



Mary Taylor, CPA
Auditor of State

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
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CUYAHOGA COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of Village Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Gates Mills, Cuyahoga County, Ohio (the Village), as of and for the years ended December 31, 2009 and 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Gates Mills, Cuyahoga County, Ohio, as of December 31, 2009 and 2008, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2010, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

September 7, 2010

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)**

This discussion and analysis of the Village of Gates Mills, Cuyahoga County, Ohio (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2009, within the limitations of the Village's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2009 are as follows:

Net assets of governmental activities increased \$2,203,513 (148.5 percent), a significant change from 2008.

The Village's general receipts are primarily property, municipal income and estate taxes. The variance in Real Estate tax income received in 2009 compared to 2008 was negligible. In 2009 the municipal income tax received was \$520,504 (28.6%) less than received in 2008 and \$300,000 (18.7%) less than estimated. The Village received \$1,990,619 estate (inheritance) taxes instead of the anticipated \$350,000 (469%). Municipal tax and Estate tax have fluctuated in the past, making budgeting a challenge.

The general fund expenses decreased due to budget cuts (including the number of full time employees). The residents were billed for trash pickup which cost \$267,965 in 2008. However, the Village was charged \$162,000 by Mayfield Village for EMS which previously was gratuitous as part of a mutual aid agreement. In 2010 this charge will increase to \$282,000, thereby mandating the decision to pass the cost of trash pickup to the residents. There was no off-setting income for the EMS in 2009.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

**VILLAGE OF GATES MILLS
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(Unaudited)**

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

Reporting the Village as a Whole

The statement of net assets and the statement of activities reflect how the Village did financially during 2009, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Village's general receipts.

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

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

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

Business-type activities. The Village has two business-type activities, the provision of water and wastewater. The water and wastewater activities are financed by fees charged to the customers receiving the service and transfers from the General Fund.

Reporting the Village's Most Significant Funds

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

Governmental Funds - Most of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)**

separate reporting) is combined and presented in total in a single column. In 2009, the Village's major governmental funds are the General Fund, Debt Service Fund, OPWC Fund, and the Capital Improvement Fund.

Proprietary Funds – When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The Village has two enterprise funds, the Water and Wastewater funds. In this report the words “Proprietary” and “Enterprise” are interchangeable, referring to the same funds.

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

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2009 compared to 2008 on a modified cash basis:

**Table 1
Net Assets 2009 and 2008**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
Assets						
Cash and Cash Equivalents	\$ 949,667	\$2,902,327	\$ -	\$ -	\$ 949,667	\$ 2,902,327
Investments	533,968	784,821	291,880	249,327	825,848	1,034,148
Total Assets	<u>\$1,483,635</u>	<u>\$3,687,148</u>	<u>\$ 291,880</u>	<u>\$ 249,327</u>	<u>\$ 1,775,515</u>	<u>\$ 3,936,475</u>
Net Assets						
Restricted for:						
Debt Service	\$ 35,656	\$ 25,639	\$ -	\$ -	\$ 35,656	\$ 25,639
Capital Outlay	153,450	2,157,493	-	-	153,450	2,157,493
Other Purposes	191,540	141,075	-	-	191,540	141,075
Unrestricted	1,102,989	1,362,941	291,880	249,327	1,394,869	1,612,268
Total Net Assets	<u>\$1,483,635</u>	<u>\$3,687,148</u>	<u>\$ 291,880</u>	<u>\$ 249,327</u>	<u>\$ 1,775,515</u>	<u>\$ 3,936,475</u>

In 2009, net assets of governmental activities increased \$2,203,513 or 148.5 percent, a significant change from the prior year. This was mainly the result of abnormally high estate tax income of \$1,990,619 and budget cuts.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)**

Table 2 reflects the changes in net assets in 2009 and 2008.

**Table 2
Changes in Net Assets**

	Governmental Activities 2008	Business Type Activities 2008	Governmental Activities 2009	Business Type Activities 2009	Total 2008	Total 2009
Receipts:						
Program Receipts:						
Charges for Services and Sales	\$595,246	\$658,706	\$591,889	\$664,071	\$1,253,952	\$1,255,960
Operating Grants and Contributions	40,876		29,978		40,876	29,978
Capital Grants and Contributions	373,616		1,922		373,616	1,922
Total Program Receipts	1,009,738	658,706	623,789	664,071	1,668,444	1,287,860
General Receipts:						
Property Taxes	2,342,605		2,372,711		2,342,605	2,372,711
Income Taxes	1,820,306		1,299,802		1,820,306	1,299,802
Estate Taxes	544,793		1,990,619		544,793	1,990,619
Grants & Entitlements Not Restricted to Specific Programs	565,008		553,782		565,008	553,782
Notes issued	2,535,000		2,295,000		2,535,000	2,295,000
Premium on Debt Issue	27,277		16,983		27,277	16,983
Sale of Capital Assets			701,124			701,124
Interest	102,284		37,756		102,284	37,756
Total General Receipts	7,937,273		9,267,777		7,937,273	9,267,777
Total Receipts	8,947,011	658,706	9,891,566	664,071	9,605,717	10,555,637
Disbursements:						
General Government	1,485,010		1,451,943		1,485,010	1,451,943
Security of Persons and Property	1,582,902		1,706,484		1,582,902	1,706,484
Public Health Services	9,608		11,260		9,608	11,260
Leisure Time Activities	301,141		248,904		301,141	248,904
Community Environment	3,626		1,340		3,626	1,340
Basic Utility	322,377		34,656		322,377	34,656
Transportation	1,066,366		896,701		1,066,366	896,701
Capital Outlay	2,556,279		663,464		2,556,279	663,464
Principal Retirement	3,403,891		2,535,000		3,403,891	2,535,000
Interest & Fiscal Charges	59,525		88,301		59,525	88,301
Water		731,812		732,961	731,812	732,961
Wastewater		23,433		23,663	23,433	23,663
Total Disbursements	10,790,725	755,245	7,638,053	756,624	11,545,970	8,394,677
Excess (Deficiency) Before Transfers	(1,843,714)	(96,539)	2,253,513	(92,553)	(1,940,253)	2,160,960
Advances	15,460	(15,460)				
Transfers	(70,000)	70,000	(50,000)	50,000		
Increase in Net Assets	(1,898,254)	(41,999)	2,203,513	(42,553)	(1,940,253)	2,160,960
Net Assets, January 1,	3,381,889	333,879	1,483,635	291,880	3,715,768	1,775,515
Net Assets, December 31,	\$1,483,635	\$291,880	\$3,687,148	\$249,327	\$1,775,515	\$3,936,475

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)**

For 2009 - Receipts:

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

The significant general receipts are property, income, and estate taxes and state grants and entitlements. Except for receipts from Notes issued, other receipts are very insignificant and somewhat unpredictable revenue sources.

For 2009 - Disbursements

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

Security of Persons and Property is the costs of police and fire protection plus street lighting. Starting in 2009 the cost of providing EMS (Emergency Medical Service) was added.

Public Health Services are cemetery costs.

Leisure Time Activities are the costs of maintaining the Village's parklands plus providing community activities such as Jr. Strawhat, Halloween Party, Easter Hunt, Concert, and Art Show. Day Camp was previously included in Leisure Time Activities but was not offered in 2009.

Community Environment is the cost of providing building inspections.

Basic Utility Service is the cost of maintaining ditches. Trash hauling was previously reported in Basic Utility Service, but was not provided in 2009.

Transportation is the cost of maintaining the roads, bridges, and guardrails along with the cost of maintaining the Service Department's equipment.

