



**Mary Taylor, CPA**  
Auditor of State



**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

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**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

City of Richmond Heights  
Cuyahoga County  
26789 Highland Road  
Richmond Heights, Ohio 44143

To the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Richmond Heights, Cuyahoga County, Ohio (the City) as of and for the years ended December 31, 2006 and December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Richmond Heights, Cuyahoga County, Ohio, as of December 31, 2006 and December 31, 2005, and the respective changes in financial position thereof and the respective budgetary comparisons for the General and Fire Service fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18, the City restated January 1, 2005 net assets in the Governmental Activities, and the fund balance in the General, Bond Retirement, Capital Improvements, and Other Governmental Funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Mary Taylor, CPA**  
Auditor of State

May 14, 2009

# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited)

### For The Year Ended December 31, 2006

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The discussion and analysis of the financial performance of the City of Richmond Heights (the City) provides an overall review of the City's financial activities for the fiscal year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

#### Financial Highlights

Key financial highlights for 2006 are as follows:

- ◆ City income tax revenue totaled \$4,336,812.
- ◆ The assets of the City of Richmond Heights exceeded its liabilities at the close of the most recent fiscal year by \$7,239,212. Of this amount, \$3,911,301 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ In total, net assets in governmental activities decreased by \$1,382,206 during 2006. This represents a 16 percent decrease from 2005.
- ◆ Total assets increased by \$598,780, which represents an increase of approximately 2 percent from 2005. The biggest changes were an increase in cash and cash equivalents of \$605,396 and an increase in accounts receivable of \$328,237.
- ◆ Total liabilities increased by \$1,980,986, which represents an increase of approximately 10 percent. This increase is due, in part, to the 2006 note issuance in the amount of \$2,700,000.

#### Using this Annual Financial Report

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

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

##### *Statement of Net Assets and the Statement of Activities*

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

# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited) (continued)

### **For The Year Ended December 31, 2006**

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

- Assets
- Liabilities
- Net assets (assets minus liabilities)
- Program revenues and expenses
- General revenues
- Net assets beginning of year and end of year

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

#### *Fund Financial Statements*

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

#### *Governmental Funds*

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

The City of Richmond Heights maintains 18 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General Fund, Fire Service Fund, Bond Retirement Fund, Capital Improvements Fund and the Building Improvement Fund, all of which are considered to be major funds.



# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited) (continued)

### For The Year Ended December 31, 2006

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#### *Notes to the Financial Statements*

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 24 of this report.

#### **Government-wide Financial Analysis - City of Richmond Heights as a Whole**

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

Table 1 provides a summary of the City's net assets for 2006 as compared to 2005.

**Table 1**  
**Net Assets**

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 11,776,543	\$ 11,389,039
Capital assets, net	<u>16,590,852</u>	<u>16,379,576</u>
<i>Total assets</i>	<u>28,367,395</u>	<u>27,768,615</u>
Current liabilities and other liabilities	6,641,369	4,118,732
Long-term liabilities:		
Due within one year	1,169,373	1,127,673
Due in more than one year	<u>13,317,441</u>	<u>13,900,792</u>
<i>Total liabilities</i>	<u>21,128,183</u>	<u>19,147,197</u>
Invested in capital assets, net of related debt	3,273,029	2,475,671
Restricted for:		
Debt service	47,942	327,840
Other purposes	6,940	-
Unrestricted	<u>3,911,301</u>	<u>5,817,907</u>
<i>Total net assets</i>	\$ <u><u>7,239,212</u></u>	\$ <u><u>8,621,418</u></u>

Total assets increased \$598,780 from 2005 to 2006 primarily because of the land and the construction of roads. Total liabilities increased by \$1,980,986. This increase is due, in part, to the 2006 note issuance in the amount of \$2,700,000, and is offset by long-term debt payments of \$1,051,552.

# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited) (continued)

### For The Year Ended December 31, 2006

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year as compared to 2005.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities <u>2006</u>	<u>2005</u>
Program revenues:		
Charges for services	\$ 1,150,908	\$ 1,214,338
Capital grants	<u>46,619</u>	<u>-</u>
<i>Total program revenues</i>	<u>1,197,527</u>	<u>1,214,338</u>
General revenues:		
Property taxes	3,227,952	3,149,294
Income taxes	4,336,812	4,836,879
Grants and entitlements	1,439,186	1,835,532
Investment income	161,490	112,222
Miscellaneous	<u>248,572</u>	<u>66,816</u>
<i>Total general revenues</i>	<u>9,414,012</u>	<u>10,000,743</u>
<i>Total revenues</i>	<u>10,611,539</u>	<u>11,215,081</u>
Expenses:		
General government	1,660,941	1,170,137
Security of persons and property	5,975,742	6,075,506
Transportation	2,203,079	1,821,851
Leisure time activities	487,324	542,690
Community development	320,910	324,088
Basic utility services	756,506	651,942
Interest and fiscal charges	<u>589,243</u>	<u>615,922</u>
<i>Total expenses</i>	<u>11,993,745</u>	<u>11,202,136</u>
<i>Change in net assets</i>	\$ <u>(1,382,206)</u>	\$ <u>12,945</u>

# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited) (continued)

### **For The Year Ended December 31, 2006**

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#### *Governmental Activities*

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. The City's income tax rate is two percent on gross income and has not changed since 1993. Residents of the City who work in another community and pay the withholding tax for that community receive a 100 percent tax credit on their City tax for 100 percent, the credit limit being 2 percent. During 2006, the revenues generated from this tax amounted to \$4,336,812.

General property taxes are also a significant source of revenues. Although this is a much more stable tax, property taxes constitute only about a third of the general revenues for the City. In addition to the general property taxes, the City has a one-mill levy for the Fire Department. The Fire Service Levy provides for a portion of the operating expenditures of the Fire Department, the remainder of funding comes from the General Fund.

Intergovernmental revenues, particularly local government subsidies have, in the past, provided a very stable predictable and significant contribution to the City's General Fund. In 2006, local government subsidies have become less stable with State Budget cuts and county distribution formulas being challenged in court. Estate taxes have also been a significant contributor to this City's budget, but much less stable and not at all predictable. Both of these forms of intergovernmental revenues are at risk due to budget concerns at the State level.

The City has also more aggressively pursued grants and donations to help fund particular projects that might have been funded through the General Fund. Grants have helped fund the City's annual tree planting program; police equipment; paramedic training as well as sanitary sewer construction in several areas of the City.

Interest on all City accounts, except when otherwise designated, is another source of revenue for the General Fund. In the past, interest constituted as much as 25 percent of the total budget. Now, because of the drop in interest rates, this source is much less significant.

Security of Persons and Property and Transportation are the major activities of the City generating approximately 68 percent of the governmental expenses. During 2006 there were 21 full-time sworn officers in the police department. During 2006, the department continued to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology.

# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited) (continued)

### **For The Year Ended December 31, 2006**

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During 2006, the fire department consisted of 18 full-time and 14 part-time fire fighters. All but three of these fire fighters are fully trained paramedics. Again, training plays a crucial role in the day-to-day operation of the fire department. The department handled 1,300 calls for assistance of which approximately 972 were for EMS and the rest for fire and fire related incidents.

With several large sanitary sewer construction projects planned or in process, the investment in streets was limited to those streets that experienced sanitary sewer construction or minor repair and resurfacing of various streets.

### **The City's Funds**

Information about the City's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,062,792 and expenditures of \$13,214,288. The net change in fund balance for the year was most significant in the Capital Improvements Fund showing a decrease in fund balance of \$3,702,732, which resulted from the issuance of notes payable recorded in that fund. The General Fund reflected a decrease of \$(274,577), which decreased the beginning fund balance of \$1,637,761 to \$1,363,184. Overall the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

### *General Fund Budgeting Highlights*

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public; the budget is adopted by City Council. Council must approve legislation for any revisions in the budget that alter totals or the total appropriations for any department or fund. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

For the General Fund, final budget basis revenue was the same as the original budget estimates of \$8,151,264. The original appropriations of \$8,217,265 was sufficient to meet the expenditures for the year, which ended up at \$8,038,711 or \$346,621 less than anticipated due to conservative budgeting and spending controls.

# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited) (continued)

### For The Year Ended December 31, 2006

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#### Capital Assets and Debt Administration

##### Capital Assets

Table 3 shows fiscal 2006 balances of Capital Assets as compared to 2005:

**Table 3**  
**Capital Assets at December 31**

	Governmental Activities	
	2006	2005
Land	\$ 1,587,958	\$ 1,077,525
Construction in progress	1,790,077	1,804,377
Land Improvements	1,531,567	1,531,567
Buildings and improvements	6,709,592	6,694,290
Machinery and equipment	1,435,184	1,402,746
Vehicles	1,563,836	1,653,295
Infrastructure:		
Roads	7,730,378	7,286,261
Sanitary sewers	3,806,310	3,806,310
Storm sewers	3,707,942	3,645,275
Water lines	2,381,534	2,381,534
Less: accumulated depreciation	<u>(15,653,526)</u>	<u>(14,903,604)</u>
Total capital assets, net	\$ <u>16,590,852</u>	\$ <u>16,379,576</u>

The City's plan is to maintain its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks and ambulances are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame. The police car replacement plan is to replace 3 vehicles each year. The older vehicles are either traded in to the dealers or sold to the highest bidder at auction.

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the roads, sewer lines and water lines in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack-sealed and in the case of concrete roads, either replaced or repaired. After approval from Council, the projects are competitively bid to get the best possible pricing from contractors. Related expenditures are paid for out of the Capital Improvement Fund of the City.

The City is committed to a long-term goal of meeting the needs of its infrastructure and facilities. A five-year capital plan is in place that provides for street improvements and adding additional facilities to complement our current structures.

# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited) (continued)

### For The Year Ended December 31, 2006

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#### Debt

At December 31, 2006, the City of Richmond Heights had \$14,486,814 in outstanding debt and compensated absences, of which \$7,465,000 was in General Obligation Bonds. Table 4 summarizes the outstanding obligations of the City.

**Table 4**  
**Outstanding Debt at Year End**

	Governmental Activities	
	2006	2005
General obligation bonds	\$ 7,465,000	\$ 8,250,000
OWDA loans	5,719,176	5,510,712
OWPC loan	133,647	143,193
Police pension	48,643	49,511
Compensated absences	<u>1,120,348</u>	<u>1,075,049</u>
Total	\$ <u>14,486,814</u>	\$ <u>15,028,465</u>

At December 31, 2006, the City's overall legal debt margin was \$24,220,841. At year-end, the outstanding general obligation debt was \$7,465,000. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

#### Current Related Financial Activities

The City of Richmond Heights is strong financially. In addition, the City of Richmond Heights's systems of budgeting and internal controls are well regarded and the City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Richmond Heights with full disclosure of the financial position of the City.

#### Contacting the City of Richmond Heights's Finance Department

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance, Lynda Rossiter, City of Richmond Heights, 26789 Highland Road, Richmond Heights, Ohio 44143, telephone (216) 486-2474, or web site at [www.richmondheightsohio.org](http://www.richmondheightsohio.org) or by e-mail at [finance.director@richmondheightsohio.org](mailto:finance.director@richmondheightsohio.org).

# City of Richmond Heights

## Statement of Net Assets

December 31, 2006

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	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 3,490,189
Cash with fiscal agent	2,263
Materials and supplies inventory	59,635
Accrued interest receivable	28,345
Accounts receivable	510,693
Intergovernmental receivable	498,786
Prepaid items	46,592
Taxes receivable	4,554,597
Special assessments receivable	2,585,443
Nondepreciable capital assets	3,378,035
Depreciable capital assets, net	<u>13,212,817</u>
Total assets	<u>28,367,395</u>
Liabilities:	
Accounts payable	180,623
Accrued wages and benefits	255,684
Intergovernmental payable	353,190
Notes payable	2,700,000
Accrued interest payable	147,989
Deferred revenue	3,003,883
Long-term liabilities:	
Due within one year	1,169,373
Due in more than one year	<u>13,317,441</u>
Total liabilities	<u>21,128,183</u>
Net assets:	
Invested in capital assets, net of related debt	3,273,029
Restricted for:	
Debt service	47,942
Other purposes	6,940
Unrestricted	<u>3,911,301</u>
Total net assets	<u>\$ 7,239,212</u>

The accompanying notes are an integral part of these financial statements

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# City of Richmond Heights

## Statement of Activities

**For The Year Ended December 31,2006**

	<u>Expense</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Total Governmental Funds</u>
Government activities:				
General government	\$ 1,660,941	\$ 573,319	\$ -	\$ (1,087,622)
Security of persons and property	5,975,742	294,949	-	(5,680,793)
Transportation	2,203,079	31,405	46,619	(2,125,055)
Leisure time activities	487,324	127,204	-	(360,120)
Community development	320,910	124,031	-	(196,879)
Basic utility service	756,506	-	-	(756,506)
Interest and fiscal charges	<u>589,243</u>	<u>-</u>	<u>-</u>	<u>(589,243)</u>
Total Governmental Activities	\$ <u>11,993,745</u>	\$ <u>1,150,908</u>	\$ <u>46,619</u>	<u>(10,796,218)</u>

General revenues:

Property and other local taxes levied for:

General purposes	2,569,870
Debt service	658,082

Municipal income taxes levied for:

General purposes	4,336,812
Grants and entitlements not restricted	1,439,186
Investment income	161,490
Miscellaneous income	<u>248,572</u>

Total general revenues 9,414,012

Change in net assets (1,382,206)

Net assets at beginning of year 8,621,418

Net assets at end of year \$ 7,239,212

The accompanying notes are an integral part of these financial statements

# City of Richmond Heights

## Balance Sheet Governmental Funds

**December 31, 2006**

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	<u>General</u>	<u>Fire Service</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 544,406	\$ -
Cash with fiscal agents	-	-
Taxes receivable	2,523,765	922,581
Accounts receivable	100,267	7,868
Accrued interest receivable	28,345	-
Intergovernmental receivable	249,009	33,366
Special assessments receivable	-	-
Internal receivable	130,537	-
Materials and supplies inventory	9,723	1,700
Prepaid items	<u>46,592</u>	<u>-</u>
Total Assets	<u>\$ 3,632,644</u>	<u>\$ 965,515</u>
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	\$ 121,987	\$ 3,756
Accrued wages	124,425	130,153
Intergovernmental payable	126,366	35,125
Internal payable	-	63,769
Deferred revenue	1,896,682	955,947
Accrued interest payable	-	-
Notes payable	<u>-</u>	<u>-</u>
Total Liabilities	<u>2,269,460</u>	<u>1,188,750</u>
Fund Balances:		
Reserve for encumbrances	30,614	2,500
Reserve for inventory	9,723	1,700
Unreserved (deficit) for:		
General Fund	1,322,847	-
Special Revenue Funds	-	(227,435)
Debt Service Fund	-	-
Capital Projects Funds	<u>-</u>	<u>-</u>
Total Fund Balances (deficits)	<u>1,363,184</u>	<u>(223,235)</u>
Total Liabilities and Fund Balances	<u>\$ 3,632,644</u>	<u>\$ 965,515</u>

The accompanying notes are an integral part of these financial statements

<u>Bond Retirement</u>	<u>Capital Improvements</u>	<u>Building Improvement</u>	<u>Other Governmental</u>	<u>Total</u>
\$ 45,679	\$ 215,865	\$ 1,827,243	\$ 856,996	\$ 3,490,189
2,263	-	-	-	2,263
934,965	-	-	173,286	4,554,597
-	40,852	-	361,706	510,693
-	-	-	-	28,345
11,126	18,565	-	186,720	498,786
2,585,443	-	-	-	2,585,443
-	-	-	-	130,537
-	-	-	48,212	59,635
-	-	-	-	46,592
<u>\$ 3,579,476</u>	<u>\$ 275,282</u>	<u>\$ 1,827,243</u>	<u>\$ 1,626,920</u>	<u>\$ 11,907,080</u>
\$ -	\$ 299	\$ -	\$ 54,581	\$ 180,623
-	-	-	1,106	255,684
-	-	-	191,699	353,190
-	27,268	-	39,500	130,537
3,531,534	4,641	-	224,257	6,613,061
-	33,469	-	-	33,469
-	2,700,000	-	-	2,700,000
<u>3,531,534</u>	<u>2,765,677</u>	<u>-</u>	<u>511,143</u>	<u>10,266,564</u>
-	1,140,123	78,243	95,235	1,346,715
-	-	-	48,212	59,635
-	-	-	-	1,322,847
-	-	-	645,785	418,350
47,942	-	-	-	47,942
-	(3,630,518)	1,749,000	326,545	(1,554,973)
<u>47,942</u>	<u>(2,490,395)</u>	<u>1,827,243</u>	<u>1,115,777</u>	<u>1,640,516</u>
<u>\$ 3,579,476</u>	<u>\$ 275,282</u>	<u>\$ 1,827,243</u>	<u>\$ 1,626,920</u>	<u>\$ 11,907,080</u>

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# City of Richmond Heights

## Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

**December 31, 2006**

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Total Governmental Funds Balances \$ 1,640,516

Amounts Reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets Used in Governmental Activities are not Financial Resources and therefore are not reported in the Funds. 16,590,852

Other Long-Term Assets are not available to pay for current-period expenditures and therefore are deferred in the Funds.

