



Dave Yost • Auditor of State



**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Richmond Heights, Cuyahoga County, Ohio (the City), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Richmond Heights, Cuyahoga County, Ohio, as of December 31, 2012 and 2011, and the respective changes in financial position thereof and the respective budgetary comparisons for the General and Fire Service funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 3 to the financial statements for the year ended December 31, 2011, during 2011, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We did not modify our opinion regarding these matters.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

April 1, 2014

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
UNAUDITED**

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The discussion and analysis of the City of Richmond Heights' financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for 2012 are as follows:

- In total, net position in governmental activities increased by \$1,196,464 during 2012. This represents an 8 percent increase from 2011.
- The assets of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$16,752,046.
- City income tax revenue totaled \$4,767,385.

**Using This Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City of Richmond Heights as a financial whole or as an entire operating entity. The statements provide a detailed look at the City's specific financial conditions.

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

**Reporting the City of Richmond Heights as a Whole**

*Statement of Net Position and the Statement of Activities*

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole considers all financial transactions and asks the question, "How did we do financially during 2012?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting method used by the private sector. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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These two statements report the City's net position and the changes in that net position. The change in net position is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets also need to be evaluated.

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

- Assets
- Deferred Outflows of Resources
- Liabilities
- Deferred Inflows of Resources
- Net Position (Assets and Deferred Outflows of Resources minus Liabilities and Deferred Inflows of Resources)
- Program Expenses and Revenues
- General Revenues
- Net Position Beginning of Year and Year's End

**Reporting the City of Richmond Heights' Most Significant Funds**

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The City of Richmond Heights uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds can be divided into two categories: governmental funds and fiduciary funds. The presentation of the City's major funds begins on page 13. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds, which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Richmond Heights, the major funds are the General Fund, Fire Service Special Revenue Fund and the Bond Retirement Debt Service Fund.

**Governmental Funds** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. All City activities are reported in the governmental funds focusing on how money flows into and out of those funds and the balances left at year-end available for future spending. The City's funds are reported using the modified accrual accounting method. The modified accrual method measures cash and all other financial assets expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps determine the level of financial resources that can be spent in the near future on residential services. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the City's programs. These funds use the accrual basis of accounting.

**The City of Richmond Heights as a Whole**

Recall that the Statement of Net Position pictures the City as a whole. Table 1 provides a summary of the City's net position for 2012 compared to 2011.

**Table 1 - Net Position**

	Governmental Activities	
	2012	Restated 2011
<b><u>Assets</u></b>		
Current and Other Assets	\$ 15,180,864	\$ 14,982,155
Capital Assets, Net	22,283,041	23,576,293
<b>Total Assets</b>	<b>37,463,905</b>	<b>38,558,448</b>
<b><u>Liabilities</u></b>		
Current and Other Liabilities	722,093	874,322
Long-term Liabilities	16,657,532	18,432,703
<b>Total Liabilities</b>	<b>17,379,625</b>	<b>19,307,025</b>
<b><u>Deferred Inflows of Resources</u></b>		
Property Taxes	3,326,438	3,689,321
Deferred Charges on Refunding	5,796	6,520
<b>Total Deferred Inflows of Resources</b>	<b>3,332,234</b>	<b>3,695,841</b>
<b><u>Net Position</u></b>		
Net Investment in Capital Assets	6,542,222	6,148,382
Restricted	7,733,706	7,801,986
Unrestricted	2,476,118	1,605,214
<b>Total Net Position</b>	<b>\$ 16,752,046</b>	<b>\$ 15,555,582</b>

Net position may serve as a useful indicator of a government's financial position over time. In the case of the City of Richmond Heights, assets exceeded liabilities and deferred inflows of resources by \$16,752,046 at year end. The City's net investment in capital assets accounts for 39 percent of total net position. Capital assets include land, construction in progress, land improvements, buildings, roads, water lines, storm sewer lines, sanitary sewer lines, vehicles, and machinery and equipment. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2012  
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Table 2 shows the changes in net position for the year ended December 31, 2012 compared to 2011.

	<b>Governmental Activities</b>	
	2012	2011
<b><u>Revenues</u></b>		
Program Revenues:		
Charges for Services	\$ 1,180,745	\$ 1,047,882
Operating Grants and Contributions	709,546	745,144
Capital Grants and Contributions	660,135	1,160,003
General Revenues:		
Property Taxes	3,213,858	3,884,516
Income Taxes	4,767,385	5,062,371
Other Taxes	69,388	68,598
Grants and Entitlements	994,143	1,408,546
Unrestricted Contributions	-	7,289
Investment Earnings	203,611	218,245
Miscellaneous	204,155	129,714
<b>Total Revenues</b>	<b>12,002,966</b>	<b>13,732,308</b>
<b><u>Program Expenses</u></b>		
Security of Persons and Property	5,372,843	5,543,363
Leisure Time Activities	428,954	333,595
Community Environment	633,056	547,800
Transportation	2,053,246	2,479,366
General Government	1,782,696	1,626,680
Interest and Fiscal Charges	535,707	681,503
<b>Total Program Expenses</b>	<b>10,806,502</b>	<b>11,212,307</b>
<i>Change in Net Position</i>	1,196,464	2,520,001
Net Position, Beginning of Year, restated	15,555,582	13,035,581
<b>Net Position, End of Year</b>	<b>\$ 16,752,046</b>	<b>\$ 15,555,582</b>

**Governmental Activities**

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. The City's income tax rate is two percent on gross income and has not changed since 1993. Residents of the City who work in another community and pay the withholding tax for that community receive a 100 percent tax credit on their City tax, the credit limit being 2 percent. During 2012, the revenues generated from this tax amounted to \$4,767,385.

General property taxes are also a significant source of revenues. Although this is a much more stable tax, property taxes constitute only about a third of the general revenues for the City. In addition to the general property taxes, the City has 8.7 mills for the fire service. The fire service levy provides for a portion of the operating expenditures of the fire service, the remainder of funding comes from the General Fund.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
UNAUDITED**

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Security of persons and property and transportation are two major activities of the City generating 69 percent of the governmental expenses. Currently, there are 15 full-time sworn officers in the police department. During 2012, the department continued to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology.

The fire service consists of 17 full-time and 11 part-time fire fighters. All but three of these fire fighters are fully trained paramedics. Training plays a crucial role in the day-to-day operation of the fire service. The department handled 1,623 calls for assistance of which approximately 1,291 were for EMS and the rest for fire and fire related incidents.

In 2011 several large sanitary sewer construction projects were planned or in process, with most being completed in 2012. The investment in streets was limited to those streets that experienced sanitary sewer construction or minor repair and resurfacing of various streets.

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

As of the end of the year, the City's governmental funds reported combined ending fund balance of \$2,807,400. \$1,069,185 of the ending combined fund balance for 2012 constitutes assigned and unassigned fund balance combined, which is available for spending at the government's discretion. The remainder of fund balance is non-spendable, restricted, or committed to indicate that it is not available for new spending because it is not in spendable form or it has already been restricted or committed by external or internal constraints.

Information about the City's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues (plus other financing sources) of \$15,634,840 and total expenditures (plus other financing uses) of \$14,287,665. The General Fund reflected an increase of \$472,471, increasing the beginning fund balance of \$2,554,643 to \$3,027,114.

### **General Fund Budgeting Highlights**

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

There was an increase in revenues from the final budget to actual mainly due to higher income taxes and special assessments received than expected. There was a decrease in actual expenditures made compared to the final budget. The City continues to be able to provide the services that the City residents expect while maintaining the costs of providing those services.

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2012  
 UNAUDITED**

**Capital Assets and Debt Administration**

*Capital Assets*

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

	Governmental Activities	
	2012	2011
Land	\$ 1,635,588	\$ 1,635,588
Construction-in-progress	134,019	1,113,629
Land Improvements	295,698	429,762
Buildings	7,596,917	7,854,698
Machinery and Equipments	199,963	273,351
Vehicles	256,248	378,951
Infrastructures	12,164,608	11,890,314
<b>Total Capital Assets, Net</b>	<b>\$ 22,283,041</b>	<b>\$ 23,576,293</b>

The City's plan is to maintain its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks are planned for well in advance by the respective department heads. Vehicles are maintained and inspected to ensure peak performance for the maximum time frame. The police car replacement plan is to replace three vehicles each year. The capital improvement fund has an appropriation for the purchase of two police vehicles and the ambulance billing fund has a sufficient fund balance to purchase an EMS vehicle. The Fire Department is seeking a grant to offset some of the cost of the Fire EMS vehicle.

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

The City is committed to a long-term goal of meeting the needs of its infrastructure and facilities. The City has completed construction of a Police Station and City Hall and improvements to the Fire Station. Funds for street repairs and maintenance of facilities are accumulated in the Capital Improvement Fund. See Note 12 to the basic financial statements for additional information on the City's capital assets.

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2012  
 UNAUDITED**

**Debt**

As of December 31, 2012, the City of Richmond Heights had the following debt outstanding:

**Table 4 - Outstanding Debt at December 31**

	Governmental Activities	
	2012	2011 *
General Obligation Bonds	\$ 8,459,999	\$ 9,834,999
OWDA Loans	5,183,067	5,587,854
OPWC Loan	631,899	687,655
Intergovernmental Payable	71,758	86,077
Long-Term Note	1,190,000	1,000,000
Police Pension	42,632	43,749
<b>Total Outstanding Debt</b>	<b>\$ 15,579,355</b>	<b>\$ 17,240,334</b>

\* Restated

At December 31, 2012, the City's overall legal debt margin was \$21,034,748. More detailed information about the City's long-term liabilities is presented in Note 18 to the basic financial statements.

**Current Financial Related Activities**

While maintaining a positive General Fund balance, the City of Richmond Heights continues to cope with financial challenges resulting from the decline in real estate values and overall decline in the economy. In addition, the Auditor of State in its 2010 audit of the City identified certain deficiencies in internal control over financial reporting that are considered to be material weaknesses and other deficiencies that are considered to be significant deficiencies. Management is committed to correcting these deficiencies and providing the residents of the City of Richmond Heights with full disclosure of the financial position of the City. See Note 4 to the basic financial statements for additional information on the City's accountability and compliance.

**Contacting the City's Finance Department**

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

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**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

	Governmental Activities
<b><u>ASSETS</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$ 2,072,183
Materials and Supplies Inventory	90,677
Accounts Receivable	191,196
Intergovernmental Receivable	950,093
Prepaid Items	4,133
Income Taxes Receivable	1,555,665
Property and Other Taxes Receivable	4,034,424
Special Assessments Receivable	6,282,493
Nondepreciable Capital Assets	1,769,607
Depreciable Capital Assets	20,513,434
<b>Total Assets</b>	<b>37,463,905</b>
 <b><u>LIABILITIES</u></b>	
Accounts Payable	136,299
Contracts Payable	28,953
Accrued Wages and Benefits	113,978
Intergovernmental Payable	273,432
Matured Compensated Absences Payable	4,317
Accrued Interest Payable	156,722
Retainage Payable	8,392
Long-term Liabilities:	
Due within one year	3,194,242
Due in more than one year	13,463,290
<b>Total Liabilities</b>	<b>17,379,625</b>
 <b><u>DEFERRED INFLOWS OF RESOURCES</u></b>	
Property Taxes	3,326,438
Deferral on Refunding	5,796
<b>Total Deferred Inflows of Resources</b>	<b>3,332,234</b>
 <b><u>NET POSITION</u></b>	
Net Investment in Capital Assets	6,542,222
Restricted for:	
Debt Services	6,044,943
Capital Projects	421,222
Street Construction, Maintenance and Repairs	609,402
Rescue Squad	637,106
Other Purposes	21,033
Unrestricted	2,476,118
<b>Total Net Position</b>	<b>\$ 16,752,046</b>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
<b>Primary Government:</b>					
Governmental Activities:					
Security of Persons and Property	\$ 5,372,843	\$ 427,490	\$ 97,717	\$ -	\$ (4,847,636)
Leisure Time Activities	428,954	189,962	-	-	(238,992)
Community Environment	633,056	301,536	4,000	570,643	243,123
Transportation	2,053,246	77,557	410,837	-	(1,564,852)
General Government	1,782,696	184,200	196,992	89,492	(1,312,012)
Interest and Fiscal Charges	535,707	-	-	-	(535,707)
<b>Total Governmental Activities</b>	<b>\$ 10,806,502</b>	<b>\$ 1,180,745</b>	<b>\$ 709,546</b>	<b>\$ 660,135</b>	<b>(8,256,076)</b>
<b>General Revenues:</b>					
Property Taxes levied for:					
General Purposes					927,029
Debt Service Purpose					656,961
Other Purposes					1,629,868
Income Taxes levied for:					
General Purposes					4,767,385
Other Taxes					69,388
Grants & Entitlements not restricted to specific programs					994,143
Investment Income					203,611
All Other Revenues					204,155
<b>Total General Revenues</b>					<b>9,452,540</b>
Change in Net Position					1,196,464
Net Position - Beginning of Year, restated					15,555,582
<b>Net Position - End of Year</b>					<b>\$ 16,752,046</b>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	General Fund	Fire Service	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Equity in Pooled Cash and Investments	\$ 1,108,341	\$ 85,152	\$ -	\$ 878,690	\$ 2,072,183
Materials and Supplies Inventory	8,772	4,375	-	77,530	90,677
Accounts Receivable	59,567	-	-	131,629	191,196
Interfund Receivable	1,213,090	-	-	540,040	1,753,130
Intergovernmental Receivable	435,680	99,880	55,306	359,227	950,093
Prepaid Items	4,133	-	-	-	4,133
Income Taxes Receivable	1,555,665	-	-	-	1,555,665
Property and Other Taxes Receivable	1,159,147	1,625,182	819,441	430,654	4,034,424
Special Assessments Receivable	462,904	-	5,772,890	46,699	6,282,493
<b>Total Assets</b>	<u>\$ 6,007,299</u>	<u>\$ 1,814,589</u>	<u>\$ 6,647,637</u>	<u>\$ 2,464,469</u>	<u>\$ 16,933,994</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ 112,268	\$ 1,315	\$ -	\$ 22,716	\$ 136,299
Accrued Wages and Benefits	68,004	40,829	-	5,145	113,978
Contracts Payable	-	-	-	28,953	28,953
Intergovernmental Payable	68,693	26,564	-	178,175	273,432
Matured Compensated Absences Payable	4,317	-	-	-	4,317
Retainage Payable	-	-	-	8,392	8,392
Interfund Payable	-	290,000	419,236	1,043,894	1,753,130
<b>Total Liabilities</b>	<u>253,282</u>	<u>358,708</u>	<u>419,236</u>	<u>1,287,275</u>	<u>2,318,501</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Property Taxes	953,126	1,341,734	676,736	354,842	3,326,438
Unavailable Revenue-Delinquent Property Taxes	200,680	283,448	142,705	75,812	702,645
Unavailable Revenue-Income Taxes	758,862	-	-	-	758,862
Unavailable Revenue-Special Assessments	462,904	-	5,772,890	46,699	6,282,493
Unavailable Revenue-Other	351,331	99,880	55,306	231,138	737,655
<b>Total Deferred Inflows of Resources</b>	<u>2,726,903</u>	<u>1,725,062</u>	<u>6,647,637</u>	<u>708,491</u>	<u>11,808,093</u>
<b>FUND BALANCES</b>					
Nonspendable	12,905	4,375	-	77,530	94,810
Restricted	-	-	-	854,212	854,212
Committed	46,879	-	-	742,314	789,193
Assigned	206,175	-	-	-	206,175
Unassigned	2,761,155	(273,556)	(419,236)	(1,205,353)	863,010
<b>Total Fund Balances (Deficits)</b>	<u>3,027,114</u>	<u>(269,181)</u>	<u>(419,236)</u>	<u>468,703</u>	<u>2,807,400</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 6,007,299</u>	<u>\$ 1,814,589</u>	<u>\$ 6,647,637</u>	<u>\$ 2,464,469</u>	<u>\$ 16,933,994</u>

The notes to the basic financial statements are an integral part of this statement

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
 NET POSITION OF GOVERNMENTAL ACTIVITIES  
 DECEMBER 31, 2012**

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**Total Governmental Funds Balance** \$ 2,807,400

*Amounts reported for Governmental Activities in the Statement of Net Position are different because:*

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds. 22,283,041

Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable revenue in the funds:

Delinquent Property taxes	\$	702,645	
Income taxes		758,862	
Special assessments		6,282,493	
Intergovernmental		672,655	
Charges for services		65,000	
Total		8,481,655	8,481,655

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. (156,722)

Long-term liabilities, are not due and payable in the current period and therefore, are not reported in the funds.

