



**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2007 - 2006**



**Mary Taylor, CPA**  
Auditor of State



**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY  
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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of Gates Mills  
Cuyahoga County  
1470 Chagrin River Road  
Gates Mills, OH 44040

To the Members of Village Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Gates Mills, Cuyahoga County, Ohio (the Village) as of and for the years ended December 31, 2007 and December 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Gates Mills, Cuyahoga County, Ohio, as of December 31, 2007 and December 31, 2006, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

As described in Note 3 to the financial statements, the Village restated the January 1, 2006 fund balances and net assets for the Capital Projects Downtown Trust Fund, Governmental Activities and Business Type Activities.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Mary Taylor, CPA**  
Auditor of State

October 31, 2008

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY  
Management's Discussion and Analysis  
For the Year Ended December 31, 2007 and December 31, 2006  
Unaudited**

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This discussion and analysis of the Village of Gates Mills, Cuyahoga County, Ohio (the Village) financial performance provides an overall review of the Village's financial activities for the years ended December 31, 2007 and December 31, 2006, within the limitations of the Village's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

**Highlights**

Key highlights for 2007 are as follows:

Net assets of governmental activities increased \$1,764,923, or 109 percent, a significant change from the prior year. The funds most affected by the increase were the Capital Improvement Fund (\$1,403,789) and the General Fund (\$562,240).

The Village's general receipts are primarily property, municipal income and estate taxes. These receipts represent \$9,241,051 and 94 percent of the total cash received for governmental activities during the year. Property taxes, municipal income and estate taxes all increased compared to the prior year.

The water, wastewater, and historic downtown trust fund's net assets, the Village's business-type activities, decreased by \$157,531, or 33 percent, a significant change from the prior year.

Key highlights for 2006 are as follows:

Net assets of governmental activities decreased \$1,219,095, or 43 percent, a significant change from the prior year. The funds most affected by the decrease were the Library Fund (\$551,720), Capital Improvement Fund (\$337,757) and the General Fund (\$273,717).

The Village's general receipts are primarily property, municipal income and estate taxes. These receipts represent \$7,848,642 and 88 percent of the total cash received for governmental activities during the year. Property tax receipts increased from 2005 due to passage of a new 3.5 mill levy.

The water, wastewater, and downtown trust net assets, the Village's business-type activities, decreased by \$1,580,155, or 76 percent, compared to the prior year. This was due to a significant increase in contractual services in the Historic Downtown Trust Fund.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board Statement No. 34, as applicable to the Village's modified cash basis of accounting.

**Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the Village as a whole.

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Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Village has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**Reporting the Village as a Whole**

The statement of net assets and the statement of activities reflect how the Village did financially during 2007 and 2006, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other nonfinancial factors as well such as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property, income and estate taxes.

In the statement of net assets and the statement of activities, the Village is divided into two types of activities:

**Governmental activities.** Most of the Village's basic services are reported here, including police, fire, streets, buildings and cemetery maintenance and recreation activities. Municipal income taxes, property taxes and state income taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

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Business-type activities. The Village has three business-type activities, the provision of water and wastewater and the Downtown office building which contains a restaurant. The water and wastewater activities are financed by fees charged to the customers receiving the service and transfers from the General Fund. The Downtown office building is financed by loans and rent charges.

**Reporting the Village's Most Significant Funds**

Fund financial statements provide detailed information about the Village's major funds – not the Village as a whole. The Village establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Village are split into three categories: governmental, proprietary and fiduciary.

Governmental Funds - Most of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. In 2007 and 2006, the Village's major governmental funds are the General Fund, Debt Service Fund, Library Fund, and Capital Improvement Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Proprietary Funds – When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The Village has three enterprise funds, the water and wastewater funds, and the Downtown Trust Fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the Village's programs.

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**The Village as a Whole**

Table 1 provides a summary of the Village's net assets for 2007 compared to 2006 on a modified cash basis:

**Table 1  
Net Assets 2007 and 2006**

	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
<b>Assets</b>						
Cash and Cash Equivalents	\$ 179,687	\$ 312,885	\$ 54,609	\$ 30,890	\$ 234,296	\$ 343,775
Investments	1,437,279	3,069,004	436,801	302,989	1,874,080	3,371,993
<b>Total Assets</b>	<b>\$1,616,966</b>	<b>\$3,381,889</b>	<b>\$491,410</b>	<b>\$333,879</b>	<b>\$ 2,108,376</b>	<b>\$3,715,768</b>
<b>Net Assets</b>						
Restricted for:						
Debt Service	\$ 12,270	\$ 12,270	\$ 0	\$ 0	\$ 12,270	\$ 12,270
Capital Projects	570,910	1,815,866	0	0	570,910	1,815,866
Other Purposes	158,899	116,626	0	0	158,899	116,626
Unrestricted	874,887	1,437,127	491,410	333,879	1,366,297	1,771,006
<b>Total Net Assets</b>	<b>\$1,616,966</b>	<b>\$3,381,889</b>	<b>\$491,410</b>	<b>\$333,879</b>	<b>\$ 2,108,376</b>	<b>\$3,715,768</b>

In 2007, net assets of governmental activities increased \$1,764,923, or 109 percent, a significant change from the prior year. This was primarily due to receipts from a \$915,000 note which was used to resurface Gates Mills Boulevard and an increase of \$647,649 from estate tax receipts compared to the prior year. Also, capital outlay decreased significantly in the Capital Improvement Fund (\$815,989) and Library Fund (\$572,643) compared to the prior year.

In 2007, net assets of business type activities decreased \$157,531, or 33 percent, due to a decrease in charges for services from the historic downtown trust fund.

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Table 2 provides a summary of the Village's net assets for 2006 compared to 2005 on a modified cash basis:

**Table 2  
Net Assets 2006 and 2005**

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
<b>Assets</b>						
Cash and Cash Equivalents	\$2,416,307	\$ 179,687	\$ 438,908	\$ 54,609	\$ 2,855,215	\$ 234,296
Investments	2,052,410	1,437,279	0	436,801	2,052,410	1,874,080
Total Assets	\$4,468,717	\$1,616,966	\$ 438,908	\$491,410	\$ 4,907,625	\$ 2,108,376
<b>Net Assets</b>						
Restricted for:						
Debt Service	\$ 12,270	\$ 12,270	\$ 0	\$ 0	\$ 12,270	\$ 12,270
Capital Projects	3,093,042	570,910	0	0	3,093,042	570,910
Other Purposes	214,801	158,899	0	0	214,801	158,899
Unrestricted	1,148,604	874,887	438,908	491,410	1,587,512	1,366,297
Total Net Assets	\$4,468,717	\$1,616,966	\$ 438,908	\$491,410	\$ 4,907,625	\$ 2,108,376

In 2006, net assets of governmental activities decreased \$1,219,095, or 43 percent, compared to the prior year. This was due to a \$964,905, or 69 percent, decrease in estate taxes received and an increase of \$1,375,000 in debt principal retirement. The more significant changes were an increase in downtown infrastructure costs, (\$638,774), the rehabilitation of the Berkshire Road Culvert, (\$394,785), the purchase of two new pump stations, (\$97,610), and the repayment of the street improvement note, (\$200,000). Also, property taxes increased \$605,475, or 37 percent due to passage of a new 3.5 levy.

In 2006, net assets of business type activities decreased by \$1,580,155, or 76 percent, compared to 2005. This was due to a significant increase in costs associated with the downtown construction project.

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Table 3 reflects the changes in net assets in 2007 and 2006.