Property and other taxes	\$ 281,728	
Municipal income taxes	498,578	
Special assessments	2,585,443	
Intergovernmental	<u>243,429</u>	
Total		3,609,178

Accrued wages and benefits include contractual required pension contributions not expected to be paid with expendable available fund resources and therefore not reported in the funds. (48,643)

Long-Term Liabilities are not due and payable in the current period and are therefore not reported in the Funds.

Interest payable	(114,520)	
General obligation bonds	(7,465,000)	
Loans payable	(5,852,823)	
Compensated absences	<u>(1,120,348)</u>	
Total		<u>(14,552,691)</u>

Net Assets of Governmental Activities \$ 7,239,212

The accompanying notes are an integral part of these financial statements

# City of Richmond Heights

## Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

**For The Year Ended December 31, 2006**

	<u>General</u>	<u>Fire Service</u>
Revenues:		
Property taxes	\$ 1,461,205	\$ 938,659
Municipal income tax	4,612,795	-
Other local taxes	3,906	-
Intergovernmental	938,101	-
Charges for services	4,787	7,868
Fines and forfeitures	81,582	-
License and permits	300,373	-
Special assessments	-	-
Investment income	161,490	-
Miscellaneous income	171,338	8,455
Total revenues	<u>7,735,577</u>	<u>954,982</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	3,025,327	2,026,492
Public health and welfare	-	-
Leisure time activities	293,307	-
Community development	320,910	-
Basic utility service	594,043	-
Transportation	1,074,050	-
General government	1,301,517	-
Capital outlay	-	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	-	-
Total expenditures	<u>6,609,154</u>	<u>2,026,492</u>
Excess of revenues over (under) expenditures	<u>1,126,423</u>	<u>(1,071,510)</u>
Other financing sources (uses):		
Proceeds from sale of debt	-	-
Transfers - in	-	1,026,000
Transfers - out	(1,401,000)	-
Total other financing sources (uses)	<u>(1,401,000)</u>	<u>1,026,000</u>
Net change in fund balances	(274,577)	(45,510)
Fund balance (deficit) at beginning of year	<u>1,637,761</u>	<u>(177,725)</u>
Fund balance (deficit) at end of year	\$ <u>1,363,184</u>	\$ <u>(223,235)</u>

The accompanying notes are an integral part of these financial statements

<u>Bond Retirement</u>	<u>Capital Improvements</u>	<u>Building Improvements</u>	<u>Other Governmental</u>	<u>Total</u>
\$ 772,270	\$ -	\$ -	\$ 170,006	\$ 3,342,140
-	-	-	-	4,612,795
-	-	-	-	3,906
-	60,543	-	481,293	1,479,937
-	-	-	206,232	218,887
-	-	-	-	81,582
-	-	-	-	300,373
65,374	-	-	-	65,374
-	-	-	-	161,490
<u>230,930</u>	<u>86,908</u>	<u>-</u>	<u>298,677</u>	<u>796,308</u>
<u>1,068,574</u>	<u>147,451</u>	<u>-</u>	<u>1,156,208</u>	<u>11,062,792</u>
-	-	-	618,811	5,670,630
-	-	-	66,276	66,276
-	-	-	118,361	411,668
-	-	-	-	320,910
-	-	-	5,131	599,174
-	-	-	209,922	1,283,972
-	299	-	152,288	1,454,104
-	1,306,415	-	436,441	1,764,613
1,049,222	-	-	-	1,049,222
<u>560,250</u>	<u>33,469</u>	<u>-</u>	<u>-</u>	<u>593,719</u>
<u>1,609,472</u>	<u>1,340,183</u>	<u>21,757</u>	<u>1,607,230</u>	<u>13,214,288</u>
<u>(540,898)</u>	<u>(1,192,732)</u>	<u>(21,757)</u>	<u>(451,022)</u>	<u>(2,151,496)</u>
-	-	-	465,470	465,470
261,000	-	1,849,000	775,000	3,911,000
-	(2,510,000)	-	-	(3,911,000)
<u>261,000</u>	<u>(2,510,000)</u>	<u>1,849,000</u>	<u>1,240,470</u>	<u>465,470</u>
(279,898)	(3,702,732)	1,827,243	789,448	(1,686,026)
<u>327,840</u>	<u>1,212,337</u>	<u>-</u>	<u>326,329</u>	<u>3,326,542</u>
\$ <u>47,942</u>	\$ <u>(2,490,395)</u>	\$ <u>1,827,243</u>	\$ <u>1,115,777</u>	\$ <u>1,640,516</u>

# City of Richmond Heights

## Reconciliation of The Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

### For The Year Ended December 31, 2006

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Net Change in Fund Balances - Total Governmental Funds \$ (1,686,026)

Amounts Reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report Capital Outlay as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	\$ 1,111,308	
Depreciation	<u>(889,934)</u>	
Total		221,374

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (10,098)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Funds.

Municipal Income Taxes	(275,983)	
Special Assessments	(179,562)	
Intergovernmental	<u>1,962</u>	
Total		(453,583)

Repayment of Debt Principal is an expenditure in the Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. 1,051,552

Debt proceeds provide current financial resources to governmental funds, but have no effect on net assets. (465,470)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds.

Compensated Absences	(45,299)	
Accrued Pension	868	
Accrued Interest on Debt	<u>4,476</u>	
Total		<u>(39,955)</u>

Change in Net Assets of Governmental Activities \$ (1,382,206)

The accompanying notes are an integral part of these financial statements



# City of Richmond Heights

## Statement Of Revenues, Expenditures and Changes In Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual - General Fund

**For The Year Ended December 31, 2006**

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 1,360,250	\$ 1,360,250	\$ 1,312,805	\$ (47,445)
Municipal income tax	4,730,213	4,730,213	4,565,225	(164,988)
Other local taxes	223,948	223,948	216,137	(7,811)
Intergovernmental	415,761	415,761	892,707	476,946
Charges for services	55,865	55,865	53,916	(1,949)
Licenses and permits	349,647	349,647	337,451	(12,196)
Fines and forfeitures	97,326	97,326	93,931	(3,395)
Interest	164,946	164,946	159,193	(5,753)
Miscellaneous income	<u>103,309</u>	<u>103,309</u>	<u>99,706</u>	<u>(3,603)</u>
Total revenues	<u>7,501,265</u>	<u>7,501,265</u>	<u>7,731,071</u>	<u>229,806</u>
Expenditures:				
Current:				
General government	1,387,060	1,400,361	1,307,444	92,917
Security of persons and property	3,080,675	3,180,675	3,125,674	55,001
Transportation	1,125,700	1,176,883	1,093,809	83,074
Community environment	340,100	346,100	321,129	24,971
Basic utility services	510,000	499,250	498,870	380
Leisure time activities	<u>332,730</u>	<u>341,063</u>	<u>290,785</u>	<u>50,278</u>
Total expenditures	<u>6,776,265</u>	<u>6,944,332</u>	<u>6,637,711</u>	<u>306,621</u>
Excess of revenues over (under) expenditures	<u>725,000</u>	<u>556,933</u>	<u>1,093,360</u>	<u>536,427</u>
Other financing sources (uses):				
Transfers - in	650,000	650,000	-	(650,000)
Advances - out	(40,000)	(40,000)	-	40,000
Transfers - out	<u>(1,401,000)</u>	<u>(1,401,000)</u>	<u>(1,401,000)</u>	<u>-</u>
	<u>(791,000)</u>	<u>(791,000)</u>	<u>(1,401,000)</u>	<u>(610,000)</u>
Net change in fund balance	(66,000)	(234,067)	(307,640)	(73,573)
Unencumbered fund balance at the beginning of year	272,316	272,316	272,316	-
Prior year encumbrances	<u>318,658</u>	<u>318,658</u>	<u>318,658</u>	<u>-</u>
Unencumbered fund balance at the end of year	\$ <u>524,974</u>	\$ <u>356,907</u>	\$ <u>283,334</u>	\$ <u>(73,573)</u>

The accompanying notes are an integral part of these financial statements

# City of Richmond Heights

## Statement Of Revenues, Expenditures and Changes In Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual - Fire Service Fund

**For The Year Ended December 31, 2006**

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 910,000	\$ 910,000	\$ 862,229	\$ (47,771)
Intergovernmental	105,000	105,000	76,430	(28,570)
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>8,455</u>	<u>3,455</u>
Total revenues	<u>1,020,000</u>	<u>1,020,000</u>	<u>947,114</u>	<u>(72,886)</u>
Expenditures:				
Current:				
Security of persons and property	<u>1,957,900</u>	<u>2,047,900</u>	<u>2,040,216</u>	<u>7,684</u>
Excess of revenues under expenditures	<u>(937,900)</u>	<u>(1,027,900)</u>	<u>(1,093,102)</u>	<u>(65,202)</u>
Other financing sources (uses):				
Transfers - in	<u>940,000</u>	<u>940,000</u>	<u>1,026,000</u>	<u>86,000</u>
Net change in fund balance	2,100	(87,900)	(67,102)	20,798
Unencumbered fund balance at the beginning of year	<u>833</u>	<u>833</u>	<u>833</u>	<u>-</u>
Unencumbered fund balance at the end of year	\$ <u><u>2,933</u></u>	\$ <u><u>(87,067)</u></u>	\$ <u><u>(66,269)</u></u>	\$ <u><u>20,798</u></u>

The accompanying notes are an integral part of these financial statements

**City of Richmond Heights**

**Statement of Fiduciary Net Assets  
Fiduciary Funds**

**December 31, 2006**

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	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ <u>175,545</u>
Liabilities:	
Deposits held and due to others	\$ <u>175,545</u>

The accompanying notes are an integral part of the basic financial statements

# City of Richmond Heights

## Notes to Basic Financial Statements

### For The Year Ended December 31, 2006

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#### **Note 1: The Reporting Entity**

The City of Richmond Heights (City) is a charter municipal corporation established and operated under the laws of the State of Ohio. The original charter became effective January 1, 1960 and provides for a mayor-council form of government. Elected officials include seven council members and a mayor.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Richmond Heights this includes: police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair, refuse collection, recycling and general administrative services.

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

The City participates in the Northern Ohio Risk Management Association, which is a shared risk pool and the Eastern Suburban Regional Council of Governments, which is a jointly governed organization. These organizations are described in Notes 8 and 16 to the basic financial statements.

#### **Note 2: Summary of Significant Accounting Policies**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

##### ***A. Basis of Presentation***

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

##### *Government-Wide Financial Statements*

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid doubling up revenues and expenses.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### **A. Basis of Presentation (continued)**

###### *Government-Wide Financial Statements (continued)*

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

###### *Fund Financial Statements*

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

##### **B. Fund Accounting**

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

###### *Governmental Funds*

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

*General Fund* - This fund is the operating fund of the City and 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 City for any purpose provided it is expended or transferred according to the general laws of Ohio.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### **B. Fund Accounting (continued)**

*Fire Service Fund* – This fund accounts for the operations of the Fire Department.

*Bond Retirement Fund* – This fund is used to account for the accumulation of resources for, and the payment of, general long-term bonded debt principal and interest.

*Capital Improvements Fund* – This fund is used to account for financial resources to be used for the acquisition of major equipment.

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

*Fiduciary Fund Type* – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

##### **C. Measurement Focus**

###### *Government-Wide Financial Statements*

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

###### *Fund Financial Statements*

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

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### Note 2: Summary of Significant Accounting Policies (continued)

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

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

##### *Revenues – Exchange and Non-Exchange Transactions*

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 6) Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes, interest, grants, fees and rentals.

##### *Deferred Revenue*

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

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenues.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

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

###### *Expenses/Expenditures*

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

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

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Ordinance, all of which are prepared on the budgetary basis of accounting. All funds, other than the agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department in the General Fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by ordinance of City Council.

###### *Tax Budget*

At the first City Council meeting in July, the Mayor presents the Tax Budget for the following fiscal year to City Council for consideration and passage. The adopted Tax Budget is submitted to the Cuyahoga County Auditor, as Secretary of the Cuyahoga County Budget Commission, by July 15 of each year, for the period January 1 to December 31 of the following year.

###### *Estimated Resources*

The Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its Tax Budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised Tax Budget then serves as the basis for the annual Appropriation Ordinance. On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31 of the preceding year. The Certificate may be further amended during the year if the Director of Finance determines, and the Budget Commission agrees that an estimate needs to be either increased or decreased. The amounts reported in the budgetary statements reflect the amounts in the final amended Certificate of Estimated Resources issued during 2006.



# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

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

###### *Appropriations*

A temporary Appropriation Ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual Appropriation Ordinance must be passed by April 1 of each year for the period January 1 to December 31. The Appropriation Ordinance fixes spending authority at the object level within each department in the General Fund and at the fund level for all other funds. The Appropriation Ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed the amount available as stated in the Certificate of Estimated Resources. The allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of City Council. During the year, a supplemental Appropriation Ordinance was passed which did not have a significant affect on the original Appropriation Ordinance. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications passed by City Council.

