



**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Chagrin Falls
Cuyahoga County
21 West Washington Street
Chagrin Falls, Ohio 44022

To the Village Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Chagrin Falls, Cuyahoga County, Ohio, (the Village), as of and for the year ended December 31, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Chagrin Falls, Cuyahoga County, Ohio, as of December 31, 2004, and the respective changes in modified cash financial position and the respective budgetary comparisons for the General Fund and the Cemetery Fund for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended December 31, 2004, the Village revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

July 14, 2005

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited**

This discussion and analysis of the Village of Chagrin Falls, Cuyahoga County, Ohio, (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2004, within the limitations of the Village's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2004 are as follows:

- Net assets of governmental activities decreased \$1,396,137, or 13.66 percent, a significant change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the General Permanent Improvement Fund, which realized the greatest burden of increased costs in 2004; however, cost increases affected most funds.
- Net assets of proprietary activities decreased \$6,221 or 0.17 percent.
- The Village's general receipts are primarily property and income taxes. These receipts represent respectively 21.37 and 36.11 percent of the total cash received for governmental activities during the year. Property and income tax receipts for 2004 changed very little compared to 2003 as development within the Village has slowed.
- The Village's program receipts are primarily charges for water and sanitary sewer services. These receipts represent 97.24 percent of the total cash received for business-type activities during the year.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited
(Continued)**

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

Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the Village did financially during 2004, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Village's general receipts.

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

In the statement of net assets and the statement of activities, we divide the Village into two types of activities:

Governmental activities. Most of the Village's basic services are reported here, including police, fire, streets and parks. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Business-type activities. The Village has two business-type activities, the provision of water and sanitary sewer. Business-type activities are financed by a fee charged to the customers receiving the service.

Reporting the Village's Most Significant Funds

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

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

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited
(Continued)**

The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Proprietary Funds – When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The Village has two enterprise funds, the Water and Sanitary Sewer funds. When the services are provided to other departments of the Village, the service is reported as an internal service fund. The Village has one internal service fund to account for the purchase of long lasting capital equipment.

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

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2004 on a modified cash basis:

Since the Village did not prepare financial statements in this format for 2003, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

(Table 1)
Net Assets

	<u>Governmental Activities 2004</u>	<u>Business-Type Activities 2004</u>	<u>Total 2004</u>
Assets			
Cash and Cash Equivalents	\$8,837,845	\$3,650,702	\$12,488,547
Total Assets	<u>\$8,837,845</u>	<u>\$3,650,702</u>	<u>\$12,488,547</u>
Net Assets			
Restricted for:			
Debt Service	\$186,698	\$0	\$186,698
Capital Projects	4,761,041	0	4,761,041
Water Improvements	0	1,111,973	1,111,973
Sewer Improvements	0	1,033,336	1,033,336
Other Purposes	1,800,965	1,505,393	3,306,358
Unrestricted	<u>2,089,141</u>	<u>0</u>	<u>2,089,141</u>
Total Net Assets	<u>\$8,837,845</u>	<u>\$3,650,702</u>	<u>\$12,488,547</u>

As mentioned previously, net assets of governmental activities decreased \$1,396,137 or 13.66 percent during 2004. The primary reason contributing to the decreases in cash balances was the cost of various permanent improvement projects including, improvements to the traffic signal system costing in excess of \$155,208, the High Street sanitary sewers costing in excess of \$206,906, the Falls Road watermain costing in excess of \$252,704, and improvements to various roads costing in excess of \$294,469.

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited
(Continued)**

Table 2 reflects the changes in net assets in 2004.

Since the Village did not prepare financial statements in this format for 2003, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

(Table 2)
Changes in Net Assets

	Governmental Activities 2004	Business Type Activities 2004	Total 2004
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$831,051	\$2,219,800	\$3,050,851
Operating Grants and Special Assessments	138,781	0	138,781
Total Program Receipts	969,832	2,219,800	3,189,632
General Receipts:			
Property and Other Local Taxes	1,406,365	0	1,406,365
Income Taxes	2,376,808	0	2,376,808
Grants and Entitlements Not Restricted to Specific Programs	1,459,371	0	1,459,371
Proceeds from OPWC Loans	63,214	0	63,214
Interest	127,871	61,635	189,506
Miscellaneous	179,083	1,408	180,491
Total General Receipts	5,612,712	63,043	5,675,755
Total Receipts	6,582,544	2,282,843	8,865,387
Disbursements:			
General Government	1,195,712	0	1,195,712
Security of Persons and Property	2,255,648	0	2,255,648
Public Health Services	364,370	0	364,370
Leisure Time Activities	68,032	0	68,032
Economic Development	554,246	0	554,246
Basic Utilities	772,508	0	772,508
Transportation	2,136,757	0	2,136,757
Principal Retirement	350,000	33,400	383,400
Interest and Fiscal Charges	281,408	1,242	282,650
Water	0	1,247,208	1,247,208
Sewer	0	1,007,214	1,007,214
Total Disbursements	7,978,681	2,289,064	10,267,745
Increase (Decrease) in Net Assets	(1,396,137)	(6,221)	(1,402,358)
Net Assets, January 1, 2004	10,233,982	3,656,923	13,890,905
Net Assets, December 31, 2004	\$8,837,845	\$3,650,702	\$12,488,547