**Table 3  
Changes in Net Assets**

	<b>Governmental Activities 2006</b>	<b>Business Type Activities 2006</b>	<b>Governmental Activities 2007</b>	<b>Business Type Activities 2007</b>	<b>Total 2006</b>	<b>Total 2007</b>
<b>Receipts:</b>						
Program Receipts:						
Charges for Services and Sales	\$704,974	\$677,285	\$447,409	\$793,537	\$1,382,259	\$1,240,946
Operating Grants and Contributions	68,614	0	33,194	0	68,614	33,194
Capital Grants and Contributions	289,481	0	108,100	0	289,481	108,100
<b>Total Program Receipts</b>	<b>1,063,069</b>	<b>677,285</b>	<b>588,703</b>	<b>793,537</b>	<b>1,740,354</b>	<b>1,382,240</b>
<b>General Receipts:</b>						
Property Taxes	2,258,025	0	2,418,050	0	2,258,025	2,418,051
Income Taxes	1,279,213	0	1,615,807	0	1,279,213	1,615,807
Estate Taxes	449,456	0	1,097,105	0	449,456	1,097,105
Grants & Entitlements Not Restricted to Specific Programs	552,764	0	564,911	0	552,764	564,911
Notes issued	2,925,000	0	3,400,000	0	2,925,000	3,400,000
Premium on Debt Issue	3,890	0	0	0	3,890	0
Sale of Capital Assets	255,127	0	6,501	0	255,127	6,501
Interest	124,692	0	136,111	0	124,692	136,111
Miscellaneous	475	0	2,565	0	475	2,565
<b>Total General Receipts</b>	<b>7,848,642</b>	<b>0</b>	<b>9,241,050</b>	<b>0</b>	<b>7,848,642</b>	<b>9,241,050</b>
<b>Total Receipts</b>	<b>8,911,711</b>	<b>677,285</b>	<b>9,829,753</b>	<b>793,537</b>	<b>9,588,996</b>	<b>10,623,290</b>
<b>Disbursements:</b>						
General Government	1,402,904	0	1,292,120	0	1,402,904	1,292,120
Security of Persons and Property	1,480,024	0	1,511,501	0	1,480,024	1,511,501
Public Health Services	13,026	0	11,489	0	13,026	11,489
Leisure Time Activities	282,462	0	316,163	0	282,462	316,163
Community Environment	3,951	0	2,518	0	3,951	2,518
Basic Utility	329,521	0	306,678	0	329,521	306,678
Transportation	824,253	0	1,099,683	0	824,253	1,099,683
Capital Outlay	1,828,102	0	439,470	0	1,828,102	439,470
Principal Retirement	3,375,000	0	2,925,000	0	3,375,000	2,925,000
Interest & Fiscal Charges	126,563	0	46,208	0	126,563	46,208
Downtown	0	1,906,994	0	316,561	1,906,994	316,561
Water	0	722,353	0	724,241	722,353	724,241
Wastewater	0	93,093	0	24,266	93,093	24,266
<b>Total Disbursements</b>	<b>9,665,806</b>	<b>2,722,440</b>	<b>7,950,830</b>	<b>1,065,068</b>	<b>12,388,246</b>	<b>9,015,898</b>
Excess (Deficiency) Before Transfers & Advances	(754,095)	(2,045,155)	1,878,923	(271,531)	(2,799,250)	1,607,392
Advances	(395,000)	395,000	(50,000)	50,000	0	0
Transfers	(70,000)	70,000	(64,000)	64,000	0	0
<b>Increase in Net Assets</b>	<b>(1,219,095)</b>	<b>(1,580,155)</b>	<b>1,764,923</b>	<b>(157,531)</b>	<b>(2,799,250)</b>	<b>1,607,392</b>
<b>Net Assets, January 1,</b>	<b>2,836,061</b>	<b>2,071,565</b>	<b>1,616,966</b>	<b>491,410</b>	<b>4,907,626</b>	<b>2,108,376</b>
<b>Net Assets, December 31,</b>	<b>\$1,616,966</b>	<b>\$491,410</b>	<b>\$3,381,889</b>	<b>\$333,879</b>	<b>\$2,108,376</b>	<b>\$3,715,768</b>

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Table 4 reflects the changes in net assets in 2006 and 2005.

**Table 4  
Changes in Net Assets**

	<b>Governmental Activities 2005</b>	<b>Business Type Activities 2005</b>	<b>Governmental Activities 2006</b>	<b>Business Type Activities 2006</b>	<b>Total 2005</b>	<b>Total 2006</b>
<b>Receipts:</b>						
Program Receipts:						
Charges for Services and Sales	\$407,047	\$653,240	\$704,974	\$677,285	\$1,060,287	\$1,382,259
Operating Grants and Contributions	138,380	0	68,614	0	138,380	68,614
Capital Grants and Contributions	211,183	0	289,481	0	211,183	289,481
<b>Total Program Receipts</b>	<b>756,610</b>	<b>653,240</b>	<b>1,063,069</b>	<b>677,285</b>	<b>1,409,850</b>	<b>1,740,354</b>
<b>General Receipts:</b>						
Property Taxes	1,652,550	0	2,258,025	0	1,652,550	2,258,025
Income Taxes	1,414,267	0	1,279,213	0	1,414,267	1,279,213
Estate Taxes	1,414,361	0	449,456	0	1,414,361	449,456
Grants & Entitlements Not Restricted to Specific Programs	358,874	0	552,764	0	358,874	552,764
Notes issued	3,375,000	0	2,925,000	0	3,375,000	2,925,000
Premium on Debt Issue	16,099	0	3,890	0	16,099	3,890
Sale of Capital Assets	84,965	0	255,127	0	84,965	255,127
Interest	128,613	0	124,692	0	128,613	124,692
Miscellaneous	510	0	475	0	510	475
<b>Total General Receipts</b>	<b>8,445,239</b>	<b>0</b>	<b>7,848,642</b>	<b>0</b>	<b>8,445,239</b>	<b>7,848,642</b>
<b>Total Receipts</b>	<b>9,201,849</b>	<b>653,240</b>	<b>8,911,711</b>	<b>677,285</b>	<b>9,855,089</b>	<b>9,588,996</b>
<b>Disbursements:</b>						
General Government	1,252,585	0	1,402,904	0	1,252,585	1,402,904
Security of Persons and Property	1,410,119	0	1,480,024	0	1,410,119	1,480,024
Public Health Services	7,894	0	13,026	0	7,894	13,026
Leisure Time Activities	299,127	0	282,462	0	299,127	282,462
Community Environment	33,446	0	3,951	0	33,446	3,951
Basic Utility	274,757	0	329,521	0	274,757	329,521
Transportation	950,250	0	824,253	0	950,250	824,253
Capital Outlay	1,829,653	0	1,828,102	0	1,829,653	1,828,102
Principal Retirement	2,000,000	0	3,375,000	0	2,000,000	3,375,000
Interest & Fiscal Charges	45,275	0	126,563	0	45,275	126,563
Downtown	0	0	0	1,906,994	0	1,906,994
Water	0	724,039	0	722,353	724,039	722,353
Wastewater	0	50,939	0	93,093	50,939	93,093
<b>Total Disbursements</b>	<b>8,103,106</b>	<b>774,978</b>	<b>9,665,806</b>	<b>2,722,440</b>	<b>8,878,084</b>	<b>12,388,246</b>
Excess (Deficiency) Before Transfers & Advances	1,098,743	(121,738)	(754,095)	(2,045,155)	977,005	(2,799,250)
Advances			(395,000)	395,000	0	0
Transfers	(57,000)	57,000	(70,000)	70,000	0	0
<b>Increase in Net Assets</b>	<b>1,041,743</b>	<b>(64,738)</b>	<b>(1,219,095)</b>	<b>(1,580,155)</b>	<b>977,005</b>	<b>(2,799,250)</b>
<b>Net Assets, January 1,</b>	<b>3,426,974</b>	<b>503,646</b>	<b>2,836,061</b>	<b>2,071,565</b>	<b>3,930,620</b>	<b>4,907,626</b>
<b>Net Assets, December 31,</b>	<b>\$4,468,717</b>	<b>\$438,908</b>	<b>\$1,616,966</b>	<b>\$491,410</b>	<b>\$4,907,625</b>	<b>\$2,108,376</b>

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**For 2007 - Receipts:**

Program receipts are primarily comprised of restricted intergovernmental receipts, special assessments, donations and charges for cemetery lots and burial charges, summer program registration fees, rent income from Village owned houses and cell tower, and cable franchise fees. Also included are special assessments to repay the Village for the purchase of the "Mayfield School Board" property. The purchase was made from the General Fund, therefore, the special assessments, which are being repaid over 20 years, are being recorded in the General Fund.

The significant general receipts are property, income, and estate taxes and state and federal grants and entitlements.

**For 2006 - Receipts:**

Program receipts are primarily comprised of restricted intergovernmental receipts, special assessments, donations and charges for cemetery lots and burial charges, summer program registration fees, rent income from Village owned houses and cell tower, and cable franchise fees. Also included are special assessments to repay the Village for the purchase of the "Mayfield School Board" property. The purchase was made from the General Fund, therefore, the special assessments which are being repaid over 20 years, are being recorded in the General Fund.

The significant general receipts are property, income, and estate taxes and state and federal grants and entitlements.

**For 2007 - Disbursements**

Disbursements for General Government represent the overhead costs of running the Village and the support services provided for other Village activities. These include the legal and engineering costs, other professional costs, and property/liability insurance costs, as well as internal services such as payroll and fringe benefits and purchasing.

Security of Persons and Property are the costs of police and fire protection plus street lighting.

Public Health Services are cemetery costs.

Leisure Time activities are the costs of maintaining the Village's parklands plus providing community activities such as Day Camp, Jr. Strawhat, Halloween Party, Easter Hunt, Concert, and Art Show.

Community Environment is the cost of providing building inspections.

Basic Utility Service is the cost of trash hauling, street lighting, and maintaining ditches. Transportation is the cost of maintaining the roads, bridges, and guardrails along with the cost of maintaining the service department's equipment.

**For 2006 - Disbursements**

Disbursements for General Government represent the overhead costs of running the Village and the support services provided for other Village activities. These include the legal and engineering costs, other professional costs, and property/liability insurance costs, as well as internal services such as payroll and fringe benefits and purchasing.

Security of Persons and Property are the costs of police and fire protection plus street lighting.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY  
Management's Discussion and Analysis  
For the Year Ended December 31, 2007 and December 31, 2006  
Unaudited**

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Public Health Services are cemetery costs.

Leisure Time activities are the costs of maintaining the Village's parklands plus providing community activities such as Day Camp, Jr. Strawhat, Halloween Party, Easter Hunt, Concert, and Art Show.

Community Environment is the cost of providing building inspections.

Basic Utility Service is the cost of trash hauling, street lighting, and maintaining ditches. Transportation is the cost of maintaining the roads, bridges, and guardrails along with the cost of maintaining the service department's equipment.

