

*CITY OF LYNDHURST, OHIO*

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**BASIC FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
DECEMBER 31, 2006**

*Prepared by:*  
**Mary Kovalchik**  
**Director of Finance**





Mary Taylor, CPA  
Auditor of State

Members of City Council  
City of Lyndhurst  
5301 Mayfield Road  
Lyndhurst, Ohio 44124

We have reviewed the *Independent Auditors' Report* of the City of Lyndhurst, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

July 13, 2007

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# City of Lyndhurst, Ohio

For The Year Ended December 31, 2006

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## Independent Auditors' Report

Members of the City Council  
Lyndhurst, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lyndhurst, Ohio as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Lyndhurst, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lyndhurst, Ohio, as of December 31, 2006, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended December 31, 2006, the City of Lyndhurst, Ohio implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47 "Accounting for Termination Benefits".

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2007 on our consideration of the City of Lyndhurst, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the City Council  
Lyndhurst, Ohio

The management's discussion and analysis on pages 3 through 10, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Cioni & Parichi, Inc.*

Cleveland, Ohio  
June 26, 2007



## **CITY OF LYNDHURST, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2006***

***Unaudited***

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The discussion and analysis of the City of Lyndhurst's (the City) financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

### **FINANCIAL HIGHLIGHTS**

**Key financial highlights for 2006 are as follows:**

- ❑ In total, net assets decreased \$2,344,865, which represents a 2.4% change from 2005.
- ❑ General revenues accounted for approximately \$12.9 million in revenue or 75% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for 25% of total revenues of approximately \$17.3 million.
- ❑ The City had approximately \$19.6 million in expenses related to governmental activities; only approximately \$4.3 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of approximately \$12.9 million and reserves were adequate to provide for these programs.
- ❑ Among major funds, the general fund had approximately \$13.2 million in revenues and approximately \$12.8 million in expenditures. The general fund's fund balance decreased \$382,535 to \$4,857,063.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

These statements are as follows:

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

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

# CITY OF LYNDHURST, OHIO

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*Management's Discussion and Analysis  
For the Year Ended December 31, 2006*

*Unaudited*

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## **Government-wide Statements**

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

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

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

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

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

## **Fund Financial Statements**

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

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

## **CITY OF LYNDHURST, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2006***

***Unaudited***

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

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

### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

The following table provides a comparison of the City's net assets as of December 31, 2006 and 2005:

	Governmental Activities	
	2006	2005
Current and other assets	\$26,697,471	\$26,911,562
Capital assets, Net	79,334,499	80,797,839
Total assets	106,031,970	107,709,401
Long-term debt liabilities	4,352,779	4,246,356
Other liabilities	5,870,145	5,309,134
Total liabilities	10,222,924	9,555,490
Net assets		
Invested in capital assets, net of related debt	75,963,296	77,416,839
Restricted	14,263,651	13,961,949
Unrestricted	5,582,099	6,775,123
Total net assets	\$95,809,046	\$98,153,911

**CITY OF LYNDHURST, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2006**

**Unaudited**

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2006 and 2005:

	Governmental Activities	
	2006	2005
Revenues		
Program revenues:		
Charges for Services and Sales	\$2,450,361	\$2,107,346
Operating Grants and Contributions	1,605,319	1,118,302
Capital Grants and Contributions	267,010	370,843
General revenues:		
Property Taxes	4,203,628	4,755,762
Municipal Income Taxes	5,809,433	6,260,655
Other Local Taxes	165,836	150,011
Unrestricted Grants and Entitlements	1,736,262	4,426,880
Investment Earnings	910,659	523,096
Miscellaneous	153,370	152,132
Total revenues	17,301,878	19,865,027
Program Expenses		
Security of Persons and Property	7,661,995	7,314,588
Public Health and Welfare Services	51,185	52,214
Leisure Time Activities	1,454,731	1,250,457
Community Environment	623,937	585,008
Basic Utility Services	3,089,888	2,942,459
Transportation	2,043,625	3,215,544
General Government	4,574,370	4,040,834
Interest and Fiscal Charges	147,012	114,570
Total expenses	19,646,743	19,515,674
Total Change in Net Assets	(2,344,865)	349,353
Net Assets Beginning of Year	98,153,911	97,804,558
Net Assets End of Year	\$95,809,046	\$98,153,911

**Governmental Activities**

Net assets of the City's governmental activities decreased by \$2,344,865. This was due primarily to a decrease in unrestricted grants and entitlements. Concerted efforts were made to maximize returns on investments of interim funds during 2006. With the Federal Reserves (17) consecutive rate increases the City has engaged in longer term investment options with maturities extending out to three years. As this trend continues the City will monitor cash flows to further enhance the existing portfolio.

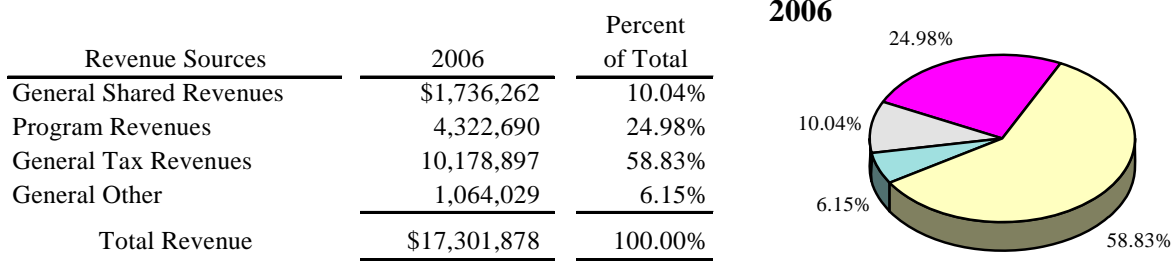
The City also receives an income tax, which is based on 1.5% of all salaries, wages, commissions and other compensation earned from residents living within the City and from nonresidents for work done or services performed or rendered in the City. Residents who work outside the City and are subject to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

