiscal Charges	<u>128,257</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(128,257)</u>
Total Governmental Activities	<u>\$ 19,262,141</u>	<u>\$ 1,224,879</u>	<u>\$ 659,455</u>	<u>\$ 78,829</u>	<u>(17,298,978)</u>
General Revenues:					
Property Taxes Levied for:					
General Purposes					4,388,926
Special Revenue					283,842
Debt Service					57,934
Income Taxes Levied for:					
General Purposes					10,450,121
Other Taxes					60,574
Grants and Entitlements not Restricted to Specific Programs					1,982,958
Gain or Loss on Sale of Capital Asset					10,157
Investment Earnings					263,873
Miscellaneous					<u>41,629</u>
Total General Revenues					<u>17,540,014</u>
Change in Net Assets					241,036
Net Assets, Beginning of Year, as Restated (Note 3)					<u>41,081,664</u>
Net Assets End of Year					<u>\$ 41,322,700</u>

See accompanying notes to the basic financial statements.

CITY OF MAYFIELD HEIGHTS, OHIO
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	<u>General</u>	<u>Municipal Complex Park</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 56,464	\$ 178,859	\$ 5,153,119	\$ 5,388,442
Investments	11,859,265	0	825,000	12,684,265
Receivables:				
Taxes	6,691,196	0	1,179,826	7,871,022
Accounts	111,821	0	14,426	126,247
Accrued Interest	61,715	0	4,541	66,256
Special Assessments	0	0	6,790	6,790
Intergovernmental	741,375	0	463,714	1,205,089
Due from Other Funds	0	0	3,960,282	3,960,282
Inventory	14,716	0	32,160	46,876
Prepaid Items	69,220	0	150,266	219,486
Total Assets	<u>\$ 19,605,772</u>	<u>\$ 178,859</u>	<u>\$11,790,124</u>	<u>\$ 31,574,755</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 264,951	\$ 165,815	\$ 360,067	\$ 790,833
Due to Other Funds	3,960,282	0	0	3,960,282
Accrued Wages and Benefits	284,685	0	27,121	311,806
Due to Governments	309,043	0	149,981	459,024
Deferred Revenue	5,385,927	0	1,452,103	6,838,030
Total Liabilities	<u>10,204,888</u>	<u>165,815</u>	<u>1,989,272</u>	<u>12,359,975</u>
<u>Fund Balances</u>				
Reserved for Inventory	14,716	0	32,160	46,876
Reserved for Prepaid Items	69,220	0	150,266	219,486
Reserved for Encumbrances	4,970	0	578,305	583,275
Unreserved:				
Undesignated (Deficits) Reported in:				
General Fund	9,311,978	0	0	9,311,978
Special Revenue Funds	0	0	1,368,941	1,368,941
Debt Service Funds	0	0	151,516	151,516
Capital Projects Funds	0	13,044	7,519,664	7,532,708
Total Fund Balances (Deficits)	<u>9,400,884</u>	<u>13,044</u>	<u>9,800,852</u>	<u>19,214,780</u>
Total Liabilities and Fund Balances	<u>\$ 19,605,772</u>	<u>\$ 178,859</u>	<u>\$11,790,124</u>	<u>\$ 31,574,755</u>

See accompanying notes to the basic financial statements.

CITY OF MAYFIELD HEIGHTS, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004

Total Governmental Fund Balances	\$19,214,780
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	30,318,773
Other long-term assets are not available to pay for current-period expenditures and therefore are not deferred in the funds:	
Property Taxes	\$ 366,669
Grants and Entitlements	791,067
Income Tax	1,036,392
Special Assessments	<u>6,790</u>
Total	2,200,918
In the statement of activities, interest is accrued on outstanding general obligation notes, whereas in governmental funds, an interest expenditure is reported when due.	(115,604)
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:	
OPWC Loan	(140,192)
Bond Anticipation Notes Payable	(6,300,000)
Manuscript Bonds	(25,000)
Claims and Judgment Payable	(2,000,000)
Compensated Absences	<u>(1,830,975)</u>
Total	<u>(10,296,167)</u>
Net Assets of Governmental Activities	<u>\$41,322,700</u>