Government Activities

On the Statement of Activities (page 12) the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for general government, security of persons and property, transportation, capital outlay, and principal retirement. The next three columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for service and grants and contributions received by the Village that must be used to provide a specific service. The Net (Disbursement) columns compare the program receipts to the cost of the service. This "Total" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)**

**Table 3
Governmental Activities**

	Total Cost Of Services 2008	Net Cost Of Services 2008	Total Cost Of Services 2009	Net Cost Of Services 2009
General Government	\$1,485,010	(\$975,476)	\$1,451,943	(\$900,701)
Security of Persons and Property	1,582,902	(1,576,327)	1,706,484	(1,705,846)
Public Health Services	9,608	(6,808)	11,260	(7,710)
Leisure Time Activities	301,141	(209,593)	248,904	(206,354)
Community Environment	3,626	(3,626)	1,340	(1,340)
Basic Utility Services	322,377	(322,377)	34,656	(34,656)
Transportation	1,066,366	(1,066,366)	896,701	(896,701)
Capital Outlay	2,556,279	(2,156,998)	663,484	(637,655)
Principal Retirement	3,403,891	(3,403,891)	2,535,000	(2,535,000)
Interest and Fiscal Charges	59,525	(59,525)	88,301	(88,301)
Total Expenses	\$10,790,725	(\$9,780,987)	\$7,638,053	(\$7,014,264)

Business-Type Activities

The water and wastewater operations of the Village are relatively small and are supplemented by transfers from the General Fund. The major activity in the Water Fund is the payment of debt financed by assessments collected by the County Auditor.

The Village's Funds

For 2009:

Total governmental funds, excluding transfers and advances, had receipts of \$9,891,566 and disbursements of \$7,638,053. The most significant change within governmental funds occurred within the Capital Improvement Fund. The fund balance increased \$2,004,043 mostly as the result of an abnormally high amount of estate tax receipts. The average amount estimated for estate tax income is \$350,000 per year. (Note: By ordinance even though the estate tax is posted to the General Fund, it is immediately transferred to the Capital Improvement Fund.)

General Fund Budgeting Highlights

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

For 2009:

The Village amended its General Fund budget a few times to reflect changing circumstances. Final total budgeted Intergovernmental Revenues were more than expected due to estate tax income. Actual property tax received was \$8,629 more than originally budgeted. Municipal income taxes were approximately \$300,000 less than originally budgeted. The Village's Income Tax Administrator studied the variance in municipal tax income and concluded that even though the receipts in 2008 were \$500,000 higher than in 2009, the amount received in 2009 will probably be the typical amount received in the near future.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)**

Capital Assets and Debt

The Village maintains a listing of its capital assets and infrastructure. It is updated by Industrial Appraisal Company annually.

As of December 31, 2009, the Village's outstanding principal on all loans and notes was \$7,559,477. Of this amount:

- \$4,212,689 is for 2 loans with the Ohio Water Development Authority (OWDA) that are secured by assessments. These loans were for a water project which began in 1995.
- \$830,528 is for a non interest loan with the Ohio Public Works Commission (OPWC), also for the water project.
- \$221,260 is for a non interest loan with OPWC for a wastewater project.
- \$1,200,000 is for a Street Improvement Note with Key Bank which is renewed annually. Principal payments began in 2006 as required.
- \$520,000 is for a Library Note with Key Bank which is renewable annually. Currently it is renewed for the amount not collected in donations.
- \$275,000 is for a Service Garage Addition Note with Key Bank which is renewable annually. Principal payments will be required in 2011.
- \$300,000 is for a Gates Mills Boulevard Street Note with Key Bank which is renewed annually. Principal payments will be required in 2013.

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

Current Issues

The issue that caused concern for 2009 started in 2008. Mayfield Village had provided EMS (ambulance) to the Village in exchange for housing their prisoners. It was decided by Mayfield Village to charge for the service, and to house their prisoners elsewhere beginning in 2009. The Budget Committee knew that the cost of this service would cause a deficit if no cuts were made. Therefore, the residents were charged for trash pickup in 2009 and the Department heads made cuts. Day Camp was eliminated due to a \$17,000 loss in 2008.

The cost of EMS will increase from \$162,000 in 2009 to \$282,000 in 2010. Therefore, the surplus enjoyed in 2009 is not expected to continue in 2010. Council had hoped to avoid passing the cost of trash pickup to the villagers by placing a levy on the ballot. It failed twice.

The Budget and Finance Committees continue to monitor the cash balance of the Village. The hope is to reduce the outstanding loans. Cost cuts that would not affect the health, safety, and welfare of the residents will continue to be made.

It is important to remember that there is no industry to support the Village's tax base. The income from the outside levies is fixed. The goal is to provide quality services to the public while staying within the restrictions imposed by limited funding.

Contacting the Village's Financial Management

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

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Village of Gates Mills
Cuyahoga County
Statement of Net Assets - Modified Cash Basis
December 31, 2009

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 2,902,327	\$ -	\$ 2,902,327
Investments	784,821	249,327	1,034,148
<i>Total Assets</i>	<u>\$ 3,687,148</u>	<u>\$ 249,327</u>	<u>\$ 3,936,475</u>
Net Assets			
Restricted for:			
Capital Projects	\$ 2,157,493	\$ -	\$ 2,157,493
Debt Service	25,639	-	25,639
Other Purposes	141,075	-	141,075
Unrestricted	<u>1,362,941</u>	<u>249,327</u>	<u>1,612,268</u>
<i>Total Net Assets</i>	<u>\$ 3,687,148</u>	<u>\$ 249,327</u>	<u>\$ 3,936,475</u>

See accompanying notes to the basic financial statements

Village of Gates Mills
Cuyahoga County
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2009

	Program Cash Receipts				Net (Disbursements) and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 1,451,943	\$ 551,242	\$ -	\$ -	\$ (900,701)	\$ -	\$ (900,701)
Security of Persons and Property	1,706,484	-	638	-	(1,705,846)	-	(1,705,846)
Public Health Services	11,260	3,550	-	-	(7,710)	-	(7,710)
Leisure Time Activities	248,904	11,288	29,340	1,922	(206,354)	-	(206,354)
Community Environment	1,340	-	-	-	(1,340)	-	(1,340)
Basic Utility Services	34,656	-	-	-	(34,656)	-	(34,656)
Transportation	896,701	-	-	-	(896,701)	-	(896,701)
Capital Outlay	663,464	25,809	-	-	(637,655)	-	(637,655)
Principal Retirement	2,535,000	-	-	-	(2,535,000)	-	(2,535,000)
Interest and Fiscal Charges	88,301	-	-	-	(88,301)	-	(88,301)
<i>Total Governmental Activities</i>	<u>7,638,053</u>	<u>591,889</u>	<u>29,978</u>	<u>1,922</u>	<u>(7,014,264)</u>	<u>-</u>	<u>(7,014,264)</u>
Business Type Activity							
Water	732,961	656,029	-	-	-	(76,932)	(76,932)
Wastewater	23,663	8,042	-	-	-	(15,621)	(15,621)
<i>Total Business Type Activities</i>	<u>756,624</u>	<u>664,071</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(92,553)</u>	<u>(92,553)</u>
Total	<u>\$ 8,394,677</u>	<u>\$ 1,255,960</u>	<u>\$ 29,978</u>	<u>\$ 1,922</u>	<u>(7,014,264)</u>	<u>(92,553)</u>	<u>(7,106,817)</u>
General Receipts							
Property Taxes Levied for:							
General Purposes					2,119,000	-	2,119,000
Police Pension					58,533	-	58,533
Conservation					195,178	-	195,178
Municipal Income Taxes					1,299,802	-	1,299,802
Estate Tax					1,990,619	-	1,990,619
Grants and Entitlements not Restricted to Specific Programs					553,782	-	553,782
Notes Issued					2,295,000	-	2,295,000
Premium on Debt Issue					16,983	-	16,983
Sale of Capital Assets					701,124	-	701,124
Interest					37,756	-	37,756
<i>Total General Receipts</i>					<u>9,267,777</u>	<u>-</u>	<u>9,267,777</u>
Transfers					(50,000)	50,000	-
Total General Receipts and Transfers					<u>9,217,777</u>	<u>50,000</u>	<u>9,267,777</u>
Change in Net Assets					2,203,513	(42,553)	2,160,960
<i>Net Assets, Beginning of Year</i>					<u>1,483,635</u>	<u>291,880</u>	<u>1,775,515</u>
<i>Net Assets, End of Year</i>					<u>\$ 3,687,148</u>	<u>\$ 249,327</u>	<u>\$ 3,936,475</u>

See accompanying notes to the basic financial statements

Village of Gates Mills
Cuyahoga County
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2009