## CITY OF LYNDHURST, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2006**

**Unaudited**

Property taxes and income taxes made up 24.3% and 33.6%, respectively of revenues for governmental activities for the City in fiscal year 2005. The City's reliance upon tax revenues is demonstrated by the following graph indicating approximately 58.43% of total revenues from general tax revenues:



### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$17,955,342, which is a decrease from last year's balance of \$18,460,323. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2006 and 2005:

	Fund Balance December 31, 2006	Fund Balance December 31, 2005	Increase (Decrease)
General	\$4,857,063	\$5,239,598	(\$382,535)
General Obligation Bond Retirement	506,945	710,094	(203,149)
Permanent Improvement	4,778,273	5,934,516	(1,156,243)
Capital Reserve	3,069,815	2,862,781	207,034
Other Governmental	4,743,246	3,713,334	1,029,912
Total	\$17,955,342	\$18,460,323	(\$504,981)

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

	2006 Revenues	2005 Revenues	Increase (Decrease)
Taxes	\$9,280,992	\$8,772,613	\$508,379
Intergovernmental Revenue	1,811,621	919,993	891,628
Charges for Services	520,257	288,253	232,004
Fines and Forfeitures	1,438,071	1,419,892	18,179
All Other Revenue	205,423	154,768	50,655
Total	\$13,256,364	\$11,555,519	\$1,700,845

## *CITY OF LYNDHURST, OHIO*

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*Management's Discussion and Analysis  
For the Year Ended December 31, 2006*

*Unaudited*

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General Fund revenues in 2006 increased approximately 14.7% compared to revenues in fiscal year 2005. The most significant factor contributing to this increase was intergovernmental revenues and increases in charges for services.

	2006	2005	Increase
	<u>Expenditures</u>	<u>Expenditures</u>	<u>(Decrease)</u>
Security of Persons and Property	\$6,377,966	\$5,980,958	\$397,008
Public Health and Welfare Services	51,185	52,214	(1,029)
Leisure Time Activities	808,149	788,155	19,994
Community Environment	417,257	376,851	40,406
Basic Utility Services	1,276,052	1,064,562	211,490
General Government	<u>3,886,646</u>	<u>3,594,737</u>	<u>291,909</u>
Total	<u><u>\$12,817,255</u></u>	<u><u>\$11,857,477</u></u>	<u><u>\$959,778</u></u>

General Fund expenditures increased by \$959,778 or 8.1% over the prior year mostly due to increases in salary and wages, retirement contributions, and health insurance premiums for the City's employees. In addition, general government costs increased due to a progressive approach to economic development within the community coupled with computerized communications development tooled to enhance community marketing.

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

During the course of fiscal year 2006 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of approximately \$12.7 million did not change over the original budget estimates. The General Fund had an adequate fund balance to cover expenditures.

**CITY OF LYNDHURST, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2006**

**Unaudited**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal 2006 the City had \$79,334,499 net of accumulated depreciation invested in land, improvements, infrastructure, buildings and machinery and equipment. The following table shows fiscal year 2006 and 2005 balances (net of accumulated depreciation):

	Governmental Activities		Increase (Decrease)
	2006	2005	
Land	\$394,193	\$394,193	\$0
Improvements Other than Buildings	2,502,932	2,502,932	0
Infrastructure	109,481,261	109,280,988	200,273
Buildings	9,724,597	9,724,597	0
Machinery and Equipment	7,650,603	7,062,127	588,476
Less: Accumulated Depreciation	(50,419,087)	(48,166,998)	(2,252,089)
Totals	\$79,334,499	\$80,797,839	(\$1,463,340)

The primary increases occurred in infrastructure and machinery and equipment, which resulted from the replacement with increased capacity of a water main on Oakmont and the acquisition of five safety vehicles, an emergency squad, three large service based trucks, a safety utility truck and a leaf machine. Additional information on the City's capital assets can be found in Note 8.

**Debt**

At December 31, 2006, the City had approximately \$2.4 million in bonds outstanding, \$169,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2006 and 2005:

	2006	2005
Governmental Activities:		
General Obligation Bonds	\$2,355,000	\$2,515,000
Special Assessment Bonds	12,000	16,000
Long-Term Notes	1,000,000	850,000
Capital Leases Payable	4,203	0
Compensated Absences	981,576	865,356
Total Governmental Activities	\$4,352,779	\$4,246,356

State statutes limit the amount of unvoted general obligation debt the City may issue. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions with other political subdivisions. The actual aggregate amount of the City's unvoted debt, when added to that of other political subdivisions within the county in which Lyndhurst lies, is limited to 11.5 mills. At December 31, 2006, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 11.

## ***CITY OF LYNDHURST, OHIO***

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2006***

***Unaudited***

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### **ECONOMIC FACTORS**

The TRW Corporation, once a major employer in the City of Lyndhurst, was purchased by Northrop Grumman in late 2002. In 2006, the timing issues associated with tax filings had a minimal impact on the income tax collections for the City. Upon the exit of TRW and in an effort to stabilize the city's economy, Legacy Village (a premier retail district) was erected and continues to trend the economic tax base of the City in a positive fashion. The footprint of Legacy Village combined with the presence of the Cleveland Clinic provide for an exclusive plan that is expected to take shape within the next few years.

Additionally, the city continues to experience small bursts in new housing developments. Rivercreek is currently under development with fourteen homes under construction and/or completed in 2006 and an anticipated six scheduled for completion in 2007. This development is comprised of 33 single family and 3 duplex units all priced in the \$500,000 range. Acacia Country Club Estates broke ground in 2006 with four homes completed and another four under construction and scheduled for completion in 2007. This development is comprised of 46 single family and 2 duplex units all priced in the \$600,000 range.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Finance Department by calling 440-442-5777 or writing to City of Lyndhurst Finance Department, 5301 Mayfield Road, Lyndhurst, Ohio 44124.