CITY OF MAYFIELD HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	<u>General</u>	<u>Municipal Complex Park</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Municipal Income Taxes	\$ 9,779,104	\$ 0	\$ 0	\$ 9,779,104
Property Taxes	4,327,832	0	278,772	4,606,604
Other Taxes	60,574	0	0	60,574
Intergovernmental Revenue	1,511,854	0	1,113,228	2,625,082
Special Assessments	0	0	82,683	82,683
Charges for Services	288,296	0	223,567	511,863
Fines, Licenses, and Permits	545,394	0	1,719	547,113
Interest Income	205,332	3,778	54,763	263,873
Miscellaneous	96,257	0	138,912	235,169
Total Revenues	<u>16,814,643</u>	<u>3,778</u>	<u>1,893,644</u>	<u>18,712,065</u>
Expenditures				
Security of Persons and Property	8,024,439	0	958,565	8,983,004
Public Health Services	253,756	0	7,874	261,630
Leisure Time Activities	1,144,440	0	142,164	1,286,604
Community Environment	544,625	0	118,958	663,583
Basic Utilities Expenditures	680,603	0	47,636	728,239
Transportation	990,782	0	3,461,747	4,452,529
General Government	2,038,124	296,859	75,063	2,410,046
Debt Service:				
Principal Retirement	0	6,850,000	168,352	7,018,352
Interest and Fiscal Charges	0	96,911	44,200	141,111
Total Expenditures	<u>13,676,769</u>	<u>7,243,770</u>	<u>5,024,559</u>	<u>25,945,098</u>
Excess of Revenues Over (Under) Expenditures	<u>3,137,874</u>	<u>(7,239,992)</u>	<u>(3,130,915)</u>	<u>(7,233,033)</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	0	0	16,517	16,517
Proceeds from Sale of Notes	0	6,300,000	0	6,300,000
Transfers In	11,082	800,000	2,697,186	3,508,268
Transfers Out	(3,495,000)	0	(13,268)	(3,508,268)
Total Other Financing Sources (Uses)	<u>(3,483,918)</u>	<u>7,100,000</u>	<u>2,700,435</u>	<u>6,316,517</u>
Net Change in Fund Balances	(346,044)	(139,992)	(430,480)	(916,516)
Fund Balances (Deficits) - Beginning of Year	9,749,860	153,036	10,225,588	20,128,484
Increase (Decrease) in Reserve for Inventory	(2,932)	0	5,744	2,812
Fund Balances (Deficits) - End of Year	<u>\$ 9,400,884</u>	<u>\$ 13,044</u>	<u>\$ 9,800,852</u>	<u>\$19,214,780</u>

See accompanying notes to the basic financial statements.

CITY OF MAYFIELD HEIGHTS, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Net Change in Fund Balances - Total Governmental Funds **\$ (916,516)**

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 capital outlays exceeded depreciation in the current period. (276,869)

Governmental funds report only the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (6,360)

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

Delinquent Property Tax	124,098	
Grants and Entitlements	68,523	
Income Tax	671,017	
Special Assessments	<u>(82,683)</u>	
Total		780,955

Payment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 7,018,352

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due. 12,854

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities. (6,300,000)

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

Compensated Absences	(74,192)	
Change in Inventory	<u>2,812</u>	
Total		<u>(71,380)</u>

Change in Net Assets of Governmental Activities **\$ 241,036**

CITY OF MAYFIELD HEIGHTS, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive (Negative)
<u>Revenues</u>				
Income Taxes	\$ 8,710,332	\$ 9,507,480	\$ 9,507,507	\$ 27
Property Taxes	4,452,480	4,327,800	4,327,833	33
Other Taxes	204,850	204,575	204,695	120
Intergovernmental	1,537,145	1,509,649	1,509,734	85
Charges for Services	117,050	119,350	119,674	324
Fines, Licenses, and Permits	510,475	538,290	539,096	806
Interest Income	200,000	234,000	234,858	858
Miscellaneous	<u>62,500</u>	<u>67,592</u>	<u>65,339</u>	<u>(2,253)</u>
Total Revenues	<u>15,794,832</u>	<u>16,508,736</u>	<u>16,508,736</u>	<u>0</u>
<u>Expenditures</u>				
Security of Persons and Property	8,034,701	8,023,915	8,038,869	(14,954)
Public Health	222,160	223,190	222,970	220
Leisure Time Activities	1,063,525	1,138,750	1,138,418	332
Community Environment	519,850	537,405	545,092	(7,687)
Basic Utility	675,000	686,300	686,285	15
Transportation	998,900	976,310	974,633	1,677
General Governments	<u>1,952,845</u>	<u>2,068,375</u>	<u>2,060,008</u>	<u>8,367</u>
Total Expenditures	<u>13,466,981</u>	<u>13,654,245</u>	<u>13,666,275</u>	<u>(12,030)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,327,851</u>	<u>2,854,491</u>	<u>2,842,461</u>	<u>(12,030)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	60,000	42,000	42,000	0
Transfers Out	<u>(2,725,000)</u>	<u>(3,495,000)</u>	<u>(3,495,000)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(2,665,000)</u>	<u>(3,453,000)</u>	<u>(3,453,000)</u>	<u>0</u>
Net Change in Fund Balance	337,149	(598,509)	(610,539)	(12,030)
Fund Balance, Beginning of Year	8,436,388	8,436,388	8,436,388	0
Prior Year Encumbrances Appropriated	<u>102,715</u>	<u>102,715</u>	<u>102,715</u>	<u>0</u>
Fund Balance, End of Year	<u>\$ 8,201,954</u>	<u>\$ 7,940,594</u>	<u>\$ 7,928,564</u>	<u>\$ (12,030)</u>

See accompanying notes to the basic financial statements.