	General	Debt Service Fund	Capital Improvement Fund	OPWC Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 1,102,991	\$ -	\$ 1,783,198	\$ -	\$ 16,138	\$ 2,902,327
Investments	259,950	25,639	374,295	-	124,937	784,821
Total Assets	\$ 1,362,941	\$ 25,639	\$ 2,157,493	\$ -	\$ 141,075	\$ 3,687,148
Fund Balances						
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	\$ 1,362,941	\$ -	\$ -	\$ -	\$ -	\$ 1,362,941
Special Revenue Funds	-	-	-	-	73,190	73,190
Debt Service Fund	-	25,639	-	-	-	25,639
Capital Projects Funds	-	-	2,157,493	-	-	2,157,493
Permanent Fund	-	-	-	-	67,885	67,885
Total Fund Balances	\$ 1,362,941	\$ 25,639	\$ 2,157,493	\$ -	\$ 141,075	\$ 3,687,148

See accompanying notes to the basic financial statements

Village of Gates Mills
Cuyahoga County
Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2009

	General	Debt Service Fund	Capital Improvement Fund	OPWC Fund	Other Governmental Funds	Total Governmental Funds
Receipts						
Municipal Income Taxes	\$ 1,299,802	\$ -	\$ -	\$ -	\$ -	\$ 1,299,802
Property and Other Local Taxes	2,119,000	-	-	-	253,711	2,372,711
Charges for Services	308,552	-	177,243	-	14,838	500,633
Fines, Licenses and Permits	63,779	-	-	-	-	63,779
Intergovernmental	2,400,656	-	-	-	146,051	2,546,707
Special Assessments	25,809	-	-	-	-	25,809
Interest	37,219	-	-	-	537	37,756
Donations	-	-	-	-	31,262	31,262
Total Receipts	6,254,817	0	177,243	0	446,399	6,878,459
Disbursements						
Current:						
General Government	1,425,172	-	-	-	26,771	1,451,943
Security of Persons and Property	1,554,961	-	-	-	151,523	1,706,484
Public Health Services	-	-	-	-	11,260	11,260
Leisure Time Activities	15,565	-	-	-	233,339	248,904
Community Environment	1,340	-	-	-	-	1,340
Basic Utility Services	34,656	-	-	-	-	34,656
Transportation	770,251	-	-	-	126,450	896,701
Capital Outlay	-	-	515,769	147,675	20	663,464
Debt Service:						
Principal Retirement	-	2,295,000	200,000	-	40,000	2,535,000
Interest and Fiscal Charges	61,301	27,000	-	-	-	88,301
Total Disbursements	3,863,246	2,322,000	715,769	147,675	589,363	7,638,053
Excess of Receipts Over (Under) Disbursements	2,391,571	(2,322,000)	(538,526)	(147,675)	(142,964)	(759,594)
Other Financing Sources (Uses)						
Notes Issued	-	2,295,000	-	-	-	2,295,000
Premium on Debt Issue	-	16,983	-	-	-	16,983
Sale of Capital Assets	-	-	699,625	-	1,499	701,124
Transfers In	-	-	1,990,619	-	91,000	2,081,619
Transfers Out	(2,131,619)	-	-	-	-	(2,131,619)
Advances In	-	-	-	147,675	-	147,675
Advances Out	-	-	(147,675)	-	-	(147,675)
Total Other Financing Sources (Uses)	(2,131,619)	2,311,983	2,542,569	147,675	92,499	2,963,107
Net Change in Fund Balances	259,952	(10,017)	2,004,043	-	(50,465)	2,203,513
Fund Balances, Beginning of Year	1,102,989	35,656	153,450	-	191,540	1,483,635
Fund Balances, End of Year	\$ 1,362,941	\$ 25,639	\$ 2,157,493	\$ -	\$ 141,075	\$ 3,687,148

See accompanying notes to the basic financial statements

Village of Gates Mills
Cuyahoga County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2009

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Municipal Income Taxes	\$ 1,600,000	\$ 1,299,800	\$ 1,299,802	\$ 2
Property and Other Local Taxes	2,110,000	2,119,000	2,119,000	-
Special Assessments	25,700	25,810	25,809	(1)
Charges for Services	395,000	308,565	308,552	(13)
Fines, Licenses and Permits	106,000	63,770	63,779	9
Intergovernmental	1,932,000	2,400,657	2,400,656	(1)
Interest	125,000	36,535	37,219	684
<i>Total Receipts</i>	6,293,700	6,254,137	6,254,817	680
Disbursements				
Current:				
General Government	1,510,800	1,495,303	1,486,473	8,830
Security of Persons and Property	1,642,300	1,559,350	1,554,961	4,389
Leisure Time Activities	9,500	15,217	15,565	(348)
Community Environment	3,400	1,400	1,340	60
Basic Utility Services	26,600	34,815	34,656	159
Transportation	872,600	770,115	770,251	(136)
<i>Total Disbursements</i>	4,065,200	3,876,200	3,863,246	12,954
<i>Excess of Receipts Over Disbursements</i>	2,228,500	2,377,937	2,391,571	13,634
Other Financing (Uses)				
Transfers Out	(1,641,000)	(2,131,700)	(2,131,619)	81
<i>Net Change in Fund Balance</i>	587,500	246,237	259,952	13,715
<i>Fund Balance, Beginning of Year</i>	1,102,989	1,102,989	1,102,989	
<i>Fund Balance, End of Year</i>	\$ 1,690,489	\$ 1,349,226	\$ 1,362,941	\$ 13,715

See accompanying notes to the basic financial statements

Village of Gates Mills
Cuyahoga County
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
December 31, 2009

	Business-Type Activities		
	Wastewater Fund	Water Fund	Total Proprietary Funds
Assets			
Investments	\$ 16,694	\$ 232,633	\$ 249,327
Net Assets			
Unrestricted	\$ 16,694	\$ 232,633	\$ 249,327

See accompanying notes to the basic financial statements

Village of Gates Mills
Cuyahoga County
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2009*

	Business-Type Activities		
	Wastewater Fund	Water Fund	Total Proprietary Funds
Operating Receipts			
Charges for Services	\$ 8,042	\$ 19,680	\$ 27,722
Operating Disbursements			
Contractual Services	4,423	18,602	23,025
<i>Operating Income</i>	3,619	1,078	4,697
Non-Operating Receipts (Disbursements)			
Special Assessments	-	636,349	636,349
Principal Payments	(19,240)	(427,341)	(446,581)
Interest and Fiscal Charges	-	(280,706)	(280,706)
Other	-	(6,312)	(6,312)
<i>(Loss) before Transfers and Advances</i>	(15,621)	(76,932)	(92,553)
Transfers In	-	50,000	50,000
<i>Change in Net Assets</i>	(15,621)	(26,932)	(42,553)
<i>Net Assets, Beginning of Year</i>	32,315	259,565	291,880
<i>Net Assets, End of Year</i>	\$ 16,694	\$ 232,633	\$ 249,327

See accompanying notes to the basic financial statements

Village of Gates Mills
Cuyahoga County
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
December 31, 2009

	<u>Agency</u>
Assets	
Investments	<u>\$ 67,567</u>
Net Assets	
Held in Trust for Building Deposits	<u>\$ 67,567</u>

See accompanying notes to the basic financial statements

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 1 – Reporting Entity

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

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

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

A. Primary Government

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 Village consists of all funds, departments, boards and agencies that are not legally separate from the Village. The primary government provides the following services to its citizens: police and fire protection, recreation, planning, zoning, street maintenance and repair, refuse collection, recycling and general administrative services.

B. Component Units

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

The Village is associated with a jointly governed organization, the East Suburban Regional Council of Governments. This organization is presented in Note 14 to the basic financial statements.

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting.

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 2 – Summary of Significant Accounting Policies (continued)

In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Village does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the Village's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government, except for fiduciary funds (the Building Bond Deposit Fund). The statements distinguish between those activities of the Village that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services, transfer from the General Fund, and loans.

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

Fund Financial Statements

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

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

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 2 – Summary of Significant Accounting Policies (continued)

B. Fund Accounting

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

Governmental Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. In 2009, the Village's major governmental funds are the General Fund, Debt Service Fund, OPWC Fund, and the Capital Improvement Fund. The Village's major funds are as follows

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

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

OPWC Fund – This fund is used to record money received from the Ohio Public Works Commission and spent on a specific capital project. In 2009 the money was used for the Old Mill Slope Failure Project at County Line Road. The project was not completed in 2009.