###### *Encumbrances*

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditures of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds.

###### *Lapsing of Appropriations*

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

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

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

The City utilizes a financial institution to account for a retainage account. The balance in this account is presented as "Cash with Fiscal Agents."

During 2006, investments were limited to repurchase agreements, non negotiable certificates of deposit, federal home loan mortgage corporation notes, federal home loan bank bonds, federal national mortgage association notes and STAROhio, the State Treasurer's Investment Pool.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### ***F. Cash and Cash Equivalents (continued)***

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2006.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2006 amounted to \$161,490, of which \$136,317 was assigned from other funds. Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

##### ***G. Inventory***

Inventory is stated at cost on a first-in, first-out basis. The costs of inventory items are recorded as expenditures when purchased.

##### ***H. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which it was consumed.

##### ***I. Capital Assets***

General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital asset values were initially determined at December 31, 1994 assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimated historical costs were developed. For certain fixed assets, the estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated. The City maintains a capitalization threshold of five thousand dollars.

The City's infrastructure consists of roads, sanitary sewers, storm sewers, and waterlines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### Note 2: Summary of Significant Accounting Policies (continued)

##### *I. Capital Assets (continued)*

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	45 years
Buildings and improvements	45 years
Machinery and equipment	3 to 20 years
Vehicles	6 to 12 years
Infrastructure	10 to 60 years

##### *J. Interfund Balances*

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

##### *K. Compensated Absences*

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

Sick leave benefits are accrued as a liability using the vesting method. A liability is accrued for employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates as of December 31, 2006, taking into consideration any limits specified in the City's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account Compensated Absences Payable in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### ***L. Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, Compensated Absences and contractually required pension contributions (Intergovernmental Payable) that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the fund financial statements when due.

##### ***M. Fund Balance Reserves***

Reservations of fund balances are established to identify the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, including amounts legally segregated for a specific future use. Fund balances are reserved for inventories of supplies, materials, and encumbrances.

##### ***N. Net Assets***

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

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

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

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

##### ***P. Extraordinary and Special Items***

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

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

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

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

#### **Note 3: Compliance and Accountability**

##### **A. Compliance**

The Fire Service Fund had a negative budgetary fund balance of \$66,269 at December 31, 2006. Also, the Fire Service Fund had appropriations in excess of estimated resources in the amount of \$87,067 as of December 31, 2006. Various other nonmajor funds had appropriations in excess of estimated resources as of December 31, 2006, in violation of Ohio Revised Code Section 5705.39. In addition, throughout 2006, the City was in violation of Ohio Revised Code Section 5705.41 (D), which requires fiscal officer certification prior to entering into any commitment for the expenditure of funds. The City also made various interfund transfers that were in violation of Ohio Revised Code Sections 5705.14 – 5705.16. Adjustments were made to the financial statements to eliminate those unallowed transfers.

##### **B. Accountability**

The Fire Service Fund and the Capital Improvement Fund have deficit fund balances of \$223,235 and \$2,490,395 at December 31, 2006, respectively. These deficits are the result of the application of generally accepted accounting principles (GAAP) and the issuance of short-term bond anticipation notes which are used to finance projects in the capital fund until bonds are issued. The General Fund is liable for any deficits in the Fire Service Fund and provides operating transfers when cash is required, not when accruals occur. Once bonds are issued for capital projects and the liability is reported in the government-wide financial statements the deficit fund balance will be eliminated.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### Note 4: Budgetary Basis of Accounting

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/Expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures for all funds (budget) rather than as a reservation of fund balance for governmental fund types (GAAP);
- (d) Short-term note proceeds and note principal retirement for governmental funds are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General and Fire Service Funds.

#### **Excess of Revenues and Other Financing Sources over (under) Expenditures and other Financing Uses**

	<u>General</u>	<u>Fire Service Fund</u>
GAAP Basis	\$ (274,577)	\$ (45,510)
Increase (Decrease) Due To:		
Revenue Accruals	(4,506)	(7,868)
Expenditure Accruals	2,087	(11,224)
Outstanding encumbrances	<u>(30,644)</u>	<u>(2,500)</u>
Budget Basis	\$ <u>(307,640)</u>	\$ <u>(67,102)</u>

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 5: Deposits and Investments**

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

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

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

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

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

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

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### 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. Investments may only be made through specified dealers and institutions.

#### *Deposits*

**Custodial Credit Risk** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, the carrying amount of the City's deposits was \$1,174,962, which does not include petty cash of \$450, and the bank balance was \$1,255,261. Of the City's bank balance \$300,000 was covered by Federal Depository Insurance and \$955,261 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

The City 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 City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

#### *Investments*

Investments are reported at fair value. As of December 31, 2006, the City had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Federal Home Loan Mortgage Corporation	\$ 584,800	178
Federal National Mortgage Association	1,314,909	664
Federal Home Loan Bank	<u>592,876</u>	<u>84</u>
Total Portfolio	\$ <u><u>2,492,585</u></u>	<u><u>926</u></u>

**Interest Rate Risk** As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.



# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 5: Deposits and Investments (continued)**

**Custodial Credit Risk** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Mortgage Corporation Notes, the Federal Home Loan Bank Bonds and the Federal National Mortgage Association Notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**Credit Risk** The Federal Home Loan Mortgage Corporation Notes, the Federal Home Loan Bank Bonds and the Federal National Mortgage Association Notes carry a rating of AAA by Standard & Poor's and STAROhio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk** The City places no limit on the amount it may invest in any one issuer. The following is the City's allocation as of December 31, 2006:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Federal Home Loan Mortgage Corporation	23.46%
Federal Home Loan Bank	23.79
Federal National Mortgage Association	52.75

#### **Note 6: Receivables**

Receivables at December 31, 2006 consist primarily of taxes, accounts, intergovernmental and accrued interest on investments. All receivables are considered fully collectible.

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

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006 on the assessed value as of January 1, 2006, the lien date. Assessed values are established by the Ohio Revised Code at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2006 operations.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### Note 6: Receivables (continued)

##### A. Property Taxes (continued)

Tangible personal property used in business (except for public utilities) is currently assessed for *ad valorem* taxation purposes at 25 percent of its true value. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2005 with real property taxes. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, 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 City operations for the year ended December 31, 2006, was \$14.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate:	
Residential/Agriculture	\$ 193,547,160
Other Real Estate	83,255,070
Tangible Personal Property:	
Public Utility	3,967,690
General Tangible Personal Property	<u>20,914,575</u>
	\$ <u>301,684,495</u>

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30; with the remainder payable by September 20. The Cuyahoga County Treasurer collects property taxes on behalf of all taxing districts in the County including the City. The Cuyahoga County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivables represent real tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2006 operations. The receivable is offset by Deferred Revenue.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### Note 6: Receivables (continued)

##### B. Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2006 follows:

	<u>Amount</u>
Homestead and Rollback Reimbursements	\$ 95,617
Local Government	172,530
Auto registration	33,637
Gasoline taxes	147,361
Estate taxes	18,565
CAT tax	16,477
Other	<u>14,599</u>
Total intergovernmental receivable	\$ <u><u>498,786</u></u>

##### C. Income Taxes

The City levies a municipal income tax of two percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside of the City. The City allows a credit of one hundred percent for income tax paid to another municipality, not to exceed two percent of taxable income.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds may be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City. In 2006, the proceeds were allocated one hundred percent to the General Fund.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

#### Note 7: Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Balance <u>12/31/2005</u>	Additions	Deletions	Balances <u>12/31/2006</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 1,077,525	\$ 510,433	\$ -	\$ 1,587,958
Construction in progress	<u>1,804,377</u>	<u>504,573</u>	<u>(518,873)</u>	<u>1,790,077</u>
Total capital assets, not being depreciated	<u>2,881,902</u>	<u>1,015,006</u>	<u>(518,873)</u>	<u>3,378,035</u>
Capital assets being depreciated:				
Land improvements	1,531,567	-	-	1,531,567
Buildings and improvements	6,694,290	15,302	-	6,709,592
Machinery and equipment	1,402,746	32,438	-	1,435,184
Vehicles	1,653,295	60,651	(150,110)	1,563,836
Infrastructure:				
Roads	7,286,261	444,117	-	7,730,378
Sanitary sewers	3,806,310	-	-	3,806,310
Storm sewers	3,645,275	62,667	-	3,707,942
Water lines	<u>2,381,534</u>	<u>-</u>	<u>-</u>	<u>2,381,534</u>
Total capital assets being depreciated	<u>28,401,278</u>	<u>615,175</u>	<u>(150,110)</u>	<u>28,866,343</u>
Less accumulated depreciation:				
Land improvements	(717,080)	(66,330)	-	(783,410)
Buildings and improvements	(1,632,147)	(151,021)	-	(1,783,168)
Machinery and equipment	(796,297)	(135,967)	-	(929,264)
Vehicles	(910,049)	(174,559)	140,012	(944,596)
Infrastructure:				
Roads	(5,289,120)	(192,627)	-	(5,481,747)
Sanitary sewers	(1,709,640)	(76,118)	-	(1,785,758)
Storm sewers	(2,110,751)	(48,681)	-	(2,159,432)
Water lines	<u>(1,738,520)</u>	<u>(47,631)</u>	<u>-</u>	<u>(1,786,151)</u>
Total accumulated depreciation	<u>(14,903,604)</u>	<u>(889,934)</u>	<u>140,012</u>	<u>(15,653,526)</u>
Net capital assets being depreciated	<u>13,497,674</u>	<u>(274,759)</u>	<u>(10,098)</u>	<u>13,212,817</u>
Governmental activities capital assets, net	\$ <u>16,379,576</u>	\$ <u>740,247</u>	\$ <u>(528,971)</u>	\$ <u>16,590,852</u>

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 59,238
Transportation	354,193
Leisure Time Activities	72,207
Basic Utilities Services	126,852
Security of Persons and Property	<u>277,444</u>
	\$ <u>889,934</u>

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 8: Shared Risk Pool**

The City is a member of the Northern Ohio Risk Management Association (NORMA). NORMA is a joint self-insurance pool organized pursuant to Ohio Rev. Code 2744.081 and is defined as a shared risk pool for financial reporting purposes. It was established to enable its members to obtain property, liability and vehicle insurance through a formalized, jointly administered self-insurance fund.

Other members include the Cities of Bedford Heights, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Solon, South Euclid and the Village of Chagrin Falls. NORMA is governed by a Board of Trustees that consists of the Mayor from each of the participating members.

Each member must remain a member for at least three years from the commencement date of October 1, 1987 with the exception of the Cities of Eastlake and Solon whose commencement date is October 1, 1989 and the City of Maple Heights, whose commencement date is October 1, 1993. After the initial three years, each member may extend its term in three year increments.

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$100,000 per occurrence, will come from the self insurance pool with any excess paid from the stop loss coverage carried by the pool. Any loss over these amounts would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

In 2006, the City paid \$74,894 in premiums which represent approximately 5.18 percent of the total premium. Financial information about NORMA can be obtained by contacting Mark A. Cegelka, Finance Director, City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146, who serves as the fiscal agent.

#### **Note 9: Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. To address such risks, the City joined together with other neighboring cities to form the Northern Ohio Risk Management Association (NORMA, see Note 8) for the purpose of providing property, liability and vehicle insurance and providing for a formalized, jointly administered self insurance fund. The City pays an annual premium to NORMA for its insurance coverage. The agreement for formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement. This coverage is purchased through the General Fund.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 9: Risk Management (continued)**

Claims have not exceeded coverage provided by NORMA in any of the last three years and there were no significant reductions in coverage from the prior year.

The City also elected to join the NORMA group rating plan for workers' compensation. The group rating plan is administered by CompManagement, Inc. who was paid an annual fee of \$5,300 in 2006. The NORMA group rating plan is intended to achieve lower workers' compensation premium rates for the participants. The City pays the Ohio Bureau of Workers' Compensation a premium based on a rate per \$100 of wages paid. The rate is based on the group's claim history and administrative costs. There are no additional contributions required by a participant other than their annual fee.

The City provides medical, dental, vision and prescription drug benefits for all full-time employees through the QualChoice Health Plan (through June of 2006) and the Delta Dental Plan of Ohio. Beginning in July of 2006, the City implemented a vision plan through VSP and changed their medical and prescription drug benefits to Aetna. Monthly premium payments are made from the General and Fire Service Funds. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premiums for all benefits for the first half of the year are \$951.30 for family coverage and \$358.34 for single coverage. The monthly premiums for all benefits for the second half of the year were \$937.75 for family coverage and \$414.47 for single coverage.

#### **Note 10: Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and local ordinances. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned vacation time is paid upon termination of employment.

Employees earn sick leave at different rates depending upon type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, employees can be paid for accumulated, unused sick leave, up to a maximum number of hours which is either 600 or 690 for all City employees.

As of December 31, 2006, the City's liability for unpaid compensated absences was \$1,120,348.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 11: Defined Benefit Pension Plans**

##### **A. Ohio Public Employees Retirement System**

The City of Richmond Heights participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan 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.

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 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800)-222-7377.

For the year ended December 31, 2006, the members of all three plans were required to contribute 9 percent of their annual covered salary to fund pension obligations. The City contributed 13.70 percent of covered payroll, of which 4.0 percent was used to fund health care coverage for retirees. The contribution rate is determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City of Richmond Heights's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$185,233, \$191,160, and \$250,956, respectively, equal to the required contributions for each year. The full amount has been contributed for the years 2005 and 2004. 90 percent has been contributed for in 2006, with the remainder being reported as a liability in the government-wide financial statements. Contributions to the member-directed plan for 2006 were \$2,868 made by the City of Richmond Heights and \$1,844 made by the plan members.

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

The City of Richmond Heights 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 11: Defined Benefit Pension Plans (continued)**

##### **B. Ohio Police and Fire Pension Fund (continued)**

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by state statute. The City of Richmond Heights's contributions to the Fund for police and firefighters were \$294,651 and \$316,657 for the year ended December 31, 2006, \$273,752 and \$291,177 for the year ended December 31, 2005, and \$254,868 and \$244,873 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. 68 percent for police and 80 percent for firefighters has been contributed for 2006 with the remainder being reported as a liability.

#### **Note 12: Postemployment Benefits**

##### **A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2006, state employers contributed at a rate of 13.54% of covered payroll, local government employer units contributed at 13.70% of covered payroll, and public safety and law enforcement employer units contributed at 16.93%. The portion of employer contributions for all employers allocated to health care was 4.5 percent.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent. An annual increase of 4.0 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. In addition, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 percent to 6 percent for the next nine years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).



# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 12: Postemployment Benefits (continued)**

##### **A. Ohio Public Employees Retirement System (continued)**

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

At December 31, 2006, the number of active contributing participants in the Traditional and Combined Plans totaled 369,214. The number of active participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. The City's actual contributions for 2006, which were used to fund postemployment benefits, were \$90,602. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarially accrued liability for OPEB were \$31.3 billion and \$20.2 billion, respectively.