**Government Activities**

On the Statement of Activities the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for general government, transportation and security of persons and property. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for service and grants received by the Village that must be used to provide a specific service. The Net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement.

A comparison between the total cost of services and the net cost for governmental activities presented in Table 5.

**Table 5  
Total Cost of Services Compared to the Net Costs**

	<b>Total Cost Of Services 2006</b>	<b>Net Cost Of Services 2006</b>	<b>Total Cost Of Services 2007</b>	<b>Net Cost Of Services 2007</b>
General Government	\$1,402,904	(\$1,085,661)	\$1,292,120	(\$1,033,460)
Security of Persons and Property	1,480,024	(1,445,314)	1,511,501	(1,511,501)
Public Health Services	13,026	(11,526)	11,489	(4,789)
Leisure Time Activities	282,462	(176,911)	316,163	(211,936)
Community Environment	3,951	(3,951)	2,518	(2,518)
Basic Utility Services	329,521	(329,521)	306,678	(306,678)
Transportation	824,253	(824,253)	1,099,683	(1,099,683)
Capital Outlay	1,828,102	(1,224,037)	439,470	(220,355)
Principal Retirement	3,375,000	(3,375,000)	2,925,000	(2,925,000)
Interest and Fiscal Charges	126,563	(126,563)	46,208	(46,208)
<b>Total Expenses</b>	<b>\$9,665,806</b>	<b>(\$8,602,737)</b>	<b>\$7,950,830</b>	<b>(\$7,362,128)</b>

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY  
Management's Discussion and Analysis  
For the Year Ended December 31, 2007 and December 31, 2006  
Unaudited**

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**Business-type Activities**

The water and wastewater operations of the Village are relatively small and supplemented by transfers from the General Fund. The Downtown Trust Fund expenses for 2007 were \$316,561 compared to \$1,906,994 for 2006. This was due to the construction project being performed almost entirely in 2006. With the construction completed, the Mills Building rental income is expected to exceed the expenses and pay down the outstanding advance from the Capital Improvement Fund.

**The Village's Funds**

**For 2007:**

Total governmental funds, excluding transfers and advances, had receipts of \$9,829,753 and disbursements of \$7,950,830. The most significant change within governmental funds occurred within the General and the Capital Improvement Fund. The fund balance of the General Fund increased \$562,240 as the result of more municipal income tax and property tax than anticipated. The fund balance of the Capital Improvement Fund increased \$1,403,789 as the result of a \$915,000 loan for Gates Mills Boulevard with a delay in construction, plus unusually high estate taxes. The construction on Gates Mills Boulevard is scheduled to begin in early 2008.

**For 2006:**

Total governmental funds, excluding transfers and advances, had receipts of \$8,911,757 and disbursements of \$9,665,852. The most significant change within governmental funds occurred within the General and Library Funds. The fund balance of the General Fund decreased \$273,717 due to transfers to other funds. The fund balance of the Library Fund decreased \$551,720 as the result of the construction costs. The construction of the library was completed in March 2006.

**General Fund Budgeting Highlights**

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

**For 2007:**

The Village amended its General Fund budget a few times to reflect the changing circumstances. Final budgeted receipts were more than expected. Actual property tax received was \$128,376 more than budgeted and municipal income tax was \$54,476 more than budgeted.

**For 2006:**

The Village amended its General Fund budget a few times to reflect the changing circumstances. Final budgeted receipts were less than expected. Actual property tax received was \$48,235 less than budgeted and income tax was \$191,805 less than budgeted.

**VILLAGE OF GATES MILLS  
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Management's Discussion and Analysis  
For the Year Ended December 31, 2007 and December 31, 2006  
Unaudited**

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**Capital Assets and Debt**

The Village maintains a listing of its capital assets and infrastructure. It is updated by Industrial Appraisal Company annually. As of December 31, 2007, the Village's outstanding principal on all loans and notes was \$9,588,692. Of this amount:

- \$4,881,171 is for two loans with the Ohio Water Development Authority (OWDA) that are secured by assessments. They loans were for a water project which began in 1995.
- \$1,038,160 is for a non interest loan with the Ohio Public Works Commission (OPWC), also for the water project.
- \$269,360 is for a non interest loan with OPWC for a wastewater project.
- \$1,600,000 is for a Street Improvement Note with Key Bank which is renewed annually. Principal payments began in 2006.
- \$610,000 is for a Library Note with Key Bank which is renewable annually. It is renewed for the amount not collected in donations.
- \$275,000 is for a Service Garage Addition Note with Key Bank which is renewable annually. Principal payments will begin in 2011.
- \$915,000 is for a Gates Mills Boulevard Street Note with Key Bank which is renewed annually. Principal payments will be required in 2013.

See details in the "Notes to the Basic Financial Statements".

As of December 31, 2006, the Village's outstanding principal on all loans and notes was \$9,521,265. Of this amount:

- \$5,186,452 is for two loans with the Ohio Water Development Authority (OWDA) that are secured by assessments. They loans were for a water project which began in 1995.
- \$1,121,213 is for a non interest loan with the Ohio Public Works Commission (OPWC), also for the water project.
- \$288,600 is for a non interest loan with OPWC for a wastewater project.
- \$1,800,000 is for a Street Improvement Note with Key Bank which is renewed annually. Principal payments began in 2006 as required.
- \$850,000 is for a Library Note with Key Bank which is renewable annually. It will be renewed for the amount not collected in donations.
- \$275,000 is for a Service Garage Addition Note with Key Bank which is renewable annually. Principal payments will be required in 2011.

See details in the "Notes to the Basic Financial Statements".

**Current Issues**

Generally the Village is challenged due to the fact that the Administration, based on input from residents, actively renovated a blighted downtown district. Part of the project was funded by donations; by advances from other funds; and by rental income. Another major reason was that the Administration chose to provide safety for its residents by installing waterlines throughout the Village.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY  
Management's Discussion and Analysis  
For the Year Ended December 31, 2007 and December 31, 2006  
Unaudited**

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The goal of the Village is to provide quality services to the public while staying within the restrictions imposed by limited funding. There is no industry to support the tax base. The income from the outside levies is fixed, yet the expenses have been growing with inflation. The Village's current concern is that streets and culverts are deteriorating and costly repairs or replacements are needed in the very near future. A new tax levy is being proposed to the voters March 4, 2008 to be used only for Streets and Culverts. Council has found other sources of income, including gas wells, charging for services, and selling property, but the estimated future costs far exceed the estimated income.

**Contacting the Village's Financial Management**

This financial report is designed to provide the citizens, taxpayers, and creditors with a general overview of the Village's finances and to reflect the Village's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jo Ann Lechman, Finance Administrator, Village of Gates Mills Town Hall, 1470 Chagrin River Road, Gates Mills, Ohio 44040.

**VILLAGE OF GATES MILLS**  
**CUYAHOGA COUNTY**  
*Statement of Net Assets - Modified Cash Basis*  
*December 31, 2007*

	Governmental Activities	Business - Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 312,885	\$ 30,890	\$ 343,775
Investments	3,069,004	302,989	3,371,993
<i>Total Assets</i>	<u>\$ 3,381,889</u>	<u>\$ 333,879</u>	<u>\$ 3,715,768</u>
<b>Net Assets</b>			
Restricted for:			
Capital Projects	\$ 1,815,866	\$ 0	\$ 1,815,866
Debt Service	12,270	0	12,270
Other Purposes	116,626	0	116,626
Unrestricted	1,437,127	333,879	1,771,006
<i>Total Net Assets</i>	<u>\$ 3,381,889</u>	<u>\$ 333,879</u>	<u>\$ 3,715,768</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

*Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2007*

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets			
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General Government	\$ 1,292,120	\$ 258,660	\$ 0	\$ 0	\$ (1,033,460)	\$ 0	\$ (1,033,460)
Security of Persons and Property	1,511,501	0	0	0	(1,511,501)	0	(1,511,501)
Public Health Services	11,489	6,700	0	0	(4,789)	0	(4,789)
Leisure Time Activities	316,163	71,034	33,193	0	(211,936)	0	(211,936)
Community Environment	2,518	0	0	0	(2,518)	0	(2,518)
Basic Utility Services	306,678	0	0	0	(306,678)	0	(306,678)
Transportation	1,099,683	0	0	0	(1,099,683)	0	(1,099,683)
Capital Outlay	439,470	111,015	0	108,100	(220,355)	0	(220,355)
Principal Retirement	2,925,000	0	0	0	(2,925,000)	0	(2,925,000)
Interest and Fiscal Charges	46,208	0	0	0	(46,208)	0	(46,208)
<i>Total Governmental Activities</i>	<u>7,950,830</u>	<u>447,409</u>	<u>33,193</u>	<u>108,100</u>	<u>(7,362,128)</u>	<u>0</u>	<u>(7,362,128)</u>
<b>Business Type Activity</b>							
Water	724,241	643,118	0	0	0	(81,123)	(81,123)
Wastewater	24,266	7,805	0	0	0	(16,461)	(16,461)
Downtown	316,561	142,614	0	0	0	(173,947)	(173,947)
<i>Total Business Type Activities</i>	<u>1,065,068</u>	<u>793,537</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(271,531)</u>	<u>(271,531)</u>
<b>Total</b>	<u>\$ 9,015,898</u>	<u>\$ 1,240,946</u>	<u>\$ 33,193</u>	<u>\$ 108,100</u>	<u>\$ (7,362,128)</u>	<u>\$ (271,531)</u>	<u>\$ (7,633,659)</u>
<b>General Receipts</b>							
Property Taxes Levied for:							
General Purposes					2,158,376	0	2,158,376
Police Pension					59,872	0	59,872
Conservation					199,802	0	199,802
Municipal Income Taxes					1,615,807	0	1,615,807
Estate Tax					1,097,105	0	1,097,105
Grants and Entitlements not							
Restricted to Specific Programs					564,912	0	564,912
Notes Issued					3,400,000	0	3,400,000
Premium on Debt Issue					-	0	-
Sale of Capital Assets					6,501	0	6,501
Interest					136,111	0	136,111
Miscellaneous					2,565	0	2,565
<i>Total General Receipts</i>					<u>9,241,051</u>		<u>9,241,051</u>
Advances					(50,000)	50,000	0
Transfers					(64,000)	64,000	0
<b>Total General Receipts &amp; Transfers</b>					<u>9,127,051</u>	<u>114,000</u>	<u>9,241,051</u>
Change in Net Assets					1,764,923	(157,531)	1,607,392
<i>Net Assets Beginning of Year</i>					<u>1,616,966</u>	<u>491,410</u>	<u>2,108,376</u>
<i>Net Assets End of Year</i>					<u>\$ 3,381,889</u>	<u>\$ 333,879</u>	<u>\$ 3,715,768</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS**  
**CUYAHOGA COUNTY**  
*Statement of Modified Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*December 31, 2007*

	<u>General</u>	<u>Debt Service Fund</u>	<u>Capital Improvement Fund</u>	<u>Library Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$ 132,960	\$ 1,135	\$ 157,642	\$ 10,358	\$ 10,790	\$ 312,885
Investments	1,304,167	11,135	1,546,267	101,599	105,836	3,069,004
<i>Total Assets</i>	<u>\$1,437,127</u>	<u>\$ 12,270</u>	<u>\$ 1,703,909</u>	<u>\$ 111,957</u>	<u>\$ 116,626</u>	<u>\$ 3,381,889</u>
<b>Fund Balances</b>						
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	\$1,437,127	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,437,127
Special Revenue Funds	0	0	0	0	53,133	53,133
Debt Service Funds	0	12,270	0	0	0	12,270
Capital Improvement Funds	0	0	1,703,909	111,957	0	1,815,866
Permanent Fund	0	0	0	0	63,493	63,493
<i>Total Fund Balances</i>	<u>\$1,437,127</u>	<u>\$ 12,270</u>	<u>\$ 1,703,909</u>	<u>\$ 111,957</u>	<u>\$ 116,626</u>	<u>\$ 3,381,889</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Modified-Cash Basis Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2007*

	General	Debt Service Fund	Capital Improvement Fund	Library Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>						
Municipal Income Taxes	\$1,615,807	\$0	\$0	\$0	\$0	\$1,615,807
Property and Other Local Taxes	2,158,376	0	0	0	259,674	2,418,050
Special Assessments	26,200	0	0	0	0	26,200
Charges for Services	141,621	0	84,815	0	77,734	304,170
Fines, Licenses and Permits	117,039	0	0	0	0	117,039
Intergovernmental	419,247	0	1,097,105	0	145,664	1,662,016
Interest	120,912	0	0	9,113	6,086	136,111
Misc	2,565	0	0	0	0	2,565
Donations	0	0	0	108,100	33,194	141,294
<i>Total Receipts</i>	<u>4,601,767</u>	<u>0</u>	<u>1,181,920</u>	<u>117,213</u>	<u>522,352</u>	<u>6,423,252</u>
<b>Disbursements</b>						
Current:						
General Government	1,255,228	0	0	0	36,892	1,292,120
Security of Persons and Property	1,343,139	0	0	0	168,362	1,511,501
Public Health Services	0	0	0	0	11,489	11,489
Leisure Time Activities	12,322	0	0	0	303,841	316,163
Community Environment	2,518	0	0	0	0	2,518
Basic Utility Services	306,678	0	0	0	0	306,678
Transportation	962,742	0	0	0	136,941	1,099,683
Capital Outlay	0	0	439,470	0	0	439,470
Principal Retirement	0	2,685,000	0	240,000	0	2,925,000
Interest and Fiscal Charges	0	0	10,162	36,046	0	46,208
<i>Total Disbursements</i>	<u>3,882,627</u>	<u>2,685,000</u>	<u>449,632</u>	<u>276,046</u>	<u>657,525</u>	<u>7,950,830</u>
<i>Excess of Receipts Over (Under) Disbur.</i>	<u>719,140</u>	<u>(2,685,000)</u>	<u>732,288</u>	<u>(158,833)</u>	<u>(135,173)</u>	<u>(1,527,578)</u>
<b>Other Financing Sources (Uses)</b>						
Notes Issued	0	2,685,000	715,000	0	0	3,400,000
Sale of Capital Assets	0	0	6,501	0	0	6,501
Transfers In	0	0	0	0	92,900	92,900
Transfers Out	(156,900)	0	0	0	0	(156,900)
Advances Out	0	0	(50,000)	0	0	(50,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(156,900)</u>	<u>2,685,000</u>	<u>671,501</u>	<u>0</u>	<u>92,900</u>	<u>3,292,501</u>
<i>Net Change in Fund Balances</i>	562,240	0	1,403,789	(158,833)	(42,273)	1,764,923
<i>Fund Balances Beginning of Year</i>	<u>874,887</u>	<u>12,270</u>	<u>300,120</u>	<u>270,790</u>	<u>158,899</u>	<u>1,616,966</u>
<i>Fund Balances End of Year</i>	<u>\$ 1,437,127</u>	<u>\$ 12,270</u>	<u>\$ 1,703,909</u>	<u>\$ 111,957</u>	<u>\$ 116,626</u>	<u>\$ 3,381,889</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

*Statement of Receipts, Disbursements and Changes  
In Fund Balance - Budget and Actual -Budget Basis  
General Fund  
For the Year Ended December 31, 2007*

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Receipts</b>				
Municipal Income Taxes	\$1,430,000	\$1,561,331	\$1,615,807	\$54,476
Property and Other Local Taxes	2,030,000	2,030,000	2,158,376	128,376
Special Assessments	25,700	25,700	26,200	500
Charges for Services	234,750	234,750	141,621	(93,129)
Fines, Licenses and Permits	80,550	80,550	117,039	36,489
Intergovernmental	465,000	465,000	419,247	(45,753)
Interest	50,000	50,000	120,912	70,912
Miscellaneous	4,700	4,700	2,565	(2,135)
<i>Total receipts</i>	<u>4,320,700</u>	<u>4,452,031</u>	<u>4,601,767</u>	<u>149,736</u>
<b>Disbursements</b>				
Current:				
General Government	1,328,900	1,328,200	1,255,228	72,972
Security of Persons and Property	1,423,700	1,348,700	1,343,139	5,561
Leisure Time Activities	12,000	12,500	12,322	178
Community Environment	2,600	2,600	2,518	82
Basic Utility Services	307,900	307,500	306,678	822
Transportation	851,500	966,100	962,742	3,358
<i>Total Disbursements</i>	<u>3,926,600</u>	<u>3,965,600</u>	<u>3,882,627</u>	<u>82,973</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>394,100</u>	<u>486,431</u>	<u>719,140</u>	<u>232,709</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(1,179,900)	(156,900)	(156,900)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(156,900)</u>	<u>(156,900)</u>	<u>(156,900)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	237,200	329,531	562,240	232,709
<i>Fund Balance Beginning of Year</i>	<u>1,528,531</u>	<u>874,560</u>	<u>874,887</u>	<u>(327)</u>
<i>Fund Balance End of Year</i>	<u>\$1,765,731</u>	<u>\$1,204,091</u>	<u>\$1,437,127</u>	<u>\$232,382</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS**  
**CUYAHOGA COUNTY**  
*Statement of Fund Net Assets - Modified Cash Basis*  
*Proprietary Funds*  
*December 31, 2007*

	Business-Type Activities			
	Wastewater Fund	Water Fund	Historic Downtown Trust Fund	Total Proprietary Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 4,515	\$ 24,945	\$ 1,430	\$ 30,890
Investments	44,283	244,676	14,030	302,989
<i>Total Assets</i>	<u>\$ 48,798</u>	<u>\$ 269,621</u>	<u>\$ 15,460</u>	<u>\$ 333,879</u>
<b>Net Assets</b>				
Unrestricted	<u>\$ 48,798</u>	<u>\$ 269,621</u>	<u>\$ 15,460</u>	<u>\$ 333,879</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS**  
**CUYAHOGA COUNTY**

*Statement of Cash Receipts,  
Disbursements and Changes in Fund Net Assets - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2007*