Capital Improvement Fund - This fund is used to track money received for and spent on capital projects unless required to be accounted for in another fund. Sources of money include royalties from Village owned gas well, sale of capital assets, advances and transfers (including Estate Tax), plus repayment of expenditures from this Fund. Expenditures are for capital projects and transfers to the General Fund and other Capital Funds when deemed necessary by Village Council.

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

Proprietary Funds

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

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

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

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 2 – Summary of Significant Accounting Policies (continued)

Fiduciary Funds

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

C. Basis of Accounting

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

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

D. Budgetary Process

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

The appropriations ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established at the fund level for all funds except the General Fund. The legal level of control for the General Fund is Payroll and Other within the three departments.

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

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

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 2 – Summary of Significant Accounting Policies (continued)

E. Cash and Investments

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

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

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

During 2009, the Village invested in a money market fund, U.S. Treasury Notes, CD's, and STAR Ohio. The U.S. Treasury Notes and CD's are reported at cost. The money market fund is recorded at the amount reported by Key Bank at December 31, 2009.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2009.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2009 was \$37,219.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation.

G. Inventory and Prepaid Items

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

H. Capital Assets

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

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 2 – Summary of Significant Accounting Policies (continued)

I. Interfund Receivables/Payables

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

J. Accumulated Leave

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

K. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

The Village's modified cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for debt service include resources restricted for the retirement of two street improvement notes totaling \$1,500,000, a \$275,000 garage addition note, and a \$520,000 note restricted for the library project. Net assets restricted for other purposes include police pension, law enforcement receipts (confiscated items, drug fines, etc), underground storage tank insurance deductible, and land conservation.

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Interfund Transactions

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

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

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 3 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The outstanding advances as of December 31, 2009 were as follows:

Wastewater Fund owes the Capital Improvement Fund \$300,000; and
OPWC Fund owes the Capital Improvement Fund \$147,675.

Note 4 – Deposits and Investments

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories (August 22, 2011), or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. U.S. Treasury Bills, Notes, and Bonds maturing 5 years from date of settlement unless the investment is matched to a specific obligation or debt of the Village, the investment is specifically approved by Council, and it will be held until its maturity.
2. Certificates of Deposit from eligible institutions.
3. No more than 25% of investment funds in No-load money market mutual funds rated in the highest category by at least one nationally recognized rating agency, investing exclusively in the same types of eligible securities as defined under 135.35 ORC.
4. Repurchase agreements for no more than 30 days with any eligible institution mentioned in Section 135.32 ORC. The market value of securities subject to a repurchase agreement must exceed the principal value of the repurchase amount by at least 2%.
5. The State Treasurer's Investment Pool (STAR Ohio).

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

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

**Village of Gates Mills
Cuyahoga County**
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 4 - Deposits and Investments (continued)

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of December 31, 2009, \$950,613 of the Village's bank balance of \$1,200,613 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

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

Investments

As of December 31, 2009, the Village had the following investments:

December 31, 2009	Carrying Value	Maturity	
Money Market	\$ 22,328	1 Day	
U.S. Treasury Notes	301,715	24 Months	July 31, 2010
CD	200,000	19 Months	February 4, 2011
3 CD's (each \$200,000)	600,000	24 Months	July 31, 2011
STAR Ohio	<u>2,252,417</u>		
Total Investments	<u>\$3,376,460</u>		
Demand Deposits	<u>627,582</u>		
Total	<u><u>\$4,004,042</u></u>		

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

The Money Market fund carries a rating of A1P1 by Moody's and Standards and Poor's and STAR Ohio carries a rating of AAAM by Standards and Poor's. The Village has no investment policy dealing with investment credit risk beyond the requirements of state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated the highest category at the time of purchase by at least one nationally recognized standard rating service.

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

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 5 – Income Taxes

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

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

Note 6 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2009 represents the collection of 2008 taxes. Real property taxes received in 2009 were levied after October 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due around January 20; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2009 represents the collection of 2008. Public utility real and tangible personal property taxes received in 2009 became a lien on December 31, 2008, were levied after October 1, 2008, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property assessments have been phased out. They were reduced to 6.25 percent for 2008, and zero for 2009. Tangible personal property tax is assessed by the property owners for 2008 and only against local and inter-exchange telephone companies for 2009, who must file a list of such property to the County by each April 30.

The full tax rate for all Village operations for the year ended December 31, 2009, was \$21.13 per \$1,000 of market value as assigned by the County Auditor. The assessed values of real property, public utility property, and tangible personal property upon which 2009 property tax receipts were based are as follows:

	2009
Real Estate , Agriculture, Residential	\$216,005,960
Other Real Estate	5,193,340
Public Utility Tangible	1,716,010
Tangible Personal Property	254,540
Total Assessed Value	<u><u>\$223,169,850</u></u>

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 7 – Risk Management

The Village has obtained commercial insurance for the following risks:

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

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

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

Note 8 – Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans.

The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan.

The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2009, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

The 2009 member contribution rates were 10% for members in state and local classifications. Public safety and law enforcement members contributed 10.1%. The 2009 employer contribution rate for state and local employers was 14% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2009 was 17.63%.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2009, 2008, and 2007 were \$162,555, \$178,187, and \$164,346, respectively. The full amount has been contributed for all three years.

**Village of Gates Mills
Cuyahoga County**
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 8 – Defined Benefit Pension Plans (continued)

B. Ohio Police and Fire Pension Fund

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2009, members of OP&F contributed 10% of their wages to OP&F and the Village contributed an amount equal to 19.5% of their wages. The Village's required contributions to the Fund for the years ended December 31, 2009, 2008, and 2007 were \$142,958, \$137,535, and \$139,726, respectively. The full amount has been contributed for all three years.

Note 9 - Postemployment Benefits

A. Ohio Public Employees Retirement System

Plan Description

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension 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-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit 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 45.

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009, state and local employers contributed at a rate of 14% of covered payroll, and public safety and law enforcement employers contributed at 17.63%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB Plan.

**Village of Gates Mills
Cuyahoga County**
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 9 - Postemployment Benefits (continued)

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits.

The portion of employer contributions allocated to health care was 7.00% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Village's contributions allocated to fund postemployment healthcare benefits for the years ended December 31, 2009, 2008, and 2007 were \$67,872, \$89,094 and \$102,136, respectively. The full amount has been contributed for all years.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

Plan Description

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

The Ohio Police and Fire Pension Fund (OP&F) provides post-retirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. The healthcare coverage provided by OP&F meets the definition of an Other Post-employment Benefits (OPEB) as described in GASB Statement 45.

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

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.

Funding Policy

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 9 - Postemployment Benefits (continued)

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2009, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Section 115 and 401(h).

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

The Village's contributions to OP&F for the years ending December 31, 2009, 2008, and 2007 which were allocated to fund postemployment healthcare benefits were \$47,938, \$47,587 and \$48,345, respectively.

Note 10 – Notes Payable

The Village's notes outstanding for the year ended December 31, 2009, was as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Balance 1/1/2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2009</u>
Library Note	2%	\$560,000	\$520,000	\$560,000	\$520,000
Service Garage Note	2%	275,000	275,000	275,000	275,000
Street Improvement Note	2%	1,400,000	1,200,000	1,400,000	1,200,000
Gates Mills Boulevard Note	2%	300,000	300,000	300,000	300,000
Total		<u>\$2,535,000</u>	<u>\$2,295,000</u>	<u>\$2,535,000</u>	<u>\$2,295,000</u>

The above Notes are all due in 2010 and are collateralized by the Village's taxing authority.