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

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

The Ohio Police and Fire Pension Fund (Pension Fund) provides postretirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit ("OPEB") as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll. The Ohio Revised Code provides the statutory authority allowing the OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75 percent of covered payroll in 2005 and in 2006. In addition, since July 1, 1992, most retirees and survivors were required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2005, the date of the last actuarial valuation available, was 13,922 for police and 10,537 for firefighters. The City's actual contributions for 2006 that were used to fund post-employment benefits were \$117,105 for police and \$102,254 for firefighters. OP&F's total health care expenses for the year ending December 31, 2005, the date of the last actuarial valuation available, was \$108,039,449, which was net of member contributions of \$55,271,881.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 13: Contingencies**

The City is a party to legal proceedings seeking damages. The City's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

#### **Note 14: Note Debt**

The City's note activity, including amounts outstanding, interest rates and the governmental fund in which the note is reported is as follows:

	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding</u> <u>12/31/06</u>
Capital Projects Funds				
Street Resurfacing Fund				
2007-2008 4.25%	\$ -	\$ 400,000	\$ -	\$ 400,000
Capital Improvements Fund				
2007-2008 4.25%	-	200,000	-	200,000
Building Improvement Fund				
2007-2008, 4.25%	-	<u>2,100,000</u>	-	<u>2,100,000</u>
	<u>\$ -</u>	<u>\$ 2,700,000</u>	<u>\$ -</u>	<u>\$ 2,700,000</u>

All of the notes are backed by the full faith and credit of the City and mature within one year from date of issuance. The note liability is reflected in the fund which received the proceeds.

The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

#### Note 15: Long-Term Obligations

Changes in long-term obligations of the City during 2006 are as follows:

	Original Amount	Balance December 31, 2005	Additions	Deletions	Balance December 31, 2006	Due in One Year
<b>General Obligation Bonds</b>						
1997 4.74% Street Improvements	\$ 435,000	\$ 105,000	\$ -	\$ 50,000	\$ 55,000	\$ 55,000
1999 4.32% Street Improvements	995,000	445,000	-	105,000	340,000	110,000
2000 5.30% Street Improvements	875,000	495,000	-	90,000	405,000	95,000
2001 3.35-4.35% Street Improvements	600,000	325,000	-	60,000	265,000	60,000
2001 3.35-5.70% Law Enforcement Building	3,550,000	2,890,000	-	140,000	2,750,000	145,000
2005 3.47% Various Purpose	<u>3,990,000</u>	<u>3,990,000</u>	-	<u>340,000</u>	<u>3,650,000</u>	<u>350,000</u>
Total general obligation bonds	<u>10,445,000</u>	<u>8,250,000</u>	<u>-</u>	<u>785,000</u>	<u>7,465,000</u>	<u>815,000</u>
<b>OWDA Loans</b>						
Monticello Avenue Sewer 4.56%	200,000	117,282	-	10,116	107,166	10,582
Chardon Road Sewer 4.56%	1,554,125	1,192,827	-	65,623	1,127,204	68,649
Brushview Road Sewer 4.12%	439,361	351,722	-	18,156	333,566	18,912
Highland Road - Meadowlane 3.79%	648,030	541,427	-	26,237	515,190	27,240
Richmond Road (to Highland Road) 3.90%	923,490	843,139	-	34,377	808,762	35,730
Sunset/Skyline Sewer Construction 3.20%-3.59%	1,036,790	997,092	-	38,273	958,819	40,201
Dumbarton/Cary Jay- Construction 3.41%	564,812	550,096	13,797	23,614	540,279	18,116
Karen Isle/Nann Linn 3.20%	107,082	11,489	-	11,489	-	-
Richmond Road and Sewer Design 3.25%	143,337	6,654	-	6,654	-	-
Richmond Road et al Sewers 3.35%	1,248,135	898,984	89,967	22,467	966,484	46,068
Richmond Road and Side Streets 3.25%	<u>1,741,983</u>	<u>-</u>	<u>361,706</u>	<u>-</u>	<u>361,706</u>	<u>-</u>
Total OWDA loans	<u>8,652,200</u>	<u>5,510,712</u>	<u>465,470</u>	<u>257,006</u>	<u>5,719,176</u>	<u>265,498</u>
<b>Other Long-Term Obligations</b>						
City of Highland Heights OPWC Loan	190,923	143,193	-	9,546	133,647	9,546
Police Pension Liability	n/a	49,511	-	868	48,643	905
Compensated Absences	<u>n/a</u>	<u>1,075,049</u>	<u>45,299</u>	<u>-</u>	<u>1,120,348</u>	<u>78,424</u>
Total other long-term obligations	<u>190,923</u>	<u>1,267,753</u>	<u>45,299</u>	<u>10,414</u>	<u>1,302,638</u>	<u>88,875</u>
Total long-term debt	\$ <u>13,998,339</u>	\$ <u>15,028,465</u>	\$ <u>510,769</u>	\$ <u>1,052,420</u>	\$ <u>14,486,814</u>	\$ <u>1,169,373</u>

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

#### Note 15: Long-Term Obligations (continued)

The City's overall legal debt margin was \$24,220,841 at December 31, 2006. The unvoted legal debt margin was \$9,136,616. Principal and interest requirements to retire the Long-Term General Obligation Bonds, Police Pension Liability, OWDA (Ohio Water Development Authority) Loans, and the Special Assessment Bonds as of December 31, 2006, are as follows:

	General Obligation		Police Pension		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 815,000	\$ 328,430	\$ 905	\$ 2,058	\$ 219,430	171,832
2008	785,000	295,938	944	2,019	231,911	162,746
2009	820,000	264,345	984	1,979	241,373	153,285
2010	725,000	230,523	1,027	1,936	251,224	143,433
2011	570,000	199,535	1,071	1,892	261,483	133,175
2012-2016	2,755,000	605,380	6,084	8,756	1,453,205	497,058
2017-2021	995,000	145,635	7,507	7,306	1,329,206	197,196
2022-2026	-	-	9,264	5,550	403,153	22,435
Thereafter	-	-	20,857	4,192	-	-
	<u>\$ 7,465,000</u>	<u>\$ 2,069,786</u>	<u>\$ 48,643</u>	<u>\$ 35,688</u>	<u>\$ 4,390,985</u>	<u>\$ 1,481,160</u>

	OPWC Loan		Total	
	Principal	Interest	Principal	Interest
2006	\$ 9,546	\$ -	\$ 1,044,881	\$ 502,320
2007	9,546	-	1,027,401	460,703
2008	9,546	-	1,071,903	419,609
2009	9,546	-	986,797	375,892
2010	9,546	-	842,100	334,602
2011-2015	47,731	-	4,262,020	1,111,194
2016-2020	38,186	-	2,369,899	350,137
2021-2025	-	-	412,417	27,985
Thereafter	-	-	20,857	4,192
	<u>\$ 133,647</u>	<u>\$ -</u>	<u>\$ 12,038,275</u>	<u>\$ 3,586,261</u>

General obligation bonds are the direct obligation of the City and will be paid from the Bond Retirement, Debt Service Fund using property tax revenues. The 2001 3.35 percent Law Enforcement Building general obligation bonds were issued at a premium of \$7,439. Special assessment bonds will be paid from special assessment proceeds levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City.

The Monticello Avenue Sewer, Chardon Road Sewer, Brushview Road Sewer, Highland Road – Meadowlane, the various Richmond Road, Sunset/Skyline Sewer Construction, Dunbarton/Cary Jay Construction, and the Karen Isle/Nann Linn OWDA loan liabilities are being paid from the Bond Retirement, Debt Service Fund. The City also entered into contractual agreements for new construction and design loans from OWDA. Under the terms of these agreements, OWDA will reimburse, advance, or directly pay the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and add them to the total amounts of the final loans. OWDA loans will be paid with Special Assessment revenue. The Richmond Road et al Sewers and Richmond Road and Side Streets OWDA loan is not closed and therefore, the amortization of that liability is not included in the above table.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 15: Long-Term Obligations (continued)**

During the year and the prior year, the City obtained partial proceeds from two Ohio Water Development Authority (“OWDA”) loans that relate to the Richmond Road sewer improvements to be repaid in semi-annual principal and interest payments beginning in 2006. The City has not yet collected the total proceeds to be received on this loan and as a result, the debt maturity schedule above does not reflect any amounts for principal or interest. When the loan is finalized, the principal and interest will be included above.

The Police Pension Liability will be paid from Property Tax revenue in the Police Pension Fund. The Compensated Absences will be paid by the fund from which the employee’s salary is paid.

During 2002, the City entered into a contractual agreement with the City of Highland Heights for the construction of sanitary sewer lines on Highland Road. Richmond Heights is responsible for the portion of the lines that run through the City. The project was financed by a loan from the Ohio Public Works Commission in the name of the City of Highland Heights. The total amount owed to the City of Highland Heights as of December 31, 2006, is \$133,647 and this amount has been recorded as Intergovernmental Payable in the government-wide financial statements. It will be repaid from special assessments levied on the affected properties.

#### **Note 16: Jointly Governed Organization**

Eastern Suburban Regional Council of Governments

The City is a member of the Eastern Suburban Regional Council of Governments (ESRCOG). The ESRCOG was formed, by written agreement pursuant to Ohio Rev. Code Section 167.01, in 1972 to foster cooperation between member municipalities through sharing of resources for mutual benefit. Other members include the Cities of Highland Heights, Lyndhurst, and Mayfield Heights and the Villages of Gates Mills and Mayfield. 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 ESCOG 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.

In 2006, the City contributed \$13,000. Financial information can be obtained from Robert G. Tribby, Finance Director, City of Mayfield Heights, at 6154 Mayfield Road, Mayfield Heights, Ohio 44124-3207, who serves as the fiscal agent.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2006

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#### **Note 17: Interfund Transfers**

Interfund transfers for the year ended December 31, 2006, consisted of the following:

<u>Transfer to</u>	<u>Transfer From</u>		
	<u>General Fund</u>	<u>Capital Improvements</u>	<u>Total</u>
Fire service fund	\$ 1,026,000	\$ -	\$ 1,026,000
Bond retirement fund	-	261,000	261,000
Building improvement fund	-	1,849,000	1,849,000
Nonmajor governmental funds	<u>375,000</u>	<u>400,000</u>	<u>775,000</u>
Total	\$ <u>1,401,000</u>	\$ <u>2,510,000</u>	\$ <u>3,911,000</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

The City had no transfers that either do not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer.

#### **Note 18: Subsequent Events**

On October 23, 2007, City Council approved the issuance of General Obligation Bonds not to exceed \$130,000 by the City for the purchase of capital equipment. On November 13, 2007, this amount was increased by City Council to \$170,000.

On October 23, 2007, City Council approved the issuance of General Obligation Bonds not to exceed \$4,015,000 by the City for the purpose of capital improvements.

On October 23, 2007, City Council approved the issuance of General Obligation Bonds not to exceed \$4,145,000 by the City for the purpose of capital improvements. On November 13, 2007, this amount was increased by City Council to \$4,185,000.

On October 23, 2007, City Council approved the issuance of General Obligation Refunding Bonds for an amount not to exceed \$2,140,000 by the City for the purpose of refunding Police Station Improvement Bonds.

On June 10, 2008, City Council approved the issuance of General Obligation Bonds for an amount not to exceed \$400,000 by the City for the purpose of capital improvements.

# **City of Richmond Heights**

## **Notes to Basic Financial Statements (continued)**

### **For The Year Ended December 31, 2006**

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#### **Note 18: Subsequent Events (continued)**

On December 9, 2008, City Council approved the issuance of Bond Anticipation Notes in the amount of \$1,475,000 to pay costs of improving streets and roads in the City.

On December 9, 2008, City Council approved the issuance of Bond Anticipation Notes in the amount of \$525,000 for the purpose of improving the City Fire Station.

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# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited)

### For The Year Ended December 31, 2005

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The discussion and analysis of the financial performance of the City of Richmond Heights (the City) provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

#### Financial Highlights

Key financial highlights for 2005 are as follows:

- ◆ City income tax revenue totaled \$4,836,879.
- ◆ The assets of the City of Richmond Heights exceeded its liabilities at the close of the most recent fiscal year by \$8,621,418. Of this amount, \$5,817,907 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ In total, net assets in governmental activities increased by \$12,945 during 2005. This represents a 0.15 percent increase from 2004.
- ◆ Total assets increased by \$2,268,011, which represents an increase of approximately 9 percent from 2004. The biggest changes were an increase in non-depreciable capital assets of \$232,989 and an increase in depreciable capital assets of \$1,720,100.
- ◆ Total liabilities increased by \$2,255,066, which represents an increase of approximately 13 percent. This increase is due, in part, by the 2005 bond issuance in the amount of \$3,990,000.

#### Using this Annual Financial Report

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

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

##### *Statement of Net Assets and the Statement of Activities*

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

# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited) (continued)

### For The Year Ended December 31, 2005

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

- Assets
- Liabilities
- Net assets (assets minus liabilities)
- Program revenues and expenses
- General revenues
- Net assets beginning of year and end of year

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

#### *Fund Financial Statements*

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

#### *Governmental Funds*

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

The City of Richmond Heights maintains 18 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General fund, Fire Service, Bond Retirement Fund, and Capital Improvement Capital Projects fund, all of which are considered to be major funds.

# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited) (continued)

### For The Year Ended December 31, 2005

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#### Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 24 of this report.

#### Government-wide Financial Analysis - City of Richmond Heights as a Whole

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

Table 1 provides a summary of the City's net assets for 2005 as compared to 2004.

**Table 1**  
**Net Assets**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>Restated 2004</u>
Current and other assets	\$ 11,389,039	\$ 11,074,117
Capital assets, net	<u>16,379,576</u>	<u>14,426,487</u>
<i>Total assets</i>	<u>27,768,615</u>	<u>25,500,604</u>
Current liabilities and other liabilities	4,118,732	6,557,030
Long-term liabilities:		
Due within one year	1,127,673	747,171
Due in more than one year	<u>13,900,792</u>	<u>9,587,930</u>
<i>Total liabilities</i>	<u>19,147,197</u>	<u>16,892,131</u>
Invested in capital assets, net of related debt	2,475,671	4,953,774
Restricted for:		
Debt service	327,840	348,265
Unrestricted	<u>5,817,907</u>	<u>3,306,434</u>
<i>Total net assets</i>	\$ <u><u>8,621,418</u></u>	\$ <u><u>8,608,473</u></u>

Total assets increased \$2,268,011 from 2004 to 2005 primarily because of the construction in progress and the construction of sanitary sewer lines. Total liabilities increased by \$2,255,066. This increase is due, in part, to the 2005 bond issuance in the amount of \$3,990,000 and is offset by the payment of the notes payable of \$2,085,000 and long-term debt payments of \$662,957.

# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited) (continued)

### For The Year Ended December 31, 2005

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year as compared to 2004.