CITY OF MAYFIELD HEIGHTS, OHIO
STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2004

Assets

Equity Pooled in Cash and Cash Equivalents \$ 242,877

Liabilities

Deposits Held and Due to Others \$ 242,887

Total Liabilities \$ 242,877

See accompanying notes to the basic financial statements.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 1: REPORTING ENTITY

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

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

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

The City is associated with certain organizations which are identified as jointly governed organizations. The jointly governed organizations are the Eastern Suburban Regional Council of Governments and the Mayfield Union Cemetery as presented in Note 18 to the basic financial statements. The City is also associated with an organization defined as risk sharing pool (Note 14).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and fiduciary. The City has no proprietary funds.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

B. Fund Accounting (Continued)

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

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

Municipal Complex Improvement Fund The municipal complex improvement fund accounts for the note proceeds and interest revenues to be used for municipal complex improvement.

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

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

C. Measurement Focus

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

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

C. **Measurement Focus** (Continued)

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

D. **Basis of Accounting**

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the exchange on which the tax is imposed takes place. Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

D. **Basis of Accounting** (Continued)

Revenues – Exchange and Nonexchange Transactions (Continued)

the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes, for which there is an enforceable legal claim as of December 31, 2004 but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

E. Cash and Cash Equivalents

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

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

In applying GASB Statement No. 31, the City utilized the following methods and assumptions as of December 31, 2004:

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

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

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$205,332, with the remaining interest revenue being properly withheld to the respective funds in 2004.

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

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

F. Materials and Supplies Inventory

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventory consists of expendable supplies.

G. 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 by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Capital Assets

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

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

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

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

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

H. **Capital Assets** (Continued)

Although all governments are encouraged to report all infrastructure assets at the effective dates of the statement, governments are permitted to defer retroactive reporting of infrastructure for four years. The City has elected to report major general infrastructure assets in 2004.

I. **Compensated Absences**

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

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

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

J. **Accrued Liabilities and Long-Term Obligations**

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

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

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

K. Fund Balance Reserves

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

L. Net Assets

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

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

M. Interfund Activity

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

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

O. **Estimates**

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

P. **Budgetary Data**

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

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

The legal level of budgetary control is at the object level within each department for all funds. Any budgetary modifications at this level may only be made by resolution of City Council.

Tax Budget - A tax budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31, of the following year. A proposed budget of estimated revenues and expenditures is submitted by the Mayor to members of City Council of the City by November 15 of each year for the period January 1 to December 31 of the following year.

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

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

P. **Budgetary Data** (Continued)

Estimated Resources (Continued)

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

Appropriations - A temporary appropriation measure to control disbursements may be passed on or about January 1 of each year for the period from January 1 to March 31. The annual appropriations ordinance must be passed by March 31 and may be amended or supplemented during the year as new information becomes available, provided that total fund appropriations at the fund, function, or object level (legal level of control) do not exceed current estimated resources, as certified. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the appropriation amounts passed by Council during the year.

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

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

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 3: RESTATEMENT OF PRIOR YEAR FUND EQUITY

During 2004, the City included their infrastructure as part of capital assets. In addition, capital assets were overstated by \$1,744,025 in 2003, due to an accounting error and the City had an appraisal company do a re-evaluation of its capital assets.

Governmental Activities Net Assets, December 31, 2003	\$ 26,058,275
Capital Assets:	
Infrastructure Implementation (net of accumulated depreciation)	16,767,414
Accounting Error and Re-evaluation of Assets	(1,744,025)
Governmental Net Assets, December 31, 2003, Restated	\$ 41,081,664

NOTE 4: ACCOUNTABILITY AND COMPLIANCE

A. Accountability

Fund balance at December 31, 2004 included the following individual fund deficits:

Police Pension Special Revenue Fund	\$ 61,981
Fire Pension Special Revenue Fund	61,981
Total	\$ 123,962

The deficits in the Police Pension and Fire Pension Special Revenue funds resulted from accrued liabilities. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

Total Appropriations Versus Expenditures Plus Encumbrances

Ohio Revised Code Sections 5705.41(B) and (D) prohibit a subdivision or taxing unit from making an expenditure plus encumbrances unless it has been appropriated. Budgetary expenditures as enacted by the City may not exceed appropriations at the legal level of control for all funds.

As of September 30, 2004, the following funds had expenditures plus encumbrances in excess of total appropriations:

	Total	Expenditures Plus	
<i>General Fund</i>	<u>Appropriations</u>	<u>Encumbrances</u>	<u>Excess</u>
<u>Division of Police</u>			
Building Maintenance Supplies	\$ 3,500	\$ 10,105	\$ 6,605
Janitorial Supplies	6,000	7,361	1,361
Maintenance of Office Equipment	4,150	5,726	1,576
Other Equipment	35,600	47,456	11,856
Computer Equipment	0	25,518	25,518
Board and Care of Prisoners	20,068	31,895	11,827
Miscellaneous Other Expenses	8,749	10,561	1,812

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE** (Continued)