General Obligation Bonds Payable		(8,459,999)	
Unamortized Premiums		(198,300)	
Deferral on Refunding		(5,796)	
OWDA Loans Payable		(5,183,067)	
OPWC Loan Payable		(631,899)	
Intergovernmental Payable		(71,758)	
Long Term Note Payable		(1,190,000)	
Police Pension Liability		(42,632)	
Compensated Absences		(879,877)	
Total		(16,663,328)	(16,663,328)

**Net Position of Governmental Activities** \$ 16,752,046

The notes to the basic financial statements are an integral part of this statement.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General Fund</u>	<u>Fire Service</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>					
Property Taxes	\$ 1,152,530	\$ 1,584,295	\$ 817,317	\$ 434,200	\$ 3,988,342
Income Taxes	4,778,695	-	-	-	4,778,695
Other Taxes	69,388	-	-	-	69,388
Intergovernmental	597,829	294,285	139,229	699,803	1,731,146
Interest	-	-	203,611	-	203,611
Fees, Licenses and Permits	580,710	-	-	-	580,710
Fines and Forfeitures	-	-	-	515	515
Rentals	46,786	-	-	108,654	155,440
Charges for Services	67,792	-	-	402,277	470,069
Contributions and Donations	4,971	-	-	900	5,871
Special Assessments	62,933	-	373,633	35,942	472,508
All Other Revenues	92,474	3	-	111,678	204,155
<b>Total Revenues</b>	<u>7,454,108</u>	<u>1,878,583</u>	<u>1,533,790</u>	<u>1,793,969</u>	<u>12,660,450</u>
<b><u>EXPENDITURES</u></b>					
Security of Persons and Property	2,449,096	2,037,725	-	701,601	5,188,422
Leisure Time Activities	245,881	-	-	88,995	334,876
Community Environment	276,382	-	-	27,268	303,650
Transportation	994,986	-	-	311,743	1,306,729
General Government	1,557,682	-	3,160	63,447	1,624,289
Capital Outlay	-	-	-	307,264	307,264
Debt Service:					
Principal Retirement	-	-	2,849,862	1,117	2,850,979
Interest and Fiscal Charges	-	-	585,220	1,846	587,066
<b>Total Expenditures</b>	<u>5,524,027</u>	<u>2,037,725</u>	<u>3,438,242</u>	<u>1,503,281</u>	<u>12,503,275</u>
Excess of Revenues Over (Under) Expenditures	<u>1,930,081</u>	<u>(159,142)</u>	<u>(1,904,452)</u>	<u>290,688</u>	<u>157,175</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>					
Long Term Bond Anticipation Notes Issued	-	-	1,000,000	190,000	1,190,000
Transfers In	115,890	150,000	1,270,000	248,500	1,784,390
Transfers Out	(1,573,500)	-	-	(210,890)	(1,784,390)
<b>Total Other Financing Sources (Uses)</b>	<u>(1,457,610)</u>	<u>150,000</u>	<u>2,270,000</u>	<u>227,610</u>	<u>1,190,000</u>
Net Change in Fund Balances	472,471	(9,142)	365,548	518,298	1,347,175
Fund Balances - Beginning of Year	2,554,643	(260,039)	(784,784)	(49,595)	1,460,225
<b>Fund Balances - End of Year</b>	<u>\$ 3,027,114</u>	<u>\$ (269,181)</u>	<u>\$ (419,236)</u>	<u>\$ 468,703</u>	<u>\$ 2,807,400</u>

The notes to the basic financial statements are an integral part of this statement

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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**Net Change in Fund Balances-Total Governmental Funds** \$ 1,347,175

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

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

Capital Outlay	\$	55,897	
Depreciation		(1,349,149)	
Total			(1,293,252)

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

Delinquent Property taxes		(774,484)	
Income taxes		(11,310)	
Special assessments		(33,554)	
Intergovernmental		172,298	
Charges for services		(10,433)	
Total			(657,483)

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of Notes. (1,190,000)

Repayment of debt principal and the intergovernmental payable are expenditures in the Governmental funds, but the repayments reduce long-term liabilities in the Statement of Net Position. 2,850,979

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

Compensated absences		87,686	
Amortization of bond premiums		26,506	
Amortization of Gain on Refunding		724	
Accrued Interest		24,129	
Total			139,045

**Change in Net Position of Governmental Activities** \$ 1,196,464

The notes to the basic financial statements are an integral part of this statement.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET (NON-GAAP BASIS) AND ACTUAL –  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b><u>Revenues</u></b>				
Property Taxes	\$ 1,205,390	\$ 1,290,706	\$ 1,152,530	\$ (138,176)
Income Taxes	4,461,091	4,594,357	4,706,165	111,808
Other Taxes	65,115	67,060	68,692	1,632
Intergovernmental	596,856	614,686	611,960	(2,726)
Fines, Licenses and Permits	504,226	519,289	531,926	12,637
Rentals	44,350	45,674	46,786	1,112
Charges for Services	62,413	64,278	65,842	1,564
Contributions and Donations	4,712	4,853	4,971	118
Special Assessments	28,858	29,720	62,933	33,213
All Other Revenues	143,531	101,227	103,070	1,843
<b>Total Revenues</b>	<b>7,116,542</b>	<b>7,331,850</b>	<b>7,354,875</b>	<b>23,025</b>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons & Property	2,579,333	2,510,333	2,453,902	56,431
Transportation	882,948	1,023,568	982,487	41,081
Leisure Time Activities	261,232	239,229	247,130	(7,901)
Community Environment	267,306	280,022	264,371	15,651
General Government	1,650,521	1,621,945	1,491,787	130,158
<b>Total Expenditures</b>	<b>5,641,340</b>	<b>5,675,097</b>	<b>5,439,677</b>	<b>235,420</b>
Excess of Revenues Over (Under) Expenditures	1,475,202	1,656,753	1,915,198	258,445
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers In	-	201,030	115,890	(85,140)
Transfers Out	(1,510,800)	(1,738,550)	(1,588,500)	150,050
<b>Total Other Financing Sources (Uses)</b>	<b>(1,510,800)</b>	<b>(1,537,520)</b>	<b>(1,472,610)</b>	<b>64,910</b>
Net Change in Fund Balance	(35,598)	119,233	442,588	323,355
Fund Balance - Beginning of Year	1,755,209	1,755,209	1,755,209	-
Prior Year Encumbrances Appropriated	30,522	30,522	30,522	-
<b>Fund Balance - End of Year</b>	<b>\$ 1,750,133</b>	<b>\$ 1,904,964</b>	<b>\$ 2,228,319</b>	<b>\$ 323,355</b>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET (NON-GAAP BASIS) AND ACTUAL –  
FIRE SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b><u>Revenues</u></b>				
Property Taxes	\$ 1,601,092	\$ 1,584,296	\$ 1,584,295	\$ (1)
Intergovernmental	297,405	294,285	294,285	-
All Other Revenues	3	3	3	-
<b>Total Revenues</b>	<b>1,898,500</b>	<b>1,878,584</b>	<b>1,878,583</b>	<b>(1)</b>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons and Property	2,148,533	2,192,533	2,034,824	157,709
<b>Total Expenditures</b>	<b>2,148,533</b>	<b>2,192,533</b>	<b>2,034,824</b>	<b>157,709</b>
Excess of Revenues Over (Under) Expenditures	(250,033)	(313,949)	(156,241)	157,708
<b><u>Other Financing Sources</u></b>				
Transfers In	250,000	250,000	150,000	(100,000)
<b>Total Other Financings Sources</b>	<b>250,000</b>	<b>250,000</b>	<b>150,000</b>	<b>(100,000)</b>
Net Change in Fund Balance	(33)	(63,949)	(6,241)	57,708
Fund Balance - Beginning of Year	91,391	91,391	91,391	-
Prior Year Encumbrances Appropriated	2	2	2	-
Fund Balance - End of Year	<b>\$ 91,360</b>	<b>\$ 27,444</b>	<b>\$ 85,152</b>	<b>\$ 57,708</b>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
DECEMBER 31, 2012**

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	<u>Agency Funds</u>
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 343,099
<b>Total Assets</b>	<u>\$ 343,099</u>
<b>Liabilities</b>	
Deposits Held and Due to Others	343,099
<b>Total Liabilities</b>	<u>\$ 343,099</u>

The notes to the basic financial statements are an integral part of this statement.

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**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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**NOTE 1: DESCRIPTION OF THE CITY AND REPORTING ENTITY**

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

***Reporting Entity***

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

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

The City participates in a shared risk pool, an insurance purchasing pool, a jointly governed organization, and a related organization. These organizations are presented in Notes 16, 17, 19, and 20 to the financial statements. These organizations are:

Shared Risk Pool: Northern Ohio Risk Management Association

Insurance Purchasing Pool: Ohio Association of Public Treasurers

Jointly Governed Organization: Eastern Suburban Regional Council of Governments

Related Organization: Greenwood Farms Historical, Cultural, and Arts Association

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles.

**Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

**CITY OF RICHMOND HEIGHTS**  
**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(CONTINUED)**

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

**Basis of Presentation** (Continued)

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

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

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

**Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The City does not maintain any proprietary funds.

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

**CITY OF RICHMOND HEIGHTS**  
**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(CONTINUED)**

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

**Fund Accounting** (Continued)

*Governmental Funds* (continued)

**General Fund** - The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City of Richmond Heights and/or the general laws of Ohio.

**Fire Service Fund** - The Fire Service Special Revenue Fund accounts for the accumulation of resources for, and the payment of expenditures relating to fire services.

**Bond Retirement Fund** - The Bond Retirement Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term bonded debt principal and interest.

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

***Fiduciary Funds*** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City only has agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for donations from citizens held for and used by senior citizens for home visitations, street opening fees, and deposits pledged by contractors.

**Measurement Focus**

***Government-wide Financial Statements*** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

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

**CITY OF RICHMOND HEIGHTS**  
**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(CONTINUED)**

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

**Basis of Accounting**

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

***Deferred Outflows/Inflows of Resources*** - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, there were no deferred outflows of resources in 2012.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, deferral on refunding and unavailable revenues. A deferral on refunding results from the difference in the carrying value of the refunding debt and its reacquisition price. The accounting gain is deferred and amortized over the shorter of the life of the refunded or refunding debt. This amount has been recorded as a deferred inflow on the government-wide statement of net position. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements.

**CITY OF RICHMOND HEIGHTS**  
**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(CONTINUED)**

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

***Deferred Outflows/Inflows of Resources*** (Continued)

Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, and other. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

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

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

**Cash and Cash Equivalents**

To improve cash management, cash received by the City is pooled. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and investments".

The City had no investments during the year or at year end.

Investment procedures are restricted by the provisions of the Ohio Revised Code.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

**Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

**Capital Assets**

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

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2012  
 (CONTINUED)**

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

**Capital Assets** (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Land Improvements	45 years
Buildings	45 years
Machinery and Equipment	7 to 20 years
Vehicles	6 to 12 years
Infrastructure	65 years

The City's infrastructure consists of roads, storm sewers, sanitary sewers, and water lines and includes infrastructure acquired prior to December 31, 1980.

**Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund balance amounts are eliminated in the Statement of Net Position.

**Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

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**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(CONTINUED)**

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

**Accrued Liabilities and Long-Term Obligations**

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

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

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

The classifications are as follows:

*Nonspendable* – The nonspendable fund balance classification includes amounts that cannot be spent because they are not spendable in form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as properly acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

*Restricted* – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

*Committed* – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of the City’s Council. Those committed amounts cannot be used for any other purpose unless the City’s Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by City Council.

*Unassigned* – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classification. In the other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Fund Balance** (Continued)

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**Net Position**

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. The restricted component of net position is reported when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The government-wide statement of net position reports \$7,733,706 of the restricted component of net position, none of which is restricted by enabling legislation. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

**Internal Activity**

Transfers between governmental activities are eliminated on the government wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

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

**Bond Premium**

On the government-wide financial statements, bond premiums are deferred and amortized for the term of the bonds using the straight-line method. Bond premiums are presented as an increase of the face amount of the bonds payable. On governmental fund statements, bond premiums are received in the year the bonds are issued.

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CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(CONTINUED)**

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

**Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2012.

**Estimates**

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

**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 Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of budgetary control is at object level within each department in the General Fund and at the fund level for all other funds. Budgetary modifications may only be made by ordinance of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were enacted by Council.

The appropriation resolution 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 resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

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**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
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**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS**

**A. Change in Accounting Principles**

GASB Statement Number 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City.

GASB Statement Number 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City.

GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City.

GASB Statement Number 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011 and have been implemented by the City.

GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented by the City.

**B. Prior Period's Adjustments**

In prior periods, the City had reported assets related to unamortized debt issuance costs in the Governmental Activities entity-wide financial statements. GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*, has reclassified debt issuance cost as an expense in the prior period incurred rather than amortizing the cost over the life of the debt.

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
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 FOR THE YEAR ENDED DECEMBER 31, 2012  
 (CONTINUED)**

**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS**  
 (Continued)

**B. Prior Period's Adjustments** (Continued)

The implementation of GASB Statement Number 65 requires a restatement of prior period's net position as follows:

	Governmental Activities
Net Position as of December 31, 2011	\$ 15,666,528
Prior Period Adjustments:	
Unamortized Debt Issuance Costs	(110,946)
Net Position as of December 31, 2011	\$ 15,555,582

**NOTE 4: ACCOUNTABILITY AND COMPLIANCE**

**A. Accountability**

Fund balances at December 31, 2012, included the following individual fund deficits:

Fund	Amount
<i>Special Revenue Funds</i>	
Fire Service	\$ 269,181
Fire Pension	99,442
Police Pension	70,519
Police Training	1,924
<i>Debt Service Fund</i>	
General Bond Retirement	419,236
<i>Capital Project Funds</i>	
Capital Improvement	742,909
Sewer Improvement	290,559
	\$ 1,893,770

The deficits in the Fire Service Fund, Fire and Police Pension Funds, Sewer Improvement Fund and a portion of the deficit in the Capital Improvement Fund are caused by the recognition of expenditure accruals on the modified accrual basis of accounting. The deficit in the Police Training Fund, General Bond Retirement Fund and a portion in the Capital Improvement Fund are caused by negative cash balances. The General Fund provides transfers when cash is required, not when accruals occur.

**B. Compliance**

The City had negative cash balances in several funds, indicating revenue from other sources were used to pay obligations of these funds, contrary to Ohio Revised Code Section 5705.10. In order to eliminate future negative cash, the City will make cash advances during the year.

**CITY OF RICHMOND HEIGHTS  
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 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2012  
 (CONTINUED)**

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

**B. Compliance** (Continued)

The funds that had negative cash balances are as follows:

	Deficit
Police Training	\$ 1,924
General Bond Retirement	405,915
Capital Improvement	715,641
Street Improvement	27,520
Building Improvement	17,173

The Fire Service and Police Pension Funds had final appropriations in excess of actual receipts plus unencumbered balances at December 31, 2012. These variances are contrary to Section 5705.36(A)(4) of the Ohio Revised Code.

NOTE 5: **BUDGETARY BASIS OF ACCOUNTING**

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

The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a part of restricted, committed, or assigned fund balance (GAAP).
4. Unrecorded cash represents amounts expended but not included as expenditures on the budgetary statements, but which is reported on the operating statements prepared using GAAP.
5. Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2012  
 (CONTINUED)**

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

Adjustments necessary to convert the results of operations at the end of the year on the GAAP basis to the budget basis are as follows:

	General	Fire Service
GAAP Basis	\$ 472,471	\$ (9,142)
Revenue Accruals	(83,283)	-
Expenditure Accruals	78,615	2,903
Funds with separate legally adopted budgets	(14,630)	-
Encumbrances (Budget Basis) outstanding at year end	(10,585)	(2)
Budget Basis	\$ 442,588	\$ (6,241)

**NOTE 6: DEPOSITS AND INVESTMENTS**

The City has chosen to follow State statutes and classify monies held by the City into three categories.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

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**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**(CONTINUED)**

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NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Deposits**

*Custodial Credit Risk* Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, the carrying amount of the City's deposits was \$2,415,282, and the bank balance was \$2,568,370. The full amount of the City's bank balance was covered by Federal Depository Insurance. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**(CONTINUED)**

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NOTE 7: **RECEIVABLES**

Receivables at December 31, 2012, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for ambulance services).