**Table 2**  
**Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>Restated 2004</u>
Program revenues:		
Charges for services	\$ 1,214,338	\$ 1,292,715
Capital grants	-	15,525
<i>Total program revenues</i>	<u>1,214,338</u>	<u>1,308,240</u>
General revenues:		
Property taxes	3,149,294	3,263,807
Income taxes	4,836,879	3,807,096
Grants and entitlements	1,835,532	2,588,635
Investment income	112,222	51,804
Miscellaneous	66,816	32,608
<i>Total general revenues</i>	<u>10,000,743</u>	<u>9,743,950</u>
<i>Total revenues</i>	<u>11,215,081</u>	<u>11,052,190</u>
Expenses:		
General government	1,170,137	2,480,326
Security of persons and property	6,075,506	5,330,163
Transportation	1,821,851	1,257,705
Leisure time activities	542,690	658,343
Community development	324,088	294,033
Basic utility services	651,942	460,004
Interest and fiscal charges	615,922	298,236
<i>Total expenses</i>	<u>11,202,136</u>	<u>10,778,810</u>
<i>Change in net assets</i>	\$ <u>12,945</u>	\$ <u>273,380</u>

# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited) (continued)

### **For The Year Ended December 31, 2005**

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#### *Governmental Activities*

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. The City's income tax rate is two percent on gross income and has not changed since 1993. Residents of the City who work in another community and pay the withholding tax for that community receive a 100 percent tax credit on their City tax for 100 percent, the credit limit being 2 percent. During 2005, the revenues generated from this tax amounted to \$4,836,879.

General property taxes are also a significant source of revenues. Although this is a much more stable tax, property taxes constitute only about a third of the general revenues for the City. In addition to the general property taxes, the City has a one-mill levy for the Fire Department. The Fire Service Levy provides for a portion of the operating expenditures of the Fire Department, the remainder of funding comes from the General Fund.

Intergovernmental revenues, particularly local government subsidies have, in the past, provided a very stable predictable and significant contribution to the City's General Fund. In 2005, local government subsidies have become less stable with State Budget cuts and county distribution formulas being challenged in court. Estate taxes have also been a significant contributor to this City's budget, but much less stable and not at all predictable. Both of these forms of intergovernmental revenues are at risk due to budget concerns at the State level.

The City has also more aggressively pursued grants and donations to help fund particular projects that might have been funded through the General Fund. Grants have helped fund the City's annual tree planting program; police equipment; paramedic training as well as sanitary sewer construction in several areas of the City.

Interest on all City accounts, except when otherwise designated, is another source of revenue for the General Fund. In the past, interest constituted as much as 25 percent of the total budget. Now, because of the drop in interest rates, this source is much less significant.

Security of Persons and Property and Transportation are the major activities of the City generating approximately 70 percent of the governmental expenses. During 2005, there were 21 full-time sworn officers in the police department. During 2005, the department continued to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology.

# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited) (continued)

### **For The Year Ended December 31, 2005**

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During 2005, the fire department consisted of 18 full-time and 13 part-time fire fighters. All but three of these fire fighters are fully trained paramedics. Again, training plays a crucial role in the day-to-day operation of the fire department. The department handled 1,348 calls for assistance of which approximately 968 were for EMS and the rest for fire and fire related incidents.

With several large sanitary sewer construction projects planned or in process, the investment in streets was limited to those streets that experienced sanitary sewer construction or minor repair and resurfacing of various streets.

### **The City's Funds**

Information about the City's major funds starts on page 64. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,111,563 and expenditures of \$13,447,254. The net change in fund balance for the year was most significant in the Capital Improvements Fund showing an increase in fund balance of \$409,196, which resulted from the bond issuance to pay down the notes payable recorded in that fund. The General Fund reflected an increase of \$199,674, which increases the beginning fund balance of \$1,438,087 to \$1,637,761.

### *General Fund Budgeting Highlights*

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public; the budget is adopted by City Council. Council must approve legislation for any revisions in the budget that alter totals or the total appropriations for any department or fund. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

For the General Fund, final budget basis revenue was \$7,244,800. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenue areas. The original appropriations of \$7,640,417 was sufficient to meet the expenditures for the year, which ended up at \$7,609,949 or \$427,068 less than anticipated due to conservative budgeting and spending controls.

# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited) (continued)

### For The Year Ended December 31, 2005

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#### Capital Assets and Debt Administration

##### Capital Assets

Table 3 shows fiscal 2005 balances of Capital Assets as compared to 2004:

**Table 3**  
**Capital Assets at December 31**

	Governmental Activities	
	2005	2004
Land	\$ 1,077,525	\$ 617,747
Construction in progress	1,804,377	2,031,166
Land Improvements	1,531,567	1,531,567
Buildings and improvements	6,694,290	6,614,765
Machinery and equipment	1,402,746	1,276,111
Vehicles	1,653,295	1,564,616
Infrastructure:		
Roads	7,286,261	6,417,554
Sanitary sewers	3,806,310	2,407,944
Storm sewers	3,645,275	3,645,275
Water lines	2,381,534	2,381,534
Less: accumulated depreciation	<u>(14,903,604)</u>	<u>(14,061,792)</u>
Total capital assets, net	\$ <u>16,379,576</u>	\$ <u>14,426,487</u>

The City plan is to maintain its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks and ambulances are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame. The police car replacement plan is to replace 3 vehicles each year. The older vehicles are either traded in to the dealers or sold to the highest bidder at auction.

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the roads, sewer lines and water lines in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack-sealed and in the case of concrete roads, either replaced or repaired. After approval from Council, the projects are competitively bid to get the best possible pricing from contractors. Related expenditures are paid for out of the Capital Improvement Fund of the City.

The City is committed to a long-term goal of meeting the needs of its infrastructure and facilities. A five-year capital plan is in place that provides for street improvements and adding additional facilities to complement our current structures.

# City of Richmond Heights

## Management's Discussion and Analysis (Unaudited) (continued)

### For The Year Ended December 31, 2005

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#### Debt

At December 31, 2005, the City of Richmond Heights had \$15,028,465 in outstanding debt and compensated absences, of which \$8,250,000 was in General Obligation Bonds. Table 4 summarizes the outstanding obligations of the City.

**Table 4**  
**Outstanding Debt at Year End**

	Governmental Activities	
	2005	Restated 2004
General obligation bonds	\$ 8,250,000	\$ 4,685,000
OWDA loans	5,510,712	4,634,974
OWPC loan	143,193	152,739
Police pension	49,511	50,343
Compensated absences	<u>1,075,049</u>	<u>812,045</u>
Total	\$ <u>15,028,465</u>	\$ <u>10,335,101</u>

At December 31, 2005, the City's overall legal debt margin was \$23,388,946. At year-end, the outstanding general obligation debt was \$8,250,000. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

#### Current Related Financial Activities

The City of Richmond Heights is strong financially. In addition, the City of Richmond Heights's systems of budgeting and internal controls are well regarded and the City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Richmond Heights with full disclosure of the financial position of the City.

#### Contacting the City of Richmond Heights's Finance Department

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, and invests. If you have any questions about this report or need additional financial information, contact Director of Finance, Lynda Rossiter, City of Richmond Heights, 26789 Highland Road, Richmond Heights, Ohio 44143, telephone (216) 486-2474, or web site at [www.richmondheightsohio.org](http://www.richmondheightsohio.org) or by e-mail at [finance.director@richmondheightsohio.org](mailto:finance.director@richmondheightsohio.org).



# City of Richmond Heights

## Statement of Net Assets

December 31, 2005

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	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 2,884,793
Cash with fiscal agent	2,263
Materials and supplies inventory	12,766
Accrued interest receivable	26,048
Accounts receivable	182,456
Intergovernmental receivable	746,305
Prepaid items	58,024
Taxes receivable	4,711,379
Special assessments receivable	2,765,005
Nondepreciable capital assets	2,881,902
Depreciable capital assets, net	<u>13,497,674</u>
Total assets	<u>27,768,615</u>
Liabilities:	
Accounts payable	193,439
Accrued wages and benefits	264,634
Intergovernmental payable	345,132
Accrued interest payable	118,996
Deferred revenue	3,196,531
Long-term liabilities:	
Due within one year	1,127,673
Due in more than one year	<u>13,900,792</u>
Total liabilities	<u>19,147,197</u>
Net assets:	
Investment in capital assets, net of related debt	2,475,671
Restricted for:	
Debt service	327,840
Unrestricted	<u>5,817,907</u>
Total net assets	<u>\$ 8,621,418</u>

The accompanying notes are an integral part of these financial statements

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# City of Richmond Heights

## Statement of Activities

**For The Year Ended December 31,2005**

	<u>Expense</u>	<u>Program Revenues</u>	Net (Expenses) Revenues and Changes in Net Assets
		Charges for Service	Total Governmental Funds
Government activities:			
General government	\$ 1,170,137	\$ 651,863	\$ (518,274)
Security of persons and property	6,075,506	349,217	(5,726,289)
Transportation	1,821,851	69,785	(1,752,066)
Leisure time activities	542,690	141,873	(400,817)
Community development	324,088	1,600	(322,488)
Basic utility service	651,942	-	(651,942)
Interest and fiscal charges	<u>615,922</u>	<u>-</u>	<u>(615,922)</u>
Total Governmental Activities	\$ <u>11,202,136</u>	\$ <u>1,214,338</u>	<u>(9,987,798)</u>

General revenues:

Property and other local taxes levied for:

General purposes	2,433,649
Debt service	715,645

Municipal income taxes levied for:

General purposes	4,836,879
Grants and entitlements not restricted	1,835,532
Investment income	112,222
Miscellaneous income	<u>66,816</u>

    Total general revenues 10,000,743

Change in net assets 12,945

Net assets at beginning of year, restated 8,608,473

Net assets at end of year \$ 8,621,418

The accompanying notes are an integral part of these financial statements

# City of Richmond Heights

## Balance Sheet Governmental Funds

**December 31, 2005**

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	<u>General</u>	<u>Fire Service</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 850,409	\$ 833
Cash with fiscal agents	-	-
Taxes receivable	2,861,102	928,790
Accounts receivable	117,511	-
Accrued interest receivable	26,048	-
Intergovernmental receivable	430,827	51,792
Special assessments receivable	-	-
Internal receivable	66,768	-
Materials and supplies inventory	-	-
Prepaid items	58,024	-
Total Assets	<u>\$ 4,410,689</u>	<u>\$ 981,415</u>
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	\$ 126,447	\$ 9,462
Accrued wages	127,757	136,877
Intergovernmental payable	118,227	32,219
Internal payable	-	-
Deferred revenue	<u>2,400,497</u>	<u>980,582</u>
Total Liabilities	<u>2,772,928</u>	<u>1,159,140</u>
Fund Balances:		
Reserve for encumbrances	55,225	4,181
Reserve for inventory	-	-
Unreserved (deficit) for:		
General Fund	1,582,536	-
Special Revenue Funds	-	(181,906)
Debt Service Fund	-	-
Capital Projects Funds	-	-
Total Fund Balances (deficits)	<u>1,637,761</u>	<u>(177,725)</u>
Total Liabilities and Fund Balances	<u>\$ 4,410,689</u>	<u>\$ 981,415</u>

The accompanying notes are an integral part of these financial statements

	<u>Bond Retirement</u>	<u>Capital Improvements</u>	<u>Other Governmental</u>	<u>Total</u>
\$	325,577	\$ 1,249,910	\$ 458,064	\$ 2,884,793
	2,263	-	-	2,263
	759,037	-	162,450	4,711,379
	-	-	64,945	182,456
	-	-	-	26,048
	49,066	-	214,620	746,305
	2,765,005	-	-	2,765,005
	-	-	-	66,768
	-	-	12,766	12,766
	-	-	-	58,024
\$	<u>3,900,948</u>	<u>\$ 1,249,910</u>	<u>\$ 912,845</u>	<u>\$ 11,455,807</u>
\$	-	\$ 10,305	\$ 47,225	\$ 193,439
	-	-	-	264,634
	-	-	194,686	345,132
	-	27,268	39,500	66,768
	<u>3,573,108</u>	-	<u>305,105</u>	<u>7,259,292</u>
	<u>3,573,108</u>	<u>37,573</u>	<u>586,516</u>	<u>8,129,265</u>
	-	1,252,941	-	1,312,347
	-	-	12,766	12,766
	-	-	-	1,582,536
	-	-	358,933	177,027
	327,840	-	-	327,840
	<u>-</u>	<u>(40,604)</u>	<u>(45,370)</u>	<u>(85,974)</u>
	<u>327,840</u>	<u>1,212,337</u>	<u>326,329</u>	<u>3,326,542</u>
\$	<u>3,900,948</u>	<u>\$ 1,249,910</u>	<u>\$ 912,845</u>	<u>\$ 11,455,807</u>

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# City of Richmond Heights

## Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

**December 31, 2005**

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Total Governmental Funds Balances \$ 3,326,542

Amounts Reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets Used in Governmental Activities are not Financial Resources and therefore are not reported in the Funds. 16,379,576

Other Long-Term Assets are not available to pay for current-period expenditures and therefore are deferred in the Funds.

Property and Other Taxes	\$ 281,728	
Municipal Income Taxes	774,561	
Special Assessments	2,765,005	
Intergovernmental	<u>241,467</u>	
Total		4,062,761

Accrued wages and benefits include contractual required pension contributions not expected to be paid with expendable available fund resources and therefore not reported in the funds. (49,511)

Long-Term Liabilities are not due and payable in the current period and are therefore not reported in the Funds.