B. Compliance (Continued)

<i>General Fund</i> (Continued)	Total Appropriations	Expenditures Plus Encumbrances	Excess
<u>Division of Fire</u>			
Computer Equipment	\$ 170	\$ 2,688	\$ 2,518
<u>Animal Control</u>			
Overtime	650	2,566	1,916
<u>Swimming Pool</u>			
Salaries and Wages	97,000	103,157	6,157
Building Maintenance Supplies	5,000	7,864	2,864
Other Contractual	4,000	8,255	4,255
Other Equipment	6,500	14,455	7,955
Contractor Construction	3,000	5,600	2,600
Education and Training	1,000	2,481	1,481
<u>Parks and Recreation</u>			
OPERS	33,100	34,543	1,443
Tree Removal	4,000	7,740	3,740
Contractor Construction	3,000	12,250	9,250
Community Unity Day	20,000	22,351	2,351
<u>Men's Softball League</u>			
Other Equipment	0	8,269	8,269
<u>Girl's Softball League</u>			
Miscellaneous Other Expenses	850	4,459	3,609
<u>Community Center</u>			
Construction Material	0	4,127	4,127
Maintenance of Equipment	1,615	3,014	1,399
<u>Division of Building</u>			
Maintenance of Equipment	2,885	5,208	2,323
Other Contractual	4,000	5,102	1,102
Master Plan Consult	7,630	9,245	1,615
<u>Division of Service</u>			
Computer Services	2,060	4,740	2,680
Other Equipment	500	2,948	2,448
Computer Equipment	3,000	4,675	1,675
Contractor Construction	0	3,200	3,200
<u>Finance Department</u>			
Audit Services	27,600	28,770	1,170

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE** (Continued)

B. Compliance (Continued)

	<u>Total</u>	<u>Expenditures</u>	<u>Plus</u>	<u>Excess</u>
	<u>Appropriations</u>	<u>Encumbrances</u>	<u>Encumbrances</u>	<u> </u>
<i>General Fund</i> (Continued)				
<u>Law Department</u>				
Codification	\$ 7,500	\$ 9,808		\$ 2,308
<u>General Administration</u>				
Office Supplies	21,052	24,930		3,878
Engineering Services	40,000	86,319		46,319
Maintenance of Equipment	10,000	20,688		10,688
Computer Equipment	390	1,458		1,068
Miscellaneous Other Expenses	12,426	13,800		1,374
Miscellaneous Offset	25,000	36,077		11,077
<i>Special Revenue Funds</i>				
<u>Street Construction, Maintenance and Repair</u>				
Engineering Services	12,495	16,749		4,254
<u>Mobile Air Truck Maintenance Fund</u>				
Other Contractual Services	1,500	5,001		3,501
Other Equipment	69,829	108,532		38,703
<u>Juvenile Diversion Program</u>				
Education and Training	0	1,491		1,491
<u>Accrued Compensated Reserve Fund</u>				
Accrued Sick Leave	0	15,195		15,195
Accrued Vacation	0	5,162		5,162
Accrued Vacation	9,400	10,459		1,059
<i>Capital Projects Funds</i>				
<u>Equipment Replacement Fund</u>				
Other Equipment - Service	42,000	43,120		1,120
<u>Public Property Improvement Fund</u>				
Construction Materials	0	6,776		6,776
<u>Cedar Road Water Main Extension</u>				
Engineering Services	1,000	13,542		12,542
<u>Municipal Complex Improvement Fund</u>				
Construction Materials	13,112	15,738		2,626
Other Contractual	51,271	122,950		71,679
Other Equipment	15,000	33,351		18,351

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE** (Continued)

B. **Compliance** (Continued)

<i>Capital Projects Funds</i> (Continued)	Total	Expenditures Plus	Excess
	<u>Appropriations</u>	<u>Encumbrances</u>	<u> </u>
<u>Sidewalk Repair Special Assessment Fund</u>			
Engineering Service	\$ 15,000	\$ 22,272	\$ 7,272

In addition to the line items listed above for September 30, 2004, we noted various line items where expenditures and encumbrances exceeded appropriations ranging from \$1 to \$1,000 in the General and Special Revenue Funds.

NOTE 5: **BUDGETARY BASIS OF ACCOUNTING**

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

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

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

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

	Net Change in Fund Balance
GAAP Basis	\$ (346,044)
Increase (Decrease) Due to:	
Revenue Accruals	(304,515)
Expenditure Accruals	127,641
Fair Value Adjustment for Investments	29,526
Net Impact of Encumbrances	<u>(117,147)</u>
Budgetary Basis	<u>\$ (610,539)</u>

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

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

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

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

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

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

A. Deposits

At year-end, the carrying amount of the City's deposits was \$9,630,394, not including \$925 of cash on hand, and the bank balance was \$18,704,889. Of the bank balance, \$600,000 was fully insured by Federal depository insurance. The remaining deposits of \$18,104,889 were uncollateralized and uninsured. Although the securities were held by the pledging financial institutions' trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, non-compliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

B. Investments

GASB Statement No. 3 entitled *Deposits With Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements* requires the City's investments to be categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name.