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**CITY OF LYNDHURST, OHIO**

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**Statement of Net Assets**  
**December 31, 2006**

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	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash and Cash Equivalents	\$ 8,638,895
Investments	8,840,841
Receivables:	
Taxes	6,927,994
Accounts	34,889
Intergovernmental	1,026,558
Special Assessments	1,001,629
Inventory of Supplies at Cost	106,759
Prepaid Items	119,906
Capital Assets, Net	<u>79,334,499</u>
<b>Total Assets</b>	<b><u>106,031,970</u></b>
<b>Liabilities:</b>	
Accounts Payable	445,572
Accrued Wages and Benefits	680,472
Retainage Payable	31,835
Deferred Revenue	4,658,009
Accrued Interest Payable	54,257
Long-Term Liabilities:	
Due Within One Year	1,359,021
Due in More Than One Year	<u>2,993,758</u>
<b>Total Liabilities</b>	<b><u>10,222,924</u></b>
<b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	75,963,296
Restricted For:	
Capital Projects	8,226,547
Debt Service	705,264
Other Purposes	5,331,840
Unrestricted	<u>5,582,099</u>
<b>Total Net Assets</b>	<b><u>\$ 95,809,046</u></b>

See accompanying notes to the basic financial statements

**CITY OF LYNDHURST, OHIO**

**Statement of Activities**  
**For the Year Ended December 31, 2006**

		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
<b>Governmental Activities:</b>					
Current:					
Security of Persons and Property	\$ 7,661,995	\$ 728,007	\$ 56,332	\$ 0	\$ (6,877,656)
Public Health and Welfare Services	51,185	0	0	0	(51,185)
Leisure Time Activities	1,454,731	180,402	0	0	(1,274,329)
Community Environment	623,937	64,120	203,628	0	(356,189)
Basic Utility Services	3,089,888	38,361	718,594	267,010	(2,065,923)
Transportation	2,043,625	22,016	626,765	0	(1,394,844)
General Government	4,574,370	1,417,455	0	0	(3,156,915)
Interest and Fiscal Charges	147,012	0	0	0	(147,012)
<b>Total Governmental Activities</b>	<b>\$ 19,646,743</b>	<b>\$ 2,450,361</b>	<b>\$ 1,605,319</b>	<b>\$ 267,010</b>	<b>(15,324,053)</b>
 <b>General Revenues</b>					
Property Taxes					4,203,628
Municipal Income Taxes					5,809,433
Other Local Taxes					165,836
Grants and Entitlements not Restricted to Specific Programs					1,736,262
Investment Earnings					910,659
Miscellaneous					153,370
Total General Revenues					12,979,188
Change in Net Assets					(2,344,865)
Net Assets Beginning of Year					98,153,911
Net Assets End of Year					<b>\$ 95,809,046</b>

See accompanying notes to the basic financial statements

**CITY OF LYNDHURST, OHIO**

**Balance Sheet**  
**Governmental Funds**  
**December 31, 2006**

	General	General Obligation Bond Retirement	Permanent Improvement
	<u>General</u>	<u>Retirement</u>	<u>Improvement</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 1,617,910	\$ 180,416	\$ 1,811,700
Investments	2,470,009	326,529	2,961,982
Receivables:			
Taxes	5,244,914	1,391,438	0
Accounts	20,160	0	11,565
Intergovernmental	630,515	78,289	0
Special Assessments	299	4,578	0
Inventory of Supplies, at Cost	24,716	0	0
Prepaid Items	119,906	0	0
<b>Total Assets</b>	<u>\$ 10,128,429</u>	<u>\$ 1,981,250</u>	<u>\$ 4,785,247</u>
<b>Liabilities:</b>			
Accounts Payable	\$ 175,696	\$ 0	\$ 6,974
Accrued Wages and Benefits Payable	459,062	0	0
Retainage Payable	31,835	0	0
Deferred Revenue	4,604,773	1,474,305	0
<b>Total Liabilities</b>	<u>5,271,366</u>	<u>1,474,305</u>	<u>6,974</u>
<b>Fund Balances:</b>			
Reserved for Encumbrances	292,792	0	474,336
Reserved for Prepaid Items	119,906	0	0
Reserved for Supplies Inventory	24,716	0	0
Reserved for Debt Service	0	506,945	0
Undesignated/Unreserved in:			
General Fund	4,419,649	0	0
Special Revenue Funds	0	0	0
Capital Projects Funds	0	0	4,303,937
<b>Total Fund Balances</b>	<u>4,857,063</u>	<u>506,945</u>	<u>4,778,273</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 10,128,429</u>	<u>\$ 1,981,250</u>	<u>\$ 4,785,247</u>

See accompanying notes to the basic financial statements

**CITY OF LYNDHURST, OHIO**

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<u>Capital Reserve</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,165,887	\$ 3,862,982	\$ 8,638,895
1,903,928	1,178,393	8,840,841
0	291,642	6,927,994
0	3,164	34,889
0	317,754	1,026,558
0	996,752	1,001,629
0	82,043	106,759
0	0	119,906
<u>\$ 3,069,815</u>	<u>\$ 6,732,730</u>	<u>\$ 26,697,471</u>
\$ 0	\$ 262,902	\$ 445,572
0	221,410	680,472
0	0	31,835
0	1,505,172	7,584,250
<u>0</u>	<u>1,989,484</u>	<u>8,742,129</u>
0	491,198	1,258,326
0	0	119,906
0	82,043	106,759
0	0	506,945
0	0	4,419,649
0	2,487,253	2,487,253
<u>3,069,815</u>	<u>1,682,752</u>	<u>9,056,504</u>
<u>3,069,815</u>	<u>4,743,246</u>	<u>17,955,342</u>
<u>\$ 3,069,815</u>	<u>\$ 6,732,730</u>	<u>\$ 26,697,471</u>