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except for delinquent property taxes and special assessments are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to \$462,904 in the General Fund, \$5,772,890 in the Bond Retirement Fund and \$46,699 in the Street Improvement Fund.

**Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of the 2011 taxes. Property tax payments received during 2012 for tangible personal property (other than public utility property) are for 2012 taxes.

2011 real property taxes are levied after October 1, 2012 on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2012 was \$8.70 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2012 property tax receipts were based are as follows:

<u>Property Category</u>	<u>Assessed Value</u>	<u>Percent</u>
Real Estate	\$293,469,560	99.07 %
Public Utility	2,758,850	0.93
Total	<u>\$296,228,410</u>	<u>100.00 %</u>

**CITY OF RICHMOND HEIGHTS**  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**(CONTINUED)**

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NOTE 7: **RECEIVABLES** (Continued)

**Property Taxes** (Continued)

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the County, including the City of Richmond Heights. The County Fiscal Office periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2012 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred inflow of resources since the current taxes were not levied to finance 2012 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified basis the revenue is deferred.

**Income Tax**

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

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds may be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City. In 2012, the proceeds were allocated one hundred percent to the General Fund.

**Intergovernmental Receivables**

A summary of the intergovernmental receivables follows:

<u>Revenue Description</u>	<u>Amount</u>
Local Government	\$ 92,919
Homestead and Rollback	247,398
Gasoline tax	157,563
Estate tax	86,141
Motor Vehicle License Tax	44,278
CAT tax reimbursement	6,017
Grants	291,500
Miscellaneous	24,277
Total	<u>\$ 950,093</u>

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**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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NOTE 8: **INTERFUND TRANSFERS AND BALANCES**

**Interfund Transfers**

Interfund transfers for the year ended December 31, 2012 consisted of the following:

<u>Transfers To</u>	<u>Transfers from</u>		<u>Total</u>
	<u>General</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ 115,890	\$ 115,890
Fire Service	150,000	-	150,000
Bond Retirement	1,175,000	95,000	1,270,000
Nonmajor Governmental Funds	248,500	-	248,500
<b>Total</b>	<b>\$ 1,573,500</b>	<b>\$ 210,890</b>	<b>\$ 1,784,390</b>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. A transfer from the General Fund to the Fire Service Fund was to fund its operations. Transfers from the General Fund and the Ambulance Billing Fund to the Bond Retirement Fund were to cover debt payments. Transfers between governmental funds are eliminated on the governmental activities' statement of activities.

**Interfund Balances**

Interfund balances for the year ended December 31, 2012 consisted of the following:

	<u>Receivables</u>	<u>Payables</u>
<b>Major Funds</b>		
General	\$ 1,213,090	\$ -
Fire Service	-	(290,000)
Bond Retirement	-	(419,236)
<b>Nonmajor Governmental Funds</b>		
<i>Special Revenue Funds:</i>		
Rescue Squad	290,000	-
Police Training	-	(1,924)
<i>Capital Projects Fund:</i>		
Street Improvement	250,040	(9,522)
Capital Improvement	-	(742,909)
Sewer Improvement	-	(289,539)
	<b>\$ 1,753,130</b>	<b>\$ (1,753,130)</b>

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2012  
 (CONTINUED)**

**NOTE 9: FUND BALANCES**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Fire Service	Bond Retirement	Other Governmental Funds	Total
<i>Nonspendable</i>					
Prepaid Items	\$ 4,133	\$ -	\$ -	\$ -	\$ 4,133
Inventories	8,772	4,375	-	77,530	90,677
<i>Total Nonspendable</i>	<u>12,905</u>	<u>4,375</u>	<u>-</u>	<u>77,530</u>	<u>94,810</u>
<i>Restricted for</i>					
Streets and Highways	-	-	-	476,302	476,302
Other Law Enforcement	-	-	-	37,471	37,471
Community	-	-	-	19,134	19,134
Recycling	-	-	-	28,361	28,361
Capital	-	-	-	292,944	292,944
<i>Total Restricted</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>854,212</u>	<u>854,212</u>
<i>Committed to</i>					
Recreation	-	-	-	9,325	9,325
Rescue Squad	-	-	-	572,106	572,106
City Beautification	-	-	-	7,537	7,537
Professional services	-	-	-	121,636	121,636
Zoning	-	-	-	31,710	31,710
Other Purposes	46,879	-	-	-	46,879
<i>Total Committed</i>	<u>46,879</u>	<u>-</u>	<u>-</u>	<u>742,314</u>	<u>789,193</u>
<i>Assigned to</i>					
Purchases on Order	10,585	-	-	-	10,585
Fiscal Year 2013 Appropriations	195,590	-	-	-	195,590
<i>Total Assigned</i>	<u>206,175</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>206,175</u>
<i>Unassigned (Deficit)</i>	<u>2,761,155</u>	<u>(273,556)</u>	<u>(419,236)</u>	<u>(1,205,353)</u>	<u>863,010</u>
<b>Total Fund Balances</b>	<u><u>\$ 3,027,114</u></u>	<u><u>\$ (269,181)</u></u>	<u><u>\$ (419,236)</u></u>	<u><u>\$ 468,703</u></u>	<u><u>\$ 2,807,400</u></u>

**CITY OF RICHMOND HEIGHTS  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(CONTINUED)**

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NOTE 10: **CONTINGENCIES**

**Grants**

For the period January 1, 2012, to December 31, 2012, the City received Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

**Litigation**

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

NOTE 11: **COMPENSATED ABSENCES**

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

Employees earn sick leave at different rates depending upon type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, employees can be paid for accumulated, unused sick leave, up to a maximum number of 960 hours for all City employees.

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**CITY OF RICHMOND HEIGHTS**  
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**NOTE 12: CAPITAL ASSETS**

	Balance 12/31/2011	Additions	Disposals	Balance 12/31/2012
<b><u>Governmental Activities</u></b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 1,635,588	\$ -	\$ -	\$ 1,635,588
Construction in Progress	1,113,629	27,967	(1,007,577)	134,019
<b>Total Capital Assets Not Being Depreciated</b>	<b>2,749,217</b>	<b>27,967</b>	<b>(1,007,577)</b>	<b>1,769,607</b>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	1,786,198	-	-	1,786,198
Buildings	10,758,391	-	-	10,758,391
Machinery and Equipment	1,883,923	27,930	-	1,911,853
Vehicles	2,019,775	-	-	2,019,775
Infrastructures:				
Roads	12,226,857	858,695	-	13,085,552
Storm Sewers	3,854,121	-	-	3,854,121
Sanitary Sewers	8,055,205	148,882	-	8,204,087
Water Lines	2,381,534	-	-	2,381,534
<b>Total Capital Assets Being Depreciated</b>	<b>42,966,004</b>	<b>1,035,507</b>	<b>-</b>	<b>44,001,511</b>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(1,356,436)	(134,064)	-	(1,490,500)
Buildings	(2,903,693)	(257,781)	-	(3,161,474)
Machinery and Equipment	(1,610,572)	(101,318)	-	(1,711,890)
Vehicles	(1,640,824)	(122,703)	-	(1,763,527)
Infrastructures:				
Roads	(7,600,318)	(472,362)	-	(8,072,680)
Storm Sewers	(2,029,585)	(48,159)	-	(2,077,744)
Sanitary Sewers	(2,973,192)	(165,131)	-	(3,138,323)
Water Lines	(2,024,308)	(47,631)	-	(2,071,939)
<b>Total Accumulated Depreciation</b>	<b>(22,138,928)</b>	<b>(1,349,149)</b>	<b>-</b>	<b>(23,488,077)</b>
<i>Total Capital Assets, being Depreciated, Net</i>	<u>20,827,076</u>	<u>(313,642)</u>	<u>-</u>	<u>20,513,434</u>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 23,576,293</b>	<b>\$ (285,675)</b>	<b>\$ (1,007,577)</b>	<b>\$ 22,283,041</b>

\*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 142,031
Security of Persons and Property	266,687
Community Environment	212,762
Leisure Time Activities	86,984
Transportation	640,685
<b>Total Depreciation Expense</b>	<b>\$ 1,349,149</b>

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**CUYAHOGA COUNTY, OHIO**  
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NOTE 13: **DEFINED BENEFIT PENSION PLAN**

**Ohio Public Employees Retirement System**

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension 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. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension 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. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2012, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.5 percent and 12.1 percent, respectively. 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. For 2012, member and employer contribution rates were consistent across all three plans. Total required employer contributions for all plans are equal to 100 percent of employer charges and should be extracted from the employer's records.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011 and 2010 were \$169,413, \$160,355 and \$298,841, respectively. For 2012, 92.5 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

**Ohio Police and Fire Pension Fund**

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

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**(CONTINUED)**

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NOTE 13: **DEFINED BENEFIT PENSION PLAN** (Continued)

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

The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The City's contributions to OP&F for police and firefighters pension were \$161,979 and \$253,951 for the year ended December 31, 2012, \$166,672 and \$234,614 for the year ended December 31, 2011, and \$301,187 and \$341,818 for the year ended December 31, 2010, respectively. For 2012, 74.6 percent for police and 73.5 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2012, the unfunded liability of the City was \$42,632, payable in semi-annual payments through the year of 2035. This is an accounting liability of the City which will not vary.

NOTE 14: **POST-EMPLOYMENT BENEFITS**

**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 health care plan for 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. The Plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. 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 health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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NOTE 14: **POST-EMPLOYMENT BENEFITS** (Continued)

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800- 222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

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 for members in the Traditional Plan was 4.0 percent during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent during calendar year 2012.

Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011 and 2010 were \$67,765, \$64,142, and \$170,350, respectively. For 2012, 92.5 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 1, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions towards the health care fund after the end of the transition period.

**Ohio Police and Fire Pension Fund**

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care 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.

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**(CONTINUED)**

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NOTE 14: **POST-EMPLOYMENT BENEFITS** (Continued)

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

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 No. 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 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 43215-5164. That report is also available on OP&F's website at [www.op-f.org](http://www.op-f.org).

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 by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24.0 percent of covered payroll for fire unites. 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, 2012, 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 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 City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$85,754 and \$99,372 for the year ended December 31, 2012, \$88,238 and \$91,805 for the year ended December 31, 2011, and \$159,451 and \$133,755 for the year ended December 31, 2010. For 2012, 74.6 percent has been contributed for police and 73.5 percent has been contributed for firefighters with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

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NOTE 15: **RISK MANAGEMENT**

**Property and Liability**

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees and natural disasters. In October 1987, the City joined together with neighboring cities to form the Northern Ohio Risk Management Association (NORMA), a not-for-profit corporation, for the purpose of obtaining property, liability and vehicle insurance and providing for a formalized, jointly administered self insurance fund (See Note 16). The City pays an annual premium to NORMA for its insurance coverage. The agreement of formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement. This coverage is paid from the General Fund.

There has not been a significant reduction in coverage from the prior year and claims have not exceeded coverage provided by NORMA in any of the last three years.

**Workers' Compensation**

The City participates in the Ohio Association of Public Treasurers (OAPT) rating pool (See Note 17). The intent of the OAPT is to achieve the benefit of a reduced premium for the participants, foster safer working environments and foster cost-effective claims management by virtue of its grouping and representation with other participants. The workers' compensation experience rating of the participating cities is calculated as one experience and a common premium rate is applied to all cities in the OAPT. Each participant pays its workers' compensation premium to the State based on the rate for the OAPT group rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the OAPT. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the OAPT. Participation in the OAPT is limited to cities that can meet the OAPT's selection criteria. The firm of Integrated Consulting Services provides administrative, cost control and actuarial services to the OAPT.

**Employee Insurance Benefits**

The City provides medical, dental, vision and prescription drug benefits for all full-time employees through Anthem Blue Cross/Blue Shield, the Delta Dental Plan of Ohio and VSP Vision Care. Monthly premium payments are made from the General and Fire Service funds. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premiums for all benefits are \$1,178 for family coverage, \$830 for an employee plus one additional person and \$403 for single coverage.

NOTE 16: **SHARED RISK POOL**

The Northern Ohio Risk Management Association (NORMA) is a shared risk pool comprised of the Cities of Bedford Heights, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon and South Euclid, and the Village of Chagrin Falls. NORMA was formed to enable its members to obtain property and liability insurance, including vehicles, and provide for a formalized, jointly administered self-insurance fund. The members formed a not-for-profit corporation known as NORMA, Inc. to administer the pool. NORMA is governed by a board of trustees that consists of the Mayor from each of the participating members.

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NOTE 16: **SHARED RISK POOL** (Continued)

Each entity must remain a member for at least three years from the commencement date of October 1, 1987, with the exception of Cities of Eastlake and Solon whose commencement date is October 1, 1989, the City of Maple Heights, whose commencement date is October 1, 1993 and the City of University Heights, whose commencement date is October 1, 2008. After the initial three years, each City may extend its term in three-year increments.

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

In 2012, the City of Richmond Heights paid \$19,513 in premiums from the General Fund, which represents 4.99 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146.

NOTE 17: **INSURANCE PURCHASING POOL**

The Ohio Association of Public Treasurers rating pool has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The governing body is comprised of the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the City and the other group members. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to Integrated Consulting to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on claims experience of each member as compared to the total claims experience of the group.

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**NOTE 18: LONG-TERM OBLIGATIONS**

The original issue date, interest rate, original issuance amount and maturity date for each of the City's long-term obligations follows:

	Original Issue Date	Interest Rate	Original Issue Amount	Date of Maturity
<b>General Obligation</b>				
Various Purpose - 2005	2005	3.47 %	\$ 3,990,000	December 1, 2015
Various Purpose - 2007	2007	3.75 - 4.0	4,125,000	December 1, 2021
Fire Station Bay Addition - 2008	2008	4.00 - 5.50	400,000	December 1, 2013
Various Purpose - 2009	2009	3.0 - 5.0	5,259,999	December 1, 2020
<b>OWDA Loans</b>				
Monticello Avenue Sewer	1995	4.56	200,000	January 1, 2015
Cardon Road Sewer	1999	4.56	1,554,105	January 1, 2019
Brushview Road Sewer	2000	4.12	439,366	January 1, 2020
Highland Road - Meadowlane	2001	3.79	648,031	January 1, 2021
Richmond Road	2003	3.90	923,490	January 1, 2023
Sunset/Skyline Sewer Construction	2004	3.20 - 3.59	1,036,790	January 1, 2024
Dunbarton/Cary Jay - Construction	2005	3.41	564,812	January 1, 2025
Richmond Road et al Sewers	2006	3.35	1,265,403	January 1, 2026
Richmond Road and Side Streets	2008	3.25	1,769,784	January 1, 2028
<b>OPWC Loan</b>				
Skyling-Glen Oval Waterline and Pavement	2010	0	743,411	January 1, 2030
<b>Intergovernmental Payable</b>				
City of Highland Heights	2002	0	190,923	January 1, 2020
<b>Long-Term Note</b>				
Street Improvement Note	2012	1.19	1,190,000	June 21, 2013

**CITY OF RICHMOND HEIGHTS**  
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**NOTE 18: LONG-TERM OBLIGATIONS** (Continued)

A schedule of changes in bonds and other long-term obligations of the City during 2012 follows:

	Principal Outstanding 12/31/11	Additions	Deletions	Principal Outstanding 12/31/2012	Amounts Due in One Year
<b><u>Governmental Activities</u></b>					
<b><u>General Obligation Bonds</u></b>					
Various Purpose - 2005	\$ 1,780,000	\$ -	\$ (415,000)	\$ 1,365,000	\$ 435,000
Various Purpose - 2007	3,405,000	-	(370,000)	3,035,000	350,000
Unamortized Premium	18,556	-	(1,855)	16,701	-
Fire Station Bay Addition - 2008	175,000	-	(85,000)	90,000	90,000
Unamortized Premium	4,460	-	(2,230)	2,230	-
Various Purpose - 2009					
Refunding	1,934,999	-	(210,000)	1,724,999	220,000
General Obligation	2,540,000	-	(295,000)	2,245,000	300,000
Unamortized Premium	201,790	-	(22,421)	179,369	-
<b>Total General Obligation Bonds</b>	<b>10,059,805</b>	<b>-</b>	<b>(1,401,506)</b>	<b>8,658,299</b>	<b>1,395,000</b>
<b><u>OWDA Loans</u></b>					
Monticello Avenue Sewer	49,145	-	(13,258)	35,887	13,869
Cardon Road Sewer	750,805	-	(86,009)	664,796	89,975
Brushview Road Sewer	230,801	-	(23,189)	207,612	24,154
Highland Road - Meadowlane	368,159	-	(32,866)	335,293	34,123
Richmond Road	615,475	-	(43,342)	572,133	45,049
Sunset/Skyline Sewer Construction	742,714	-	(48,029)	694,685	49,769
Dunbarton/Cary Jay - Construction	428,468	-	(25,472)	402,996	26,348
Richmond Road et al Sewers	906,285	-	(49,469)	856,816	51,140
Richmond Road and Side Streets	1,496,002	-	(83,153)	1,412,849	43,560
<b>Total OWDA Loans</b>	<b>5,587,854</b>	<b>-</b>	<b>(404,787)</b>	<b>5,183,067</b>	<b>377,987</b>
<b><u>OPWC Loan</u></b>					
Skyling-Glen Oval Waterline and Pavement	687,655	-	(55,756)	631,899	18,586
<b>Total OPWC Loan</b>	<b>687,655</b>	<b>-</b>	<b>(55,756)</b>	<b>631,899</b>	<b>18,586</b>
<b><u>Other Long-term Liabilities</u></b>					
City of Highland Heights	86,077	-	(14,319)	71,758	4,773
Long Term Note	1,000,000	1,190,000	(1,000,000)	1,190,000	1,190,000
Police Pension Liability	43,749	-	(1,117)	42,632	1,165
Compensated Absences	967,563	114,812	(202,498)	879,877	206,731
<b>Total Other Long-term Liabilities</b>	<b>2,097,389</b>	<b>1,304,812</b>	<b>(1,217,934)</b>	<b>2,184,267</b>	<b>1,402,669</b>
<b>Total Governmental Long-Term Liabilities</b>	<b>\$ 18,432,703</b>	<b>\$ 1,304,812</b>	<b>\$ (3,079,983)</b>	<b>\$ 16,657,532</b>	<b>\$ 3,194,242</b>

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NOTE 18: **LONG-TERM OBLIGATIONS** (Continued)

General obligation bonds are the direct obligation of the City and will be paid from the Bond Retirement Debt Service Fund using property tax revenues.

The OWDA loans are being paid from the Bond Retirement Debt Service Fund. The City also entered into contractual agreements for new construction and design loans from OWDA. Under the terms of these agreements, OWDA will reimburse, advance, or directly pay the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and add them to the total amounts of the final loans. OWDA loans will be paid with Special Assessment revenue.

During 2002, the City entered into a contractual agreement with the City of Highland Heights for the construction of sanitary sewer lines on Highland Road. Richmond Heights is responsible for the portion of the lines that run through the City. The project was financed by a loan from the Ohio Public Works Commission in the name of the City of Highland Heights. The total amount owed to the City of Highland Heights as of December 31, 2012, is \$71,758 and has been recorded as a long-term liability in the government-wide financial statements and will be repaid from special assessments levied on the affected properties from the Bond Retirement Debt Service Fund.

In 2009, the City defeased a 2001 law enforcement general obligation bond issue in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On December 31, 2012, \$1,795,000 of the defeased bonds are still outstanding.

The police pension liability will be paid from property tax revenue in the Police Pension Fund. The compensated absences will be paid from the General and Fire Service funds.

During 2012, the City issued a \$1,190,000 bond anticipation note at a rate of 1.19 percent will mature in 2013. These notes were used for the street resurfacing. The notes are backed by the full faith and credit of the City.

The City's overall legal debt margin was \$21,034,748 at December 31, 2012. The unvoted legal debt margin was \$6,223,328.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(CONTINUED)**

**NOTE 18: LONG-TERM OBLIGATIONS** (Continued)

Principal and interest requirements to retire the general obligation bonds, OWDA loans, OPWC loans, and the police pension liability as of December 31, 2012, are as follows:

	G.O. Bonds		OWDA Loans		OPWC
	Principal	Interest	Principal	Interest	Principal
2013	\$ 1,395,000	\$ 322,438	\$ 377,987	\$ 184,444	\$ 18,586
2014	1,355,000	269,850	419,882	170,258	37,171
2015	1,380,000	210,294	428,425	154,040	37,171
2016	950,000	174,563	437,063	137,726	37,171
2017	985,000	137,050	453,842	120,948	37,171
2018-2022	2,394,999	451,701	1,942,442	363,120	185,855
2023-2027	-	-	1,010,129	92,682	185,855
2028-2030	-	-	113,297	2,768	92,919
	<u>\$ 8,459,999</u>	<u>\$ 1,565,896</u>	<u>\$ 5,183,067</u>	<u>\$ 1,225,986</u>	<u>\$ 631,899</u>

	Intergovernmental Payable		Police Pension	
	Principal		Principal	Interest
	Principal	Interest	Principal	Interest
2013	\$ 4,773	\$ 1,165	\$ 1,798	
2014	9,546	1,215	1,748	
2015	9,546	1,267	1,696	
2016	9,546	1,321	1,642	
2017	9,546	1,378	1,585	
2018-2022	28,801	7,830	6,984	
2023-2027	-	9,662	5,152	
2028-2032	-	11,923	2,891	
2033-2035	-	6,871	437	
	<u>\$ 71,758</u>	<u>\$ 42,632</u>	<u>\$ 23,933</u>	

**NOTE 19: JOINTLY GOVERNED ORGANIZATION**

**Eastern Suburban Regional Council of Governments**

The City is a member of the Eastern Suburban Regional Council of Governments (ESRCOG). The ESRCOG was formed, by written agreement pursuant to Ohio Rev. Code Section 167.01, in 1972 to foster cooperation between member municipalities through sharing of resources for mutual benefit. Other members include the cities of Highland Heights, Lyndhurst, Mayfield Heights and the villages of Gates Mills and Mayfield. The governing body of ESRCOG is a council comprised of one representative from each of the six participating municipalities. The Council adopts a budget for ESCOG annually. Each member's degree of control is limited to its representation on the Council.

ESRCOG established a subsidiary organization, the Suburban Police Anti-Crime Network (SPAN), which provides for the interchange and sharing of police personnel and police equipment to be utilized by all members.

**CITY OF RICHMOND HEIGHTS  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(CONTINUED)**

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NOTE 19: **JOINTLY GOVERNED ORGANIZATION** (Continued)

**Eastern Suburban Regional Council of Governments** (Continued)

In 2012, the City contributed \$14,000. Financial information can be obtained from Robert G. Tribby, Finance Director, City of Mayfield Heights, at 6154 Mayfield Road, Mayfield Heights, Ohio 44124-3207, who serves as fiscal agent.

NOTE 20: **RELATED ORGANIZATION**

The City established an independent organization called the Greenwood Farms Historical, Cultural, and Arts Association to facilitate the programming of a historical property on Richmond Road the City acquired. This property is known as the Greenwood Farm or the Phyper property. The Association is governed by a Board of Directors. The City appoints all Board members for the Association. The Association will lease the property from the City, determine programming, and facilitate the necessary repairs and renovations to the property needed to provide that programming. The programming and property upkeep are separate from City operations. Financial information can be obtained from the Association, David H. Roche, President, 26789 Highland Road, Richmond Heights, Ohio, 44143.

NOTE 21: **RELATED PARTY TRANSACTIONS**

Donald O'Toole, Council Member, is the co-owner of Signs PDQ. Signs PDQ was paid \$206 during 2012.

NOTE 22: **SUBSEQUENT EVENT**

On May 7, 2013 the voter approved an increase in the rate of income tax from 2.0 percent to 2.25 percent. The tax credit for City residents who work in other cities also was raised to 2.25 percent.

On June 18, 2013, the City will issue \$1,190,000 in bond anticipation notes maturing on June 18, 2014 for street resurfacing.

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**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
UNAUDITED**

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The discussion and analysis of the City of Richmond Heights' financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for 2011 are as follows:

- In total, net assets in governmental activities increased by \$2,520,001 during 2011. This represents a 19 percent increase from 2010.
- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$15,666,528.
- City income tax revenue totaled \$5,062,371.

**Using This Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City of Richmond Heights as a financial whole or as an entire operating entity. The statements provide a detailed look at the City's specific financial conditions.

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

**Reporting the City of Richmond Heights as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole considers all financial transactions and asks the question, "How did we do financially during 2011?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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These two statements report the City's net assets and the changes in those assets. The change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets also need to be evaluated.

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

- Assets
- Liabilities
- Net Assets (Assets minus Liabilities)
- Program Expenses and Revenues
- General Revenues
- Net Assets Beginning of Year and Year's End

**Reporting the City of Richmond Heights' Most Significant Funds**

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The City of Richmond Heights uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds can be divided into two categories: governmental funds and fiduciary funds. The presentation of the City's major funds begins on page 63. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds, which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Richmond Heights, the major funds are the General Fund, Fire Service Special Revenue Fund, Street Improvement Capital Project Fund and the Bond Retirement Debt Service Fund.

**Governmental Funds** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. All City activities are reported in the governmental funds focusing on how money flows into and out of those funds and the balances left at year-end available for future spending. The City's funds are reported using the modified accrual accounting method. The modified accrual method measures cash and all other financial assets expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps determine the level of financial resources that can be spent in the near future on residential services. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
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**Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the City's programs. These funds use the accrual basis of accounting.

**The City of Richmond Heights as a Whole**

Recall that the Statement of Net Assets pictures the City as a whole. Table 1 provides a summary of the City's net assets for 2011 compared to 2010.

**Table 1 - Net Assets**

	Governmental Activities	
	2011	Restated 2010
<b><u>Assets</u></b>		
Current and Other Assets	\$ 15,093,101	\$ 13,237,995
Capital Assets, Net	23,576,293	23,787,736
<b>Total Assets</b>	<b>38,669,394</b>	<b>37,025,731</b>
<b><u>Liabilities</u></b>		
Current and Other Liabilities	4,563,643	4,608,522
Long-term Liabilities	18,439,223	19,270,682
<b>Total Liabilities</b>	<b>23,002,866</b>	<b>23,879,204</b>
<b><u>Net Assets</u></b>		
Invested in Capital Assets Net of Debt	6,259,328	5,722,715
Restricted	7,801,986	7,492,535
Unrestricted	1,605,214	(68,723)
<b>Total Net Assets</b>	<b>\$ 15,666,528</b>	<b>\$ 13,146,527</b>

Net assets may serve as a useful indicator of a government's financial position over time. In the case of the City of Richmond Heights, assets exceeded liabilities by \$15,666,528 at year end. The City's investment in capital assets, net of related, debt accounts for 40 percent of total net assets. Capital assets include land, buildings, streets, water lines, storm water lines, vehicles and machinery. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Table 2 shows the changes in net assets for the year ended December 31, 2011 compared to 2010.

	<b>Table 2 - Change in Net Assets</b>	
	<b>Governmental Activities</b>	
	<b>2011</b>	<b>2010</b>
<b><u>Revenues</u></b>		
<b>Program Revenues:</b>		
Charges for Services	\$ 1,047,882	\$ 1,006,436
Operating Grants and Contributions	745,144	696,795
Capital Grants and Contributions	1,160,003	1,096,455
<b>General Revenues:</b>		
Property Taxes	3,884,516	4,077,270
Income Taxes	5,062,371	4,364,623
Other Taxes	68,598	66,164
Grants and Entitlements	1,408,546	1,371,637
Unrestricted Contributions	7,289	2,073
Investment Earnings	218,245	229,522
Miscellaneous	129,714	210,089
<b>Total Revenues</b>	<b>13,732,308</b>	<b>13,121,064</b>
<b><u>Program Expenses</u></b>		
Security of Persons and Property	5,543,363	5,564,596
Leisure Time Activities	333,595	380,357
Community Environment	547,800	595,884
Transportation	2,479,366	2,112,324
General Government	1,626,680	1,968,626
Interest and Fiscal Charges	681,503	862,320
<b>Total Program Expenses</b>	<b>11,212,307</b>	<b>11,484,107</b>
<b><u>Extraordinary Item</u></b>		
Court Settlement	-	500,000
<i>Change in Net Assets</i>	2,520,001	2,136,957
Net Assets, Beginning of Year, restated	13,146,527	11,009,570
<b>Net Assets, End of Year</b>	<b>\$ 15,666,528</b>	<b>\$ 13,146,527</b>

**Governmental Activities**

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. The City's income tax rate is two percent on gross income and has not changed since 1993. Residents of the City who work in another community and pay the withholding tax for that community receive a 100 percent tax credit on their City tax, the credit limit being 2 percent. During 2011, the revenues generated from this tax amounted to \$5,062,371.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
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General property taxes are also a significant source of revenues. Although this is a much more stable tax, property taxes constitute only about a third of the general revenues for the City. In addition to the general property taxes, the City has 8.7 mills for the fire service. The fire service levy provides for a portion of the operating expenditures of the fire service, the remainder of funding comes from the General Fund.

Security of persons and property and transportation are two major activities of the City generating 72 percent of the governmental expenses. Currently, there are 16 full-time sworn officers in the police department. During 2011, the department continued to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology.

The fire service consists of 18 full-time and 11 part-time fire fighters. All but three of these fire fighters are fully trained paramedics. Training plays a crucial role in the day-to-day operation of the fire service. The department handled 1,457 calls for assistance of which approximately 1,163 were for EMS and the rest for fire and fire related incidents.

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

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

As of the end of the year, the City's governmental funds reported combined ending fund balance of \$1,460,225. \$(4,843) of the ending combined fund balance for 2011 constitutes assigned and unassigned fund balance combined, which is available for spending at the government's discretion. The remainder of fund balance is non-spendable, restricted, or committed to indicate that it is not available for new spending because it is not in spendable form or it has already been restricted or committed by external or internal constraints.

Information about the City's major funds starts on page 63. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues (plus other financing sources) of \$14,151,286 and total expenditures (plus other financing uses) of \$13,303,308. The General Fund reflected an increase of \$1,834,709, increasing the beginning fund balance of \$719,934 to \$2,554,643.

### **General Fund Budgeting Highlights**

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

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
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There was a decrease in revenues from the final budget to actual due to lower property taxes received than expected. There was also a decrease in actual expenditures made compared to the final budget. The City continues to be able to provide the services that the City residents expect while maintaining the costs of providing those services.

**Capital Assets and Debt Administration**

*Capital Assets*

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

	Governmental Activities	
	2011	2010
Land	\$ 1,635,588	\$ 1,635,588
Construction-in-progress	1,113,629	-
Land Improvements	429,762	563,826
Buildings	7,854,698	8,112,479
Machinery and Equipments	273,351	360,609
Vehicles	378,951	497,465
Infrastructures	11,890,314	12,617,769
<b>Total Capital Assets, Net</b>	<b>\$ 23,576,293</b>	<b>\$ 23,787,736</b>

The City's plan is to maintain its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks are planned for well in advance by the respective department heads. However, replacement of vehicles has been deferred due to fiscal challenges experienced by the City. Vehicles are maintained and inspected to ensure peak performance for the maximum time frame. The police car replacement plan is to replace three vehicles each year. However, due to lack of funds available for capital purchases, the purchase of new vehicles was eliminated in 2011. The older vehicles have been maintained and remain in service.

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

The City is committed to a long-term goal of meeting the needs of its infrastructure and facilities. The City has completed construction of a Police Station and City Hall and improvements to the Fire Station. Funds for street repairs and maintenance of facilities are accumulated in the Capital Improvement Fund. See Note 12 to the basic financial statements for additional information on the City's capital assets.

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2011  
 UNAUDITED**

**Debt**

As of December 31, 2011, the City of Richmond Heights had the following debt outstanding:

**Table 4 - Outstanding Debt at December 31**

	Governmental Activities	
	2011	2010 *
General Obligation Bonds	\$ 10,066,325	\$ 11,428,556
OWDA Loans	5,587,854	5,966,390
OPWC Loan	687,655	724,826
Intergovernmental Payable	86,077	95,623
Long-Term Note	1,000,000	-
Police Pension	43,749	44,820
Compensated Absences	967,563	1,010,467
<b>Total Outstanding Debt</b>	<b>\$ 18,439,223</b>	<b>\$ 19,270,682</b>

\* Restated

At December 31, 2011, the City's overall legal debt margin was \$19,688,783. More detailed information about the City's long-term liabilities is presented in Note 18 to the basic financial statements.