Investments as of December 31, 2004 were as follows:

<u>Investment Type</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
City of Mayfield Heights			
Special Assessment Bonds	\$ 25,000	\$ 25,000	\$ 25,000
Federal Agency Securities	<u>8,750,453</u>	<u>8,750,453</u>	<u>8,659,265</u>
Total	<u>\$8,775,453</u>	<u>\$ 8,775,453</u>	<u>\$ 8,684,265</u>

The classification of cash and cash equivalents and investments on the statement of net assets is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

B. **Investments** (Continued)

	Cash and Cash		
	Equivalents	Investments	Total
GASB Statement No. 9	\$ 5,631,319	\$12,684,265	\$18,315,584
Petty Cash	(925)	0	(925)
Investments:			
Certificate of Deposit with maturities			
more than 3 months	4,000,000	(4,000,000)	0
GASB Statement No. 3	\$ 9,630,394	\$ 8,684,265	\$18,314,659

The City maintains a cash pool that is available for use by all funds and accounts.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based.

These securities must be obligations of, or guaranteed by, the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require that security for public deposits and investment be maintained in the name of the City.

The City will continue to monitor compliance with applicable statutes in the future pertaining to public deposits and investments.

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2004, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments, and accounts (billing for rental and permits, etc.). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2004 for real and public property taxes represents collections of 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004 on the assessed value as of January 1, 2004, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2004 real property taxes are collected in and intended to finance 2005.

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

2004 tangible personal property taxes are levied after October 1, 2003 on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2004 was \$10.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property - 2004 Tax Valuation	\$ 496,338,960
Public Utility Tangible Property - 2004 Tax Valuation	10,435,510
Tangible Personal Property - 2004 Tax Valuation	<u>38,266,295</u>
Total	<u>\$ 545,040,765</u>

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

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

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Mayfield Heights. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2004 and for which there is an enforceable legal claim. In the general, police pension and fire pension funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2004 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. **Municipal Income Taxes**

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

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

C. **Special Assessments**

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 7: **RECEIVABLES** (Continued)

C. **Special Assessments** (Continued)

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

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

Special assessments expected to be collected in more than one year amount to \$6,790 in the special assessment bond retirement fund. At December 31, 2004, the amount of delinquent special assessments was \$980.

D. **Other Local Taxes**

With certain exceptions, a tax of 3 percent is levied by the City on individuals, companies and organizations which collect an admission charge and reported in the Bond Retirement Fund. Additionally, the City receives estate taxes which are used for the purpose of making equipment replacement purchases. All estate taxes are reported in the capital project equipment replacement fund.

E. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amount</u>
Estate Tax	\$ 116,106
Gasoline Tax	215,327
Local Government	456,827
Homestead and Rollback	302,712
Motor Vehicle License Tax	114,117
Total Governmental Activities	<u>\$ 1,205,089</u>

NOTE 8: **INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

As of December 31, 2004, interfund transfers were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 11,082	\$ 3,495,000
Municipal Complex Improvement Fund	800,000	0
Nonmajor Governmental Funds	2,697,186	13,268
Total	<u>\$ 3,508,268</u>	<u>\$ 3,508,268</u>

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 8: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Interfund transfers were needed to provide additional resources for current operations. The composition of interfund balances as of December 31, 2004, is as follows:

Fund	Due from Other Funds	Due to Other Funds
General	\$ 0	\$ 3,960,282
Nonmajor Governmental	3,960,282	0

Interfund balances were needed due to the City maximizing its potential for investments using operating cash.

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2004 follows:

	Restated Balance 12/31/03	Additions	Disposals	Balance 12/31/04
Governmental Activities				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 3,024,620	\$ 0	\$ 0	\$ 3,024,620
Construction in Progress	375,000	0	(375,000)	0
<i>Total Capital Assets Not Being Depreciated</i>	<u>3,399,620</u>	<u>0</u>	<u>(375,000)</u>	<u>3,024,620</u>
<i>Capital Assets Being Depreciated</i>				
Land Improvements	1,166,703	21,050	0	1,187,753
Buildings	8,896,332	23,404	0	8,919,736
Machinery and Equipment	1,354,914	34,261	0	1,389,175
Furniture and Equipment	772,857	9,625	0	782,482
Vehicles	2,972,005	539,567	(207,720)	3,303,852
Infrastructure:				
Roads	21,846,631	1,414,000	0	23,260,631
Water Mains	1,098,642	0	0	1,098,642
Sanitary Sewer	4,942,285	0	0	4,942,285
Storm Sewers	2,203,957	0	0	2,203,957
Totals at Historical Cost	<u>45,254,326</u>	<u>2,041,907</u>	<u>(207,720)</u>	<u>47,088,513</u>
Less Accumulated Depreciation:				
Land Improvements	(664,329)	(49,644)	0	(713,973)
Buildings	(1,367,922)	(222,420)	0	(1,590,342)
Machinery and Equipment	(828,807)	(88,055)	0	(916,862)
Furniture and Equipment	(257,019)	(45,882)	0	(302,901)
Vehicles	(1,609,766)	(233,927)	201,360	(1,642,333)
Infrastructure:				
Roads	(10,995,047)	(1,138,950)	0	(12,133,997)
Water Mains	(243,366)	(21,973)	0	(265,339)
Sanitary Sewers	(1,487,584)	(98,846)	0	(1,586,430)
Storm Sewers	(598,104)	(44,079)	0	(642,183)
Total Accumulated Depreciation	<u>(18,051,944)</u>	<u>(1,943,776)</u>	<u>201,360</u>	<u>(19,794,360)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>27,202,382</u>	<u>98,131</u>	<u>(6,360)</u>	<u>27,294,153</u>
Governmental Activities Capital Assets, Net	<u>\$ 30,602,002</u>	<u>\$ 98,131</u>	<u>\$ (381,360)</u>	<u>\$ 30,318,773</u>