	Business-Type Activities			Total Proprietary Funds
	Wastewater Fund	Water Fund	Historic Downtown Trust Fund	
<b>Operating Receipts</b>				
Charges for Services	\$7,805	\$27,411	\$142,614	\$177,830
<i>Total Operating Receipts</i>	<u>7,805</u>	<u>27,411</u>	<u>142,614</u>	<u>177,830</u>
<b>Operating Disbursements</b>				
Contractual Services	0	16,194	206,330	222,524
Materials and Supplies	5,026	0	32,318	37,344
<i>Total Operating Disbursements</i>	<u>5,026</u>	<u>16,194</u>	<u>238,648</u>	<u>259,868</u>
<i>Operating Income (Loss)</i>	2,779	11,217	(96,034)	(82,039)
<b>Non-Operating Receipts and (Disbursements)</b>				
Special Assessments	0	615,708	0	615,708
Redemption of Principal	(19,240)	(388,333)	0	(407,573)
Interest and Other Fiscal Charges	0	(319,714)	(77,913)	(397,627)
<i>Total Non-Operating Receipts and (Disbursements)</i>	<u>(19,240)</u>	<u>(92,339)</u>	<u>(77,913)</u>	<u>(189,492)</u>
<i>Income (Loss) before Transfers</i>	(16,461)	(81,123)	(173,947)	(271,531)
Advances In	0	0	50,000	50,000
Transfers In	64,000	0	0	64,000
<i>Change in Net Assets</i>	47,539	(81,123)	(123,947)	(157,531)
<i>Net Assets Beginning of Year</i>	<u>1,259</u>	<u>350,744</u>	<u>139,407</u>	<u>491,410</u>
<i>Net Assets End of Year</i>	<u>\$48,798</u>	<u>\$269,621</u>	<u>\$15,460</u>	<u>\$333,879</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS**

**CUYAHOGA COUNTY**

*Statement of Fiduciary Net Assets - Modified Cash Basis*

*Fiduciary Funds - Agency Funds*

*December 31, 2007*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 14,023
Investments	<u>137,547</u>
<i>Total Assets</i>	<u><u>\$ 151,570</u></u>
<b>Net Assets</b>	
Held in Trust for Building Deposits	<u><u>\$ 151,570</u></u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS**  
**CUYAHOGA COUNTY**  
*Statement of Net Assets - Modified Cash Basis*  
*December 31, 2006*

	Governmental Activities	Business - Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 179,687	\$ 54,609	\$ 234,296
Investments	1,437,279	436,801	1,874,080
<i>Total Assets</i>	<u>\$ 1,616,966</u>	<u>\$ 491,410</u>	<u>\$ 2,108,376</u>
<b>Net Assets</b>			
Restricted for:			
Capital Projects	\$ 570,910	\$ 0	\$ 570,910
Debt Service	12,270	0	12,270
Other Purposes	158,899	0	158,899
Unrestricted	874,887	491,410	1,366,297
<i>Total Net Assets</i>	<u>\$ 1,616,966</u>	<u>\$ 491,410</u>	<u>\$ 2,108,376</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS**  
**CUYAHOGA COUNTY**  
*Statement of Activities - Modified Cash Basis*  
*For the Year Ended December 31, 2006*

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General Government	\$ 1,402,904	\$ 317,243	\$ 0	\$ 0	\$ (1,085,661)	\$ 0	\$ (1,085,661)
Security of Persons and Property	1,480,024	0	34,710	0	(1,445,314)	0	(1,445,314)
Public Health Services	13,026	1,500	0	0	(11,526)	0	(11,526)
Leisure Time Activities	282,462	71,647	33,904	0	(176,911)	0	(176,911)
Community Environment	3,951	0	0	0	(3,951)	0	(3,951)
Basic Utility Services	329,521	0	0	0	(329,521)	0	(329,521)
Transportation	824,253	0	0	0	(824,253)	0	(824,253)
Capital Outlay	1,828,102	314,584	0	289,481	(1,224,037)	0	(1,224,037)
Principal Retirement	3,375,000	0	0	0	(3,375,000)	0	(3,375,000)
Interest and Fiscal Charges	126,563	0	0	0	(126,563)	0	(126,563)
<i>Total Governmental Activities</i>	<u>9,665,806</u>	<u>704,974</u>	<u>68,614</u>	<u>289,481</u>	<u>(8,602,737)</u>	<u>0</u>	<u>(8,602,737)</u>
<b>Business Type Activity</b>							
Water	722,353	655,377	0	0	0	(66,976)	(66,976)
Wastewater	93,093	3,162	0	0	0	(89,931)	(89,931)
Downtown	1,906,994	18,746	0	0	0	(1,888,248)	(1,888,248)
<i>Total Business Type Activities</i>	<u>2,722,440</u>	<u>677,285</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,045,155)</u>	<u>(2,045,155)</u>
<b>Total</b>	<u>\$ 12,388,246</u>	<u>\$ 1,382,259</u>	<u>\$ 68,614</u>	<u>\$ 289,481</u>	<u>\$ (8,602,737)</u>	<u>\$ (2,045,155)</u>	<u>\$ (10,647,892)</u>
<b>General Receipts</b>							
Property Taxes Levied for:							
General Purposes					2,027,765	0	2,027,765
Police Pension					53,137	0	53,137
Conservation					177,123	0	177,123
Municipal Income Taxes					1,279,213	0	1,279,213
Estate Tax					449,456	0	449,456
Grants and Entitlements not							
Restricted to Specific Programs					552,764	0	552,764
Notes Issued					2,925,000	0	2,925,000
Premium on Debt Issue					3,890	0	3,890
Sale of Capital Assets					255,127	0	255,127
Interest					124,692	0	124,692
Miscellaneous					475	0	475
<i>Total General Receipts</i>					<u>7,848,642</u>	<u>0</u>	<u>7,848,642</u>
Advances					(395,000)	395,000	0
Transfers					(70,000)	70,000	0
<b>Total General Receipts &amp; Transfers</b>					<u>7,383,642</u>	<u>465,000</u>	<u>7,848,642</u>
Change in Net Assets					(1,219,095)	(1,580,155)	(2,799,250)
<i>Net Assets Beginning of Year (Restated - Note 3)</i>					<u>2,836,061</u>	<u>2,071,565</u>	<u>4,907,626</u>
<i>Net Assets End of Year</i>					<u>\$ 1,616,966</u>	<u>\$ 491,410</u>	<u>\$ 2,108,376</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS**  
**CUYAHOGA COUNTY**  
*Statement of Modified Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*December 31, 2006*

	<u>General</u>	<u>Debt Service Fund</u>	<u>Capital Improvement Fund</u>	<u>Library Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$ 97,222	\$ 1,364	\$ 33,351	\$ 30,092	\$ 17,658	\$ 179,687
Investments	777,665	10,906	266,769	240,698	141,241	1,437,279
<i>Total Assets</i>	<u>\$ 874,887</u>	<u>\$ 12,270</u>	<u>\$ 300,120</u>	<u>\$ 270,790</u>	<u>\$ 158,899</u>	<u>\$ 1,616,966</u>
<b>Fund Balances</b>						
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	\$ 874,887	\$ 0	\$ 0	\$ 0	\$ 0	\$ 874,887
Special Revenue Funds	0	0	0	0	70,226	70,226
Debt Service Funds	0	12,270	0	0	0	12,270
Capital Improvement Funds	0	0	300,120	270,790	0	570,910
Permanent Fund	0	0	0	0	88,673	88,673
<i>Total Fund Balances</i>	<u>\$ 874,887</u>	<u>\$ 12,270</u>	<u>\$ 300,120</u>	<u>\$ 270,790</u>	<u>\$ 158,899</u>	<u>\$ 1,616,966</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Modified-Cash Basis Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2006*

	General	Debt Service Fund	Capital Improvement Fund	Library Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>						
Municipal Income Taxes	\$1,279,213	\$0	\$0	\$0	\$0	\$1,279,213
Property and Other Local Taxes	2,027,765	0	0	0	230,260	2,258,025
Special Assessments	46,933	0	0	0	0	46,933
Charges for Services	146,949	0	267,651	0	73,147	487,747
Fines, Licenses and Permits	170,294	0	0	0	152	170,446
Intergovernmental	408,869	0	449,456	0	146,653	1,004,978
Interest	99,494	0	0	19,583	5,615	124,692
Misc	475	0	0	0	0	475
Donations	0	0	0	289,481	65,750	355,231
<i>Total Receipts</i>	<u>4,179,992</u>	<u>0</u>	<u>717,107</u>	<u>309,064</u>	<u>521,577</u>	<u>5,727,740</u>
<b>Disbursements</b>						
Current:						
General Government	1,286,115	0	0	0	116,835	1,402,950
Security of Persons and Property	1,321,146	0	0	0	158,878	1,480,024
Public Health Services	0	0	0	0	13,026	13,026
Leisure Time Activities	5,311	0	0	0	277,151	282,462
Community Environment	3,951	0	0	0	0	3,951
Basic Utility Services	329,521	0	0	0	0	329,521
Transportation	718,304	0	0	0	105,949	824,253
Capital Outlay	0	0	1,255,459	572,643	0	1,828,102
Principal Retirement	0	2,850,000	275,000	250,000	0	3,375,000
Interest and Fiscal Charges	0	78,890	9,532	38,141	0	126,563
<i>Total Disbursements</i>	<u>3,664,348</u>	<u>2,928,890</u>	<u>1,539,991</u>	<u>860,784</u>	<u>671,839</u>	<u>9,665,852</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>515,644</u>	<u>(2,928,890)</u>	<u>(822,884)</u>	<u>(551,720)</u>	<u>(150,262)</u>	<u>(3,938,112)</u>
<b>Other Financing Sources (Uses)</b>						
Notes Issued	0	2,925,000	0	0	0	2,925,000
Premium (Discount) on Debt Issue	0	3,890	0	0	0	3,890
Sale of Capital Assets	0	0	255,127	0	0	255,127
Transfers In	0	0	625,000	0	94,361	719,361
Transfers Out	(789,361)	0	0	0	0	(789,361)
Advances Out	0	0	(395,000)	0	0	(395,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(789,361)</u>	<u>2,928,890</u>	<u>485,127</u>	<u>0</u>	<u>94,361</u>	<u>2,719,017</u>
<i>Net Change in Fund Balances</i>	<u>(273,717)</u>	<u>0</u>	<u>(337,757)</u>	<u>(551,720)</u>	<u>(55,901)</u>	<u>(1,219,095)</u>
<i>Fund Balances Beginning of Year (Restated - Note 3)</i>	<u>1,148,604</u>	<u>12,270</u>	<u>637,877</u>	<u>822,510</u>	<u>214,800</u>	<u>2,836,061</u>
<i>Fund Balances End of Year</i>	<u>\$874,887</u>	<u>\$12,270</u>	<u>\$300,120</u>	<u>\$270,790</u>	<u>\$158,899</u>	<u>\$1,616,966</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