**Current Financial Related Activities**

While maintaining a positive General Fund balance, the City of Richmond Heights continues to cope with financial challenges resulting from the decline in real estate values and overall decline in the economy. In addition, the Auditor of State in its 2010 audit of the City identified certain deficiencies in internal control over financial reporting that are considered to be material weaknesses and other deficiencies that are considered to be significant deficiencies. Management is committed to correcting these deficiencies and providing the residents of the City of Richmond Heights with full disclosure of the financial position of the City. See Note 4 to the basic financial statements for additional information on the City's accountability and compliance.

**Contacting the City's Finance Department**

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

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**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

	Governmental Activities
<b><u>ASSETS</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$ 1,104,462
Materials and Supplies Inventory	52,944
Accounts Receivable	139,208
Intergovernmental Receivable	664,028
Prepaid Items	40,016
Income Taxes Receivable	1,494,445
Property and Other Taxes Receivable	5,171,005
Special Assessments Receivable	6,316,047
Unamortized Bond Issuance Costs	110,946
Nondepreciable Capital Assets	2,749,217
Depreciable Capital Assets	20,827,076
<b>Total Assets</b>	<b>38,669,394</b>
 <b><u>LIABILITIES</u></b>	
Accounts Payable	121,261
Contracts Payable	170,053
Accrued Wages and Benefits	83,944
Intergovernmental Payable	303,073
Accrued Interest Payable	180,851
Retainage Payable	15,230
Deferred Revenue	3,689,231
Long-term Liabilities:	
Due within one year	3,030,119
Due in more than one year	15,409,104
<b>Total Liabilities</b>	<b>23,002,866</b>
 <b><u>NET ASSETS</u></b>	
Invested in Capital Assets, Net of Related Debt	6,259,328
Restricted for:	
Debt Services	6,193,846
Capital Projects	310,771
Street Construction, Maintenance and Repairs	444,249
Rescue Squad	509,064
Other Purposes	344,056
Unrestricted	1,605,214
<b>Total Net Assets</b>	<b>\$ 15,666,528</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
<b>Primary Government:</b>					
Governmental Activities:					
Security of Persons and Property	\$ 5,543,363	\$ 394,156	\$ 11,783	\$ -	\$ (5,137,424)
Leisure Time Activities	333,595	129,608	2,500	-	(201,487)
Community Environment	547,800	308,381	3,100	1,056,265	819,946
Transportation	2,479,366	66,938	399,294	-	(2,013,134)
General Government	1,626,680	148,799	328,467	103,738	(1,045,676)
Interest and Fiscal Charges	681,503	-	-	-	(681,503)
<b>Total Governmental Activities</b>	<b>\$ 11,212,307</b>	<b>\$ 1,047,882</b>	<b>\$ 745,144</b>	<b>\$ 1,160,003</b>	<b>(8,259,278)</b>
<b>General Revenues:</b>					
Property Taxes levied for:					
General Purposes					1,126,847
Debt Service Purpose					795,382
Other Purposes					1,962,287
Income Taxes levied for:					
General Purposes					5,062,371
Other Taxes					68,598
Grants & Entitlements not restricted to specific programs					1,408,546
Unrestricted Contribution					7,289
Investment Income					218,245
All Other Revenues					129,714
<b>Total General Revenues</b>					<b>10,779,279</b>
Change in Net Assets					2,520,001
Net Assets - Beginning of Year, restated					13,146,527
<b>Net Assets - End of Year</b>					<b>\$ 15,666,528</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General Fund</u>	<u>Fire Service</u>	<u>Bond Retirement</u>	<u>Street Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Equity in Pooled Cash and Cash Equivalents	\$ 222,523	\$ 91,393	\$ -	\$ 2,506	\$ 788,040	\$ 1,104,462
Materials and Supplies Inventory	10,177	4,375	-	-	38,392	52,944
Accounts Receivable	21,379	-	-	-	117,829	139,208
Interfund Receivable	1,637,723	-	-	250,040	290,000	2,177,763
Intergovernmental Receivable	285,172	99,334	55,410	-	224,112	664,028
Prepaid Items	40,016	-	-	-	-	40,016
Income Taxes Receivable	1,494,445	-	-	-	-	1,494,445
Property and Other Taxes Receivable	1,499,733	2,049,522	1,062,136	-	559,614	5,171,005
Special Assessments Receivable	82,754	-	6,151,010	82,283	-	6,316,047
<b>Total Assets</b>	<u>\$ 5,293,922</u>	<u>\$ 2,244,624</u>	<u>\$ 7,268,556</u>	<u>\$ 334,829</u>	<u>\$ 2,017,987</u>	<u>\$ 17,159,918</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts Payable	\$ 75,581	\$ 2,083	\$ -	\$ 3,880	\$ 39,717	\$ 121,261
Accrued Wages and Benefits	50,960	29,789	-	-	3,195	83,944
Contracts Payable	-	-	-	132,887	37,166	170,053
Intergovernmental Payable	78,032	33,935	-	-	191,106	303,073
Retainage Payable	-	-	-	15,230	-	15,230
Interfund Payable	-	290,000	784,784	-	1,102,979	2,177,763
Deferred Revenue	2,534,706	2,148,856	7,268,556	82,283	793,968	12,828,369
<b>Total Liabilities</b>	<u>2,739,279</u>	<u>2,504,663</u>	<u>8,053,340</u>	<u>234,280</u>	<u>2,168,131</u>	<u>15,699,693</u>
<b>Fund Balances:</b>						
Nonspendable	50,193	4,375	-	-	38,392	92,960
Restricted	-	-	-	100,549	550,551	651,100
Committed	132,748	-	-	-	588,260	721,008
Assigned	30,522	-	-	-	-	30,522
Unassigned	2,341,180	(264,414)	(784,784)	-	(1,327,347)	(35,365)
<b>Total Fund Balances (Deficits)</b>	<u>2,554,643</u>	<u>(260,039)</u>	<u>(784,784)</u>	<u>100,549</u>	<u>(150,144)</u>	<u>1,460,225</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 5,293,922</u>	<u>\$ 2,244,624</u>	<u>\$ 7,268,556</u>	<u>\$ 334,829</u>	<u>\$ 2,017,987</u>	<u>\$ 17,159,918</u>

The notes to the financial statements are an integral part of this statement

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2011**

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**Total Governmental Funds Balance** \$ 1,460,225

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

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds. 23,576,293

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:

Property taxes	\$	1,477,129	
Income taxes		770,172	
Special assessments		6,316,047	
Intergovernmental		500,357	
Charges for services		75,433	
Total			9,139,138

Unamortized bond issuance costs are included in the governmental activities in the statement of net assets. 110,946

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. (180,851)

Long-term liabilities, are not due and payable in the current period and therefore, are not reported in the funds.

General Obligation Bonds Payable		(9,834,999)	
Unamortized Premiums		(224,806)	
Accounting Gain		(6,520)	
OWDA Loans Payable		(5,587,854)	
OPWC Loan Payable		(687,655)	
Intergovernmental Payable		(86,077)	
Long Term Note Payable		(1,000,000)	
Police Pension Liability		(43,749)	
Compensated Absences		(967,563)	
Total			(18,439,223)

**Net Assets of Governmental Activities** \$ 15,666,528

The notes to the financial statements are an integral part of this statement.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General Fund</u>	<u>Fire Service</u>	<u>Bond Retirement</u>	<u>Street Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>						
Property Taxes	\$ 1,127,244	\$ 1,538,909	\$ 795,665	\$ -	\$ 422,698	\$ 3,884,516
Income Taxes	4,651,837	-	-	-	-	4,651,837
Other Taxes	68,598	-	-	-	-	68,598
Intergovernmental	1,071,573	210,100	98,803	-	858,168	2,238,644
Interest	70	-	218,175	-	-	218,245
Fees, Licenses and Permits	498,076	-	-	-	-	498,076
Fines and Forfeitures	-	-	-	-	5,470	5,470
Rentals	43,310	-	-	-	113,803	157,113
Charges for Services	67,688	-	-	-	336,895	404,583
Contributions and Donations	7,289	-	-	-	4,450	11,739
Special Assessments	-	-	341,206	-	2,165	343,371
All Other Revenues	76,926	28	-	18,159	34,601	129,714
<b>Total Revenues</b>	<u>7,612,611</u>	<u>1,749,037</u>	<u>1,453,849</u>	<u>18,159</u>	<u>1,778,250</u>	<u>12,611,906</u>
<b><u>EXPENDITURES</u></b>						
Security of Persons and Property	2,561,654	2,060,542	-	-	678,059	5,300,255
Public Health Services	-	-	-	-	-	-
Leisure Time Activities	164,532	-	-	-	90,744	255,276
Community Environment	279,525	-	2,138	-	2,117	283,780
Transportation	961,606	-	-	-	445,172	1,406,778
General Government	1,368,585	-	-	-	235,167	1,603,752
Capital Outlay	-	-	-	1,304,546	207,878	1,512,424
Debt Service:						
Principal Retirement	-	-	1,760,253	-	1,071	1,761,324
Interest and Fiscal Charges	-	-	640,545	5,283	1,891	647,719
<b>Total Expenditures</b>	<u>5,335,902</u>	<u>2,060,542</u>	<u>2,402,936</u>	<u>1,309,829</u>	<u>1,662,099</u>	<u>12,771,308</u>
Excess of Revenues Over (Under) Expenditures	<u>2,276,709</u>	<u>(311,505)</u>	<u>(949,087)</u>	<u>(1,291,670)</u>	<u>116,151</u>	<u>(159,402)</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>						
Long Term Bond Anticipation Notes Issued	-	-	-	1,000,000	-	1,000,000
Premium on Notes Issued	-	-	-	7,380	-	7,380
Transfers In	-	350,000	90,000	-	92,000	532,000
Transfers Out	(442,000)	-	-	-	(90,000)	(532,000)
<b>Total Other Financing Sources (Uses)</b>	<u>(442,000)</u>	<u>350,000</u>	<u>90,000</u>	<u>1,007,380</u>	<u>2,000</u>	<u>1,007,380</u>
Net Change in Fund Balances	1,834,709	38,495	(859,087)	(284,290)	118,151	847,978
Fund Balances - Beginning of Year, restated	719,934	(298,534)	74,303	384,839	(268,295)	612,247
<b>Fund Balances - End of Year</b>	<u>\$ 2,554,643</u>	<u>\$ (260,039)</u>	<u>\$ (784,784)</u>	<u>\$ 100,549</u>	<u>\$ (150,144)</u>	<u>\$ 1,460,225</u>

The notes to the financial statements are an integral part of this statement

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Net Change in Fund Balances-Total Governmental Funds** \$ 847,978

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

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

Capital Outlay	\$	1,127,689	
Depreciation		(1,339,132)	
Total			(211,443)

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

Income taxes		410,533	
Special assessments		715,059	
Intergovernmental		(17,966)	
Charges for services		12,776	
Total			1,120,402

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Assets. These sources were attributed to the issuance of Notes. (1,000,000)

Repayment of debt principal and the intergovernmental payable are expenditures in the Governmental funds, but the repayments reduce long-term liabilities in the Statement of Net Assets. 1,761,324

Bond issuance costs are recognized as expenditures in the governmental funds; however, they are amortized over the life of issuance in the Statement of Activities (12,327)

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

Compensated absences		42,904	
Amortization of bond premiums		26,506	
Amortization of Gain on Refunding		725	
Accrued Interest		(56,068)	
Total			14,067

**Change in Net Assets of Governmental Activities** \$ 2,520,001

The notes to the financial statements are an integral part of this statement.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET (NON-GAAP BASIS) AND ACTUAL –  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Property Taxes	\$ 1,259,520	\$ 1,259,520	\$ 1,127,244	\$ (132,276)
Income Taxes	4,151,818	4,644,617	4,601,350	(43,267)
Other Taxes	58,183	65,089	63,953	(1,136)
Intergovernmental	1,014,607	1,135,036	1,115,226	(19,810)
Interest	64	71	70	(1)
Fines, Licenses and Permits	448,772	502,039	493,277	(8,762)
Rentals	39,402	44,079	43,310	(769)
Charges for Services	68,575	76,715	67,688	(9,027)
Contributions and Donations	6,631	7,418	7,289	(129)
All Other Revenues	58,238	65,150	60,346	(4,804)
<b>Total Revenues</b>	<u>7,105,810</u>	<u>7,799,734</u>	<u>7,579,753</u>	<u>(219,981)</u>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons & Property	2,567,897	2,595,618	2,597,201	(1,583)
Transportation	907,378	970,913	967,030	3,883
Leisure Time Activities	153,167	162,635	167,009	(4,374)
Community Environment	283,757	292,266	269,969	22,297
General Government	1,477,916	1,814,366	1,507,165	307,201
<b>Total Expenditures</b>	<u>5,390,115</u>	<u>5,835,798</u>	<u>5,508,374</u>	<u>327,424</u>
Excess of Revenues Over (Under) Expenditures	<u>1,715,695</u>	<u>1,963,936</u>	<u>2,071,379</u>	<u>107,443</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers Out	(1,708,456)	(2,078,656)	(456,000)	1,622,656
<b>Total Other Financing Sources (Uses)</b>	<u>(1,708,456)</u>	<u>(2,078,656)</u>	<u>(456,000)</u>	<u>1,622,656</u>
Net Change in Fund Balance	7,239	(114,720)	1,615,379	1,730,099
Fund Balance - Beginning of Year, restated	137,082	137,082	137,082	-
Prior Year Encumbrances Appropriated	2,748	2,748	2,748	-
Fund Balance - End of Year	<u>\$ 147,069</u>	<u>\$ 25,110</u>	<u>\$ 1,755,209</u>	<u>\$ 1,730,099</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF RICHMOND HEIGHTS  
 CUYAHOGA COUNTY, OHIO  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
 BUDGET (NON-GAAP BASIS) AND ACTUAL –  
 FIRE SERVICE FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b><u>Revenues</u></b>				
Property Taxes	\$ 1,730,393	\$ 1,730,393	\$ 1,538,909	\$ (191,484)
Intergovernmental	136,021	136,021	210,100	74,079
All Other Revenues	-	-	28	28
<b>Total Revenues</b>	<b>1,866,414</b>	<b>1,866,414</b>	<b>1,749,037</b>	<b>(117,377)</b>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons and Property	1,852,965	2,117,965	2,116,676	1,289
<b>Total Expenditures</b>	<b>1,852,965</b>	<b>2,117,965</b>	<b>2,116,676</b>	<b>1,289</b>
Excess of Revenues Over (Under) Expenditures	13,449	(251,551)	(367,639)	(116,088)
<b><u>Other Financing Sources</u></b>				
Transfers In	-	250,000	350,000	100,000
<b>Total Other Financings Sources</b>	<b>-</b>	<b>250,000</b>	<b>350,000</b>	<b>100,000</b>
Net Change in Fund Balance	13,449	(1,551)	(17,639)	(16,088)
Fund Balance - Beginning of Year	108,745	108,745	108,745	-
Prior Year Encumbrances Appropriated	285	285	285	-
Fund Balance - End of Year	<b>\$ 122,479</b>	<b>\$ 107,479</b>	<b>\$ 91,391</b>	<b>\$ (16,088)</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
STATEMENT OF FIDUCIARY NET ASSETS AND LIABILITIES  
AGENCY FUNDS  
DECEMBER 31, 2011**

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	<u>Agency Funds</u>
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 302,747
<b>Total Assets</b>	<u>\$ 302,747</u>
<b>Liabilities</b>	
Deposits Held and Due to Others	302,747
<b>Total Liabilities</b>	<u>\$ 302,747</u>

The notes to the financial statements are an integral part of this statement.