Interest Payable	(118,996)	
General Obligation Bonds	(8,250,000)	
Loans Payable	(5,653,905)	
Compensated Absences	<u>(1,075,049)</u>	
Total		<u>(15,097,950)</u>

Net Assets of Governmental Activities \$ 8,621,418

The accompanying notes are an integral part of these financial statements

# City of Richmond Heights

## Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

**For The Year Ended December 31, 2005**

	<u>General</u>	<u>Fire Service</u>
Revenues:		
Property taxes	\$ 1,366,713	\$ 907,904
Municipal income tax	4,482,811	-
Other local taxes	203,559	-
Intergovernmental	1,156,351	54,608
Charges for services	42,888	-
License and permits	147,775	-
Fines and forfeitures	189,053	-
Special assessments	-	-
Investment income	112,222	-
Miscellaneous income	9,445	3,026
Total revenues	<u>7,710,817</u>	<u>965,538</u>
Expenditures:		
Current operations and maintenance:		
Security of persons and property	2,989,030	2,002,525
Leisure time activities	328,862	-
Community development	324,088	-
Basic utility service	502,358	-
Transportation	1,065,366	-
General government	1,231,439	-
Capital outlay	-	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	-	-
Total expenditures	<u>6,441,143</u>	<u>2,002,525</u>
Excess of revenues over (under) expenditures	<u>1,269,674</u>	<u>(1,036,987)</u>
Other financing sources (uses):		
Proceeds from sale of debt	-	-
Transfers - in	-	896,000
Transfers - out	(1,070,000)	-
Total other financing sources (uses)	<u>(1,070,000)</u>	<u>896,000</u>
Net change in fund balances	199,674	(140,987)
Fund balance (deficit) at beginning of year, restated	<u>1,438,087</u>	<u>(36,738)</u>
Fund balance (deficit) at end of year	\$ <u>1,637,761</u>	\$ <u>(177,725)</u>

The accompanying notes are an integral part of these financial statements



<u>Bond Retirement</u>	<u>Capital Improvements</u>	<u>Other Governmental</u>	<u>Total</u>
\$ 715,645	\$ -	\$ 159,032	\$ 3,149,294
-	-	-	4,482,811
-	-	-	203,559
51,617	-	414,252	1,676,828
-	-	282,223	325,111
-	-	-	147,775
-	-	-	189,053
211,674	-	-	211,674
-	-	-	112,222
<u>144,691</u>	<u>257,528</u>	<u>198,546</u>	<u>613,236</u>
<u>1,123,627</u>	<u>257,528</u>	<u>1,054,053</u>	<u>11,111,563</u>
-	-	630,433	5,621,988
-	-	137,336	466,198
-	-	-	324,088
-	-	-	502,358
-	-	429,760	1,495,126
-	-	123,831	1,355,270
-	1,700,332	811,771	2,512,103
662,125	-	-	662,125
<u>481,874</u>	<u>-</u>	<u>26,124</u>	<u>507,998</u>
<u>1,143,999</u>	<u>1,700,332</u>	<u>2,159,255</u>	<u>13,447,254</u>
<u>(20,372)</u>	<u>(1,442,804)</u>	<u>(1,105,202)</u>	<u>(2,335,691)</u>
-	1,905,000	3,171,049	5,076,049
-	-	227,000	1,123,000
-	(53,000)	-	(1,123,000)
-	<u>1,852,000</u>	<u>3,398,049</u>	<u>5,076,049</u>
(20,372)	409,196	2,292,847	2,740,358
<u>348,212</u>	<u>803,141</u>	<u>(1,966,518)</u>	<u>586,184</u>
\$ <u><u>327,840</u></u>	\$ <u><u>1,212,337</u></u>	\$ <u><u>326,329</u></u>	\$ <u><u>3,326,542</u></u>

# City of Richmond Heights

## Reconciliation of The Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

### For The Year Ended December 31, 2005

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Net Change in Fund Balances - Total Governmental Funds \$ 2,740,358

Amounts Reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report Capital Outlay as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	\$ 2,794,901	
Depreciation	<u>(841,812)</u>	
Total		1,953,089

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Funds.

Municipal Income Taxes	354,068	
Special Assessments	(205,695)	
Intergovernmental	<u>(44,855)</u>	
Total		103,518

Repayment of Debt Principal is an expenditure in the Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. 662,125

Debt proceeds provide current financial resources to governmental funds, but have no effect on net assets. (5,076,049)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds.

Compensated Absences	(263,004)	
Accrued Pension	832	
Capitalized Interest	(17,268)	
Accrued Interest on Debt	<u>(90,656)</u>	
Total		<u>(370,096)</u>

Change in Net Assets of Governmental Activities \$ 12,945

The accompanying notes are an integral part of these financial statements

# City of Richmond Heights

## Statement Of Revenues, Expenditures and Changes In Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual - General Fund

**For The Year Ended December 31, 2005**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 1,399,637	\$ 1,363,700	\$ 1,366,713	\$ 3,013
Municipal income tax	4,553,758	4,037,600	4,446,638	409,038
Other local taxes	213,939	240,000	208,906	(31,094)
Intergovernmental	543,586	509,000	1,110,942	601,942
Charges for services	49,902	58,500	48,728	(9,772)
Licenses and permits	127,818	222,000	124,811	(97,189)
Fines and forfeitures	178,636	184,000	174,434	(9,566)
Interest	92,133	85,000	89,966	4,966
Miscellaneous income	<u>29,929</u>	<u>105,500</u>	<u>29,225</u>	<u>(76,275)</u>
Total revenues	<u>7,189,338</u>	<u>6,805,300</u>	<u>7,600,363</u>	<u>795,063</u>
Expenditures:				
Current:				
General government	1,207,576	1,470,851	1,394,955	79,072
Security of persons and property	3,008,278	2,985,713	2,963,748	21,965
Transportation	926,900	1,049,750	1,027,621	22,129
Community environment	324,145	328,970	324,064	1,730
Basic utility services	492,000	502,690	501,733	957
Leisure time activities	<u>332,700</u>	<u>333,650</u>	<u>327,828</u>	<u>5,822</u>
Total expenditures	<u>6,291,599</u>	<u>6,671,624</u>	<u>6,539,949</u>	<u>131,675</u>
Excess of revenues over (under) expenditures	<u>897,739</u>	<u>133,676</u>	<u>1,060,414</u>	<u>926,738</u>
Other financing sources (uses):				
Transfers - in	439,500	439,500	-	(439,500)
Advances - out	(40,000)	-	-	-
Transfers - out	<u>(1,308,818)</u>	<u>(1,365,393)</u>	<u>(1,070,000)</u>	<u>295,393</u>
	<u>(909,318)</u>	<u>(925,893)</u>	<u>(1,070,000)</u>	<u>(144,107)</u>
Net change in fund balance	(11,579)	(792,217)	(9,586)	782,631
Unencumbered fund balance at the beginning of year	806,821	806,821	806,821	-
Prior year encumbrances	<u>55,224</u>	<u>55,224</u>	<u>55,224</u>	<u>-</u>
Unencumbered fund balance at the end of year	\$ <u>850,466</u>	\$ <u>69,828</u>	\$ <u>852,459</u>	\$ <u>782,631</u>

The accompanying notes are an integral part of these financial statements

# City of Richmond Heights

## Statement Of Revenues, Expenditures and Changes In Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual - Fire Service Fund

**For The Year Ended December 31, 2005**

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 929,042	\$ 929,042	\$ 907,904	\$ (21,138)
Intergovernmental	107,194	107,194	104,755	(2,439)
Miscellaneous	<u>3,096</u>	<u>3,096</u>	<u>3,026</u>	<u>(70)</u>
Total revenues	<u>1,039,332</u>	<u>1,039,332</u>	<u>1,015,685</u>	<u>(23,647)</u>
Expenditures:				
Current:				
Security of persons and property	<u>1,940,726</u>	<u>1,973,727</u>	<u>1,935,220</u>	<u>38,507</u>
Excess of revenues under expenditures	<u>(901,394)</u>	<u>(934,395)</u>	<u>(919,535)</u>	<u>14,860</u>
Other financing sources (uses):				
Transfers - in	<u>915,000</u>	<u>915,000</u>	<u>896,000</u>	<u>(19,000)</u>
Net change in fund balance	13,606	(19,395)	(23,535)	(4,140)
Unencumbered fund balance at the beginning of year	20,187	20,187	20,187	-
Prior year encumbrances	<u>4,181</u>	<u>4,181</u>	<u>4,181</u>	<u>-</u>
Unencumbered fund balance at the end of year	\$ <u>37,974</u>	\$ <u>4,973</u>	\$ <u>833</u>	\$ <u>(4,140)</u>

The accompanying notes are an integral part of these financial statements

**City of Richmond Heights**

**Statement of Fiduciary Net Assets  
Fiduciary Funds**

**December 31, 2005**

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	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ <u>230,357</u>
Liabilities:	
Deposits held and due to others	\$ <u>230,357</u>

The accompanying notes are an integral part of the basic financial statements

# City of Richmond Heights

## Notes to Basic Financial Statements

### For The Year Ended December 31, 2005

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#### **Note 1: The Reporting Entity**

The City of Richmond Heights (City) is a charter municipal corporation established and operated under the laws of the State of Ohio. The original charter became effective January 1, 1960 and provides for a mayor-council form of government. Elected officials include seven council members and a mayor.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Richmond Heights this includes: police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair, refuse collection, recycling and general administrative services.

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

The City participates in the Northern Ohio Risk Management Association, which is a shared risk pool and the Eastern Suburban Regional Council of Governments, which is a jointly governed organization. These organizations are described in Notes 8 and 16 to the basic financial statements.

#### **Note 2: Summary of Significant Accounting Policies**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

##### ***A. Basis of Presentation***

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

##### *Government-Wide Financial Statements*

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid doubling up revenues and expenses.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### **A. Basis of Presentation (continued)**

###### *Government-Wide Financial Statements (continued)*

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

###### *Fund Financial Statements*

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

##### **B. Fund Accounting**

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

###### *Governmental Funds*

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

*General Fund* – This fund is the operating fund of the City and 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 City for any purpose provided it is expended or transferred according to the general laws of Ohio.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### **B. Fund Accounting (continued)**

*Fire Service Fund* – This fund accounts for the operations of the Fire Department.

*Bond Retirement Fund* – This fund is used to account for the accumulation of resources for, and the payment of, general long-term bonded debt principal and interest.

*Capital Improvements Fund* – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and the acquisition of major equipment.

*Fiduciary Fund Type* – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. The City's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

##### **C. Measurement Focus**

###### *Government-Wide Financial Statements*

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

###### *Fund Financial Statements*

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

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

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



# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

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

###### *Revenues – Exchange and Non-Exchange Transactions*

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 6) Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes, interest, grants, fees and rentals.

###### *Deferred Revenue*

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenues.

###### *Expenses/Expenditures*

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

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### *E. Budgetary Process*

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Ordinance, all of which are prepared on the budgetary basis of accounting. All funds, other than the agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department in the General Fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by ordinance of City Council.

##### *Tax Budget*

At the first City Council meeting in July, the Mayor presents the Tax Budget for the following fiscal year to City Council for consideration and passage. The adopted Tax Budget is submitted to the Cuyahoga County Auditor, as Secretary of the Cuyahoga County Budget Commission, by July 15 of each year, for the period January 1 to December 31 of the following year.

##### *Estimated Resources*

The Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its Tax Budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised Tax Budget then serves as the basis for the annual Appropriation Ordinance. On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31 of the preceding year. The Certificate may be further amended during the year if the Director of Finance determines, and the Budget Commission agrees that an estimate needs to be either increased or decreased. The amounts reported in the budgetary statements reflect the amounts in the final amended Certificate of Estimated Resources issued during 2005.

##### *Appropriations*

A temporary Appropriation Ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual Appropriation Ordinance must be passed by April 1 of each year for the period January 1 to December 31. The Appropriation Ordinance fixes spending authority at the object level within each department in the General Fund and at the fund level for all other funds. The Appropriation Ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed the amount available as stated in the Certificate of Estimated Resources. The allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of City Council. During the year, a supplemental Appropriation Ordinance was passed which did not have a significant affect on the original Appropriation Ordinance. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications passed by City Council.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

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

###### *Encumbrances*

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditures of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds.

###### *Lapsing of Appropriations*

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

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

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

The City utilizes a financial institution to account for a retainage account. The balance in this account is presented as "Cash with Fiscal Agents."

During 2005, investments were limited to repurchase agreements, non negotiable certificates of deposit, federal home loan mortgage corporation notes, federal home loan bank bonds, federal national mortgage association notes and STAROhio, the State Treasurer's Investment Pool.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2005.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amounted to \$112,222, of which \$101,717 was assigned from other funds. Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### Note 2: Summary of Significant Accounting Policies (continued)

##### **G. Inventory**

Inventory is stated at cost on a first-in, first-out basis. The costs of inventory items are recorded as expenditures when purchased.

##### **H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which it was consumed.

##### **I. Capital Assets**

General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital asset values were initially determined at December 31, 1994 assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimated historical costs were developed. For certain fixed assets, the estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated. The City maintains a capitalization threshold of five thousand dollars.

The City's infrastructure consists of roads, sanitary sewers, storm sewers, and waterlines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	45 years
Buildings and improvements	45 years
Machinery and equipment	3 to 20 years
Vehicles	6 to 12 years
Infrastructure	10 to 60 years

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### ***J. Interfund Balances***

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivables/payables”. Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

##### ***K. Compensated Absences***

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

Sick leave benefits are accrued as a liability using the vesting method. A liability is accrued for employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates as of December 31, 2005, taking into consideration any limits specified in the City’s termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account Compensated Absences Payable in the fund from which the employee who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

##### ***L. Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, Compensated Absences and contractually required pension contributions (Intergovernmental Payable) that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the fund financial statements when due.

##### ***M. Fund Balance Reserves***

Reservations of fund balances are established to identify the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, including amounts legally segregated for a specific future use. Fund balances are reserved for inventories of supplies, materials, and encumbrances.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### ***N. Net Assets***

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

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

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

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

##### ***P. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

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

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

#### **Note 3: Compliance and Fund Accountability**

##### **A. Compliance**

Various nonmajor funds had appropriations in excess of estimated resources as of December 31, 2005 in violation of Ohio Revised Code Section 5705.39. In addition, throughout 2005 the City was in violation of Ohio Revised Code Section 5705.41 (D) which requires fiscal officer certification prior to entering into any commitment for the expenditure of funds. The City also made various interfund transfers that were in violation of Ohio Revised Code Sections 5705.14 – 5705.16. Adjustments were made to the financial statements to eliminate those unallowed transfers.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### Note 3: Compliance and Fund Accountability (continued)

##### B. Fund Accountability

The Fire Service Fund has a deficit fund balance of \$177,725 at December 31, 2005. This deficit is the result of the application of generally accepted accounting principles (GAAP) and the issuance of short-term bond anticipation notes which are used to finance projects in the capital fund until bonds are issued. The General Fund is liable for any deficits in the Fire Service Fund and provides operating transfers when cash is required, not when accruals occur.

#### Note 4: Budgetary Basis of Accounting

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/Expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures for all funds (budget) rather than as a reservation of fund balance for governmental fund types (GAAP);
- (d) Short-term note proceeds and note principal retirement for governmental funds are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General and Fire Service Funds.

#### **Excess of Revenues and Other Financing Sources over (under) Expenditures and other Financing Uses**

	<u>General</u>	<u>Fire Service Fund</u>
GAAP Basis	\$ 199,674	\$ (140,987)
Increase (Decrease) Due To:		
Revenue Accruals	(110,454)	50,147
Expenditure Accruals	<u>(98,806)</u>	<u>67,305</u>
Budget Basis	\$ <u>(9,586)</u>	\$ <u>(23,535)</u>

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 5: Deposits and Investments**

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

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

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

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

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

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

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.



# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### 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. Investments may only be made through specified dealers and institutions.

#### *Deposits*

**Custodial Credit Risk** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, the carrying amount of the City's deposits was \$553,536, which does not include petty cash of \$450, and the bank balance was \$868,824. Of the City's bank balance \$200,000 was covered by Federal Depository Insurance and \$668,824 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

The City 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 City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

#### *Investments*

Investments are reported at fair value. As of December 31, 2005, the City had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Federal Home Loan Mortgage Corporation	\$ 1,588,753	61
Federal National Mortgage Association	498,501	34
Federal Home Loan Bank	<u>476,173</u>	<u>27</u>
Total Portfolio	\$ <u>2,563,427</u>	<u>49</u>

**Interest Rate Risk** As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 5: Deposits and Investments (continued)**

**Custodial Credit Risk** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Mortgage Corporation Notes, the Federal Home Loan Bank Bonds and the Federal National Mortgage Association Notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**Credit Risk** The Federal Home Loan Mortgage Corporation Notes, the Federal Home Loan Bank Bonds and the Federal National Mortgage Association Notes carry a rating of AAA by Standard & Poor's and STAROhio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk** The City places no limit on the amount it may invest in any one issuer. The following is the City's allocation as of December 31, 2005:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Federal Home Loan Mortgage Corporation	61.98%
Federal Home Loan Bank	18.57
Federal National Mortgage Association	19.45

#### **Note 6: Receivables**

Receivables at December 31, 2005 consist primarily of taxes, accounts, intergovernmental and accrued interest on investments. All receivables are considered fully collectible.