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited
(Continued)**

Program receipts represent only 35.98 percent of total receipts and are primarily comprised of charges for services to operate water and sanitary sewer functions, and fees charged to Village of Orange and Village of Woodmere for radio dispatch services provided under contract.

General receipts represent 64.02 percent of the Village's total receipts, and of this amount, over 66.65 percent are property and other local taxes and income taxes. State and federal grants and entitlements make up 25.71 percent of the Village's general receipts. Other receipts are insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Village and the support services provided for the other Village activities. These include the costs of council, and the auditor, treasurer, and income tax departments, as well as internal services such as payroll and purchasing. Since these costs do not represent direct services to residents, we try to limit these costs. Security of Persons and Property are the costs of police and fire protection; Public Health Services are county health department fees, Transportation is the cost of maintaining the roads; Water is the cost of providing water to residents, and Sewer is the cost of providing sanitary sewer to residents.

Governmental Activities

If you look at the Statement of Activities on pages 10 and 11, you will see that the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for transportation and security of persons and property, which account for 26.78 and 28.27 percent of all governmental disbursements, respectively. General government also represents a significant cost, about 14.99 percent. The next two columns of the Statement, titled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Village that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

	Total Cost Of Services 2004	Net Cost of Services 2004
	<u>2004</u>	<u>2004</u>
General Government	\$1,195,712	(\$778,697)
Security of Persons and Property	2,255,648	(1,810,784)
Public Health Services	364,370	(315,110)
Leisure Time Activities	68,032	(68,032)
Community Environment	554,246	(554,246)
Basic Utilities	772,508	(772,508)
Transportation	2,136,757	(2,136,757)
Principal Retirement	350,000	(291,307)
Interest and Fiscal Charges	281,408	(281,408)
Total Expenses	<u>\$7,978,681</u>	<u>(\$7,008,849)</u>

The dependence upon property and income tax receipts is apparent as over 47 percent of governmental activities are supported through these general receipts.

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited
(Continued)**

Business-type Activities

The water and sanitary sewer operations of the Village are supported mainly by the charges for water and sanitary sewer services. The net cost to the Village of the water and sanitary sewer operations was \$69,264 for 2004.

The Government's Funds

Total governmental funds had receipts of \$7,661,303 and disbursements of \$9,073,468. The greatest change within governmental funds occurred within the General Permanent Improvement fund. The fund balance of the General Permanent Improvement fund decreased \$1,015,793 as the result of costs of various permanent improvement projects.

General Fund Budgeting Highlights

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

During 2004, the Village amended its General Fund budget to reflect changing circumstances. The difference between final budgeted receipts and actual receipts was not significant. There was no variance between the final budgeted expenditures and the actual expenditures.

Capital Assets and Debt Administration

Capital Assets

The Village maintains a listing of its capital assets and infrastructure. These records are not required to be presented in the financial statements.

Debt

At December 31, 2004, the Village's outstanding debt included \$4,430,000 in general obligation bonds, \$220,000 in special assessment bonds, and \$550,317 in Ohio Public Works Commission interest-free loans. For further information regarding the Village's debt, refer to Note 7 to the basic financial statements.

Contacting the Government's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Village's finances and to reflect the Village's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to David Bloom, Finance Director, Village of Chagrin Falls, 21 West Washington Street, Chagrin Falls, Ohio 44022.

VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
Statement of Net Assets - Modified Cash Basis
December 31, 2004

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$8,837,845	\$3,650,702	\$12,488,547
<i>Total Assets</i>	<u>\$8,837,845</u>	<u>\$3,650,702</u>	<u>\$12,488,547</u>
Net Assets			
Restricted for:			
Capital Projects	\$4,761,041	\$0	\$4,761,041
Debt Service	186,698	0	186,698
Water Improvements	0	1,111,973	1,111,973
Sewer Improvements	0	1,033,336	1,033,336
Other Purposes	1,800,965	1,505,393	3,306,358
Unrestricted	2,089,141	0	2,089,141
<i>Total Net Assets</i>	<u>\$8,837,845</u>	<u>\$3,650,702</u>	<u>\$12,488,547</u>

See accompanying notes to the basic financial statements

VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2004

	Program Cash Receipts		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Special Assessments
Governmental Activities			
General Government	\$1,195,712	\$417,015	\$0
Security of Persons and Property	2,255,648	364,776	80,088
Public Health Services	364,370	49,260	0
Leisure Time Activities	68,032	0	0
Community Environment	554,246	0	0
Basic Utility Services	772,508	0	0
Transportation	2,136,757	0	0
Principal Retirement	350,000	0	58,693
Interest and Fiscal Charges	281,408	0	0
<i>Total Governmental Activities</i>	7,978,681	831,051	138,781
Business Type Activity			
Water	1,247,208	1,227,076	0
Sewer	1,007,214	992,724	0
Principal Retirement	33,400	0	0
Interest and Fiscal Charges	1,242	0	0
Total	\$10,267,745	\$3,050,851	\$138,781

General Receipts

Property Taxes Levied for:
 General Purposes
 Debt Service
Municipal Income Taxes
Grants and Entitlements
 not Restricted to Specific Programs
Proceeds from OPWC Loans
Interest
Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
(\$778,697)	\$0	(\$778,697)
(1,810,784)	0	(1,810,784)
(315,110)	0	(315,110)
(68,032)	0	(68,032)
(554,246)	0	(554,246)
(772,508)	0	(772,508)
(2,136,757)	0	(2,136,757)
(291,307)	0	(291,307)
(281,408)	0	(281,408)
(7,008,849)	0	(7,008,849)
0	(20,132)	(20,132)
0	(14,490)	(14,490)
0	(33,400)	(33,400)
0	(1,242)	(1,242)
(7,008,849)	(69,264)	(7,078,113)
943,243		943,243
463,122	0	463,122
2,376,808	0	2,376,808
1,459,371	0	1,459,371
63,214	0	63,214
127,871	61,635	189,506
179,083	1,408	180,491
5,612,712	63,043	5,675,755
(1,396,137)	(6,221)	(1,402,358)
10,233,982	3,656,923	13,890,905
<u>\$8,837,845</u>	<u>\$3,650,702</u>	<u>\$12,488,547</u>

VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2004

	General	Cemetery	General Permanent Improvement	Streetscape Project	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$2,089,141	\$900,971	\$2,395,980	\$1,951,220	\$1,012,226	\$8,349,538
<i>Total Assets</i>	<u>\$2,089,141</u>	<u>\$900,971</u>	<u>\$2,395,980</u>	<u>\$1,951,220</u>	<u>\$1,012,226</u>	<u>\$8,349,538</u>
Fund Balances						
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	2,089,141	0	0	0	0	2,089,141
Special Revenue Funds	0	900,971	0	0	206,458	1,107,429
Debt Service Fund	0	0	0	0	186,698	186,698
Capital Projects Funds	0	0	2,395,980	1,951,220	413,841	4,761,041
Expendable Trust Funds	0	0	0	0	205,229	205,229
<i>Total Fund Balances</i>	<u>\$2,089,141</u>	<u>\$900,971</u>	<u>\$2,395,980</u>	<u>\$1,951,220</u>	<u>\$1,012,226</u>	<u>\$8,349,538</u>

See accompanying notes to the basic financial statements

VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2004

Total Governmental Fund Balances	\$8,349,538
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***Amounts reported for governmental activities in the statement of
net assets are different because***

Governmental activities' net assets include the internal service funds' cash and cash equivalents. The proprietary funds' statements include these assets.