*Statement of Receipts, Disbursements and Changes  
In Fund Balance - Budget and Actual -Budget Basis  
General Fund  
For the Year Ended December 31, 2006*

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Receipts</b>				
Municipal Income Taxes	\$1,450,000	\$1,471,018	\$1,279,213	(\$191,805)
Property and Other Local Taxes	2,076,000	2,076,000	2,027,765	(48,235)
Special Assessments	27,700	27,700	46,933	19,233
Charges for Services	136,440	136,440	146,949	10,509
Fines, Licenses and Permits	130,000	130,000	170,294	40,294
Intergovernmental	404,000	404,000	408,869	4,869
Interest	50,000	50,000	99,494	49,494
Miscellaneous	5,000	5,000	475	(4,525)
<i>Total receipts</i>	<u>4,279,140</u>	<u>4,300,158</u>	<u>4,179,992</u>	<u>(120,166)</u>
<b>Disbursements</b>				
Current:				
General Government	1,303,900	1,308,100	1,286,115	21,985
Security of Persons and Property	1,334,389	1,336,739	1,321,146	15,593
Leisure Time Activities	13,500	13,500	5,311	8,189
Community Environment	4,000	4,000	3,951	49
Basic Utility Services	328,300	330,800	329,521	1,279
Transportation	794,200	791,700	718,304	73,396
<i>Total Disbursements</i>	<u>3,778,289</u>	<u>3,784,839</u>	<u>3,664,348</u>	<u>120,491</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>500,851</u>	<u>515,319</u>	<u>515,644</u>	<u>325</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(121,711)	(789,361)	(789,361)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(121,711)</u>	<u>(789,361)</u>	<u>(789,361)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	379,140	(274,042)	(273,717)	325
<i>Fund Balance Beginning of Year</i>	<u>1,148,604</u>	<u>1,148,604</u>	<u>1,148,604</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$1,527,744</u>	<u>\$874,562</u>	<u>\$874,887</u>	<u>\$325</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS**  
**CUYAHOGA COUNTY**  
*Statement of Fund Net Assets - Modified Cash Basis*  
*Proprietary Funds*  
*December 31, 2006*

	Business-Type Activities			Total Proprietary Funds
	Wastewater Fund	Water Fund	Historic Downtown Trust Fund	
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 140	\$ 38,977	\$ 15,492	\$ 54,609
Investments	1,119	311,767	123,915	436,801
<i>Total Assets</i>	<u>\$ 1,259</u>	<u>\$ 350,744</u>	<u>\$ 139,407</u>	<u>\$ 491,410</u>
<b>Net Assets</b>				
Unrestricted	<u>\$ 1,259</u>	<u>\$ 350,744</u>	<u>\$ 139,407</u>	<u>\$ 491,410</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS**  
**CUYAHOGA COUNTY**  
*Statement of Cash Receipts,  
Disbursements and Changes in Fund Net Assets - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2006*

	Business-Type Activities			Total Proprietary Funds
	Wastewater Fund	Water Fund	Historic Downtown Trust Fund	
<b>Operating Receipts</b>				
Charges for Services	\$3,162	\$43,200	\$18,746	\$65,108
<i>Total Operating Receipts</i>	<u>3,162</u>	<u>43,200</u>	<u>18,746</u>	<u>65,108</u>
<b>Operating Disbursements</b>				
Contractual Services	69,373	14,306	1,898,630	1,982,309
Materials and Supplies	4,480	0	8,364	12,844
<i>Total Operating Disbursements</i>	<u>73,853</u>	<u>14,306</u>	<u>1,906,994</u>	<u>1,995,153</u>
<i>Operating Income (Loss)</i>	(70,691)	28,894	(1,888,248)	(1,930,045)
<b>Non-Operating Receipts and (Disbursements)</b>				
Special Assessments	0	612,177	0	612,177
Redemption of Principal	(19,240)	(370,524)	0	(389,764)
Interest and Other Fiscal Charges	0	(337,523)	0	(337,523)
<i>Total Non-Operating Receipts and (Disbursements)</i>	<u>(19,240)</u>	<u>(95,869)</u>	<u>0</u>	<u>(115,109)</u>
<i>Income (Loss) before Transfers &amp; Advances</i>	(89,931)	(66,975)	(1,888,248)	(2,045,154)
Advances In	0	0	395,000	395,000
Transfers In	70,000	0	0	70,000
<i>Change in Net Assets</i>	(19,931)	(66,975)	(1,493,248)	(1,580,154)
<i>Net Assets Beginning of Year (Restated See Note 3)</i>	<u>21,190</u>	<u>417,719</u>	<u>1,632,655</u>	<u>2,071,564</u>
<i>Net Assets End of Year</i>	<u>\$1,259</u>	<u>\$350,744</u>	<u>\$139,407</u>	<u>\$491,410</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS**

**CUYAHOGA COUNTY**

*Statement of Fiduciary Net Assets - Modified Cash Basis*

*Fiduciary Funds - Agency Funds*

*December 31, 2006*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 11,958
Investments	95,652
<i>Total Assets</i>	<u>\$ 107,610</u>
<b>Net Assets</b>	
Held in Trust for Building Deposits	<u>\$ 107,610</u>

See accompanying notes to the basic financial statements

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

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**Note 1 – Reporting Entity**

The Village of Gates Mills, Cuyahoga County, Ohio, (the Village) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio and the Village Charter dated November 1972.

The Mayor, elected by the voters for a four-year term, is the head of the municipal government for ceremonial, administrative, and executive purposes, performs the judicial functions of the Village and presides at Council meetings. The chief conservator of the peace, she oversees the enforcement of all laws and ordinances. She also appoints with Council approval all department heads, and together with the Clerk or Treasurer executes all contracts, conveyances, and evidences of indebtedness of the Village.

Legislative authority is vested in a seven member council with all seven members elected at large for a term of four years. Council enacts ordinances and resolutions relating to tax levies; appropriates and borrows money; and accepts bids for materials and services and other municipal purposes.

A. Primary Government

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Village consists of all funds, departments, boards and agencies that are not legally separate from the Village. The primary government provides the following services to its citizens: police and fire protection, recreation, planning, zoning, street maintenance and repair, refuse collection, recycling and general administrative services.

B. Component Units

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Village, are accessible to the Village and are significant in amount to the Village. There are no component units included as part of this report.

The Village is associated with a jointly governed organization, the East Suburban Regional Council of Governments. This organization is presented in Note 16 to the basic financial statements.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies**

As discussed further in Note 2C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Village does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the Village's accounting policies.

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the Village 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 Village that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services and transfers from the General Fund and loans.

The statement of net assets presents the cash balance of the governmental and business-type activities of the Village at year-end. The statement of activities compares disbursements with program receipts for each of the Village's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Village is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function or business type activity is self-financing on a modified cash basis or draws from the Village's general receipts.

**Fund Financial Statements**

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

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

Proprietary fund statements distinguish operating transaction from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

**B. Fund Accounting**

The Village uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The funds of the Village are divided into three categories, governmental, proprietary and fiduciary.

**Governmental Funds**

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. In 2007, the Village's major governmental funds are the General Fund, Debt Service Fund, Capital Improvement Fund, and the Library Fund. In 2006, the Village reported the same major funds. The Village's major funds are as follows

**General Fund** - The Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Debt Service Fund** – This fund is used to accumulate resources for the payment of bonds and note indebtedness except those required to be accounted for in another fund.

**Capital Improvement Fund** - This fund is used to track money received for and spent on capital projects. Sources of money include Inheritance tax, advances and transfers, plus repayment of expenditures from this Fund. Expenditures are for capital projects and transfers to the General Fund when deemed necessary by Village Council.

**Library Fund** – This fund tracks money received for and spent on the construction of a library. Revenue sources are advances, transfers, interest, donations and other authorized deposits authorized by Village Council.