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**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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**NOTE 1: DESCRIPTION OF THE CITY AND REPORTING ENTITY**

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

***Reporting Entity***

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

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

The City participates in a shared risk pool, an insurance purchasing pool, a jointly governed organization, and a related organization. These organizations are presented in Notes 16, 17, 19, and 20 to the financial statements. These organizations are:

Shared Risk Pool: Northern Ohio Risk Management Association

Insurance Purchasing Pool: Ohio Association of Public Treasurers

Jointly Governed Organization: Eastern Suburban Regional Council of Governments

Related Organization: Greenwood Farms Historical, Cultural, and Arts Association

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

**CITY OF RICHMOND HEIGHTS**  
**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**  
**(CONTINUED)**

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

**Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

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

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

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

**Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The City does not maintain any proprietary funds.

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

**CITY OF RICHMOND HEIGHTS**  
**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**  
**(CONTINUED)**

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Fund Accounting** (Continued)

*Governmental Funds* (continued)

**General Fund** - The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City of Richmond Heights and/or the general laws of Ohio.

**Fire Service Fund** - The Fire Service Special Revenue Fund accounts for the accumulation of resources for, and the payment of expenditures relating to fire services.

**Bond Retirement Fund** - The Bond Retirement Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term bonded debt principal and interest.

**Street Improvement Fund** – The Street Improvement Fund accounts for the accumulation of resources for, and the payment of, expenditures related to the improvement and maintenance of streets in the City. Eligible expenditures include personnel costs, street supplies, fuel, and salt for street repair and snow plow.

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

***Fiduciary Funds*** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City only has agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for donations from citizens held for and used by senior citizens for home visitations, street opening fees, and deposits pledged by contractors.

**Measurement Focus**

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

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

**CITY OF RICHMOND HEIGHTS**  
**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**  
**(CONTINUED)**

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

**Basis of Accounting**

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**CITY OF RICHMOND HEIGHTS**  
**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**  
**(CONTINUED)**

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

**Cash and Cash Equivalents**

To improve cash management, cash received by the City is pooled. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and investments".

The City had no investments during the year or at year end.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue is distributed to the General Fund. Interest revenue credited to the General Fund during 2011 amounted to \$70.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

**Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2011, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

**Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

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

**Capital Assets** (Continued)

Depreciation is computed using the straight-line method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Land Improvements	45 years
Buildings	45 years
Machinery and Equipment	7 to 20 years
Vehicles	6 to 12 years
Infrastructure	65 years

The City's infrastructure consists of roads, storm sewers, sanitary sewers, and water lines and includes infrastructure acquired prior to December 31, 1980.

**Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund balance amounts are eliminated in the Statement of Net Assets.

**Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

**Accrued Liabilities and Long-Term Obligations**

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

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

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

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

**Fund Balance** (Continued)

The classifications are as follows:

*Nonspendable* – The nonspendable fund balance classification includes amounts that cannot be spent because they are not spendable in form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as properly acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

*Restricted* – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

*Committed* – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of the City’s Council. Those committed amounts cannot be used for any other purpose unless the City’s Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by City Council.

*Unassigned* – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classification. In the other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets.

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

**Net Assets** (Continued)

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 other purposes include law enforcement, court computerization, recycling, tree planting and nature works.

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

**Internal Activity**

Transfers between governmental activities are eliminated on the government wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

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

**Bond Issuance Costs**

Bond issuance costs for underwriting fees and bond insurance for the general obligation bonds are being amortized using the straight-line method over the life of the bonds on the government-wide statements. The straight-line method of amortization is not materially different from the effective-interest method. On the governmental funds financial statements, issuance costs are reported as an expenditure in the fiscal year in which the bonds are issued. Bond issuance costs are generally paid from bond proceeds.

As permitted by State Statute, the City paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

**Bond Premium**

On the government-wide financial statements, bond premiums are deferred and amortized for the term of the bonds using the straight-line method. Bond premiums are presented as an increase of the face amount of the bonds payable. On governmental fund statements, bond premiums are received in the year the bonds are issued.

**Deferred Gain on Refunding**

The difference between the reacquisition price (funds required to refund the old debt) of the various purpose refunding bonds and the net carrying amount of the old debt, the deferred amount on refunding, is being amortized as a component of interest expense. The accounting gain is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as part of the general obligation bonds payable on the statement of net assets.

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

**Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2011.

**Estimates**

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

**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 Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of budgetary control is at object level within each department in the General Fund and at the fund level for all other funds. Budgetary modifications may only be made by ordinance of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were enacted by Council.

The appropriation resolution 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 resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS**

A. **Change in Accounting Principles**

For 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 59, *Financial Instruments Omnibus*.

**CITY OF RICHMOND HEIGHTS  
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**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS**  
 (Continued)

**A. Change in Accounting Principles** (Continued)

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classification that can be more consistently applied and by clarifying the existing governmental fund type definitions. The implementation of this Statement resulted in the reclassification of fund balances on the City's governmental fund financial statements.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirement of certain financial instruments and external investment pools. The implementation of this Statement did not have an effect on the City's financial statements.

**B. Prior Period's Adjustments**

Fund reclassifications are required on the governmental fund financial statements in order to report funds in accordance with GASB Statement No. 54. A restatement was necessary to record a change in fund structure, to record accounts receivable for Emergency Medical Services, to record an outstanding loan with the OPWC and to correctly reflect compensated absences.

	General	Other Governmental Funds
Fund Balance, December 31, 2010	\$ 719,309	\$ (302,391)
<b>Restatement:</b>		
Accounts Receivable	-	34,721
Change in Fund Structure	625	(625)
Fund Balance, December 31 2010, Restated	\$ 719,934	\$ (268,295)

The following is the effect of those changes in governmental activities' net assets:

	Governmental Activities
Net Assets as of December 31, 2010	\$ 13,709,211
<b>Restatement:</b>	
Accounts Receivable	97,378
OPWC Loan	(724,826)
Compensated Absences	64,764
Net Assets as of December 31, 2010, as Restated	\$ 13,146,527

The General Fund's budgeted fund balance at the beginning of the year was restated by \$15,841 to correct the beginning carryover balance.

**CITY OF RICHMOND HEIGHTS  
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NOTE 4: **ACCOUNTABILITY AND COMPLIANCE**

**Accountability**

Fund balances at December 31, 2011, included the following individual fund deficits:

Fund	Amount
<i>Special Revenue Funds</i>	
Fire Service	\$ 260,039
Fire Pension	91,048
Police Pension	71,427
Neighborhood Stabilization Program	29,174
<i>Debt Service Fund</i>	
General Bond Retirement	784,784
<i>Capital Project Funds</i>	
Building Improvement	98,173
Sewer Improvement	289,573
Capital Improvement	747,952
	\$ 2,372,170

The deficits in the Special Revenue Funds, Sewer Improvement Fund and portions in the Building and Capital Improvement Funds are caused by the recognition of expenditure accruals on the modified accrual basis of accounting. The deficit in the Debt Service fund and portions of the deficits in the Building and Capital Improvement Funds are caused by a negative cash balance in those funds. The General Fund is liable for the deficits in these funds and provides transfers when cash is required, not when accruals occur.

**Compliance**

The City had negative cash balances in several funds, indicating that revenue from other sources were used to pay the obligations of these funds, contrary to Ohio Revised Code Section 5705.10. In order to eliminate future negative cash, the City will make cash advances during the year. The funds that had negative cash balances are as follows:

	Deficit
General Bond Retirement	\$ 784,784
Building Improvement	80,488
Capital Improvement	705,684

The General, Police Pension, Bond Retirement, Capital Improvement and Building Improvement Funds had final appropriations in excess of actual receipts plus unencumbered balances at December 31, 2011. These variances are contrary to Section 5705.36(A)(4) of the Ohio Revised Code.

Although these violations were not corrected by year end, management has indicated that appropriations and certifications will be closely monitored to ensure no future violations occur.

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**NOTE 5: BUDGETARY BASIS OF ACCOUNTING**

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

The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a part of restricted, committed, or assigned fund balance (GAAP).
4. Unrecorded cash represents amounts expended but not included as expenditures on the budgetary statements, but which is reported on the operating statements prepared using GAAP.
5. Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

Adjustments necessary to convert the results of operations at the end of the year on the GAAP basis to the budget basis are as follows:

	General	Fire Service
GAAP Basis	\$ 1,834,709	\$ 38,495
Revenue Accruals	(32,858)	-
Expenditure Accruals	(148,827)	(56,132)
Funds with separate legally adopted budgets	(7,123)	-
Encumbrances (Budget Basis) outstanding at year end	(30,522)	(2)
Budget Basis	\$ 1,615,379	\$ (17,639)

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**NOTE 6: DEPOSITS AND INVESTMENTS**

The City has chosen to follow State statutes and classify monies held by the City into three categories.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by The United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

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NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Deposits**

*Custodial Credit Risk* Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, the carrying amount of the City's deposits was \$1,407,209, and the bank balance was \$1,554,427. The full amount of the City's bank balance was covered by Federal Depository Insurance. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

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

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2011, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for ambulance services).

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except for delinquent property taxes and special assessments are expected to

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NOTE 7: **RECEIVABLES** (Continued)

be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to \$82,754 in the General Fund, \$6,151,010 in the Bond Retirement Fund and \$82,283 in the Street Improvement Fund.

**Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of the 2010 taxes. Property tax payments received during 2011 for tangible personal property (other than public utility property) are for 2011 taxes.

2011 real property taxes are levied after October 1, 2011 on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

Tangible personal property tax revenue received during 2011 (other than public utility property tax) represents the collection of 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. 2010 was the last year for the collection of tangible personal property taxes from telephone companies; however, the City received no tangible personal property tax revenue from telephone company property. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2011 was \$8.50 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2011 property tax receipts were based are as follows:

<u>Property Category</u>	<u>Assessed Value</u>	<u>Percent</u>
Real Estate	\$295,564,860	99.12 %
Public Utility	2,611,960	0.88
Total	<u>\$298,176,820</u>	<u>100.00 %</u>

**CITY OF RICHMOND HEIGHTS  
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NOTE 7: **RECEIVABLES** (Continued)

**Property Taxes** (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Richmond Heights. The County Fiscal Office periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2011 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified basis the revenue is deferred.

**Income Tax**

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

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds may be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City. In 2011, the proceeds were allocated one hundred percent to the General Fund.

**Intergovernmental Receivables**

A summary of the intergovernmental receivables follows:

Revenue Description	Amount
Local Government	\$ 164,723
Homestead and Rollback	246,046
Gasoline tax	152,915
Estate tax	48,800
Motor Vehicle License Tax	41,769
CAT tax reimbursement	6,868
Liquor Permits	2,907
Total	\$ 664,028

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**NOTE 8: INTERFUND TRANSFERS AND BALANCES**

**Interfund Transfers**

Interfund transfers for the year ended December 31, 2011 consisted of the following:

<u>Transfers To</u>	<u>Transfers from</u>		<u>Total</u>
	<u>General</u>	<u>Nonmajor Governmental Funds</u>	
Fire Service	\$ 350,000	\$ -	\$ 350,000
Bond Retirement	-	90,000	90,000
Nonmajor Governmental Funds	92,000	-	92,000
<b>Total</b>	<b>\$ 442,000</b>	<b>\$ 90,000</b>	<b>\$ 532,000</b>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. A transfer from the General Fund to the Fire Service Fund was to fund its operations. Transfer from the Ambulance Billing Fund to the Bond Retirement Fund was to cover debt payments.

**Interfund Balances**

	<u>Receivables</u>	<u>Payables</u>
<b>Major Funds</b>		
General	\$ 1,637,723	\$ -
Fire Service	-	(290,000)
Bond Retirement	-	(784,784)
Street Improvement	250,040	-
<b>Nonmajor Governmental Funds</b>		
<i>Special Revenue Funds:</i>		
Rescue Squad	290,000	-
<i>Capital Projects Fund:</i>		
Capital Improvement	-	(732,952)
Building Improvement	-	(80,488)
Sewer Improvement	-	(289,539)
	<b>\$ 2,177,763</b>	<b>\$ (2,177,763)</b>

The advances to the Fire Service Special Revenue Fund, and other governmental funds were set up to provide cash for the respective funds to support its operations on an interim basis. The interfund loans provided from the General Fund, Street Improvement Fund and Rescue Squad Fund were made to eliminate negative cash balances in the Bond Retirement Fund, Capital Improvement Fund, and Building Improvement Fund.

**NOTE 9: FUND BALANCES**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

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NOTE 9: **FUND BALANCES** (Continued)

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Fire Service	Bond Retirement	Street Improvement	Other Governmental Funds	Total
<i>Nonspendable</i>						
Prepaid Items	\$ 40,016	\$ -	\$ -	\$ -	\$ -	\$ 40,016
Inventories	10,177	4,375	-	-	38,392	52,944
<i>Total Nonspendable</i>	<u>50,193</u>	<u>4,375</u>	<u>-</u>	<u>-</u>	<u>38,392</u>	<u>92,960</u>
<i>Restricted for</i>						
Streets and Highways	-	-	-	100,549	337,518	438,067
FEMA	-	-	-	-	956	956
Other Law Enforcement	-	-	-	-	40,758	40,758
Community	-	-	-	-	8,164	8,164
Recycling	-	-	-	-	47,265	47,265
Capital	-	-	-	-	115,890	115,890
<i>Total Restricted</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,549</u>	<u>550,551</u>	<u>651,100</u>
<i>Committed to</i>						
Stabilization and Reserve	125,000	-	-	-	-	125,000
Recreation	-	-	-	-	12,573	12,573
Rescue Squad	-	-	-	-	433,631	433,631
City Beautification	-	-	-	-	7,617	7,617
Professional services	-	-	-	-	104,129	104,129
Zoning	-	-	-	-	30,310	30,310
Other Purposes	7,748	-	-	-	-	7,748
<i>Total Committed</i>	<u>132,748</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>588,260</u>	<u>721,008</u>
<i>Assigned to</i>						
Encumbrances	30,522	-	-	-	-	30,522
<i>Total Assigned</i>	<u>30,522</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,522</u>
<i>Unassigned (Deficit)</i>	2,341,180	(264,414)	(784,784)	-	(1,327,347)	(35,365)
<b>Total Fund Balances</b>	<u><u>\$ 2,554,643</u></u>	<u><u>\$(260,039)</u></u>	<u><u>\$(784,784)</u></u>	<u><u>\$ 100,549</u></u>	<u><u>\$(150,144)</u></u>	<u><u>\$ 1,460,225</u></u>

NOTE 10: **CONTINGENCIES**

**Grants**

For the period January 1, 2011, to December 31, 2011, the City received Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

**Litigation**

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

**CITY OF RICHMOND HEIGHTS**  
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**NOTE 11: COMPENSATED ABSENCES**

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

Employees earn sick leave at different rates depending upon type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, employees can be paid for accumulated, unused sick leave, up to a maximum number of 960 hours for all City employees.