Note 11 – Debt

The Village's long term debt outstanding for the year ended December 31, 2009 was as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Balance 1/1/2009</u>	<u>Deletions</u>	<u>Balance 12/31/2009</u>
OWDA, 1998	6.51%	\$2,102,718	(\$179,151)	\$1,923,567
OWDA, 1999	5.86%	2,454,258	(165,136)	2,289,122
OPWC Loan, 1995	0%	913,580	(83,052)	830,528
OPWC Loan, 2001	0%	240,500	(19,240)	221,260
Total		<u>\$5,711,056</u>	<u>(\$446,579)</u>	<u>\$5,264,477</u>

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

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

Note 11 – Debt (continued)

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

<u>Year Ending December 31</u>	<u>OWDA Loans</u>	<u>OPWC Loans</u>	<u>Total</u>
2010	\$624,994	\$102,293	\$727,287
2011	624,994	102,293	727,287
2012	624,994	102,293	727,287
2013	624,994	102,293	727,287
2014	624,994	102,293	727,287
2015-2019	2,492,894	511,464	3,004,358
2020-2021	0	28,859	28,859
Total	<u>\$5,617,864</u>	<u>\$1,051,788</u>	<u>\$6,669,652</u>

Note 12 – Interfund Transfers

During 2009 the following transfers were made:

Transfers from the General Fund to	
Capital Improvement Fund	\$1,990,619
Water Fund	50,000
Other Governmental Funds	91,000
Total Transfers from the General Fund	<u>\$2,131,619</u>

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

Note 13 – Contingent Liabilities

The Village is not a defendant in any lawsuits.

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

Note 14 – Jointly Governed Organization

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

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

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2008
(Unaudited)**

This discussion and analysis of the Village of Gates Mills, Cuyahoga County, Ohio (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2008, within the limitations of the Village's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2008 are as follows:

Net assets of governmental activities decreased \$1,898,254, or 56 percent, a significant change from 2007. Over two million dollars was spent on roads and culverts, including engineering expenses related to them. In addition the outstanding loan balance decreased almost one million dollars. Federal Grant money plus money from the county was received for the Gates Mills Road project and was used to pay down the Gates Mills Boulevard loan making the balance in that loan comparable to the Village's portion of the expense to resurface and repair Gates Mills Boulevard.

The Village's general receipts are primarily property, municipal income and estate taxes. Excluding the issuance of a note, these receipts represent 74 percent of the total cash received for governmental activities during the year. Property tax decreased 3% in 2008 but income tax receipts increased 13% for 2008. Estate taxes decreased 50% when compared to 2007. Municipal tax and Estate tax have fluctuated in the past, making budgeting a challenge.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

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

Reporting the Village as a Whole

The statement of net assets and the statement of activities reflect how the Village did financially during 2008, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Village's general receipts.

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

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

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

Business-type activities. The Village has two business-type activities, the provision of water and wastewater. The water and wastewater activities are financed by fees charged to the customers receiving the service and transfers from the General Fund.

Reporting the Village's Most Significant Funds

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

Governmental Funds - Most of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2008
(Unaudited)**

programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. In 2008, the Village's major governmental funds are the General Fund, Debt Service Fund, Capital Improvement Fund, and Federal Grant Fund.

Proprietary Funds – When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The Village has two enterprise funds, the Water and Wastewater funds. In this report the words “Proprietary” and “Enterprise” are interchangeable, referring to the same funds.

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

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2008 compared to 2007 on a modified cash basis:

**Table 1
Net Assets 2008 and 2007**

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Assets						
Cash and Cash Equivalent:	\$ 312,885	\$ 949,667	\$ 30,890	\$ -	\$ 343,775	\$ 949,667
Investments	3,069,004	533,968	302,989	291,880	3,371,993	825,848
Total Assets	\$3,381,889	\$1,483,635	\$333,879	\$291,880	\$3,715,768	\$ 1,775,515
Net Assets						
Restricted for:						
Debt Service	\$ 12,270	\$ 35,656	\$ -	\$ -	\$ 12,270	\$ 35,656
Capital Outlay	1,815,866	153,450	-	-	1,815,866	153,450
Other Purposes	116,626	191,540	-	-	116,626	191,540
Unrestricted	1,437,127	1,102,989	333,879	291,880	1,771,006	1,394,869
Total Net Assets	\$3,381,889	\$1,483,635	\$ 333,879	\$ 291,880	\$3,715,768	\$ 1,775,515

In 2008, net assets of governmental activities decreased \$1,898,254 or 56 percent, a significant change from the prior year. This was the result of a partial repayment of Gates Mills Boulevard resurfacing loan of \$615,000 and abnormal road and culvert repair and resurface expenditures totaling \$2,093,100 compared to only \$219,755 in 2007.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2008
(Unaudited)**

Table 2 reflects the changes in net assets in 2008 and 2007.

**Table 2
Changes in Net Assets**

	Governmental Activities 2007	Business Type Activities 2007	Governmental Activities 2008	Business Type Activities 2008	Total 2007	Total 2008
Receipts:						
Program Receipts:						
Charges for Services and Sales	\$447,409	\$793,537	\$595,246	\$658,706	\$1,240,946	\$1,253,952
Operating Grants and Contributions	33,193		40,876		33,193	40,876
Capital Grants and Contributions	108,100		373,616		108,100	373,616
Total Program Receipts	588,702	793,537	1,009,738	658,706	1,382,239	1,668,444
General Receipts:						
Property Taxes	2,418,050		2,342,605		2,418,050	2,342,605
Income Taxes	1,615,807		1,820,306		1,615,807	1,820,306
Estate Taxes	1,097,105		544,793		1,097,105	544,793
Grants & Entitlements Not Restricted to Specific Programs	564,912		565,008		564,912	565,008
Notes issued	3,400,000		2,535,000		3,400,000	2,535,000
Premium on Debt Issue			27,277			27,277
Sale of Capital Assets	6,501				6,501	
Interest	136,111		102,284		136,111	102,284
Miscellaneous	2,565				2,565	
Total General Receipts	9,241,051		7,937,273		9,241,051	7,937,273
Total Receipts	9,829,753	793,537	8,947,011	658,706	10,623,290	9,605,717
Disbursements:						
General Government	1,292,120		1,485,010		1,292,120	1,485,010
Security of Persons and Property	1,511,501		1,582,902		1,511,501	1,582,902
Public Health Services	11,489		9,608		11,489	9,608
Leisure Time Activities	316,163		301,141		316,163	301,141
Community Environment	2,518		3,626		2,518	3,626
Basic Utility	306,678		322,377		306,678	322,377
Transportation	1,099,683		1,066,366		1,099,683	1,066,366
Capital Outlay	439,470		2,556,279		439,470	2,556,279
Principal Retirement	2,925,000		3,403,891		2,925,000	3,403,891
Interest & Fiscal Charges	46,208		59,525		46,208	59,525
Downtown		316,561			316,561	
Water		724,241		731,812	724,241	731,812
Wastewater		24,266		23,433	24,266	23,433
Total Disbursements	7,950,830	1,065,068	10,790,725	755,245	9,015,898	11,545,970
Excess (Deficiency) Before Transfers	1,878,923	(271,531)	(1,843,714)	(96,539)	1,607,395	(1,940,253)
Advances	(50,000)	50,000	15,460	(15,460)		
Transfers	(64,000)	64,000	(70,000)	70,000		
Increase in Net Assets	1,764,923	(157,531)	(1,898,254)	(41,999)	1,607,395	(1,940,253)
Net Assets, January 1,	1,616,966	491,410	3,381,889	333,879	2,108,373	3,715,768
Net Assets, December 31,	\$3,381,889	\$333,879	\$1,483,635	\$291,880	\$3,715,768	\$1,775,515

**VILLAGE OF GATES MILLS
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For 2008 - Receipts:

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

The significant general receipts are property, income, and estate taxes and state and federal grants and entitlements. Except for receipts from Notes issued, other receipts are very insignificant and somewhat unpredictable revenue sources.

For 2008 - Disbursements

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

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

Public Health Services are cemetery costs.

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

Community Environment is the cost of providing building inspections.

Basic Utility Service is the cost of trash hauling, street lighting, and maintaining ditches.

Transportation is the cost of maintaining the roads, bridges, and guardrails along with the cost of maintaining the Service Department's equipment.