**CITY OF LYNDHURST, OHIO**

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***Reconciliation Of Total Governmental Fund Balances  
To Net Assets Of Governmental Activities  
December 31, 2006***

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<b>Total Governmental Fund Balances</b>	\$ 17,955,342
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	79,334,499
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	2,926,241
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(4,407,036)</u>
<b><i>Net Assets of Governmental Activities</i></b>	<b><u><u>\$ 95,809,046</u></u></b>

See accompanying notes to the basic financial statements

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**CITY OF LYNDHURST, OHIO**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2006**

	General	General Obligation Bond Retirement	Permanent Improvement
<b>Revenues:</b>			
Property Taxes	\$ 2,953,029	\$ 801,456	\$ 0
Municipal Income Tax	6,327,963	0	0
Other Local Taxes	0	0	101,447
Intergovernmental Revenues	1,811,621	88,184	0
Charges for Services	520,257	0	0
Investment Earnings	0	35,417	365,740
Special Assessments	0	4,579	0
Fines and Forfeitures	1,438,071	0	0
All Other Revenue	205,423	0	80
<b>Total Revenue</b>	<b>13,256,364</b>	<b>929,636</b>	<b>467,267</b>
<b>Expenditures:</b>			
Current:			
Security of Persons and Property	6,377,966	0	354,120
Public Health and Welfare Services	51,185	0	0
Leisure Time Activities	808,149	0	210,525
Community Development	417,257	0	0
Basic Utility Services	1,276,052	0	212,482
Transportation	0	0	120,911
General Government	3,886,646	4,000	97,874
Debt Service:			
Principal Retirement	0	1,014,000	0
Interest & Fiscal Charges	0	114,785	0
<b>Total Expenditures</b>	<b>12,817,255</b>	<b>1,132,785</b>	<b>995,912</b>
Excess (Deficiency) of Revenues Over Expenditures	439,109	(203,149)	(528,645)
<b>Other Financing Sources (Uses):</b>			
Sale of Capital Assets	640	0	22,402
General Obligation Notes Issued	0	0	0
Transfers In	0	0	0
Transfers Out	(847,000)	0	(650,000)
Other Financing Sources - Capital Leases	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>(846,360)</b>	<b>0</b>	<b>(627,598)</b>
Net Change in Fund Balances	(407,251)	(203,149)	(1,156,243)
<b>Fund Balances at Beginning of Year, Restated</b>	<b>5,239,598</b>	<b>710,094</b>	<b>5,934,516</b>
Increase in Inventory Reserve	24,716	0	0
<b>Fund Balances End of Year</b>	<b>\$ 4,857,063</b>	<b>\$ 506,945</b>	<b>\$ 4,778,273</b>

See accompanying notes to the basic financial statements



**CITY OF LYNDHURST, OHIO**

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<u>Capital Reserve</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 0	\$ 239,436	\$ 3,993,921
0	0	6,327,963
0	64,389	165,836
0	610,338	2,510,143
0	0	520,257
207,034	302,468	910,659
0	1,019,798	1,024,377
0	325,334	1,763,405
0	67,012	272,515
<u>207,034</u>	<u>2,628,775</u>	<u>17,489,076</u>
0	965,021	7,697,107
0	0	51,185
0	232,324	1,250,998
0	198,849	616,106
0	573,428	2,061,962
0	1,905,656	2,026,567
0	297,820	4,286,340
0	840	1,014,840
0	222	115,007
<u>0</u>	<u>4,174,160</u>	<u>19,120,112</u>
207,034	(1,545,385)	(1,631,036)
0	27,876	50,918
0	1,000,000	1,000,000
0	1,497,000	1,497,000
0	0	(1,497,000)
0	5,043	5,043
<u>0</u>	<u>2,529,919</u>	<u>1,055,961</u>
207,034	984,534	(575,075)
2,862,781	3,713,334	18,460,323
0	45,378	70,094
<u>\$ 3,069,815</u>	<u>\$ 4,743,246</u>	<u>\$ 17,955,342</u>

## **CITY OF LYNDHURST, OHIO**

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***Reconciliation Of The Statement Of Revenues, Expenditures  
And Changes In Fund Balances Of Governmental Funds  
To The Statement Of Activities  
For The Fiscal Year Ended December 31, 2006***

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**Net Change in Fund Balances - Total Governmental Funds** \$ (575,075)

***Amounts reported for governmental activities in the statement of activities are different because***

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period. (998,550)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets net of proceeds received. (464,790)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (238,116)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 9,797

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (32,005)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (46,126)

***Change in Net Assets of Governmental Activities*** \$ (2,344,865)

See accompanying notes to the basic financial statements

**CITY OF LYNDHURST, OHIO**

**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Year Ended December 31, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property Taxes	\$ 2,886,440	\$ 2,886,440	\$ 2,953,029	\$ 66,589
Municipal Income Tax	5,608,500	5,608,500	5,678,354	69,854
Intergovernmental Revenue	2,030,568	2,030,568	1,944,553	(86,015)
Charges for Services	573,350	573,350	523,409	(49,941)
Fines and Forfeitures	1,317,100	1,317,100	1,422,190	105,090
All Other Revenues	245,000	245,000	208,186	(36,814)
Total Revenues	12,660,958	12,660,958	12,729,721	68,763
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	6,764,460	6,764,460	6,396,492	367,968
Public Health and Welfare Services	51,185	51,185	51,185	0
Leisure Time Activities	846,299	846,299	817,162	29,137
Community Environment	480,873	480,873	422,552	58,321
Basic Utility Services	1,478,866	1,478,866	1,348,056	130,810
General Government	4,383,590	4,383,590	3,943,289	440,301
Total Expenditures	14,005,273	14,005,273	12,978,736	1,026,537
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,344,315)	(1,344,315)	(249,015)	1,095,300
<b>Other Financing Sources (Uses):</b>				
Sale of Capital Assets	500	500	640	140
Transfers In	4,500	4,500	0	(4,500)
Transfers Out	(847,200)	(847,200)	(847,000)	200
Total Other Financing Sources (Uses):	(842,200)	(842,200)	(846,360)	(4,160)
Net Change In Fund Balance	(2,186,515)	(2,186,515)	(1,095,375)	1,091,140
Fund Balance at Beginning of Year	4,340,366	4,340,366	4,340,366	0
Prior Year Encumbrances	380,643	380,643	380,643	0
Fund Balance at End of Year	\$ 2,534,494	\$ 2,534,494	\$ 3,625,634	\$ 1,091,140