* Depreciation expense was charged to governmental functions as follows:

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 9: **CAPITAL ASSETS** (Continued)

	Other		
	<u>Capital Assets</u>	<u>Infrastructure</u>	<u>Total</u>
Security of Persons and Property	\$ 290,202	\$ 0	\$ 290,202
Public Health	5,220	0	5,220
Basic Utilities	49,985	164,898	214,883
Community Environment	12,292	0	12,292
Leisure Time Activities	79,261	0	79,261
Transportation	58,201	1,138,950	1,197,151
General Government	<u>144,767</u>	<u>0</u>	<u>144,767</u>
Total Depreciation Expense	<u>\$ 639,928</u>	<u>\$ 1,303,848</u>	<u>\$ 1,943,776</u>

The City has implemented its infrastructures as capital assets in 2004.

NOTE 10: **COMPENSATED ABSENCES**

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

NOTE 11: **PENSION PLAN**

A. **Ohio Public Employees Retirement System**

All City full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

- The Traditional Pension Plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan;
- The Member-Directed Plan (MD) - a benefit contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

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

- The Combined Plan (CO) - a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed plan.

OPERS provides retirement, disability, survivor, death benefits, and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. 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 member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City was 13.55 percent of covered payroll. The City's required contributions to OPERS for the years ended December 31, 2004, 2003, and 2002 were \$490,618, \$294,516, and \$273,998, respectively. The full amount has been contributed for 2003 and 2002. 89.02 percent has been contributed for 2004.

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

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

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

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

B. Ohio Police and Fire Pension Fund (Continued)

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. The City's contributions to the OP&F for police and firefighters were \$472,177 and \$477,068 for the year ended December 31, 2004, \$274,292 and \$313,471 for the year ended December 31, 2003, and \$255,124 and \$292,218 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 75.48 percent and 75.48 percent, respectively, have been contributed for 2004.

NOTE 12: **POST-EMPLOYMENT BENEFITS**

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 employer rate was 13.55 percent of covered payroll; 4 percent was the portion that was used to fund health care for 2004.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

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

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

At December 31, 2004, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,885. The City's annual contributions for 2004 used to fund post-employment benefits were \$144,833. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability 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 OPERS' 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.

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

The Ohio Police and Fire Pension Fund (OP&F) provides post-retirement health care coverage to any person who received or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a two-thirds basis.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 12: **POST-EMPLOYMENT BENEFITS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the OP&F's Board of Trustees to provide health care coverage and states that health care costs paid from the OP&F funds shall be included in the employer's contribution rate. Health care funding and accounting are on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the post-employment health care program during 2004 and 2003. 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. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003 was 13,662 for police and 10,474 for firefighters.

The City's annual contributions for 2004 that were used to fund postemployment benefits were \$187,660 for police and \$154,053 for fire. The OP&F's total health care expenses for the year ended December 31, 2003 (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506.

NOTE 13: **LONG-TERM OBLIGATIONS**

Changes in the debt of the City for the year ended December 31, 2004 are as follows:

	Issuance Amount	Maturity Date	Balance 12/31/03	Increase	Decrease	Balance 12/31/04	Amount Due in a Year
Governmental Activities							
<i>Manuscript Bonds</i>							
5.00% 1999 Aldenham Drive Improvement	\$50,000	2009	\$ 30,000	\$ 0	\$ (5,000)	\$ 25,000	\$ 5,000
<i>Total Manuscript Bonds</i>			<u>30,000</u>	<u>0</u>	<u>(5,000)</u>	<u>25,000</u>	<u>5,000</u>
OPWC Loan Payable	\$271,155	2015	153,544	0	(13,352)	140,192	13,352
Municipal Complex Improvement Notes		Jan 2005	7,000,000	6,300,000	(7,000,000)	6,300,000	700,000
Claims and Judgment Payable			2,000,000	0	0	2,000,000	0
Compensated Absences			<u>1,756,783</u>	<u>639,255</u>	<u>(565,063)</u>	<u>1,830,975</u>	<u>592,551</u>
Total Governmental Activities			<u>\$10,940,327</u>	<u>\$ 6,939,255</u>	<u>\$ (7,583,415)</u>	<u>\$ 10,296,167</u>	<u>\$ 1,310,903</u>

Outstanding manuscript bonds consist of street improvements. Manuscript bonds are direct obligations of the City for which its full faith, credit, and resources are pledged and are payable from special assessments levied.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

The Ohio Public Works Commission (OPWC) loan will be paid from the Road Improvement fund by revenues transferred from the general fund. Municipal Complex Improvement Notes payable were reissued in 2004 in anticipation of bond proceeds. The notes will be refinanced until the projects are complete and the City determines it to be advantageous to issue bonds. Payment for claims and judgments payable will be made from the general fund. See note 16 for further details. Compensated absences will be paid from the respective funds from which the employees' salary is paid.