488,307

Net Assets of Governmental Activities

\$8,837,845

See accompanying notes to the basic financial statements

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Modified-Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2004*

	General	Cemetery	General Permanent Improvement	Streetscape Project	Other Governmental Funds	Total Governmental Funds
Receipts						
Municipal Income Taxes	\$2,021,022	\$0	\$0	\$0	\$355,786	\$2,376,808
Property and Other Local Taxes	899,825	0	0	0	506,540	1,406,365
Special Assessments	0	0	0	0	58,693	58,693
Charges for Services	554,343	0	0	0	0	554,343
Fines, Licenses and Permits	77,703	0	0	0	0	77,703
Intergovernmental	390,406	0	804,694	0	344,359	1,539,459
Interest	45,462	14,735	51,931	9,567	1,617	123,312
Miscellaneous	20,602	0	6,972	70,101	85,967	183,642
<i>Total Receipts</i>	<u>4,009,363</u>	<u>14,735</u>	<u>863,597</u>	<u>79,668</u>	<u>1,352,962</u>	<u>6,320,325</u>
Disbursements						
Current:						
General Government	982,355	0	0	0	6,712	989,067
Security of Persons and Property	2,059,715	0	0	0	66,028	2,125,743
Public Health Services	364,370	0	0	0	0	364,370
Leisure Time Activities	59,928	0	0	0	0	59,928
Community Environment	173,374	0	0	0	0	173,374
Basic Utility Services	298,781	0	0	0	0	298,781
Transportation	20,068	0	0	0	696,795	716,863
Capital Outlay	164,602	0	934,840	320,047	1,016,681	2,436,170
Debt Service:						
Principal Retirement	0	0	0	0	350,000	350,000
Interest and Fiscal Charges	0	0	0	0	281,408	281,408
<i>Total Disbursements</i>	<u>4,123,193</u>	<u>0</u>	<u>934,840</u>	<u>320,047</u>	<u>2,417,624</u>	<u>7,795,704</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(113,830)</u>	<u>14,735</u>	<u>(71,243)</u>	<u>(240,379)</u>	<u>(1,064,662)</u>	<u>(1,475,379)</u>
Other Financing Sources (Uses)						
Proceeds from OPWC Loans	0	0	63,214	0	0	63,214
Transfers In	0	0	0	0	1,277,764	1,277,764
Transfers Out	(250,000)	0	(1,007,764)	0	(20,000)	(1,277,764)
<i>Total Other Financing Sources (Uses)</i>	<u>(250,000)</u>	<u>0</u>	<u>(944,550)</u>	<u>0</u>	<u>1,257,764</u>	<u>63,214</u>
<i>Net Change in Fund Balances</i>	<u>(363,830)</u>	<u>14,735</u>	<u>(1,015,793)</u>	<u>(240,379)</u>	<u>193,102</u>	<u>(1,412,165)</u>
<i>Fund Balances Beginning of Year</i>	<u>2,452,971</u>	<u>886,236</u>	<u>3,411,773</u>	<u>2,191,599</u>	<u>819,124</u>	<u>9,761,703</u>
<i>Fund Balances End of Year</i>	<u>\$2,089,141</u>	<u>\$900,971</u>	<u>\$2,395,980</u>	<u>\$1,951,220</u>	<u>\$1,012,226</u>	<u>\$8,349,538</u>

See accompanying notes to the basic financial statements

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2004*

Net Change in Fund Balances - Total Governmental Funds	(\$1,412,165)
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***Amounts reported for governmental activities in the
statement of activities are different because***

Internal service funds charge insurance costs to other funds. The entity-wide statements eliminate governmental fund expenditures and related internal service fund charges. Governmental activities report allocated net internal service fund revenues (expenses).	<u>16,028</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>(\$1,396,137)</u></u>

See accompanying notes to the basic financial statements

VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Municipal Income Taxes	\$1,915,408	\$2,010,407	\$2,021,022	\$10,615
Property and Other Local Taxes	852,802	895,099	899,825	4,726
Charges for Services	525,375	551,431	554,343	2,912
Fines, Licenses and Permits	73,642	77,295	77,703	408
Intergovernmental	370,005	388,355	390,406	2,051
Interest	43,086	45,223	45,462	239
Miscellaneous	19,526	20,494	20,602	108
<i>Total receipts</i>	<u>3,799,844</u>	<u>3,988,304</u>	<u>4,009,363</u>	<u>21,059</u>
Disbursements				
Current:				
General Government	1,123,936	973,672	973,672	0
Security of Persons and Property	2,054,650	2,059,715	2,059,715	0
Public Health Services	342,568	364,370	364,370	0
Leisure Time Activities	48,784	59,928	59,928	0
Community Environment	186,268	173,374	173,374	0
Basic Utility Services	284,592	298,781	298,781	0
Transportation	23,092	20,068	20,068	0
Capital Outlay	328,900	164,602	164,602	0
<i>Total Disbursements</i>	<u>4,392,790</u>	<u>4,114,510</u>	<u>4,114,510</u>	<u>0</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(592,946)</u>	<u>(126,206)</u>	<u>(105,147)</u>	<u>21,059</u>
Other Financing Sources (Uses)				
Transfers Out	(250,000)	(250,000)	(250,000)	0
Other Financing Sources	0	0	0	0
Other Financing Uses	(700)	(8,683)	(8,683)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(250,700)</u>	<u>(258,683)</u>	<u>(258,683)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(843,646)</u>	<u>(384,889)</u>	<u>(363,830)</u>	<u>21,059</u>
<i>Fund Balance Beginning of Year</i>	<u>2,452,971</u>	<u>2,452,971</u>	<u>2,452,971</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$1,609,325</u></u>	<u><u>\$2,068,082</u></u>	<u><u>\$2,089,141</u></u>	<u><u>\$21,059</u></u>