See accompanying notes to the basic financial statements

**CITY OF LYNDHURST, OHIO**

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**Statement of Assets and Liabilities**  
**Fiduciary Funds**  
**December 31, 2006**

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	<u>Agency</u>
<b>Assets:</b>	
Cash and Cash Equivalents	\$ 996,500
<b>Total Assets</b>	<u>\$ 996,500</u>
<b>Liabilities:</b>	
Intergovernmental Payable	\$ 283,990
Due to Others	<u>712,510</u>
<b>Total Liabilities</b>	<u>\$ 996,500</u>

See accompanying notes to the basic financial statements

## **CITY OF LYNDHURST, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying basic financial statements of the City are presented as of December 31, 2006 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

##### **A. Reporting Entity**

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

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

The City is associated with three organizations, two are defined as joint ventures and one is defined as a jointly governed organization. The joint venture organizations are the Tri-City Consortium on Aging and the South Euclid-Lyndhurst Recreation Commission. The jointly governed organization is the Northeast Ohio Public Energy Council. These organizations are presented in Notes 14 and 15 of the notes to the basic financial statements.

##### **B. Basis of Presentation - Fund Accounting**

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

## *CITY OF LYNDHURST, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2006*

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **B. Basis of Presentation - Fund Accounting** (Continued)

###### ***Governmental Funds***

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

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

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

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

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

###### ***Fiduciary Funds***

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

##### **C. Basis of Presentation – Financial Statements**

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The City has no activities considered business-type activities.

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

## **CITY OF LYNDHURST, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **C. Basis of Presentation – Financial Statements (Continued)**

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

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

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

##### **D. Basis of Accounting**

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

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

## **CITY OF LYNDHURST, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the period in which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

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

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent periods when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Property taxes which are measurable at December 31, 2006, but which are not intended to finance 2006 operations or are recorded as deferred revenue as further described in Note 5.

##### **E. Budgetary Process**

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

##### **1. Tax Budget**

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



## *CITY OF LYNDHURST, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2006*

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **E. Budgetary Process** (Continued)

##### 2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2006.

##### 3. Appropriations

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

##### 4. Encumbrances

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

**CITY OF LYNDHURST, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process (Continued)**

**5. Lapsing of Appropriations**

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

**6. Budgetary Basis of Accounting**

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

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

<u>Net Change In Fund Balance</u>	
	<u>General Fund</u>
GAAP Basis (as reported)	(\$407,251)
Increase (Decrease):	
Accrued Revenues at December 31, 2006 received during 2007	(1,395,544)
Accrued Revenues at December 31, 2005 received during 2006	868,901
Accrued Expenditures at December 31, 2006 paid during 2007	666,593
Accrued Expenditures at December 31, 2005 paid during 2006	(471,644)
2005 Prepays for 2006	121,332
2006 Prepays for 2007	(119,906)
Outstanding Encumbrances	<u>(357,856)</u>
Budgetary Basis	<u><u>(\$1,095,375)</u></u>

## **CITY OF LYNDHURST, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **F. Cash and Cash Equivalents**

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

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

##### **G. Investments**

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

The City has invested funds in the STAR Ohio during 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2006.

##### **H. Inventory**

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

##### **I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**CITY OF LYNDHURST, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Capital Assets and Depreciation**

**1. Property, Plant and Equipment - Governmental Activities**

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

**2. Depreciation**

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

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

**K. Long-Term Debt**

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

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

## **CITY OF LYNDHURST, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **L. Compensated Absences**

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

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

For governmental funds, that portion of unpaid compensated absences that has matured and is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account. Compensated absences are expensed in the proprietary funds when earned and the related liability is reported within the fund.

##### **M. Net Assets**

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

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

##### **N. Pensions**

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

## **CITY OF LYNDHURST, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **O. Interfund Activity**

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

##### **P. Reservations of Fund Balance**

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

##### **Q. Estimates**

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

##### **R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

**CITY OF LYNDHURST, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006***

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**NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENT**

**A. Changes in Accounting Principles**

For fiscal year 2006, the City has implemented GASB Statement No. 46, “*Net Assets Restricted by Enabling Legislation.*” and GASB Statement No. 47, “*Accounting For Termination Benefits.*”

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statement when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements that amount of net assets restricted by enabling legislation. The implementation of GASB statement No. 46 did not have an effect on the financial statements of the City.

GASB Statement No. 47 provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. The implementation of GASB statement No. 47 did not have an effect on the financial statements of the City.

**B. Prior Period Adjustment**

During the year ended December 31, 2005, it was determined that there was an error in the posting of inheritance tax receivable between the General Fund and the Permanent Improvement Fund (capital projects fund). The adjustments had the following effect on the following fund balances:

	General Fund	Permanent Improvement Fund
Fund Balance at December 31, 2005 as reported	\$5,049,171	\$6,124,943
Correction of Posting Error to Inheritance Tax	190,427	(190,427)
Net Assets at December 31, 2005 as restated	<u>\$5,239,598</u>	<u>\$5,934,516</u>

The above changes had no effect on the beginning balances of the entity-wide financial statements.