Government Activities

On the Statement of Activities the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for general government, transportation, security of persons and property, and capital outlay. The next three columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for service and grants received by the Village that must be used to provide a specific service. The Net (Disbursement) column compares the program receipts to the cost of the service. This "total" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2008
(Unaudited)**

**Table 3
Governmental Activities**

	Total Cost Of Services 2007	Net Cost Of Services 2007	Total Cost Of Services 2008	Net Cost Of Services 2008
General Government	\$1,292,120	(\$1,033,460)	\$1,485,010	(\$975,476)
Security of Persons and Property	1,511,501	(1,511,501)	1,582,902	(1,576,327)
Public Health Services	11,489	(4,789)	9,608	(6,808)
Leisure Time Activities	316,163	(211,936)	301,141	(209,593)
Community Environment	2,518	(2,518)	3,626	(3,626)
Basic Utility Services	306,678	(306,678)	322,377	(322,377)
Transportation	1,099,683	(1,099,683)	1,066,366	(1,066,366)
Capital Outlay	439,470	(220,355)	2,556,279	(2,156,998)
Principal Retirement	2,925,000	(2,925,000)	3,403,891	(3,403,891)
Interest and Fiscal Charges	46,208	(46,208)	59,525	(59,525)
Total Expenses	\$7,950,830	(\$7,362,128)	\$10,790,725	(\$9,780,987)

Business-Type Activities

The water and wastewater operations of the Village are relatively small and are supplemented by transfers from the General Fund. The major activity in the Water Fund is the payment of debt financed by assessments collected by the County Auditor.

The Village's Funds

For 2008:

Total governmental funds, excluding transfers and advances, had receipts of \$8,947,011 and disbursements of \$10,790,725. The most significant change within governmental funds occurred within the Capital Improvement Fund. The fund balance decreased \$1,550,459 as the result of resurfacing/repairing Gates Mills Boulevard which was delayed from 2007 and other culvert and road repairs which were previously delayed or scheduled. The average amount budgeted for these expenses is between \$400,000 and \$500,000 each year.

General Fund Budgeting Highlights

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

For 2008:

The Village amended its General Fund budget a few times to reflect changing circumstances. Final total budgeted receipts were more than expected. Municipal income tax was approximately \$320,300 more than originally budgeted. Actual property tax received was \$20,741 less than budgeted but in 2007 actual was \$76,880 more than budgeted. These variances could be the results of the timing of receipts by the County.

**VILLAGE OF GATES MILLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2008
(Unaudited)**

Capital Assets and Debt

The Village maintains a listing of its capital assets and infrastructure. It is updated by Industrial Appraisal Company annually.

As of December 31, 2008, the Village's outstanding principal on all loans and notes was \$8,246,056. Of this amount:

- \$4,556,976 is for 2 loans with the Ohio Water Development Authority (OWDA) that are secured by assessments. These loans were for a water project which began in 1995.
- \$913,580 is for a non interest loan with the Ohio Public Works Commission (OPWC), also for the water project.
- \$240,500 is for a non interest loan with OPWC for a wastewater project.
- \$1,400,000 is for a Street Improvement Note with Key Bank which is renewed annually. Principal payments began in 2006 as required.
- \$560,000 is for a Library Note with Key Bank which is renewable annually. Currently it is renewed for the amount not collected in donations.
- \$275,000 is for a Service Garage Addition Note with Key Bank which is renewable annually. Principal payments will be required in 2011.
- \$300,000 is for a Gates Mills Boulevard Street Note with Key Bank which is renewed annually. Principal payments will be required in 2013.

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

Current Issues

Generally the reason the liquidity of the Village is challenged is due to the fact that the Administration, based on input from residents, actively renovated a blighted downtown district. Part of the project was funded by donations; part by advances (converted in 2008 to transfers) from other funds; part by rental income. Another major reason was that the Administration chose to provide safety for its residents by installing waterlines throughout the village. In addition, costs have risen faster than income.

The goal of the Village is to provide quality services to the public while staying within the restrictions imposed by limited funding. There is no industry to support the tax base. The income from the outside levies is fixed, yet the expenses have been growing with inflation. The Village's current concern is that streets and culverts are deteriorating and costly repairs or replacements are needed in the very near future. A new tax levy to be used only for Streets and Culverts was proposed to the voters twice in 2008, and both times it failed. Council has found other sources of income, including gas wells and charging for services, but the estimated future costs far exceed the estimated income. Therefore, Council addressed the issue when budgeting for 2009. Cost cuts that would not affect the health, safety, and welfare of the residents were made. These cuts will be reflected in next year's financial report.

Contacting the Village's Financial Management

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

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Village of Gates Mills
Cuyahoga County
Statement of Net Assets - Modified Cash Basis
December 31, 2008

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 949,667	\$ -	\$ 949,667
Investments	533,968	291,880	825,848
<i>Total Assets</i>	\$ 1,483,635	\$ 291,880	\$ 1,775,515
Net Assets			
Restricted for:			
Capital Projects	\$ 153,450	\$ -	\$ 153,450
Debt Service	35,656	-	35,656
Other Purposes	191,540	-	191,540
Unrestricted	1,102,989	291,880	1,394,869
<i>Total Net Assets</i>	\$ 1,483,635	\$ 291,880	\$ 1,775,515

See accompanying notes to the basic financial statements

Village of Gates Mills
Cuyahoga County
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2008

	General	Debt Service Fund	Capital Improvement Fund	Federal Grant Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 949,667	\$ -	\$ -	\$ -	\$ -	\$ 949,667
Investments	153,322	35,656	153,450	-	191,540	533,968
Total Assets	\$ 1,102,989	\$ 35,656	\$ 153,450	\$ -	\$ 191,540	\$ 1,483,635
Fund Balances						
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	\$ 1,102,989	\$ -	\$ -	\$ -	\$ -	\$ 1,102,989
Special Revenue Funds	-	-	-	-	122,719	122,719
Debt Service Fund	-	35,656	-	-	-	35,656
Capital Projects Funds	-	-	153,450	-	-	153,450
Permanent Fund	-	-	-	-	68,821	68,821
Total Fund Balances	\$ 1,102,989	\$ 35,656	\$ 153,450	\$ -	\$ 191,540	\$ 1,483,635

See accompanying notes to the basic financial statements

Village of Gates Mills
Cuyahoga County
Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2008

	General	Debt Service Fund	Capital Improvement Fund	Federal Grant Fund	Other Governmental Funds	Total Governmental Funds
Receipts						
Municipal Income Taxes	\$ 1,820,306	\$ -	\$ -	\$ -	\$ -	\$ 1,820,306
Property and Other Local Taxes	2,091,003	-	-	-	251,602	2,342,605
Charges for Services	280,055	-	131,091	-	60,047	471,193
Fines, Licenses and Permits	96,702	-	-	-	-	96,702
Intergovernmental	960,493	-	-	364,537	157,569	1,482,599
Special Assessments	25,665	-	-	-	-	25,665
Interest	98,712	-	-	-	3,572	102,284
Donations	-	-	-	-	43,380	43,380
<i>Total Receipts</i>	<u>5,372,936</u>	<u>-</u>	<u>131,091</u>	<u>364,537</u>	<u>516,170</u>	<u>6,384,734</u>
Disbursements						
Current:						
General Government	1,462,780	-	-	-	22,230	1,485,010
Security of Persons and Property	1,427,539	-	-	-	155,363	1,582,902
Public Health Services	-	-	-	-	9,608	9,608
Leisure Time Activities	9,743	-	-	-	291,398	301,141
Community Environment	3,626	-	-	-	-	3,626
Basic Utility Services	322,377	-	-	-	-	322,377
Transportation	962,566	-	-	-	103,800	1,066,366
Capital Outlay	-	-	2,191,742	364,537	-	2,556,279
Debt Service:						
Principal Retirement	-	2,538,891	815,000	-	50,000	3,403,891
Interest and Fiscal Charges	-	-	35,061	-	24,464	59,525
<i>Total Disbursements</i>	<u>4,188,631</u>	<u>2,538,891</u>	<u>3,041,803</u>	<u>364,537</u>	<u>656,863</u>	<u>10,790,725</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,184,305</u>	<u>(2,538,891)</u>	<u>(2,910,712)</u>	<u>-</u>	<u>(140,693)</u>	<u>(4,405,991)</u>
Other Financing Sources (Uses)						
Notes Issued	-	2,535,000	-	-	-	2,535,000
Premium on Debt Issue	-	27,277	-	-	-	27,277
Transfers In	-	-	1,344,793	-	103,650	1,448,443
Transfers Out	(1,518,443)	-	-	-	-	(1,518,443)
Advances In	-	-	65,460	-	-	65,460
Advances Out	-	-	(50,000)	-	-	(50,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,518,443)</u>	<u>2,562,277</u>	<u>1,360,253</u>	<u>-</u>	<u>103,650</u>	<u>2,507,737</u>
<i>Net Change in Fund Balances</i>	<u>(334,138)</u>	<u>23,386</u>	<u>(1,550,459)</u>	<u>-</u>	<u>(37,043)</u>	<u>(1,898,254)</u>
<i>Fund Balances, Beginning of Year</i>	<u>1,437,127</u>	<u>12,270</u>	<u>1,703,909</u>	<u>-</u>	<u>228,583</u>	<u>3,381,889</u>
<i>Fund Balances, End of Year</i>	<u>\$ 1,102,989</u>	<u>\$ 35,656</u>	<u>\$ 153,450</u>	<u>\$ -</u>	<u>\$ 191,540</u>	<u>\$ 1,483,635</u>