**NOTE 12: CAPITAL ASSETS**

	Balance 12/31/2010	Additions	Disposals	Balance 12/31/2011
<b><u>Governmental Activities</u></b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 1,635,588	\$ -	\$ -	\$ 1,635,588
Construction in Progress	-	1,113,629	-	1,113,629
<b>Total Capital Assets Not Being Depreciated</b>	<b>1,635,588</b>	<b>1,113,629</b>	<b>-</b>	<b>2,749,217</b>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	1,786,198	-	-	1,786,198
Buildings	10,758,391	-	-	10,758,391
Machinery and Equipment	1,869,863	14,060	-	1,883,923
Vehicles	2,019,775	-	-	2,019,775
Infrastructures:				
Roads	12,226,857	-	-	12,226,857
Storm Sewers	3,854,121	-	-	3,854,121
Sanitary Sewers	8,055,205	-	-	8,055,205
Water Lines	2,381,534	-	-	2,381,534
<b>Total Capital Assets Being Depreciated</b>	<b>42,951,944</b>	<b>14,060</b>	<b>-</b>	<b>42,966,004</b>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(1,222,372)	(134,064)	-	(1,356,436)
Buildings	(2,645,912)	(257,781)	-	(2,903,693)
Machinery and Equipment	(1,509,254)	(101,318)	-	(1,610,572)
Vehicles	(1,522,310)	(118,514)	-	(1,640,824)
Infrastructures:				
Roads	(7,131,494)	(468,824)	-	(7,600,318)
Storm Sewers	(1,981,426)	(48,159)	-	(2,029,585)
Sanitary Sewers	(2,810,351)	(162,841)	-	(2,973,192)
Water Lines	(1,976,677)	(47,631)	-	(2,024,308)
<b>Total Accumulated Depreciation</b>	<b>(20,799,796)</b>	<b>(1,339,132)</b>	<b>-</b>	<b>(22,138,928)</b>
<i>Total Capital Assets, being Depreciated, Net</i>	<i>22,152,148</i>	<i>(1,325,072)</i>	<i>-</i>	<i>20,827,076</i>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 23,787,736</b>	<b>\$ (211,443)</b>	<b>\$ -</b>	<b>\$ 23,576,293</b>

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NOTE 12: **CAPITAL ASSETS** (Continued)

\*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 142,031
Security of Persons and Property	262,498
Community Environment	210,472
Leisure Time Activities	86,984
Transportation	<u>637,147</u>
<b>Total Depreciation Expense</b>	<b><u>\$ 1,339,132</u></b>

NOTE 13: **DEFINED BENEFIT PENSION PLAN**

**Ohio Public Employees Retirement System**

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension 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. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension 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. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2011, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.0 percent and 11.6 percent, respectively. 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. For 2011, member and employer contribution rates were consistent across all three plans. Total required employer contributions for all plans are equal to 100 percent of employer charges and should be extracted from the employer's records.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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NOTE 13: **DEFINED BENEFIT PENSION PLAN** (Continued)

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

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010 and 2009 were \$160,355, \$298,841 and \$170,521, respectively. For 2011, 91.9 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

**Ohio Police and Fire Pension Fund**

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

The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The City's contributions to OP&F for police and firefighters pension were \$166,672 and \$234,614 for the year ended December 31, 2011, \$301,187 and \$341,818 for the year ended December 31, 2010, and \$204,833 and \$279,732 for the year ended December 31, 2009, respectively. For 2011, 70.3 percent for police and 70.6 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2011, the unfunded liability of the City was \$43,749, payable in semi-annual payments through the year of 2035. This is an accounting liability of the City which will not vary.

NOTE 14: **POST-EMPLOYMENT BENEFITS**

**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 health care plan for 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. The Plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

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NOTE 14: **POST-EMPLOYMENT BENEFITS** (Continued)

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

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 No. 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care 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 visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800- 222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

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 for members in the Traditional Plan was 4.0 percent during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent during calendar year 2011.

The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010 and 2009 were \$64,142, \$170,350, and \$123,481, respectively. For 2011, 91.9 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

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NOTE 14: **POST-EMPLOYMENT BENEFITS** (Continued)

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

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 on January 1 of each year from 2006 to 2008. Rates for law enforcement 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.

**Ohio Police and Fire Pension Fund**

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care 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 No. 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 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 43215-5164.

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 by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24.0 percent of covered payroll for fire 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.

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NOTE 14: **POST-EMPLOYMENT BENEFITS** (Continued)

**Ohio Police and Fire Pension Fund** (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, 2011, 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 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 City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$88,238 and \$91,805 for the year ended December 31, 2011, \$159,451 and \$133,755 for the year ended December 31, 2010, and \$108,441 and \$109,460 for the year ended December 31, 2009. For 2011, 70.3 percent has been contributed for police and 70.6 percent has been contributed for firefighters with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

NOTE 15: **RISK MANAGEMENT**

**Property and Liability**

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees and natural disasters. In October 1987, the City joined together with neighboring cities to form the Northern Ohio Risk Management Association (NORMA), a not-for-profit corporation, for the purpose of obtaining property, liability and vehicle insurance and providing for a formalized, jointly administered self insurance fund (See Note 16). The City pays an annual premium to NORMA for its insurance coverage. The agreement of formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement. This coverage is paid from the General Fund.

There has not been a significant reduction in coverage from the prior year and claims have not exceeded coverage provided by NORMA in any of the last three years.

**Employee Insurance Benefits**

The City provides medical, dental, vision and prescription drug benefits for all full-time employees through Anthem Blue Cross/Blue Shield, the Delta Dental Plan of Ohio and VSP Vision Care. Monthly premium payments are made from the General and Fire Service funds. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premiums for all benefits are \$1,178 for family coverage, \$830 for an employee plus one additional person and \$403 for single coverage.

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NOTE 15: **RISK MANAGEMENT** (Continued)

**Workers' Compensation**

The City participates in the Ohio Association of Public Treasurers (OAPT) rating pool (See Note 17). The intent of the OAPT is to achieve the benefit of a reduced premium for the participants, foster safer working environments and foster cost-effective claims management by virtue of its grouping and representation with other participants. The workers' compensation experience rating of the participating cities is calculated as one experience and a common premium rate is applied to all cities in the OAPT. Each participant pays its workers' compensation premium to the State based on the rate for the OAPT group rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the OAPT. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the OAPT. Participation in the OAPT is limited to cities that can meet the OAPT's selection criteria. The firm of Integrated Consulting Services provides administrative, cost control and actuarial services to the OAPT.

NOTE 16: **SHARED RISK POOL**

The Northern Ohio Risk Management Association (NORMA) is a shared risk pool comprised of the Cities of Bedford Heights, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon and South Euclid, and the Village of Chagrin Falls. NORMA was formed to enable its members to obtain property and liability insurance, including vehicles, and provide for a formalized, jointly administered self-insurance fund. The members formed a not-for-profit corporation known as NORMA, Inc. to administer the pool. NORMA is governed by a board of trustees that consists of the Mayor from each of the participating members.

Each entity must remain a member for at least three years from the commencement date of October 1, 1987, with the exception of Cities of Eastlake and Solon whose commencement date is October 1, 1989, the City of Maple Heights, whose commencement date is October 1, 1993 and the City of University Heights, whose commencement date is October 1, 2008. After the initial three years, each City may extend its term in three-year increments.

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

In 2011, the City of Richmond Heights paid \$79,786 in premiums from the General Fund, which represents 5.59 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146.

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**NOTE 17: INSURANCE PURCHASING POOL**

The Ohio Association of Public Treasurers rating pool has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The governing body is comprised of the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the City and the other group members. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to Integrated Consulting to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on claims experience of each member as compared to the total claims experience of the group.

**NOTE 18: LONG-TERM OBLIGATIONS**

The original issue date, interest rate, original issuance amount and maturity date for each of the City's long-term obligations follows:

	Original Issue Date	Interest Rate	Original Issue Amount	Date of Maturity
<b>General Obligation</b>				
Various Purpose - 2005	2005	3.47 %	\$ 3,990,000	December 1, 2015
Various Purpose - 2007	2007	3.75 - 4.0	4,125,000	December 1, 2021
Fire Station Bay Addition - 2008	2008	4.00 - 5.50	400,000	December 1, 2021
Various Purpose - 2009	2009	3.0 - 5.0	5,259,999	December 1, 2020
<b>OWDA Loans</b>				
Monticello Avenue Sewer	1995	4.56	200,000	January 1, 2015
Cardon Road Sewer	1999	4.56	1,554,105	January 1, 2019
Brushview Road Sewer	2000	4.12	439,366	January 1, 2020
Highland Road - Meadowlane	2001	3.79	648,031	January 1, 2021
Richmond Road	2003	3.90	923,490	January 1, 2023
Sunset/Skyline Sewer Construction	2004	3.20 - 3.59	1,036,790	January 1, 2024
Dunbarton/Cary Jay - Construction	2005	3.41	564,812	January 1, 2025
Richmond Road et al Sewers	2006	3.35	1,265,403	January 1, 2026
Richmond Road and Side Streets	2008	3.25	1,769,784	January 1, 2028
<b>OPWC Loan</b>				
Skyling-Glen Oval Waterline and Pavement	2010	0	743,411	January 1, 2030
<b>Intergovernmental Payable</b>				
City of Highland Heights	2002	0	190,923	January 1, 2020
<b>Long-Term Note</b>				
Street Improvement Note	2011	2.00	1,000,000	August 3, 2012

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**NOTE 18: LONG-TERM OBLIGATIONS** (Continued)

A schedule of changes in bonds and other long-term obligations of the City during 2011 follows:

	Restated Principal Outstanding 12/31/10	Additions	Deletions	Principal Outstanding 12/31/2011	Amounts Due in One Year
<b><u>Governmental Activities</u></b>					
<b><u>General Obligation Bonds</u></b>					
Various Purpose - 2005	\$ 2,180,000	\$ -	\$ (400,000)	\$ 1,780,000	\$ 415,000
Various Purpose - 2007	3,765,000	-	(360,000)	3,405,000	370,000
Unamortized Premium	20,411	-	(1,855)	18,556	-
Fire Station Bay Addition - 2008	255,000	-	(80,000)	175,000	85,000
Unamortized Premium	6,690	-	(2,230)	4,460	-
Various Purpose - 2009					
Refunding	2,139,999	-	(205,000)	1,934,999	210,000
General Obligation	2,830,000	-	(290,000)	2,540,000	295,000
Unamortized Premium	224,211	-	(22,421)	201,790	-
Accounting Gain	7,245	-	(725)	6,520	-
<b>Total General Obligation Bonds</b>	<b>11,428,556</b>	<b>-</b>	<b>(1,362,231)</b>	<b>10,066,325</b>	<b>1,375,000</b>
<b><u>OWDA Loans</u></b>					
Monticello Avenue Sewer	61,818	-	(12,673)	49,145	13,258
Cardon Road Sewer	833,022	-	(82,217)	750,805	86,009
Brushview Road Sewer	253,063	-	(22,262)	230,801	23,189
Highland Road - Meadowlane	399,814	-	(31,655)	368,159	32,866
Richmond Road	657,175	-	(41,700)	615,475	43,342
Sunset/Skyline Sewer Construction	789,064	-	(46,350)	742,714	48,029
Dunbarton/Cary Jay - Construction	453,093	-	(24,625)	428,468	25,472
Richmond Road et al Sewers	954,138	-	(47,853)	906,285	49,469
Richmond Road and Side Streets	1,565,203	-	(69,201)	1,496,002	83,153
<b>Total OWDA Loans</b>	<b>5,966,390</b>	<b>-</b>	<b>(378,536)</b>	<b>5,587,854</b>	<b>404,787</b>
<b><u>OPWC Loan</u></b>					
Skyling-Glen Oval Waterline and Pavement	724,826	-	(37,171)	687,655	37,171
<b>Total OPWC Loan</b>	<b>724,826</b>	<b>-</b>	<b>(37,171)</b>	<b>687,655</b>	<b>37,171</b>
<b><u>Other Long-term Liabilities</u></b>					
City of Highland Heights	95,623	-	(9,546)	86,077	9,546
Long Term Note	-	1,000,000	-	1,000,000	1,000,000
Police Pension Liability	44,820	-	(1,071)	43,749	1,117
Compensated Absences	1,010,467	65,804	(108,708)	967,563	202,498
<b>Total Other Long-term Liabilities</b>	<b>1,150,910</b>	<b>1,065,804</b>	<b>(119,325)</b>	<b>2,097,389</b>	<b>1,213,161</b>
<b>Total Governmental Long-Term Liabilities</b>	<b>\$ 19,270,682</b>	<b>\$ 1,065,804</b>	<b>\$ (1,897,263)</b>	<b>\$ 18,439,223</b>	<b>\$ 3,030,119</b>

**CITY OF RICHMOND HEIGHTS**  
**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**  
**(CONTINUED)**

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NOTE 18: **LONG-TERM OBLIGATIONS** (Continued)

General obligation bonds are the direct obligation of the City and will be paid from the Bond Retirement Debt Service Fund using property tax revenues.

The OWDA loans are being paid from the Bond Retirement Debt Service Fund. The City also entered into contractual agreements for new construction and design loans from OWDA. Under the terms of these agreements, OWDA will reimburse, advance, or directly pay the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and add them to the total amounts of the final loans. OWDA loans will be paid with Special Assessment revenue.

During 2002, the City entered into a contractual agreement with the City of Highland Heights for the construction of sanitary sewer lines on Highland Road. Richmond Heights is responsible for the portion of the lines that run through the City. The project was financed by a loan from the Ohio Public Works Commission in the name of the City of Highland Heights. The total amount owed to the City of Highland Heights as of December 31, 2011, is \$86,077 and has been recorded as a long-term liability in the government-wide financial statements and will be repaid from special assessments levied on the affected properties.

In 2009, the City defeased a 2001 law enforcement general obligation bond issue in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On December 31, 2011, \$1,970,000 of the defeased bonds are still outstanding.

The police pension liability will be paid from property tax revenue in the Police Pension Fund. The compensated absences will be paid from the General and Fire Service funds.

During 2011, the City issued a \$1,000,000 bond anticipation note at a rate of 2.0 percent will mature in 2012. These notes were used for the street resurfacing. The notes are backed by the full faith and credit of the City.

The City's overall legal debt margin was \$19,688,783 at December 31, 2011. The unvoted legal debt margin was \$4,779,942.

**CITY OF RICHMOND HEIGHTS**  
**CUYAHOGA COUNTY, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**  
**(CONTINUED)**

NOTE 18: **LONG-TERM OBLIGATIONS** (Continued)

Principal and interest requirements to retire the general obligation bonds, OWDA loans, OPWC loans, and the police pension liability as of December 31, 2011, are as follows:

	G.O. Bonds		OWDA Loans		OPWC
	Principal	Interest	Principal	Interest	Principal
2012	\$ 1,375,000	\$ 373,350	\$ 404,787	\$ 200,462	\$ 37,171
2013	1,395,000	322,438	377,988	184,444	37,171
2014	1,355,000	269,850	419,882	170,258	37,171
2015	1,380,000	210,294	428,425	154,040	37,171
2016	950,000	174,563	437,063	137,726	37,171
2017-2021	3,379,999	588,751	2,065,903	437,908	185,855
2022-2026	-	-	1,230,810	132,479	185,855
2027-2030	-	-	222,996	9,132	130,090
	<u>\$ 9,834,999</u>	<u>\$ 1,939,246</u>	<u>\$ 5,587,854</u>	<u>\$ 1,426,449</u>	<u>\$ 687,655</u>

	Intergovernmental Payable		Police Pension	
	Payable		Police Pension	
	Principal		Principal	Interest
2012	\$ 9,546		\$ 1,117	\$ 1,846
2013	9,546		1,165	1,798
2014	9,546		1,215	1,748
2015	9,546		1,267	1,696
2016	9,546		1,321	1,642
2017-2021	38,347		7,507	7,306
2022-2026	-		9,264	5,550
2027-2031	-		11,432	3,382
2032-2035	-		9,461	810
	<u>\$ 86,077</u>		<u>\$ 43,749</u>	<u>\$ 25,778</u>

NOTE 19: **JOINTLY GOVERNED ORGANIZATION**

**Eastern Suburban Regional Council of Governments**

The City is a member of the Eastern Suburban Regional Council of Governments (ESRCOG). The ESRCOG was formed, by written agreement pursuant to Ohio Rev. Code Section 167.01, in 1972 to foster cooperation between member municipalities through sharing of resources for mutual benefit. Other members include the cities of Highland Heights, Lyndhurst, Mayfield Heights and the villages of Gates Mills and Mayfield. The governing body of ESRCOG is a council comprised of one representative from each of the six participating municipalities. The Council adopts a budget for ESCOG annually. Each member's degree of control is limited to its representation on the Council.

ESRCOG established a subsidiary organization, the Suburban Police Anti-Crime Network (SPAN), which provides for the interchange and sharing of police personnel and police equipment to be utilized by all members.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)**

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NOTE 19: **JOINTLY GOVERNED ORGANIZATION** (Continued)

**Eastern Suburban Regional Council of Governments** (Continued)

In 2011, the City contributed \$14,000. Financial information can be obtained from Robert G. Tribby, Finance Director, City of Mayfield Heights, at 6154 Mayfield Road, Mayfield Heights, Ohio 44124-3207, who serves as fiscal agent.

NOTE 20: **RELATED ORGANIZATION**

The City established an independent organization called the Greenwood Farms Historical, Cultural, and Arts Association to facilitate the programming of a historical property on Richmond Road the City acquired. This property is known as the Greenwood Farm or the Phyper property. The Association is governed by a Board of Directors. The City appoints all Board members for the Association. The Association will lease the property from the City, determine programming, and facilitate the necessary repairs and renovations to the property needed to provide that programming. The programming and property upkeep are separate from City operations. Financial information can be obtained from the Association, David H. Roche, President, 26789 Highland Road, Richmond Heights, Ohio, 44143.