The other governmental funds of the Village account for grants and other resources whose use is restricted to a particular purpose. Included in these funds are the Village's Permanent Funds: the Mayor's Discretionary Fund, Purcell Fund and the Storer Fund.

**Proprietary Funds**

The Village classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as enterprise. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Village's major funds are the Water Fund, Wastewater Fund, and the Historic Downtown Trust Fund.

**Water Fund** – This fund receives cash from loans, bonds, advances/transfers, assessments and connection (tap-in) charges. Expenditures include construction expenses, operation expenses, debt service charges on bonds and notes issued by, and repayment of other obligations entered into by the Village in connection with the water improvement projects.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

Proprietary Funds (Continued)

**Wastewater Fund** – This fund tracks all money received for and spent on the Wastewater Plant. Revenue is from grants, loans, fund transfers, proceeds of bond issues and usage fees. Expenditures include all costs and expenses of installing and maintaining the wastewater plant, lines, and service connections and all legal fees, engineering fees, construction costs, administration costs, operating costs, and repayment of loans and bond issues.

**Historic Downtown Trust Fund** – This fund originally received donations, transfers, interest, and other deposits and was used to rehabilitate and restore the Historic Downtown District. In 2006 the major construction and rehab was completed. Therefore the Fund currently is used to operate the “Mills Building” as a rental property.

Fiduciary Funds

Fiduciary funds include pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village’s own programs. The Village has no trust funds. Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village’s agency fund accounts for building bond deposits from various contractors, developers or individuals to insure compliance with various Village ordinances.

C. Basis of Accounting

The Village’s financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Village’s financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Village are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Village Council may appropriate.

The appropriations ordinance is the Village Council’s authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established by fund / department / salaries / other.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

**D. Budgetary Process (Continued)**

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk/Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Village Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Village Council during the year.

**E. Cash and Investments**

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2007 and 2006, the Village invested in a money market fund, U.S. Treasury Notes and STAR Ohio. The U.S. Treasury Notes are reported at cost. The money market fund is recorded at the amount reported by Key Bank at December 31, 2007 and December 31, 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, 2007 and December 31, 2006.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2007 and 2006 were \$120,912 and \$99,494.

**F. Restricted Assets**

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Village has no restricted assets.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies (Continued)**

**G. Inventory and Prepaid Items**

The Village reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**H. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**I. Interfund Receivables/Payables**

The Village reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

**J. Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's modified cash basis of accounting.

**K. Employer Contributions to Cost-Sharing Pension Plans**

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**L. Long-Term Obligations**

The Village's modified cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid. The Village had no lease payments.

**M. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets were restricted for debt service, capital projects and other purposes. None are restricted by enabling legislation. The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**N. Interfund Transactions**

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing source/uses in governmental funds and after nonoperating receipts /disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

**Note 3 – Restatement of Fund Balance / Net Assets**

During 2006, it was determined that the Historic Downtown Trust Fund should be reported as a business type activity instead of as governmental activities:

This restatement had the following effect on fund balances / net assets as they were previously reported:

	Historic Downtown Trust Fund	Total Governmental Funds	Historic Downtown Trust Fund	Total Proprietary Funds
Fund Balance January 1, 2006	\$1,632,656	\$4,468,717	\$0	\$438,908
<b>Restatement</b> Reclassification	<u>(1,632,656)</u>	<u>(1,632,656)</u>	<u>1,632,656</u>	<u>1,632,656</u>
Restated Fund Balance January 1, 2006	<u>\$0</u>	<u>\$2,836,061</u>	<u>\$1,632,656</u>	<u>\$2,071,564</u>

**Note 4 – Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund and is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The outstanding advances as of December 31, 2007 and 2006 were as follows:

Downtown Fund owes the Capital Improvement Fund \$4,264,900 and \$4,214,900, respectively, Wastewater Fund owes the Capital Improvement Fund \$300,000 for both years.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

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**Note 5 – Deposits and Investments**

Monies held by the Village are classified by State statute into three categories.

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

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

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

Pursuant to the Village's investment policy, interim monies held by the Village can be deposited or invested in the following securities:

Interim monies held by the Village can be deposited or invested in the following securities:

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

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by collateral pledged to the Village by the financial institution, or by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

**Note 5 – Deposits and Investments (Continued)**

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Village, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**Deposits**

Custodial credit risk is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of December 31, 2007, \$723,486 of the Village's bank balance of \$823,486 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

As of December 31, 2006, \$239,365 of the Village's bank balance of \$339,365 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments**

As of December 31, 2007 and December 31, 2006, the Village had the following investments:

<b>December 31, 2007</b>	<b>Carrying Value</b>	<b>Maturity</b>	<b>December 31, 2006</b>	<b>Carrying Value</b>	<b>Maturity</b>
Money Market	\$13,334	1 Day	Money Market	\$8,305	1 Day
U.S. Treasury Notes	400,000	1 Month	U.S. Treasury Notes	398,250	2 Months
U.S. Treasury Notes	200,375	8 Months	U.S. Treasury Notes	200,125	7 months
U.S. Treasury Notes	301,260	19 Months	U.S. Treasury Notes	298,625	7 months
U.S. Treasury Notes	301,260	19 Months	U.S. Treasury Notes	400,000	13 months
STAR Ohio	<u>2,293,306</u>		U.S. Treasury Notes	200,750	20 months
Total Investments	3,509,535		STAR Ohio	<u>463,674</u>	
Demand Deposits	<u>357,797</u>		Total Investments	1,969,729	
Total	<u>\$3,867,332</u>		Demand Deposits	<u>246,253</u>	
			Total	<u>\$2,215,982</u>	

Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. While the Village's investment policy does not address interest rate risk, the Village's investment portfolio is structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments as reflected in the above table, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

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**Note 5 – Deposits and Investments (Continued)**

The Money Market fund carries a rating of P-1 and A-1 by Moody's and Standards and Poor's and STAR Ohio carries a rating of AAAM by Standards and Poor's. The Village has no investment policy dealing with investment credit risk beyond the requirements of state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated the highest category at the time of purchase by at least one nationally recognized standard rating service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The U.S. Treasury Notes are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Village's name. The Village has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investment to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

**Note 6 – Income Taxes**

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village. All income taxes received are placed in the General Fund.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village's tax collection agent, the Central Collection Agency, monthly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**Note 7 – Property Taxes**

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2007 and 2006 represent the collection of 2006 and 2005 taxes. Real property taxes received in 2007 and 2006 were levied after October 1, 2006 and October 1, 2005, on the assessed values as of January 1, 2006 and January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due January 19; if paid semiannually, the first payment is due January 19, with the remainder payable by July 13. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2007 and 2006 represent the collection of 2006 and 2005 taxes. Public utility real and tangible personal property taxes received in 2006 and 2005 became a lien on December 31, 2006 and were levied after October 1, 2006 and October 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

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**Note 7 – Property Taxes (Continued)**

Tangible personal property tax receipts received in 2007 and 2006 (other than public utility property) represent the collection of 2006 and 2005 taxes. Tangible personal property taxes received in 2007 and 2006 were levied after October 1, 2006 and October 1, 2005, on the true value as of December 31, 2006 and December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all Village operations for the year ended December 31, 2007 and December 31, 2006, was \$18.80 per \$1,000 and \$14.40 per \$1,000 of assessed value respectively. The assessed values of real property, public utility property, and tangible personal property upon which 2007 and 2006 property tax receipts were based are as follows:

	2007	2006
Real Estate , Agriculture, Residential	\$215,470,750	\$198,448,700
Other Real Estate	4,942,170	6,246,240
New Construction	370,920	2,222,920
Public Utility Tangible	2,247,920	2,463,740
Tangible Personal Property	106,170	210,000
Total Assessed Value	<u>\$222,767,010</u>	<u>\$209,591,600</u>

**Note 8 – Risk Management**

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

The Village provides health and dental insurance to full-time employees through a private carrier.

**Note 9 – Defined Benefit Pension Plans**

**A. Ohio Public Employees Retirement System**

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

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

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**Note 9 – Defined Benefit Pension Plans (Continued)**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2007 and 2006, the Village's OPERS members contributed 9.5% and 9% of their gross wages and the Village contributed an amount equal to 13.85% and 13.7% of participants' gross salaries. The Village has paid all contributions required through December 31, 2007. Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2007, 2006 and 2005 were \$164,346, \$148,287, and \$135,423, respectively. The full amount has been contributed for all years.

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The Village's contribution was 19.5 percent for police officers. Contribution rates are established by State statute. For 2007, a portion of the Village's contribution equal to 6.75 percent of covered payroll was allocated to fund the postemployment healthcare plan. The Village's required contributions to the Fund for the years ended December 31, 2007, 2006, and 2005 were \$139,726, \$142,691, and \$92,938. The Village has paid the full amount for all years.

**Note 10 - Postemployment Benefits**

**A. Ohio Public Employees Retirement System**

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit postemployment healthcare plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment healthcare. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

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**Note 10 - Postemployment Benefits (Continued)**

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

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2007, the employer contribution allocated to the health care plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 5% and 6% of covered payroll, respectively. For 2006, 4.5% of covered payroll was the portion that was used to fund health care. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The retirement board is also authorized to establish rules for the payment of a portion of the healthcare benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment healthcare plan.