Principal and Interest Requirements

A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2004 follows:

Years	Manuscript Bonds		OPWC Loan	Total	
	Principal	Interest		Principal	Interest
2005	\$ 5,000	\$ 1,250	\$ 13,352	\$ 18,352	\$ 1,250
2006	5,000	1,000	13,352	18,352	1,000
2007	5,000	750	13,352	18,352	750
2008	5,000	500	13,352	18,352	500
2009	5,000	250	13,352	18,352	250
2013-2018	0	0	80,112	80,112	0
Totals	<u>\$ 25,000</u>	<u>\$ 3,750</u>	<u>\$ 146,872</u>	<u>\$ 171,872</u>	<u>\$ 3,750</u>

NOTE 14: NORTHERN OHIO RISK MANAGEMENT ASSOCIATION

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

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

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 14: **NORTHERN OHIO RISK MANAGEMENT ASSOCIATION** (Continued)

In 2004, the City of Mayfield Heights paid \$130,759 in premiums from the general fund, which represents 9.22 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146.

NOTE 15: **RISK MANAGEMENT**

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

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

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

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

The City provides medical, dental, and prescription benefits for all full-time employees. All payments are made from the general fund based on amounts needed to pay prior and current year claims. Costs are based on actuarial estimations, demographics, and the City's claim history.

The medical, dental, and prescription benefits are provided through Medical Mutual of Ohio. Payments are made from the general fund on a monthly basis. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits is \$401.28 for single coverage and \$1,002.78 for family coverage. The monthly premium for dental benefits is \$20.59 for single coverage and \$66.77 for family coverage. The monthly coverage for vision benefits is \$4.19 for single coverage and \$10.48 for family coverage.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 16: CONTINGENT LIABILITIES

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

The Ohio Supreme Court recently found the City liable for a temporary taking of property and ordered the City to begin proceedings in the Cuyahoga County Probate Court to determine loss of value for damages. To date, the City's position has been a willingness to settle the case for \$2,000,000. The lowest demand from the property owners appears to be somewhere between \$5,000,000 and \$6,000,000. This matter currently has issues pending before the Ohio Supreme Court, which bear directly on the potential exposure the City faces.

NOTE 17: SUBSEQUENT EVENT

On January 26, 2005, the City issued \$5,600,000 in 2005 series Municipal Complex Improvement Bond Anticipation Notes to retire 2004 series Municipal Complex Improvement Bond Anticipation Notes in the amount of \$6,300,000. The 2005 series notes payable were issued at an interest rate of 3.25 percent, with the maturity date on January 26, 2006.

NOTE 18: JOINTLY GOVERNED ORGANIZATION

Eastern Suburban Regional Council of Governments

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

The Council established one subsidiary organization, the Suburban Police Anti-Crime Network (SPAN), which provides for the mutual interchange and sharing of police personnel and police equipment to be utilized by all six (6) participating member municipalities. In 2004, all participating municipalities contributed \$75,000 each.

The Council adopts a budget for ESRCOG annually. Each member municipality's degree of control is limited to its representation on the Council. In 2004, the City contributed \$12,500, which represents 16.7 percent of the total contributions.

CITY OF MAYFIELD HEIGHTS, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(CONTINUED)

NOTE 18: **JOINTLY GOVERNED ORGANIZATION** (Continued)

Mayfield Union Cemetery

The Mayfield Union Cemetery is a jointly governed organization among three local communities (the Village of Mayfield, the City of Highland Heights, and the City of Mayfield Heights). The jointly governed organization was formed based on the boundaries in relation to the cemetery. Each of the communities contributes a nominal fee for the Maintenance of the cemetery. The Village of Mayfield assumes the daily accounting and reporting of the cemetery finances. The Cemetery Board consists of three Board members, with one council member is appointed from each of the three communities. Financial information can be obtained by contacting the Director of Finance at the Village of Mayfield, 6621 Wilson Mills Road, Mayfield Village, Ohio 44143.



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

To the City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mayfield Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 5, 2005, wherein we noted the City restated their capital assets which included their infrastructure. 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 opinion 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 5, 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 5, 2005, we reported other matters related to noncompliance we deemed immaterial.

City of Mayfield Heights
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 5, 2005

**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

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

Finding Number	2004-001
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TOTAL APPROPRIATIONS VERSUS EXPENDITURES PLUS ENCUMBRANCES

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure plus encumbrances unless it has been appropriated. Budgetary expenditures as enacted by the City may not exceed appropriations at the legal level of control for all funds.