**CITY OF LYNDHURST, OHIO**

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*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006*

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

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

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

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

Delinquent Income Tax Revenue	\$501,338
Delinquent Property Tax Revenue	656,357
Unrestricted Grants and Entitlements	766,917
Special Assessment Revenue	1,001,629
	<hr/> \$2,926,241

*Long-Term liabilities not reported in the funds:*

General Obligation Bonds Payable	(\$2,355,000)
Special Assessment Bonds Payable	(12,000)
Capital Leases Payable	(4,203)
Accrued Interest on Long-Term Debt	(54,257)
Long-Term Notes Payable	(1,000,000)
Compensated Absences Payable	(981,576)
	<hr/> (\$4,407,036)



**CITY OF LYNDHURST, OHIO**

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*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006*

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

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

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

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

Capital Outlay	\$2,513,563
Depreciation Expense	<u>(3,512,113)</u>
	(\$998,550)

*Governmental revenues not reported in the funds:*

Decrease in Delinquent Income Tax Revenue	(\$518,530)
Increase in Delinquent Property Tax	209,707
Decrease in Unrestricted Grants and Entitlements	(81,058)
Increase in Special Assessment Revenue	<u>151,765</u>
	(\$238,116)

*Expenses not requiring the use of current financial resources:*

Increase in Compensated Absences Payable	(\$116,220)
Increase in supplies inventory	<u>70,094</u>
	(\$46,126)

## ***CITY OF LYNDHURST, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 4 - CASH AND CASH EQUIVALENTS**

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments.

Statutes require the classification of funds held by the City into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

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

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

**CITY OF LYNDHURST, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

**NOTE 4 - CASH AND CASH EQUIVALENTS (Continued)**

**A. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of City cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the City's deposits was \$1,924,940 and the bank balance was \$1,953,813. Federal depository insurance covered \$100,000 of the bank balance and \$1,853,813 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and uncollateralized	\$1,853,813
Total Balance	\$1,853,813

**B. Investments**

The City's investments at December 31, 2006 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
Repurchase Agreements	\$1,955,425	N/A	\$1,955,425	\$0	\$0
City's Debt	12,000	N/A	4,000	8,000	0
STAR Ohio	8,810,455	AAAm <sup>1</sup>	8,810,455	0	0
FNMA	3,263,736	AAA <sup>1</sup> / Aaa <sup>2</sup>	1,761,037	1,502,698	0
FHLB	2,009,680	AAA <sup>1</sup> / Aaa <sup>2</sup>	2,009,681	0	0
FHLM	500,000	AAA <sup>1</sup> / Aaa <sup>2</sup>	500,000	0	0
Total Investments	\$16,551,296		\$15,040,598	\$1,510,698	\$0

<sup>1</sup>Standard & Poor's

<sup>2</sup>Moody's Investor Service

**CITY OF LYNDHURST, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

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**NOTE 4 - CASH AND CASH EQUIVALENTS (Continued)**

**B. Investments** (Continued)

*Interest Rate Risk* – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

*Concentration of Credit Risk* – The City places no limit on the amount the City may invest in one issuer. Of the City’s total investments, 19.7% are FNMA, 12.1% are FHLB, and 3.0% are FHLM.

*Credit Risk* – The City’s investments in FNMA and FHLB securities were rated AAA and Aaa by Standard & Poor’s and Moody’s Investor Services, respectively.

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the City’s investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment’s counterparty, not in the name of the City.

**C. Reconciliation of Cash, Cash Equivalents and Investments**

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

	Cash and Cash Equivalents	Investments
Per Financial Statements	\$9,635,395	\$8,840,841
Certificates of Deposit (with maturities of more than 3 months)	1,100,000	(1,100,000)
STAR Ohio	<u>(8,810,455)</u>	<u>8,810,455</u>
Per GASB Statement No. 3	<u>\$1,924,940</u>	<u>\$16,551,296</u>

## *CITY OF LYNDHURST, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2006*

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#### **NOTE 5 - TAXES**

##### **A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2006 were levied after October 1, 2005 on assessed values as of January 1, 2004, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be reappraised every six years, and equalization adjustments are made in the third year following reappraisal. The last revaluation was completed in 2000. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Lyndhurst. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2006 was \$11.00 per \$1,000 of assessed value. The assessed value upon which the 2006 levy was based was \$501,651,301. This amount constitutes \$486,350,690, in real property assessed value, \$5,423,920 in public utility assessed value and \$9,876,691 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is 1.1% (11.0 mills) of assessed value.

**CITY OF LYNDHURST, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

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**NOTE 5 – TAXES (Continued)**

**B. Income Tax**

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

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

**NOTE 6 - RECEIVABLES**

Receivables at December 31, 2006 consisted of taxes, special assessments, interest, accounts receivable and intergovernmental receivables arising from shared revenues. All receivables other than those offset by deferred revenues are considered collectible in full.