NOTE 21: **RELATED PARTY TRANSACTIONS**

Donald O'Toole, Council Member, is the co-owner of Signs PDQ. Signs PDQ was paid \$95 during 2011.

NOTE 22: **SUBSEQUENT EVENT**

On June 21, 2012, the City issued \$1,190,000 in bond anticipation notes at 1.19 percent maturing on June 21, 2013 for street resurfacing.



# Dave Yost • Auditor of State

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Richmond Heights, Cuyahoga County, (the City) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 1, 2014, wherein we noted the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*.

### ***Internal Control Over Financial Reporting***

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. We consider findings 2012-006 through 2012-008 described in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-009 described in the accompanying schedule of findings to be a significant deficiency.

***Compliance and Other Matters***

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-001 through 2012-005.

***Entity's Response to Findings***

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

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

April 1, 2014

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
----------------------------------------------------------------------------------------------------------

**FINDING NUMBER 2012-001**

**Unsupported Disbursement – Finding For Recovery – Material Noncompliance**

State ex rel McClure v. Hagerman (1951), 155 Ohio St. 320 provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Auditor of State Bulletin 2003-005 states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. The Bulletin indicates that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

On June 13, 2012, check number 53825 from the City’s Charter One Bank Municipal Checking Account was issued to Lynda Rossiter, former Finance Director, in the amount of \$3,500. No supporting documentation was maintained for this disbursement.

Without appropriate documentation, it is not possible to determine if the expenditures were made for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the District’s finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Lynda Rossiter, former Finance Director, in the amount of \$3,500, and in favor of the City of Richmond Heights.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. Steward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen, to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att’y Gen. No. 80-074.

Accordingly, Ohio Farmers Insurance Company, Lynda Rossiter’s former bonding company, is jointly and severally liable in the amounts of \$3,500, and in favor of the City of Richmond Heights.

**Official’s Response:** This finding was the result of improperly documenting a disbursement of City funds and thereby failing to show it was for a proper public purpose. In accordance with Auditor of State Bulletin 2003-005, the expenditure should not have been made. The City has taken the necessary steps to ensure that all future expenditures of public monies will be for a valid public purpose and will contain all necessary documentation to support the expenditure.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

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

(Continued)

**FINDING NUMBER 2012-002**

**Alcohol Purchase – Finding For Recovery Repaid Under Audit – Material Noncompliance**

State ex rel McClure v. Hagerman (1951), 155 Ohio St. 320 provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Auditor of State Bulletin 2003-005 states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. The Bulletin indicates that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. The Bulletin further states that the Auditor of State’s Office does not view the expenditure of public funds for alcoholic beverages as a proper public purpose and will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect.

On June 14, 2012, one debit card purchase was made at Dave’s Supermarket by Teri Drda, former Recreation Director, for alcoholic beverages totaling \$220. Check number 54071 from the City’s Charter One Bank Municipal Checking Account was issued to the debit card company for this purchase by Paul Ellis, former Finance Director, on August 3, 2012.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Teri Drda, former Recreation Director, in the amount of \$220, and in favor of the City of Richmond Heights.

On February 18, 2014, Paul Ellis, former Finance Director, issued check number 1301 in the amount of \$220 on behalf of Teri Drda in settlement of this finding.

**Official’s Response:** This finding was the result of poor judgment by former Recreation Director Teri Drda, who should have been aware of the legalities of alcohol purchases by the City. In accordance with Auditor of State Bulletin 2003-005, the expenditure should not have been made. The City has taken the necessary steps to ensure that there will be no future purchases of alcoholic beverages and all future expenditures of public monies will be for a valid public purpose.

**FINDING NUMBER 2012-003**

**Transfers – Material Noncompliance**

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

During our review of Transfers for 2012, we noted the following transfers not approved by City Council:

- From the General Fund to the Street Improvement Other Governmental Fund for \$65,000; and
- From the COPS Grant Other Governmental Fund to the General Fund for \$6,940.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

**FINDING NUMBER 2012-003  
(Continued)**

**Transfers – Material Noncompliance (Continued)**

During our review of Transfers for 2011, we noted the following transfers not approved by City Council:

- From the General Fund to the Police Training Other Governmental Fund for \$2,000;
- From the General Fund to the Bond Retirement Fund for \$650,000;
- From the General Fund to the Capital Improvement Other Governmental Fund for \$760,000;
- From the General Fund to the Building Improvement Fund for \$17,700; and
- From the FEMA Grant Other Governmental Fund to the Fire Service Fund for \$956.

We also noted a transfer in 2012 from the COPS Grant Other Governmental Fund to the General Fund for \$6,940 that was not allowable per the above Ohio Rev. Code Sections. We also noted the City made actual transfers in 2011 from the General Fund to the Fire Service Fund totaling \$359,500, which exceeded the amount authorized of \$350,000. The additional \$9,500 transfer is unallowable.

The City adjusted their financial statements to reverse these unallowable transactions.

To be in compliance with the Ohio Rev. Code and avoid yearend adjustments, we recommend the City make only those transfer transactions allowed by Ohio Rev. Code Sections 5705.14-5705.16 and that all transfers are authorized by Council. All advances made should be authorized by Council and meet the requirements set forth in AOS Bulletin 97-003.

**Official's Response:** The City has taken the necessary steps to ensure that all future transfers of funds will be approved through legislative action of Council and will fully comply with Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16.

**FINDING NUMBER 2012-004**

**Negative Cash Fund Balances – Material Noncompliance**

Ohio Rev. Code Section 5705.10(H) states money that is paid into a fund must be used only for the purposes for which such fund has been established. The existence of a deficit balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance.

The following funds had deficit cash balances as of December 31, 2012:

<u>Fund</u>	<u>Amount</u>
Police Training	\$1,924
Bond Retirement	405,915
Capital Improvement	715,641
Street Improvement	27,520
Building Improvement	17,173

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

**FINDING NUMBER 2012-004  
(Continued)**

**Negative Cash Fund Balances – Material Noncompliance (Continued)**

The following funds had deficit cash balances as of December 31, 2011:

Fund	Amount
Bond Retirement	\$784,784
Capital Improvement	705,685
Building Improvement	80,488

This resulted in other funds paying for expenditures on their behalf.

We recommend the cash balances be monitored on a regular basis and transfers or advances should be made from the General Fund in order to avoid deficit balances.

**Official's Response:** The City has taken the necessary steps to properly monitor cash balances and ensure that deficit fund balances will not be permitted to occur.

**FINDING NUMBER 2012-005**

**Certification of Available Resources – Material Noncompliance**

Ohio Rev. Code Section 5705.36(A)(4) requires the fiscal officer to file a reduced amended certificate if the revenue to be collected by the subdivision will be less than the amount included in an official certificate and the amount of the deficiency will reduce available resources below the current level of appropriation. The total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

The City did not obtain reduced amended certificates of estimated resources which would have reduced the available resources below the current level for the following variances:

Fund	Appropriations	Actual Receipts including Unencumbered Balance	Variance
<b>As of December 31, 2012:</b>			
Fire Service	\$2,192,531	\$2,129,432	\$63,099
Police Pension	265,903	265,724	179
<b>As of December 31, 2011:</b>			
General Fund	7,726,457	7,698,110	28,347
Police Pension	295,964	260,664	35,300
Bond Retirement	2,450,000	1,842,379	607,621
Capital Improvement	92,586	(668,299)	760,885
Building Improvement	17,700	4,505	13,195

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
----------------------------------------------------------------------------------------------------------

**(Continued)**

**FINDING NUMBER 2012-005**

**(Continued)**

**Certification of Available Resources – Material Noncompliance (Continued)**

In addition, the appropriations exceeded actual resources overall at December 31, 2011 by \$559,647.

Appropriating more money than received led to negative fund balances.

We recommend the City compare actual receipts to appropriations on a monthly basis and obtain an amended certificate of estimated resources as needed.

**Official's Responses:** The City has taken the necessary steps to properly monitor revenue collection and request an amended certificate when necessary. The City will also no longer permit the appropriation of any fund to exceed the certificate of estimated resources or amended certificate of estimated resources.

**FINDING NUMBER 2012-006**

**Appropriation Amendment Approval – Material Weakness**

Appropriation measures presented to Council should include accurate information at the legal level of control for all funds.

We noted the City did not agree approved appropriation balances from prior measures passed by Council to the current measures presented. In 2012, we noted increases and decreases totaling \$4,966,929 and \$2,509,626, respectively, across 20 different line items that could not be agreed to Council approvals. In 2011, we noted appropriation increases and decreases totaling \$335,616 and \$20,465, respectively, across 11 different line items that could not be agreed to Council approvals.

By not presenting the accurate balances to management, the City may expend monies in excess of approved appropriations. The City made adjustments to its financial statements to correct these variances.

We recommend the City ensure all information included in appropriation measures presented to Council agree to the prior measures and amendments.

**Official's Responses:** The City has taken the necessary steps to ensure that all financial information included in appropriation measures presented to council is accurate and properly reflects any prior appropriation measure.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

**FINDING NUMBER 2012-007**

**Bank Reconciliations – Material Weakness**

A necessary step in the internal control over financial reporting is to determine the accuracy of both the balance of the bank and the balance of cash in the accounting records. The reconciliation process accounts for the differences between the balances appearing on the bank statements and the balance of cash according to the City's records.

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

- Cash and investment bank accounts were not reconciled on a timely basis during 2012 and 2011. The City hired an outside consultant to assist the City with reconciling their accounting ledgers to their bank balance for 2011. The year-end reconciliation for 2011 was not finalized until April of 2012;
- On the December 31, 2012 bank reconciliation, the City omitted outstanding checks from its Charter One operating bank account totaling \$13,607;
- The City recorded \$8,640 in outstanding checks to its Key Bank checking account on its reconciliations for 2012 and 2011 which were unsupported and not reflected in its system balance;
- Petty cash in the amount of \$400 was not included on any of the City's reconciliations during 2012 or 2011; and
- The City's bank reconciliations at December 31, 2012 and December 31, 2011 contained unsupported adjusting entries totaling \$23,280 and \$1,515, respectively.

The items noted above resulted in unreconciled differences between bank and book of \$886 and \$8,186 at December 31, 2012 and December 31, 2011, respectively.

Without timely and accurate bank reconciliations the City has no assurance that the cash balances recorded in the City's ledgers are correct. Consequently, the City may be spending money that it does not have available. This condition compromises the controls designed to aid in the detection of errors and/or irregularities which could lead to a loss or theft of City assets. In addition, the management of the City is not provided with timely and accurate financial information that is vital to the continued operations of the City, which could also have a negative material effect or impact on the City's financial statements.

We recommend that bank reconciliations be prepared in a timely manner and reviewed for accuracy. All reconciling items should be resolved on a timely basis and adequate documentation be maintained to support them.

**Official's Response:** The City's current Finance Director, upon his arrival with the City in December 2013, has reconciled the bank accounts including creating a list of outstanding checks within the accounting system. Adjustments will be made to bring bank balances in line with book balances. Reconciliations will be performed on a timely basis going forward and any reconciling items will be properly documented.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
----------------------------------------------------------------------------------------------------------

(Continued)

**FINDING NUMBER 2012-008**

**Capital Asset Records – Material Weakness**

A capital asset management system is a system of methods, policies and procedures that address the acquisition, use, control, protection, maintenance and disposal of assets. Accurate accounting for assets is required for the correct and complete presentation of capital assets' financial information. While reviewing and testing the City's capital assets, we noted the following:

- No detailed listing exists for the 2004 and 2010 asset additions;
- Physical inventory of assets has not been taken since 2003;
- Depreciation amounts were taken for assets whose useful life had already expired and asset additions included items that were below the capitalization threshold established by the City (evident by reviewing inventory listing developed in 2003);
- Depreciation amounts have not changed for assets dated 2004 and earlier. AOS compared depreciation total sheets from the year under audit to prior years noting no change in assets dated 2004 and earlier. The depreciation amount is being carried forward from year to year with only current year additions and deletions related to construction in progress being included;
- Depreciation amounts are not being calculated correctly since there were formula errors contained in the Excel spreadsheets used to account for additions/depreciation;
- Useful lives used are inconsistent within the same asset class, and often were not consistent with the City's policy;
- Two parcels of land donated to the City in 2009 were not capitalized. Their combined value was \$3,600 according to County documentation. There was also no evidence that land the City sold in 2010 was deleted as a capital asset. The County's appraised value for the parcel sold was \$29,100. They received \$42,000 for the sale;
- Assets sold in 2012 have not be reported as disposals;
- Assets purchased in 2012 have not been added to the asset listing; and
- In prior years, assets were being added that shouldn't be based on the City's capitalization threshold, and yet to be corrected.

Based on the above issues, the City's capital asset listing may not be complete and accurate, which may lead to potential misstatements of asset totals and values, useful lives and depreciation.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

**FINDING NUMBER 2012-008**

(Continued)

**Capital Asset Records – Material Weakness (Continued)**

To avoid incorrect reporting of capital asset information on the financial statements, the City should:

- Review its 2004 and earlier capital asset information to make sure depreciation is not being taken on assets whose useful life has already expired;
- Review its capitalization threshold since items are added that are below the current threshold amount;
- Perform an official physical inventory of its assets since it has been several years since one has been performed. This would identify the assets still used by the City, the current location and condition of the assets and also make sure items are properly tagged. It may also identify items that are no longer used/functional and should be disposed of and removed from the listing;
- Ensure it consistently applies useful lives to the same asset class and that these useful lives are in accordance with the City's capital asset policy;
- Ensure land is properly capitalized;
- Ensure any assets sold are properly reflected as deletions; and
- Ensure all additions are properly added to the City's capital asset listing.

**Official's Response:** It is the intention of the Administration to retain a qualified firm that will assist the City in a proper inventory and valuation of capital assets which can be used to create a capital asset management system. A current asset management module from our software vendor will be utilized to accurately account for assets and to assist in accurate reporting.

**FINDING NUMBER 2012-009**

**Agency Fund Deposits – Significant Deficiency**

The City could not provide a reconciled open item listing of guaranteed deposits on hand as of December 31, 2012 and December 31, 2011 for their Building Bond Fund and Sidewalk Bond Fund. This was due to no reconciliation being completed between the system fund balances for these funds and any guaranteed deposits on hand.

We also noted that any fees which are withheld from the refunding of deposits are not being remitted to the City's General Fund. These fees are remaining in the Building Bond Agency Fund and Sidewalk Bond Agency Fund. At December 31, 2012, the Building Bond Fund and Sidewalk Bond Fund had total combined fund balances of \$343,099. Since the City does not perform a reconciliation, the City may not be able to identify how much of this total belongs to their General Fund as operating monies, and how much actually belongs in their Building Bond Fund and Sidewalk Bond Fund to cover any outstanding guaranteed deposits.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

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

**(Continued)**

**FINDING NUMBER 2012-009  
(Continued)**

**Agency Fund Deposits – Significant Deficiency (Continued)**

We recommend the City establish proper reconciliation controls over their Building Bond Agency Fund and Sidewalk Bond Agency Fund. Any discrepancies should be investigated and resolved. Any unclaimed funds within these Agency funds in excess of five years should be remitted to the General Fund. Also, inspection fees issued by the City should be remitted to the City's General Funds so that these monies may be appropriated and used for City operations.

**Official's Responses:** The City's Finance Department will work with the Building Department in an attempt to identify the source of the deposits and create an open item listing of guaranteed deposits. When the deposits are properly reconciled to the fund balances any fees that should have been retained will be remitted to the General Fund and excess or unclaimed funds will be properly remitted to an unclaimed money fund.

**CITY OF RICHMOND HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2010-001	Annual Reporting	Yes	Finding No Longer Valid
2010-002	Estimated Resources and Appropriations Greater Than Available Resources	No	Re-Issued as Finding 2012-005 and as Management Letter Comment
2010-003	Negative Cash Fund Balances	No	Re-Issued as Finding 2012-004
2010-004	Expenditures Exceeding Appropriations	No	Re-Issued as Management Letter Comment
2010-005	Bank Reconciliations	No	Re-Issued as Finding 2012-007
2010-006	Financial Reporting	Yes	Corrected
2010-007	Capital Asset Records	No	Re-Issued as Finding 2012-008
2010-008	Agency Fund Deposits	No	Re-Issued as Finding 2012-009



# Dave Yost • Auditor of State

**CITY OF RICHMOND HEIGHTS**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 22, 2014**