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

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2005 for real and public utility property taxes represents collections of the 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for the 2005 taxes.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### Note 6: Receivables (continued)

##### A. Property Taxes (continued)

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 2005, was \$14.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate:	
Residential/Agriculture	\$ 191,032,290
Other Real Estate	83,126,970
Tangible Personal Property:	
Public Utility	4,265,870
General Tangible Personal Property	<u>19,703,214</u>
	<u>\$ 298,128,344</u>

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30; with the remainder payable by September 20. The Cuyahoga County Treasurer collects property taxes on behalf of all taxing districts in the County including the City. The Cuyahoga County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivables represent real tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2005 operations. The receivable is offset by Deferred Revenue.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### Note 6: Receivables (continued)

##### B. Intergovernmental Receivables

A summary of intergovernmental receivables as of December 31, 2005 follows:

	<u>Amount</u>
Homestead and Rollback Reimbursements	\$ 188,031
Local Government	172,518
Auto registration	64,740
Gasoline taxes	140,068
Estate taxes	166,350
Other	<u>14,598</u>
Total intergovernmental receivable	\$ <u>746,305</u>

##### C. Income Taxes

The City levies a municipal income tax of two percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside of the City. The City allows a credit of one hundred percent for income tax paid to another municipality, not to exceed two percent of taxable income.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds may be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City. In 2005, the proceeds were allocated one hundred percent to the General Fund.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

#### Note 7: Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance <u>12/31/2004</u>	Additions	Deletions	Balances <u>12/31/2005</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 617,747	\$ 459,778	\$ -	\$ 1,077,525
Construction in progress	<u>2,031,166</u>	<u>1,124,207</u>	<u>(1,350,996)</u>	<u>1,804,377</u>
Total capital assets, not being depreciated	<u>2,648,913</u>	<u>1,583,985</u>	<u>(1,350,996)</u>	<u>2,881,902</u>
Capital assets being depreciated:				
Land improvements	1,531,567	-	-	1,531,567
Buildings and improvements	6,614,765	79,525	-	6,694,290
Machinery and equipment	1,276,111	126,635	-	1,402,746
Vehicles	1,564,616	88,679	-	1,653,295
Infrastructure:				
Roads	6,417,554	868,707	-	7,286,261
Sanitary sewers	2,407,944	1,398,366	-	3,806,310
Storm sewers	3,645,275	-	-	3,645,275
Water lines	<u>2,381,534</u>	<u>-</u>	<u>-</u>	<u>2,381,534</u>
Total capital assets being depreciated	<u>25,839,366</u>	<u>2,561,912</u>	<u>-</u>	<u>28,401,278</u>
Less accumulated depreciation:				
Land improvements	(650,750)	(66,330)	-	(717,080)
Buildings and improvements	(1,483,284)	(148,863)	-	(1,632,147)
Machinery and equipment	(673,229)	(123,068)	-	(796,297)
Vehicles	(744,366)	(165,683)	-	(910,049)
Infrastructure:				
Roads	(5,120,792)	(168,328)	-	(5,289,120)
Sanitary sewers	(1,661,481)	(48,159)	-	(1,709,640)
Storm sewers	(2,037,001)	(73,750)	-	(2,110,751)
Water lines	<u>(1,690,889)</u>	<u>(47,631)</u>	<u>-</u>	<u>(1,738,520)</u>
Total accumulated depreciation	<u>(14,061,792)</u>	<u>(841,812)</u>	<u>-</u>	<u>(14,903,604)</u>
Net capital assets being depreciated	<u>11,777,574</u>	<u>1,674,851</u>	<u>(1,350,996)</u>	<u>13,497,674</u>
Governmental activities capital assets, net	\$ <u>14,426,487</u>	\$ <u>3,304,085</u>	\$ <u>(1,350,996)</u>	\$ <u>16,379,576</u>

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 58,396
Transportation	320,951
Leisure Time Activities	72,207
Basic Utilities Services	121,381
Security of Persons and Property	<u>268,877</u>
	\$ <u>841,812</u>

The amounts reported for Sanitary Sewers and for Storm Sewers were inadvertently switched in the December 31, 2004 financial statements. The amounts reported above are the correct balances for the respective line items.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 8: Shared Risk Pool**

The City is a member of the Northern Ohio Risk Management Association (NORMA). NORMA is a joint self-insurance pool organized pursuant to Ohio Rev. Code 2744.081 and is defined as a shared risk pool for financial reporting purposes. It was established to enable its members to obtain property, liability and vehicle insurance through a formalized, jointly administered self-insurance fund.

Other members include the Cities of Bedford Heights, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Solon, South Euclid and the Village of Chagrin Falls. NORMA is governed by a Board of Trustees that consists of the Mayor from each of the participating members.

Each member must remain a member for at least three years from the commencement date of October 1, 1987 with the exception of the Cities Eastlake and Solon whose commencement date is October 1, 1989 and the City of Maple Heights, whose commencement date is October 1, 1993. After the initial three years, each member may extend its term in three year increments.

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$100,000 per occurrence, will come from the self insurance pool with any excess paid from the stop loss coverage carried by the pool. Any loss over these amounts would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

In 2005, the City paid \$79,874 in premiums which represent approximately 5.63 percent of the total premium. Financial information about NORMA can be obtained by contacting Mark A. Cegelka, Finance Director, City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146, who serves as the fiscal agent.

#### **Note 9: Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. To address such risks, the City joined together with other neighboring cities to form the Northern Ohio Risk Management Association (NORMA, see Note 8) for the purpose of providing property, liability and vehicle insurance and providing for a formalized, jointly administered self insurance fund. The City pays an annual premium to NORMA for its insurance coverage. The agreement for formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement. This coverage is purchased through the General Fund.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 9: Risk Management (continued)**

Claims have not exceeded coverage provided by NORMA in any of the last three years and there were no significant reductions in coverage from the prior year.

The City also elected to join the NORMA group rating plan for workers' compensation. The group rating plan is administered by CompManagement, Inc. who was paid an annual fee of \$2,966 in 2005. The NORMA group rating plan is intended to achieve lower workers' compensation premium rates for the participants. The City pays the Ohio Bureau of Workers' Compensation a premium based on a rate per \$100 of wages paid. The rate is based on the group's claim history and administrative costs. There are no additional contributions required by a participant other than their annual fee.

The City provides medical, dental, vision and prescription drug benefits for all full-time employees through the QualChoice Health Plan and the Delta Dental Plan of Ohio. Monthly premium payments are made from the General and Fire Service Funds. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premiums for all benefits are \$959.91 for family coverage and \$366.94 for single coverage.

#### **Note 10: Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and local ordinances. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned vacation time is paid upon termination of employment.

Employees earn sick leave at different rates depending upon type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, employees can be paid for accumulated, unused sick leave, up to a maximum number of hours which is either 600 or 690 for all City employees.

As of December 31, 2005, the City's liability for unpaid compensated absences was \$1,075,049.

#### **Note 11: Defined Benefit Pension Plans**

##### **A. Ohio Public Employees Retirement System**

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan 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.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 11: 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 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.50 percent of their annual covered salary to fund pension obligations. The City contributed 13.55 percent of covered payroll, of which 4.0 percent was used to fund health care coverage for retirees. The contribution rate is determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City of Richmond Heights's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$191,160, \$250,956, and \$256,853, respectively, equal to the required contributions for each year. The full amount has been contributed for the years 2004 and 2003. 89 percent has been contributed for in 2005, with the remainder being reported as a liability in the government-wide financial statements.

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

The City of Richmond Heights 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by state statute. The City of Richmond Heights's contributions to the Fund for police and firefighters were \$286,217 and \$330,595 for the year ended December 31, 2005, \$273,752 and \$291,177 for the year ended December 31, 2004, and \$254,868 and \$244,873 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 70 percent for police and 70 percent for firefighters has been contributed for 2005 with the remainder being reported as a liability.



# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 12: Postemployment Benefits**

##### **A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. The 2005 employer contribution rate was 13.55 percent of covered payroll; 4.0 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.0 percent. An annual increase of 4.0 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next eight years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

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

At December 31, 2005, the number of active contributing participants in the Traditional and Combined Plans totaled 376,109. The City's actual contributions for 2005, which were used to fund postemployment benefits, were \$80,066. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfounded actuarially accrued liability were \$29.5 billion and \$18.7 billion, respectively.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 12: Postemployment Benefits (continued)**

##### **A. Ohio Public Employees Retirement System (continued)**

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

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

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

The Ohio Police and Fire Pension Fund (Pension Fund) provides postretirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit ("OPEB") as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The Ohio Revised Code provides the statutory authority allowing the OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2004, the date of the last actuarial valuation available, was 13,812 for police and 10,528 for firefighters. The City's actual contributions for 2005 that were used to fund post-employment benefits were \$113,753 for police and \$106,755 for firefighters. OP&F's total health care expenses for the year ending December 31, 2004, the date of the last actuarial valuation available, was \$102,173,796, which was net of member contributions of \$55,665,341.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 13: Contingencies**

The City is a party to legal proceedings seeking damages. The City's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

#### **Note 14: Note Debt**

The City's note activity, including amounts outstanding, interest rates and the governmental fund in which the note is reported is as follows:

	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding</u> <u>12/31/05</u>
Capital Projects Funds				
Street Resurfacing Fund				
2003-2004 1.70%	\$ 1,785,000	\$ -	\$ 1,785,000	\$ -
Capital Improvements Fund				
2003-2004 1.68%	<u>300,000</u>	<u>-</u>	<u>300,000</u>	<u>-</u>
	<u>\$ 2,085,000</u>	<u>\$ -</u>	<u>\$ 2,085,000</u>	<u>\$ -</u>

All of the notes are backed by the full faith and credit of the City and mature within one year from date of issuance. The note liability is reflected in the fund which received the proceeds.

The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

#### Note 15: Long-Term Obligations

Changes in long-term obligations of the City during 2005 are as follows:

	Original Amount	Restated Balance December 31, 2004	Additions	Deletions	Balance December 31, 2005	Due in One Year
<b>General Obligation Bonds</b>						
1997 4.74% Street Improvements	\$ 435,000	\$ 155,000	\$ -	\$ 50,000	\$ 105,000	\$ 50,000
1999 4.32% Street Improvements	995,000	545,000	-	100,000	445,000	105,000
2000 5.30% Street Improvements	875,000	580,000	-	85,000	495,000	90,000
2001 3.35-4.35% Street Improvements	600,000	385,000	-	60,000	325,000	60,000
2001 3.35-5.70% Law Enforcement Building	3,550,000	3,020,000	-	130,000	2,890,000	140,000
2005 3.47% Various Purpose	<u>3,990,000</u>	<u>-</u>	<u>3,990,000</u>	<u>-</u>	<u>3,990,000</u>	<u>340,000</u>
Total general obligation bonds	<u>10,445,000</u>	<u>4,685,000</u>	<u>3,990,000</u>	<u>425,000</u>	<u>8,250,000</u>	<u>785,000</u>
<b>OWDA Loans</b>						
Monticello Avenue Sewer 4.56%	200,000	126,952	-	9,670	117,282	10,116
Chardon Road Sewer 4.56%	1,554,125	1,255,557	-	62,730	1,192,827	65,623
Brushview Road Sewer 4.12%	439,361	369,152	-	17,430	351,722	18,156
Highland Road - Meadowlane 3.79%	648,030	566,696	-	25,269	541,427	26,237
Richmond Road (to Highland Road) 3.90%	923,490	871,681	-	28,542	843,139	34,377
Sunset/Skyline Sewer Construction 3.20%-3.59%	1,036,790	902,215	132,669	37,792	997,092	38,273
Karen Isle/Nann Linn 3.20%	107,082	33,928	-	22,439	11,489	11,489
Dunbarton/Cary Jay -Construction 3.41%	564,812	489,144	71,664	10,712	550,096	23,614
Richmond Road and Sewer Design 3.20%	143,337	19,649	-	12,995	6,654	6,654
Richmond Rd et al Sewers 3.25%	<u>1,248,135</u>	<u>-</u>	<u>898,984</u>	<u>-</u>	<u>898,984</u>	<u>22,467</u>
Total OWDA loans	<u>6,865,162</u>	<u>4,634,974</u>	<u>1,103,317</u>	<u>227,579</u>	<u>5,510,712</u>	<u>257,006</u>
<b>Other Long-Term Obligations</b>						
City of Highland Heights OPWC Loan	190,923	152,739	-	9,546	143,193	9,546
Police Pension Liability	n/a	50,343	-	832	49,511	868
Compensated Absences	<u>n/a</u>	<u>812,045</u>	<u>430,905</u>	<u>167,901</u>	<u>1,075,049</u>	<u>75,253</u>
Total other long-term obligations	<u>190,923</u>	<u>1,015,127</u>	<u>430,905</u>	<u>178,279</u>	<u>1,267,753</u>	<u>85,667</u>
Total long-term debt	\$ <u>13,998,339</u>	\$ <u>10,335,101</u>	\$ <u>5,524,222</u>	\$ <u>830,858</u>	\$ <u>15,028,465</u>	\$ <u>1,127,673</u>

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

#### Note 15: Long-Term Obligations (continued)

The City's overall legal debt margin was \$23,388,946 at December 31, 2005. The unvoted legal debt margin was \$8,482,529. Principal and interest requirements to retire the Long-Term General Obligation Bonds, Police Pension Liability, OWDA (Ohio Water Development Authority) Loans, and the Special Assessment Bonds as of December 31, 2005, are as follows:

	General Obligation		Police Pension		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 785,000	\$ 359,285	\$ 868	\$ 2,095	\$ 234,539	\$ 182,100
2007	815,000	328,430	905	2,057	219,430	171,832
2008	785,000	295,937	944	2,019	231,911	162,746
2009	820,000	264,346	984	1,979	241,373	153,285
2010	725,000	230,522	1,027	1,936	251,224	143,433
2011-2015	3,110,000	735,945	5,833	9,007	1,411,072	554,541
2016-2020	1,210,000	214,605	7,198	7,616	1,447,952	253,443
2021-2025	-	-	8,883	5,931	574,227	41,880
Thereafter	-	-	22,869	5,143	-	-
	<u>\$ 8,250,000</u>	<u>\$ 2,429,070</u>	<u>\$ 49,511</u>	<u>\$ 37,783</u>	<u>\$ 4,611,728</u>	<u>\$ 1,663,260</u>

  

	OPWC Loan		Total	
	Principal	Interest	Principal	Interest
2006	\$ 9,546	\$ -	\$ 1,029,953	\$ 543,480
2007	9,546	-	1,044,881	502,319
2008	9,546	-	1,027,401	460,702
2009	9,546	-	1,071,903	419,610
2010	9,546	-	986,797	375,891
2011-2015	47,731	-	4,574,636	1,299,493
2016-2020	47,732	-	2,712,882	475,664
2021-2025	-	-	583,110	47,811
Thereafter	-	-	22,869	5,143
	<u>\$ 143,193</u>	<u>\$ -</u>	<u>\$ 13,054,432</u>	<u>\$ 4,130,113</u>

General obligation bonds are the direct obligation of the City and will be paid from the Bond Retirement, Debt Service Fund using property tax revenues. The 2001 3.35 percent Law Enforcement Building general obligation bonds were issued at a premium of \$7,439. Special assessment bonds will be paid from special assessment proceeds levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City.