The Village's contributions allocated to fund postemployment healthcare benefits for the years ended December 31, 2007, 2006, and 2005 were \$102,136, \$92,155 and \$84,161, respectively. The full amount has been contributed for all years.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the healthcare plan.

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

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

OP&F provides access to postretirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit or is a spouse or eligible dependent child of such person. The healthcare coverage provided by OP&P meets the definition of an Other Postemployment Benefits (OPEB) as described in GASB Statement 45.

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

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

**Note 10 - Postemployment Benefits (Continued)**

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

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

Funding policy – OP&F’s postemployment healthcare plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent of covered payroll for police employers.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree healthcare benefits. For the years ended December 31, 2007 and 2006, the employer contribution allocated to the healthcare plan was 6.75 and 7.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees’ primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Section 401(h).

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

The Village’s contributions to OP&F which were allocated to fund postemployment healthcare benefits for police for the years ended December 31, 2007, 2006 and 2005 were \$73,972, \$75,542, and \$35,984. The full amount has been contributed for all years.

**Note 11 – Note Debt**

The Village’s notes outstanding for the year ended December 31, 2007, was as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Balance 1/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2007</u>
Library Note	4.125%	\$850,000	610,000	850,000	\$610,000
Service Garage Note	4.125%	275,000	275,000	275,000	275,000
Street Improvement Note	4.125%	1,800,000	1,600,000	1,800,000	1,600,000
Gates Mills Boulevard Note	4.125%	0	915,000	0	915,000
<b>Total</b>		<b><u>\$2,925,000</u></b>	<b><u>\$3,400,000</u></b>	<b><u>\$2,925,000</u></b>	<b><u>\$3,400,000</u></b>

The above Notes are all due in 2008 and are collateralized by the Village’s taxing authority.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

**Note 11 – Note Debt (Continued)**

The Village's notes outstanding for the year ended December 31, 2006, was as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Balance 1/1/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2006</u>
Library Note	4.25%	\$1,100,000	850,000	1,100,000	\$850,000
Service Garage Note	4.25%	275,000	275,000	275,000	275,000
Street Improvement Note	4.25%	2,000,000	1,800,000	2,000,000	1,800,000
Total		<u>\$3,375,000</u>	<u>\$2,925,000</u>	<u>\$3,375,000</u>	<u>\$2,925,000</u>

The above Notes are all due in 2007 and are collateralized by the Village's taxing authority.

**Note 12 – Debt**

The Village's long term debt outstanding for the year ended December 31, 2007, was as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Balance 1/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2007</u>
OWDA, 1998	6.51%	\$2,428,839	\$0	\$(157,920)	\$2,270,919
OWDA, 1999	5.86%	2,757,613	0	(147,360)	2,610,253
OPWC Loan, 1995	0%	1,121,213	0	(83,053)	1,038,160
OPWC Loan, 2001	0%	288,600	0	(19,240)	269,360
Total		<u>\$6,596,265</u>	<u>\$0</u>	<u>\$(407,573)</u>	<u>\$6,188,692</u>

The Village's long term debt outstanding for the year ended December 31, 2006, was as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Balance 1/1/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2006</u>
OWDA, 1998	6.51%	\$2,577,108	\$0	\$(148,269)	\$2,428,839
OWDA, 1999	5.86%	2,896,815	0	(139,202)	2,757,613
OPWC Loan, 1995	0%	1,204,266	0	(83,053)	1,121,213
OPWC Loan, 2001	0%	307,840	0	(19,240)	288,600
Total		<u>\$6,986,029</u>	<u>\$0</u>	<u>\$(389,764)</u>	<u>\$6,596,265</u>

The Ohio Water Development Authority (OWDA) loans and the 1995 Ohio Public Works Commission (OPWC) loan relate to a water expansion project. The 2001 OPWC loan was for the wastewater treatment plant. The OWDA and OPWC loans are repaid in semiannual payments over 20 years. The OWDA loans are collateralized by assessments.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

**Note 12 – Debt (Continued)**

Amortization of the above long term debt, including interest, where applicable, is scheduled as follows:

<u>Year Ending December 31</u>	<u>OWDA Loans</u>	<u>OPWC Loans</u>	<u>Total</u>
2008	624,994	102,293	727,287
2009	624,994	102,293	727,287
2010	624,994	102,293	727,287
2011	624,994	102,293	727,287
2012	624,994	102,293	727,287
2013 - 2017	3,124,970	511,464	3,636,434
2018 - 2021	617,912	284,591	902,503
Total	<u>\$6,867,852</u>	<u>\$1,307,520</u>	<u>\$8,175,372</u>

**Note 13 – Interfund Transfers**

During 2007 and 2006 the following transfers were made:

	<u>2007</u>	<u>2006</u>
Transfers from the General Fund to Other Governmental Funds	\$92,900	\$719,361
Wastewater Fund	<u>64,000</u>	<u>70,000</u>
Total Transfers from the General Fund	<u>\$156,900</u>	<u>\$789,361</u>

Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 14 – Construction and Contractual Commitments**

The Village had the following significant construction and contractual commitments as of December 31, 2007:

- Construction of Library \$860,784
- Construction of Mills Building \$906,994

**Note 15 – Contingent Liabilities**

The Village is not a defendant in any lawsuits.

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY**

**Notes to the Basic Financial Statements  
For the Years Ended December 31, 2007 and 2006  
(Continued)**

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**Note 16 – Jointly Governed Organization**

The Village is a member of the Eastern Suburban Regional Council of Governments (ESRCOG). The ESRCOG was formed by written agreement pursuant to Ohio Revised Code Section 167.01 in 1972 to foster cooperation between member municipalities through sharing of resources for mutual benefit. Other members include the communities of Highland Heights, Lyndhurst, Mayfield Heights, Richmond Heights, and Mayfield Village. The governing body of ESRCOG is a Council comprised of one representative from each of the six participating municipalities. The Council adopts a budget for ESRCOG annually. Each member's degree of control is limited to its representation on the Council. ESRCOG established a subsidiary organization, the Suburban Police Anti-Crime Network (SPAN) which provides for the interchange and sharing of police personnel and police equipment to be utilized by all members.

Financial information can be obtained from Robert G. Tribby, Finance Director, City of Mayfield Heights, 6154 Mayfield Road, Mayfield Heights, Ohio 44124-3207, who serves as fiscal agent.

**Note 17 – Change in Accounting Principles**

For 2007, the Village has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding a plan. The implementation of this statement did not result in any change to the Village's financial statements.

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# Mary Taylor, CPA

Auditor of State

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

Village of Gates Mills  
Cuyahoga County  
1470 Chagrin River Road  
Gates Mills, Ohio 44040

To Members of the Village Council

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Gates Mills, Cuyahoga County, Ohio, (the "Village") as of and for the years ended December 31, 2007 and December 31, 2006 which collectively comprise the Village's basic financial statements and have issued our report thereon dated October 31, 2008, wherein we noted the Village restated the January 1, 2006 fund balances and net assets for the Capital Projects Downtown Trust Fund, Governmental Activities and Business Type Activities. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

### **Internal Control Over Financial Reporting (Continued)**

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We noted a certain matter that we reported to the Village's management in a separate letter dated October 31, 2008.

### **Compliance and Other Matters**

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

The Village's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the management and Village Council. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

October 31, 2008

**VILLAGE OF GATES MILLS  
CUYAHOGA COUNTY  
SCHEDULE OF FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-001**

**Significant Deficiency – Certification of Expenditures**

Currently, the Village does not issue purchase orders for all expenditures. Before the Village issues a check for any purchase the department head approves the payment of the invoice, attesting to the receipt of the service or product. All purchases over \$20,000 are bid according to the Village ordinances. All purchases are approved by the Village Council monthly and are certified by the clerk with the statement “I hereby certify that at the time of making the contracts or orders for the expenditures provided for in the foregoing ordinance and at the time of the execution of such certificate a sufficient sum appropriated for the purpose of such contract was in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances.”

Ohio Rev. Code § 5705.41(D)(1) states that unless certification is attached to the contract or order involving the expenditure of money at the time such contract or order is made, the fiscal officer must furnish a certificate “stating that at the time of making such contract or order and at the time of execution of such certificate a sufficient sum appropriated for the purpose of such contract and in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.” Without such certification no contract or order shall be considered valid nor may a warrant in payment of amounts due upon such contract or order be drawn. Further, for expenditures of \$3,000 or greater, within thirty days of receipt of such certification the taxing authority must authorize by resolution or ordinance the drawing of a warrant in payment of amounts due upon such contract or order before payment may be made.

While Section 5705.41(D)(1) allows the Village to utilize the “then and now” certificates for legal compliance it is not adequate internal control since it does not occur prior to or at the time that the contract or order involving such expenditure was made. As a result, the Village cannot ensure the sufficiency of appropriations available to cover expenditures. This increases the likelihood of the Village over-expending its funds without timely detection by Village management.

We recommend the Village modify their procurement process to include the utilization of purchase orders for all expenditures and that they be certified by the clerk prior to or at the time that the contract or order is made.

**Village’s Response**

We will evaluate this issue.





**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF GATES MILLS**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 24, 2008**