See accompanying notes to the basic financial statements

Village of Gates Mills
Cuyahoga County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Municipal Income Taxes	\$ 1,500,000	\$ 1,576,000	\$ 1,820,306	\$ 244,306
Property and Other Local Taxes	2,150,000	2,110,000	2,091,003	(18,997)
Special Assessments	25,700	25,700	25,665	(35)
Charges for Services	160,100	287,100	280,055	(7,045)
Fines, Licenses and Permits	144,080	144,080	96,702	(47,378)
Intergovernmental	402,320	987,113	960,493	(26,620)
Interest	75,000	75,000	98,712	23,712
<i>Total Receipts</i>	4,457,200	5,204,993	5,372,936	167,943
Disbursements				
Current:				
General Government	1,415,000	1,521,632	1,462,780	58,852
Security of Persons and Property	1,462,700	1,467,700	1,427,539	40,161
Leisure Time Activities	10,500	9,770	9,743	27
Community Environment	5,000	4,000	3,626	374
Basic Utility Services	337,600	322,892	322,377	515
Transportation	926,200	995,106	962,566	32,540
<i>Total Disbursements</i>	4,157,000	4,321,100	4,188,631	132,469
<i>Excess of Receipts Over Disbursements</i>	300,200	883,893	1,184,305	300,412
Other Financing (Uses)				
Transfers Out	(172,000)	(1,518,800)	(1,518,443)	357
<i>Net Change in Fund Balance</i>	128,200	(634,907)	(334,138)	300,769
<i>Fund Balance, Beginning of Year</i>	1,437,127	1,437,127	1,437,127	
<i>Fund Balance, End of Year</i>	\$ 1,565,327	\$ 802,220	\$ 1,102,989	\$ 300,769

See accompanying notes to the basic financial statements

Village of Gates Mills
Cuyahoga County
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
December 31, 2008

	Business-Type Activities			Total Proprietary Funds
	Wastewater Fund	Water Fund	Downtown Trust Fund	
Assets				
Investments	\$ 32,315	\$ 259,565	\$ -	\$ 291,880
Net Assets				
Unrestricted	\$ 32,315	\$ 259,565	\$ -	\$ 291,880

See accompanying notes to the basic financial statements

Village of Gates Mills
Cuyahoga County
Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2008

	Business-Type Activities			Total Proprietary Funds
	Wastewater Fund	Water Fund	Downtown Trust Fund	
Operating Receipts				
Charges for Services	\$ 6,950	\$ 21,982	\$ -	\$ 28,932
Operating Disbursements				
Contractual Services	-	17,546	-	17,546
Materials and Supplies	4,193	-	-	4,193
<i>Total Operating Disbursements</i>	<u>4,193</u>	<u>17,546</u>	<u>-</u>	<u>21,739</u>
<i>Operating Income</i>	<u>2,757</u>	<u>4,436</u>	<u>-</u>	<u>7,193</u>
Non-Operating Receipts (Disbursements)				
Special Assessments	-	629,774	-	629,774
Principal Payments	(19,240)	(407,249)	-	(426,489)
Interest and Fiscal Charges	-	(300,798)	-	(300,798)
Other	-	(6,219)	-	(6,219)
<i>Income (Loss) before Transfers and Advances</i>	<u>(16,483)</u>	<u>(80,056)</u>	<u>-</u>	<u>(96,539)</u>
Advances In	-	-	50,000	50,000
Advances Out	-	-	(65,460)	(65,460)
Transfers In	-	70,000	-	70,000
<i>Change in Net Assets</i>	<u>(16,483)</u>	<u>(10,056)</u>	<u>(15,460)</u>	<u>(41,999)</u>
<i>Net Assets, Beginning of Year</i>	<u>48,798</u>	<u>269,621</u>	<u>15,460</u>	<u>333,879</u>
<i>Net Assets, End of Year</i>	<u>\$ 32,315</u>	<u>\$ 259,565</u>	<u>\$ -</u>	<u>\$ 291,880</u>

See accompanying notes to the basic financial statements

Village of Gates Mills
Cuyahoga County
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
December 31, 2008

	<u>Agency</u>
Assets	
Investments	<u>\$ 79,416</u>
Net Assets	
Held in Trust for Building Deposits	<u>\$ 79,416</u>

See accompanying notes to the basic financial statements

**Village of Gates Mills
Cuyahoga County**
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 1 – Reporting Entity

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

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

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

A. Primary Government

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 Village consists of all funds, departments, boards and agencies that are not legally separate from the Village. The primary government provides the following services to its citizens: police and fire protection, recreation, planning, zoning, street maintenance and repair, refuse collection, recycling and general administrative services.

B. Component Units

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

The Village is associated with a jointly governed organization, the East Suburban Regional Council of Governments. This organization is presented in Note 15 to the basic financial statements.

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting.

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 2 – Summary of Significant Accounting Policies (continued)

In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Village does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the Village's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government, except for fiduciary funds (the Building Bond Deposit Fund). The statements distinguish between those activities of the Village that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services, transfer from the General Fund, and loans.

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

Fund Financial Statements

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

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

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 2 – Summary of Significant Accounting Policies (continued)

B. Fund Accounting

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

Governmental Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. In 2008, the Village's major governmental funds are the General Fund, Debt Service Fund, Federal Grant Fund, and the Capital Improvement Fund. The Village's major funds are as follows

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

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

Federal Grant Fund – This fund is used to record money received from a Federal Grant and spent on a capital project. In 2008 the money was used to resurface Gates Mills Boulevard.

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

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

Proprietary Funds

The Village classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as enterprise. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Village's major funds are the Water and the Wastewater Funds. Before 2008 the Historic Downtown Trust Fund was classified as a Proprietary fund. Based on the auditor's suggestion the operation of the Mills Building is now recorded in the General Fund – Service Department.

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

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

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 2 – Summary of Significant Accounting Policies (continued)

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

Fiduciary Funds

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

C. Basis of Accounting

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

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

D. Budgetary Process

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

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

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

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

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 2 – Summary of Significant Accounting Policies (continued)

E. Cash and Investments

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

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

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

During 2008, the Village invested in a money market fund, U.S. Treasury Notes and STAR Ohio. The U.S. Treasury Notes are reported at cost. The money market fund is recorded at the amount reported by Key Bank at December 31, 2008.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2008.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2008 was \$98,712.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation.

G. Inventory and Prepaid Items

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

H. Capital Assets

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

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 2 – Summary of Significant Accounting Policies (continued)

I. Interfund Receivables/Payables

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

J. Accumulated Leave

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

K. Employer Contributions to Cost-Sharing Pension Plans

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

L. Long-Term Obligations

The Village's modified cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for debt service include resources restricted for the retirement of two street improvement notes totaling \$1,700,000, a \$275,000 garage addition note, and a \$560,000 note restricted for the library project. Net assets restricted for other purposes include police pension, law enforcement receipts (confiscated items, drug fines, etc), underground storage tank insurance deductible, and land conservation.

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Interfund Transactions

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

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

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 3 – Change in Fund Classification

During 2008, it was determined that the Historic Downtown Trust Fund would no longer be used to report the activity of the Mills Building which is owned and rented out by the Village. The transactions are now reported as part of governmental activities (General Fund) instead of business type activities.