**NOTE 7 - TRANSFERS**

The following is a summary of transfers in and out for all funds for 2006:

	<u>Transfers In:</u>	
	Other Governmental Funds	Total
<u>Transfers Out:</u>		
General Fund	\$847,000	\$847,000
Permanent Improvement Fund	650,000	650,000
	<u>\$1,497,000</u>	<u>\$1,497,000</u>

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

**CITY OF LYNDHURST, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

**NOTE 8 – CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2006:

***Historical Cost:***

Class	December 31, 2005	Additions	Deletions	December 31, 2006
<b><i>Capital assets not being depreciated:</i></b>				
Land	\$394,193	\$0	\$0	\$394,193
<b><i>Capital assets being depreciated:</i></b>				
Buildings	9,724,597	0	0	9,724,597
Improvements Other than Buildings	2,502,932	0	0	2,502,932
Infrastructure	109,280,988	1,841,236	(1,640,963)	109,481,261
Machinery and Equipment	7,062,127	672,327	(83,851)	7,650,603
Total Cost	<u>\$128,964,837</u>	<u>\$2,513,563</u>	<u>(\$1,724,814)</u>	<u>\$129,753,586</u>

***Accumulated Depreciation:***

Class	December 31, 2005	Additions	Deletions	December 31, 2006
Buildings	(\$2,665,570)	(\$194,103)	\$0	(\$2,859,673)
Improvements Other than Buildings	(1,091,478)	(99,928)	0	(1,191,406)
Infrastructure	(40,544,617)	(2,683,755)	1,253,899	(41,974,473)
Machinery and Equipment	(3,865,333)	(534,327)	6,125	(4,393,535)
Total Depreciation	<u>(\$48,166,998)</u>	<u>(\$3,512,113) *</u>	<u>\$1,260,024</u>	<u>(\$50,419,087)</u>
<b><i>Net Value:</i></b>	<u>\$80,797,839</u>			<u>\$79,334,499</u>

\* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$216,135
Leisure Time Activities	212,984
Community Development	5,275
Basic Utility Services	1,182,632
Transportation	1,654,124
General Government	240,963
Total Depreciation Expense	<u>\$3,512,113</u>

## *CITY OF LYNDHURST, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2006*

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#### **NOTE 9 – DEFINED BENEFIT PENSION PLANS**

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

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

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

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2006, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 9.0%. The 2006 employer contribution rate for local government employer units was 13.70%, of covered payroll, 9.20% to fund the pension and 4.5% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2006, 2005, and 2004 were \$560,017, \$537,842 and \$515,705, respectively, which were equal to the required contributions for each year.



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## *CITY OF LYNDHURST, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2006*

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#### **NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit under the TP and CO plans and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2006 employer contribution rate (identified above) that was used to fund health care for the year 2006 was 4.5% of covered payroll which amounted to \$183,947.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2005. The individual entry age actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment assumption rate for 2005 was 6.5%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually plus an additional factor ranging from .50% to 6% for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants for the TP and CO Plans was 358,804. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2005 is \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, Ohio PERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

## **CITY OF LYNDHURST, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2006, 2005, and 2004 were \$454,184, \$423,089 and \$384,883 for police and \$422,572, \$410,974 and \$377,695 for firefighters, respectively, which were equal to the required contributions for each year.

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

The portion of the 2006 covered payroll that was used to fund postemployment health care benefits was \$180,509 representing 7.75% of covered payroll for police and \$136,456 representing 7.75% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2005, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,922 for police and 10,537 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2005 were \$108,039,449, which was net of member contributions of \$55,271,881.

**CITY OF LYNDHURST, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

**NOTE 10 – COMPENSATED ABSENCES**

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

At December 31, 2006, the City's accumulated, unpaid compensated absences amounted to \$981,576, which is recorded as a liability of the Governmental Activities.

**NOTE 11 - LONG-TERM DEBT**

Long-term debt of the City at December 31, 2006 was as follows:

		Balance December 31, 2005	Issued	(Retired)	Balance December 31, 2006	Due Within One Year
<b>Governmental Activities:</b>						
General Obligation Bonds:						
2.000% Recreational Facilities	2003	\$2,515,000	\$0	(\$160,000)	\$2,355,000	\$165,000
Total General Obligation Bonds		2,515,000	0	(160,000)	2,355,000	165,000
Special Assessment Bonds:						
8.000% Portage Commadore	1989	16,000	0	(4,000)	12,000	4,000
Total Special Assessment Bonds with Governmental Commitment		16,000	0	(4,000)	12,000	4,000
Long-Term Notes:						
2.450% Street Improvement	2005	850,000	0	(850,000)	0	0
3.700% Street Improvement	2006	0	1,000,000	0	1,000,000	1,000,000
Total Long-Term Notes		850,000	1,000,000	(850,000)	1,000,000	1,000,000
Compensated Absences		865,356	981,576	(865,356)	981,576	189,081
Capital Leases		0	5,043	(840)	4,203	940
Total Governmental Activities		<u>\$4,246,356</u>	<u>\$1,986,619</u>	<u>(\$1,880,196)</u>	<u>\$4,352,779</u>	<u>\$1,359,021</u>

Special assessment debt service is financed by assessments to affected property owners. However, the City is ultimately responsible for the debt service if the assessments are not collected. Delinquent special assessments related to outstanding special assessment bonded debt at year-end were \$34,560.

**CITY OF LYNDHURST, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006**

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**NOTE 11 - LONG-TERM DEBT (Continued)**

The City's future long-term obligation funding requirements, including principal and interest payments as of December 31, 2006, follow:

Years	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2007	\$165,000	\$57,698	\$4,000	\$960
2008	165,000	63,510	4,000	640
2009	170,000	63,788	4,000	320
2010	175,000	64,925	0	0
2011	185,000	63,840	0	0
2012-2016	1,025,000	219,591	0	0
2017-2018	470,000	30,769	0	0
Totals	<u>\$2,355,000</u>	<u>\$564,121</u>	<u>\$12,000</u>	<u>\$1,920</u>

**NOTE 12 – CAPITAL LEASES**

The City has entered into an agreement to lease equipment. The original cost of the equipment was \$5,043. Such agreements are, in substance, lease purchases (capital leases) and are classified as long-term obligations in the financial statements. The costs of these assets are included in the capital asset balances of the Governmental. The capital leases payable are recorded in Governmental Activities in the amount of \$5,043.