The Monticello Avenue Sewer, Chardon Road Sewer, Brushview Road Sewer, Highland Road – Meadowlane, the various Richmond Road, Sunset/Skyline Sewer Construction, Karen Isle/Nann Linn and the Dunbarton/Cary Jay Construction OWDA loan liabilities are being paid from the Bond Retirement, Debt Service Fund. The City also entered into contractual agreements for new construction and design loans from OWDA. Under the terms of these agreements, OWDA will reimburse, advance, or directly pay the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and add them to the total amounts of the final loans. These OWDA loans will be paid with Special Assessment revenue. The Richmond Road et al Sewers OWDA loan is not closed and therefore, the amortization of that liability is not included in the above table.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

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#### **Note 15: Long-Term Obligations (continued)**

During the year, the City obtained partial proceeds from an Ohio Water Development Authority (“OWDA”) loan that relates to the Richmond Road sewer improvements to be repaid in semi-annual principal and interest payments beginning in 2006. The City has not yet collected the total proceeds to be received on this loan and as a result, the debt maturity schedule above does not reflect any amounts for principal or interest. When the loan is finalized, the principal and interest will be included above.

The Police Pension Liability will be paid from Property Tax revenue in the Police Pension Fund. The Compensated Absences will be paid by the fund from which the employee’s salary is paid.

During 2002, the City entered into a contractual agreement with the City of Highland Heights for the construction of sanitary sewer lines on Highland Road. Richmond Heights is responsible for the portion of the lines that run through the City. The project was financed by a loan from the Ohio Public Works Commission in the name of the City of Highland Heights. The total amount owed to the City of Highland Heights as of December 31, 2005, is \$143,193 and this amount has been recorded as Intergovernmental Payable in the government-wide financial statements. It will be repaid from special assessments levied on the affected properties.

#### **Note 16: Jointly Governed Organization**

Eastern Suburban Regional Council of Governments

The City is a member of the Eastern Suburban Regional Council of Governments (ESRCOG). The ESRCOG was formed, by written agreement pursuant to Ohio Rev. Code Section 167.01, in 1972 to foster cooperation between member municipalities through sharing of resources for mutual benefit. Other members include the Cities of Highland Heights, Lyndhurst, and Mayfield Heights and the Villages of Gates Mills and Mayfield. 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 ESCOG 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.

In 2005, the City contributed \$12,500. Financial information can be obtained from Robert G. Tribby, Finance Director, City of Mayfield Heights, at 6154 Mayfield Road, Mayfield Heights, Ohio 44124-3207, who serves as the fiscal agent.

# City of Richmond Heights

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2005

#### Note 17: Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

<u>Transfer to</u>	<u>Transfer From</u>		
	<u>General Fund</u>	<u>Capital Improvements</u>	<u>Total</u>
Fire service fund	\$ 896,000	\$ -	\$ 896,000
Nonmajor governmental funds	<u>174,000</u>	<u>53,000</u>	<u>227,000</u>
Total	\$ <u>1,070,000</u>	\$ <u>53,000</u>	\$ <u>1,123,000</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

The City had no transfers that either do not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer.

#### Note 18: Restatement of Prior Year Net Assets

	<u>Governmental Activities</u>
Net assets, December 31, 2004	\$ 9,388,691
Restatement of the December 31, 2004 Cash balance	(274,582)
Restatement of OWDA loans	<u>(505,636)</u>
Net assets, January 1, 2005, restated	\$ <u>8,608,473</u>

The December 31, 2004 governmental activities net assets have been restated due to adjustments made to the OWDA loans after reviewing the loan agreements with OWDA.

The December 31, 2004 cash balances were adjusted to actual.

	<u>General Fund</u>	<u>Bond Retirement</u>	<u>Capital Improvements</u>	<u>Other Governmental</u>
Fund Balance, December 31, 2004	\$ 1,758,795	\$ 348,265	\$ 817,539	\$ (2,027,095)
Restatement of the December 31, 2004 Cash balances	<u>(320,708)</u>	<u>(53)</u>	<u>(14,398)</u>	<u>60,577</u>
	\$ <u>1,438,087</u>	\$ <u>348,212</u>	\$ <u>803,141</u>	\$ <u>(1,966,518)</u>

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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*

City of Richmond Heights  
Cuyahoga County  
26789 Highland Road  
Richmond Heights, Ohio 44143

To the City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Richmond Heights, Cuyahoga County, Ohio (the City) as of and for the years ended December 31, 2006 and December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 14, 2009, wherein we noted the City restated January 1, 2005 net assets in the Governmental Activities, and the fund balance in the General, Bond Retirement, Capital Improvements, and Other Governmental Funds. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2006-004 and 2006-005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2006-004 listed above to be a material weakness. In a separate letter to the City's management dated May 14, 2009, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-003. In a separate letter to the City's management dated May 14, 2009, we reported other matters related to noncompliance we deemed immaterial.

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

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



**Mary Taylor, CPA**  
Auditor of State

May 14, 2009

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND DECEMBER 31, 2005**

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

**FINDING NUMBER 2006-001**

**Noncompliance Citation**

**Appropriations Exceeding Estimated Resources**

Ohio Revised Code § 5705.39 prohibits appropriations from each fund from exceeding the total estimated resources.

During our testing, we noted the following funds had appropriations exceeding estimated resources at December 31, 2006:

<u>Fund</u>	<u>Estimated Resources as of December 31, 2006</u>	<u>Appropriations as of December 31, 2006</u>	<u>Variance</u>
<b>Special Revenue Funds:</b>			
Fire Service	\$1,960,833	\$2,047,900	(\$87,067)
Fire Pension	281,877	318,200	(36,323)
Professional Service	74,724	145,000	(70,276)
<b>Debt Service Fund:</b>			
Bond Retirement	1,176,292	1,611,832	(435,540)
<b>Capital Projects Funds:</b>			
Capital Improvements	4,248,612	4,700,470	(451,858)

During our testing, we noted the following funds had appropriations exceeding estimated resources at December 31, 2005:

<u>Fund</u>	<u>Estimated Resources as of December 31, 2005</u>	<u>Appropriations as of December 31, 2005</u>	<u>Variance</u>
<b>Special Revenue Funds:</b>			
Claims and Litigation	\$52,991	\$72,500	(\$19,509)
Skyline-Sunset	151,552	168,883	(17,331)
<b>Capital Projects Funds:</b>			
Capital Improvements	3,060,217	3,200,182	(139,965)
Richmond Road Sanitary Sewer	51,000	100,000	(49,000)
Sewer Improvements	1,628,506	1,729,351	(100,845)

We recommend the City monitor appropriations and amend the certificate of estimated resources to ensure that appropriations do not exceed estimated resources.

**MANAGEMENT'S RESPONSE:**

The City is now utilizing a budgetary spreadsheet to assist in the monitoring of budget requirements. The City will be more diligent in adhering to budgetary requirements in a more timely manner in the future.

CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND DECEMBER 31, 2005  
(Continued)

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

FINDING NUMBER 2006-002

**Noncompliance Citation**

**Purchase Order Certification**

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision from making any contract or ordering any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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

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

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

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

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

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND DECEMBER 31, 2005  
(Continued)**

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

**FINDING NUMBER 2006-002 (Continued)**

**Noncompliance Citation (Continued)**

**Purchase Order Certification (Continued)**

A review of expenditures disclosed that 24 out of 60 transactions reviewed (or 40%) were not encumbered prior to the purchase commitment. During our review of credit card disbursements, it was noted that several purchases were made prior to notifying the Finance Department so a purchase order could be created. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

We recommend the City certify the availability of funds prior to entering into any expenditure commitment. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**MANAGEMENT'S RESPONSE:**

This has been rectified with the purchase and use of a "then and now" stamp for those times that purchases are made before a purchase order is issued.

CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND DECEMBER 31, 2005  
(Continued)

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

**FINDING NUMBER 2006-003**

**Noncompliance Citation**

**Transfers**

Ohio Revised Code § 5705.14 provides that no transfer can be made from one fund of a subdivision to any other fund, by order of the court or otherwise, with certain limited exceptions. The transfers permitted under Ohio Revised Code § 5705.14 require a resolution passed by a two-thirds vote of the members of the taxing authority, except transfers from the general fund, which require a resolution passed by a simple majority. In addition to the transfers permitted under Ohio Revised Code § 5705.14, Ohio Revised Code §§ 5705.15 and 5705.16 provide that the taxing authority, with the approval of the Tax Commissioner and the Court of Common Pleas, may transfer from one fund to another.

During our review of transfers, we noted two transfer transactions in 2005 and five transfer transactions in 2006 that did not meet any of exceptions described in Ohio Rev. Code § 5705.14. Audit adjustments to reverse those transactions were prepared and those transfers were removed from the financial statements.

We recommend the City make only those transfer transactions allowed by Revised Code §§ 5705.14-5705.16.

**MANAGEMENT'S RESPONSE:**

I was not aware of the above referenced restrictions for transfers, although our Law Director assisted with the creation of the legislation authorizing the transfers to occur and they were passed unanimously. I will restrict the use of transfers in the future.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND DECEMBER 31, 2005  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2006-004**

**Reportable Condition and Material Weakness**

**Cash Management**

During our review of the City's monthly bank reconciliations, we noted the following:

- The City hired an outside accounting agency to perform their monthly bank reconciliations for 2005 and 2006. The 2005 bank statements were not reconciled until September of 2006.
- The person performing the monthly bank reconciliations and the Finance Director failed to sign or initial each reconciliation signaling their completion and review.
- The City's bank reconciliations contained several reconciling items which were dated as far back as 2004.
- Items that had been outstanding for more than a year, totaling \$10,177 at December 31, 2006 and \$7,278 at December 31, 2005. The checks go as far back as 1996.
- The City received a notice of insufficient funds and overdraft charges to their account. In December of 2006 twenty-six transactions amounted to \$668,299 and in December of 2005 seventeen transactions amounted to \$84,069 were paid that overdrew the City's account.
- The City increased their petty cash amount from \$325 to \$450 during 2005. This increase was done without formal approval by City Council.

In addition, the City's financial statements overstated cash by \$274,582, resulting in a restatement of December 31, 2004 net assets. Complete, timely, bank reconciliations would have likely detected the error.

Failure to perform the monthly reconciliations could result in errors going undetected, misstatements in the City's financial statements, and future overdraft charges. The reconciling items and outstanding checks could result in an inefficient and cumbersome bank reconciliation process. Failure to receive Council approval for petty cash increase/decreases could result in misuse of City funds.

We recommend the City perform bank reconciliations at the close of each month and maintain supporting documentation for all reconciling items. In addition, the individual who completes the bank reconciliations and the Finance Director should sign or initial each bank reconciliation noting its completion and approval. The Finance Director should closely monitor the City's bank accounts and perform bank transfers to eliminate any future overdraft charges.

We also recommend the City review the outstanding check list on a regular basis. Checks outstanding for more than a year should be removed from the outstanding check list and placed in an unclaimed monies agency fund in accordance with the guidelines outlined in Auditor of State Bulletin 91-11. Unclaimed monies should be held in the fund for a period of five years. After a five year period, items still held in the unclaimed monies fund should be repaid to the fund that originally expended the money. In addition, we recommend the City Council review and approve any increases or decreases to petty cash accounts.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND DECEMBER 31, 2005  
(Continued)**

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

**FINDING NUMBER 2006-004 (Continued)**

**Reportable Condition and Material Weakness (Continued)**

**Cash Management (Continued)**

**MANAGEMENT'S RESPONSE:**

This has been an ongoing problem and continues to be so. The City does not have sufficient staff to complete these reconciliations in a timely manner and all of their other demands. A temporary service is then utilized from time to time to perform this duty. This is not a satisfactory solution as the personnel are not always able to produce satisfactory results. I am not confident that the current staff can do any better and, as the primary check signer, I should not be conducting this duty. We will have to become more creative in performing this responsibility.



CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND DECEMBER 31, 2005  
(Continued)

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

**FINDING NUMBER 2006-005**

**Reportable Condition**

**Fire Fighters Vacation Time**

Sections 31.1 and 31.2 of the agreement between the City of Richmond Heights and the International Association of Fire Fighters, Local 2009, AFL-CIO (IAFF contract) state, "Each employee shall earn vacation time after one (1) year of continuous service and be entitled to paid vacation in accordance with the following schedule of full-time employment:

<u>Years of Continuous Service</u>	<u>Vacation Time</u>
1 - 5	5 tours of duty (120 hours)
6 - 20	Increase of ½ tour/yr.(maximum accumulation 12-1/2 tours)

Vacation time shall accrue to the employee upon each successive annual recurrence of the anniversary date of his appointment. Vacations shall be taken by the employee during the year after which it has accrued and prior to the next recurrence of the anniversary date. An employee shall be paid for any unused vacation time remaining at the conclusion of the vacation year within thirty (30) calendar days after the anniversary date of his or her appointment."

Our review of the annual accruals of the above noted IAFF contract noted the firefighters are being credited an extra 12 hours of vacation time beginning the day after the anniversary date of their fifth year of appointment as opposed to the anniversary date of their sixth year of appointment. As a result, the firefighters are being credited with an extra 12 hours of vacation time each year after their fifth year.

We recommend the City follow the leave policies noted in the IAFF contract.

**MANAGEMENT'S RESPONSE:**

The City has reached an agreement with the IAFF to leave the firefighters that are operating under this erroneous policy as they are (to grandfather them) and to follow the contract with all hires after 2003.

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**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006 AND DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	Ohio Rev. Code Section 5705.41(B) – Expenditures plus encumbrances exceeding appropriations	No	Reissued in the Management Letter
2004-002	Ohio Rev. Code Section 5705.41(D) – Proper encumbering	No	Reissued as Finding 2006-002
2004-003	Ohio Rev. Code Section 5705.39 – Appropriations exceeding estimated resources	No	Reissued as Finding 2006-001
2004-004	Ohio Rev. Code Section 735.05 – Competitive bidding procedures	Yes	
2004-005	Bank Reconciliations	No	Reissued as Finding 2006-004
2004-006	Sections 31.1 and 31.2 of the agreement between the City and the IAFF – Accrual of vacation time	No	Reissued as Finding 2006-005





**Mary Taylor, CPA**  
Auditor of State

**CITY OF RICHMOND HEIGHTS**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 5, 2009**