Note 4 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The outstanding advances as of December 31, 2008 were as follows:

Wastewater Fund owes the Capital Improvement Fund \$300,000

The outstanding Advances of the Downtown Fund were converted to Transfers in 2008.

Note 5 – Deposits and Investments

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories (August 22, 2011), or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. U.S. Treasury Bills, Notes, and Bonds maturing 5 years from date of settlement unless the investment is matched to a specific obligation or debt of the Village, the investment is specifically approved by Council, and it will be held until its maturity.
2. Certificates of Deposit from eligible institutions.
3. No more than 25% of investment funds in No-load money market mutual funds rated in the highest category by at least one nationally recognized rating agency, investing exclusively in the same types of eligible securities as defined under 135.35 ORC.
4. Repurchase agreements for no more than 30 days with any eligible institution mentioned in Section 135.32 ORC. The market value of securities subject to a repurchase agreement must exceed the principal value of the repurchase amount by at least 2%.
5. The State Treasurer's Investment Pool (STAR Ohio).

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 5 - Deposits and Investments (continued)

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

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of December 31, 2008, \$506,657 of the Village's bank balance of \$756,657 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

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

Investments

As of December 31, 2008, the Village had the following investments:

	Carrying Value	Maturity	
December 31, 2008			
Money Market	\$ 17,883	1 Day	
U.S. Treasury Notes	300,592	7 Months	July 31, 2009
U.S. Treasury Notes	300,592	7 Months	July 31, 2009
U.S. Treasury Notes	304,079	19 Months	July 31, 2010
STAR Ohio	535,670		
Total Investments	<u>1,458,816</u>		
Demand Deposits	396,115		
Total	<u><u>\$1,854,931</u></u>		

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

The Money Market fund carries a rating of A1P1 by Moody's and Standards and Poor's and STAR Ohio carries a rating of AAAM by Standards and Poor's. The Village has no investment policy dealing with investment credit risk beyond the requirements of state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated the highest category at the time of purchase by at least one nationally recognized standard rating service.

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 5 - Deposits and Investments (continued)

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

Note 6 – Income Taxes

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

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

Note 7 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2008 represents the collection of 2007 taxes. Real property taxes received in 2008 were levied after October 1, 2008, on the assessed values as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2008 represents the collection of 2007. Public utility real and tangible personal property taxes received in 2008 became a lien on December 31, 2007, were levied after October 1, 2007, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2008 (other than public utility property) represent the collection of 2007 taxes. Tangible personal property taxes received in 2008 were levied after October 1, 2007, on the true value as of December 31, 2007. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2008 is 6.25 percent, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 7 – Property Taxes (continued)

The full tax rate for all Village operations for the year ended December 31, 2008, was \$18.73 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2008 property tax receipts were based are as follows:

	2008
Real Estate , Agriculture, Residential	\$214,941,790
Other Real Estate	5,019,030
Public Utility Tangible	1,558,520
Tangible Personal Property	276,225
Total Assessed Value	\$221,795,565

Note 8 – Risk Management

The Village has obtained commercial insurance for the following risks:

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

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

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

Note 9 – Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans.

The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan.

The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

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

**Village of Gates Mills
Cuyahoga County**
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 9 – Defined Benefit Pension Plans (continued)

The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2008, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

The 2008 member contribution rates were 10.0% for members in state and local classifications. Public safety and law enforcement members contributed 10.1%. The 2008 employer contribution rate for state and local employers was 14.00% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2008 was 17.40%. The Village has paid all contributions required through December 31, 2008.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2008, 2007, and 2006 were \$178,187, \$164,346, and \$148,287, respectively. The full amount has been contributed for all three years.

B. Ohio Police and Fire Pension Fund

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2008, members of OP&F contributed 10% of their wages to OP&F and the Village contributed an amount equal to 19.5% and 24% respectively for police officers and firefighters. The Village's required contributions to the Fund for the years ended December 31, 2008, 2007, and 2006 were \$137,535, \$139,726, and \$142,691, respectively. The full amount has been contributed for all three years.

Note 10 - Postemployment Benefits

A. Ohio Public Employees Retirement System

Plan Description

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

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension 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-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit 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 45.

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 10 - Postemployment Benefits (continued)

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008, state and local employers contributed at a rate of 14.00% of covered payroll, and public safety and law enforcement employers contributed at 17.40%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2008, the employer contribution allocated to the health care plan was 7.0% of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Village's contributions allocated to fund postemployment healthcare benefits for the years ended December 31, 2008, 2007, and 2006 were \$89,094, \$102,136 and \$92,155, respectively. The full amount has been contributed for all years.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

Plan Description

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 10 - Postemployment Benefits (continued)

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

Funding Policy

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2008, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The Village's contributions to OP&F for the years ending December 31, 2008, 2007, and 2006 which were allocated to fund postemployment healthcare benefits were \$47,587, \$48,345 and \$49,371, respectively.

Note 11 – Notes Payable

The Village's notes outstanding for the year ended December 31, 2008, was as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Balance 1/1/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2008</u>
Library Note	3.25%	\$610,000	\$560,000	\$610,000	\$560,000
Service Garage Note	3.25%	275,000	275,000	275,000	275,000
Street Improvement Note	3.25%	1,600,000	1,400,000	1,600,000	1,400,000
Gates Mills Boulevard Note	3.25%	915,000	300,000	915,000	300,000
Total		<u>\$3,400,000</u>	<u>\$2,535,000</u>	<u>\$3,400,000</u>	<u>\$2,535,000</u>

The above Notes are all due in 2009 and are collateralized by the Village's taxing authority.

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 12 – Debt

The Village's long term debt outstanding for the year ended December 31, 2008, was as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Balance 1/1/2008</u>	<u>Deletions</u>	<u>Balance 12/31/2008</u>
OWDA, 1998	6.51%	\$2,270,919	(\$168,201)	\$2,102,718
OWDA, 1999	5.86%	2,610,253	(155,995)	2,454,258
OPWC Loan, 1995	0%	996,633	(83,053)	913,580
OPWC Loan, 2001	0%	259,740	(19,240)	240,500
Total		<u>\$6,137,545</u>	<u>(\$426,489)</u>	<u>\$5,711,056</u>

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

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

<u>Year Ending December 31</u>	<u>OWDA Loans</u>	<u>OPWC Loans</u>	<u>Total</u>
2009	\$624,994	\$102,293	\$727,287
2010	624,994	102,293	727,287
2011	624,994	102,293	727,287
2012	624,994	102,293	727,287
2013	624,994	102,293	727,287
2014-2018	2,808,932	511,464	3,320,396
2019-2021	308,956	131,151	440,107
Total	<u>\$6,242,858</u>	<u>\$1,154,080</u>	<u>\$7,396,938</u>

Note 13 – Interfund Transfers

During 2008 the following transfers were made:

Transfers from the General Fund to	
Capital Improvement Fund	\$1,344,793
Water Fund	70,000
Other Governmental Funds	103,650
Total Transfers from the General Fund	<u>\$1,518,443</u>

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

Note 14 – Contingent Liabilities

The Village is not a defendant in any lawsuits.

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

Village of Gates Mills
Cuyahoga County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

Note 15 – Jointly Governed Organization

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

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

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Mary Taylor, CPA

Auditor of State

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

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

To the Members of Village Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Gates Mills, Cuyahoga County, Ohio (the Village) as of and for the years ended December 31, 2009 and 2008, which collectively comprise the Village's basic financial statements and have issued our report thereon dated September 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

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

We did note a certain matter not requiring inclusion in this report that we reported to the Village's management in a separate letter dated September 7, 2010.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 7, 2010

**VILLAGE OF GATES MILLS
 CUYAHOGA COUNTY
 SCHEDULE OF PRIOR AUDIT FINDINGS
 DECEMBER 31, 2009 AND DECEMBER 31, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	While Ohio Rev. Code Section 5705.41(D)(1) allows the Village to utilize the "then and now" certificates for legal compliance it is not adequate internal control since it does not occur prior to or at the time that the contract or order involving such expenditure was made. As a result, the Village cannot ensure the sufficiency of appropriations available to cover expenditures.	No	Not Corrected, reported in 2009 management letter.

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Mary Taylor, CPA
Auditor of State

VILLAGE OF GATES MILLS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 21, 2010**