As of September 30, 2004, the following funds had expenditures plus encumbrances in excess of total appropriations. These variances were corrected by December 31, 2004.

General Fund:

Division of Police

Building Maintenance Supplies	\$3,500	\$10,105	\$6,605
Janitorial Supplies	6,000	7,361	1,361
Maintenance of Office Equipment	4,150	5,726	1,576
Other Equipment	35,600	47,456	11,856
Computer Equipment	0	25,518	25,518
Board & Care of Prisoners	20,068	31,895	11,827
Miscellaneous Other Expenses	8,749	10,561	1,812

Division of Fire

Computer Equipment	170	2,688	2,518
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Animal Control

Overtime	650	2,566	1,916
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Swimming Pool

Salaries & Wages	97,000	103,157	6,157
Building Maintenance Supplies	5,000	7,864	2,864
Other Contractual	4,000	8,255	4,255

CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)

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

TOTAL APPROPRIATIONS VERSUS EXPENDITURES PLUS ENCUMBRANCES (Continued)

Finding Number	2004-001
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	<u>Total Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund:			
Swimming Pool (Continued)			
Other Equipment	\$6,500	\$14,455	\$7,955
Contractor Construction	3,000	5,600	2,600
Education & Training	1,000	2,481	1,481
Parks and Recreation			
OPERS	33,100	34,543	1,443
Tree Removal	4,000	7,740	3,740
Contractor Construction	3,000	12,250	9,250
Com Unity Day	20,000	22,351	2,351
Men's Softball League			
Other Equipment	0	8,269	8,269
Girl's Softball League			
Miscellaneous Other Expenses	850	4,459	3,609
Community Center			
Construction Material	0	4,127	4,127
Maintenance of Equipment	1,615	3,014	1,399
Division of Building			
Maintenance of Equipment	2,885	5,208	2,323
Other Contractual	4,000	5,102	1,102
Master Plan Consult	7,630	9,245	1,615
Division of Service			
Computer Services	2,060	4,740	2,680
Other Equipment	500	2,948	2,448
Computer Equipment	3,000	4,675	1,675
Contractor Construction	0	3,200	3,200
Finance Department			
Audit Services	27,600	28,770	1,170
Law Department			
Codification	7,500	9,808	2,308
General Administration			
Office Supplies	21,052	24,930	3,878
Engineering Services	40,000	86,319	46,319
Maintenance of Equipment	10,000	20,688	10,688
Computer Equipment	390	1,458	1,068
Miscellaneous Other Expenses	12,426	13,800	1,374
Miscellaneous Offset	25,000	36,077	11,077

CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)

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

TOTAL APPROPRIATIONS VERSUS EXPENDITURES PLUS ENCUMBRANCES (Continued)

Finding Number	2004-001
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	<u>Total Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
<i>Special Revenue Funds:</i>			
Street Construction, Maintenance & Repair			
Engineering Services	\$12,495	\$16,749	\$4,254
Mobile Air Truck Maintenance Fund			
Other Contractual Services	1,500	5,001	3,501
Other Equipment	69,829	108,532	38,703
Juvenile Diversion Program			
Education & Training	0	1,491	1,491
Accrued Compensated Reserve Fund			
Accrued Sick Leave	0	15,195	15,195
Accrued Vacation	0	5,162	5,162
Accrued Vacation	9,400	10,459	1,059
Law Enforcement Trust-State			
Motor Vehicles-Forfeiture	0	13,974	13,974
<i>Capital Projects Funds:</i>			
Equipment Replacement Fund			
Other Equipment – Service	42,000	43,120	1,120
Public Property Improvement Fund			
Construction Materials	0	6,776	6,776
Cedar Road Water Main Extension			
Engineering Services	1,000	13,542	12,542
Municipal Complex Improvement Fund			
Construction Materials	13,112	15,738	2,626
Other Contractual	51,271	122,950	71,679
Other Equipment	15,000	33,351	18,351
Sidewalk Repair Special Assessment Fund			
Engineering Service	15,000	22,272	7,272

**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

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

TOTAL APPROPRIATIONS VERSUS EXPENDITURES PLUS ENCUMBRANCES (Continued)

Finding Number	2004-001
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In addition to the line items listed above for September 30, 2004, we noted various line items where expenditures and encumbrances exceeded appropriations ranging from \$1 to \$1,000 in the General and Special Revenue Funds.

The power to tax is a function of local self-government provided by the Ohio Constitution. The budgetary process is a plan for the coordination of expenditures and resources. The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. Proper budgeting requires appropriations to be monitored and amended during the fiscal year.

We recommend the City maintain a continuous budgetary process in which it maintains stringent budgetary controls over its expected operations and over its managers or department heads. Budgetary compliance should be monitored throughout the fiscal period in order to identify any weaknesses at the legal level of budgetary control. In addition, to simplify the budgetary process, the City should explore other alternative legal levels of appropriations. Appropriations should be monitored and amended during the fiscal year.

**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	ORC 5705.41 (D) Failure to encumber commitments.	Partially Corrected	Comment reissued in the Management Letter



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

CITY OF MAYFIELD HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 13, 2005**