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2006:

Year Ending December 31,	Governmental Activities
2007	\$1,158
2008	1,158
2009	1,158
2010	1,158
2011	97
Minimum Lease Payments	4,729
Less: amount representing interest at the City's incremental borrowing rate of interest	(526)
Present value of minimum lease payments	<u>\$4,203</u>

**CITY OF LYNDHURST, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006***

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**NOTE 13 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During 2006 the City contracted with several different insurance providers for various insurance coverages, as follows:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Deductible</u>
Clarendon Insurance Company	Automobile	\$250 Comprehensive; \$1,000 Collision
Clarendon Insurance Company	General Liability	\$0
Axis Insurance Company	Property Casualty	\$1,000
Axis Insurance Company	Inland Marine	\$500/\$1,000
Axis Insurance Company	Boiler and Machinery	\$1,000
Clarendon Insurance Company	Police Liability	\$10,000
Clarendon Insurance Company	Public Officials Liability	\$15,000
Clarendon Insurance Company	Employment Practices	\$10,000
Clarendon Insurance Company	Umbrella	\$10,000

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

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

**NOTE 14 – JOINT VENTURES**

**A. Tri-City Consortium on Aging:**

The Tri-City Consortium on Aging (Consortium) is a joint venture among the Cities of South Euclid, Lyndhurst and Highland Heights, formed for the purpose of coordinating among the Cities all matters related to assistance and programs for the aged. Consortium revenues consist of contributions from the member Cities and federal grants. The Consortium is controlled by the Council of Governments composed of the Mayors of the Cities of South Euclid, Lyndhurst and Highland Heights, with the advice of a nine member commission. Continued existence of the Consortium is dependent on the City, however, the City of Lyndhurst has no explicit and measurable equity in the Consortium. The Consortium is not accumulating financial resources or experiencing fiscal stress, which would cause additional financial benefit or burden on the City. In 2006, the City contributed \$74,690. To obtain a copy of the Consortium's financial statements, write to the Tri-City Consortium on Aging, 1370 Victory Drive, South Euclid, Ohio 44121.

## *CITY OF LYNDHURST, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2006*

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#### **NOTE 14 – JOINT VENTURES (Continued)**

##### **B. South Euclid-Lyndhurst Recreation Commission:**

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

The operation of the SELREC is controlled by a nine member board consisting of the following: one member appointed by the Mayor of the City of South Euclid and one member appointed by the Mayor of the City of Lyndhurst, three members that are residents of the City of South Euclid, three members that are residents of the City of Lyndhurst and one member that is a resident of the South Euclid-Lyndhurst City School District and that lives in either the City of South Euclid or the City of Lyndhurst (jointly appointed by the Mayors of the City of South Euclid and Lyndhurst). The City has an ongoing financial responsibility because the continued existence of the joint venture depends on the City's continued participation. SELREC is not accumulating significant financial resources or experiencing fiscal stress, which would cause additional benefit or burden on the City. In 2006, the City contributed \$24,949. The City also has measurable equity interest in SELREC because the joint venture agreement stipulates that the participants have a claim to assets and sets forth the method of distribution upon dissolution of the joint venture. SELREC has no capital assets. SELREC is audited on a two-year basis; the latest reported is for the fiscal year ended June 30, 2006. Financial statements can be obtained by contacting the fiscal agent, South Euclid-Lyndhurst City School District, 6044 Mayfield Road, Lyndhurst, Ohio 44124.

## **CITY OF LYNDHURST, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2006***

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#### **NOTE 15 – JOINTLY GOVERNED ORGANIZATION**

##### **Northeast Ohio Public Energy Council:**

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity and natural gas. NOPEC is currently comprised of over 112 communities who have been authorized by ballot to purchase electricity and natural gas on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity and natural gas to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each County then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Lyndhurst did not contribute to NOPEC during 2006. Financial information can be obtained by contacting Joseph Migliorini, the Board Chairman, at 175 South Main Street, Akron, Ohio 44308 or at the website [www.nopecinfo.org](http://www.nopecinfo.org).

#### **NOTE 16 - CONTINGENCIES**

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

#### **NOTE 17 – SUBSEQUENT EVENTS**

On February 19, 2007 the City issued \$1,000,000 in one year General Obligation Notes to pay for Street Improvements. The notes had an interest rate of 3.7%.

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

Members of the City Council  
Lyndhurst, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lyndhurst, Ohio (the “City”) as of and for the year ended December 31, 2006, which collectively comprise the City’s basic financial statements and have issued our report thereon dated June 26, 2007, wherein we noted the City adopted Government Accounting Standards Board Statement No. 46 and 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City’s financial statements that is more than inconsequential will not be prevented or detected by the City’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City’s internal control.

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



Members of the City Council  
Lyndhurst, Ohio

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

We noted certain matters that we reported to management of the City, in a separate letter dated June 26, 2007.

This report is intended solely for the information and use of the City Council, City Management, and the Auditor of State's Office and is not intended to be and should not be used by anyone other than these specified parties.

*Cini & Parichi, Inc.*

Cleveland, Ohio  
June 26, 2007

# City of Lyndhurst

## Schedule of Findings

**December 31, 2006**

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### 1. Summary of Auditors' Results

Type of Financial Statement Opinion	Unqualified
Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
Was there any material reported noncompliance at the financial statement level (GAGAS)?	No

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

There were no findings related to the financial statements required to be reported in accordance with GAGAS in 2006.

### 3. Other Findings

None.

## **City of Lyndhurst**

### **Schedule of Prior Year Findings**

#### **December 31, 2006**

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Ohio Revised Code 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. It was noted that salaries and wages in the police department account and other expenditures in the income tax department account within the general fund had expenditures plus encumbrances in excess of appropriations of \$9,697 and \$38 respectively, contrary to Section 5705.41, Ohio Revised Code.

The City has an immaterial instance of this noncompliance in the current year.





**Mary Taylor, CPA**  
Auditor of State

**CITY OF LYNDHURST**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 26, 2007**