See accompanying notes to the basic financial statements

VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Cemetery Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Interest	<u>\$0</u>	<u>\$14,734</u>	<u>\$14,735</u>	<u>\$1</u>
<i>Total receipts</i>	<u>0</u>	<u>14,734</u>	<u>14,735</u>	<u>1</u>
Disbursements	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Disbursements</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>0</u>	<u>14,734</u>	<u>14,735</u>	<u>1</u>
<i>Net Change in Fund Balance</i>	<u>0</u>	<u>14,734</u>	<u>14,735</u>	<u>1</u>
<i>Fund Balance Beginning of Year</i>	<u>886,236</u>	<u>886,236</u>	<u>886,236</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$886,236</u>	<u>\$900,970</u>	<u>\$900,971</u>	<u>\$1</u>

See accompanying notes to the basic financial statements

VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
December 31, 2004

	Business-Type Activities			Governmental Activity
	Water	Sanitary Sewer	Total Enterprise Funds	Internal Service
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,741,976	\$1,908,726	\$3,650,702	\$488,307
<i>Total Assets</i>	<u>\$1,741,976</u>	<u>\$1,908,726</u>	<u>\$3,650,702</u>	<u>\$488,307</u>
Net Assets				
Unrestricted	<u>\$1,741,976</u>	<u>\$1,908,726</u>	<u>\$3,650,702</u>	<u>\$488,307</u>

See accompanying notes to the basic financial statements

VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2004*

	Business-Type Activities			Governmental Activity
	Water	Sanitary Sewer	Total Enterprise Funds	Internal Service
Operating Receipts				
Charges for Services	\$1,227,076	\$992,724	\$2,219,800	\$199,005
Other Operating Receipts	973	435	1,408	0
<i>Total Operating Receipts</i>	<u>1,228,049</u>	<u>993,159</u>	<u>2,221,208</u>	<u>199,005</u>
Operating Disbursements				
Personal Services	314,345	610,000	924,345	39,037
Travel Transportation	2,335	4,613	6,948	0
Contractual Services	832,955	245,209	1,078,164	34,178
Materials and Supplies	50,006	83,734	133,740	64,713
Other	47,567	63,658	111,225	45,049
Redemption of Principal	0	33,400	33,400	0
Interest and Other Fiscal Charges	0	1,242	1,242	0
<i>Total Operating Disbursements</i>	<u>1,247,208</u>	<u>1,041,856</u>	<u>2,289,064</u>	<u>182,977</u>
<i>Operating Income (Loss)</i>	(19,159)	(48,697)	(67,856)	16,028
Non-Operating Receipts				
Interest	29,470	32,165	61,635	0
<i>Change in Net Assets</i>	10,311	(16,532)	(6,221)	16,028
<i>Net Assets Beginning of Year</i>	<u>1,731,665</u>	<u>1,925,258</u>	<u>3,656,923</u>	<u>472,279</u>
<i>Net Assets End of Year</i>	<u>\$1,741,976</u>	<u>\$1,908,726</u>	<u>\$3,650,702</u>	<u>\$488,307</u>

See accompanying notes to the basic financial statements

VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Fund
December 31, 2004

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$15,326
<i>Total Assets</i>	<u>\$15,326</u>
Net Assets	
Unrestricted	<u>\$15,326</u>

See accompanying notes to the basic financial statements

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1. DESCRIPTION OF THE ENTITY

The Village of Chagrin Falls, Cuyahoga County, Ohio, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected seven-member Council. The Village provides general governmental services including maintenance of roads, rubbish collections, sanitary sewer/storm facilities, water building, zoning safety services and police and fire protection.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

These financial statements follow a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements adequately disclose material matters the Auditor of State prescribes.

B. Fund Accounting

The Village uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The Village's funds are classified as either governmental, proprietary, or fiduciary.

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. The following are the Village's major governmental funds:

General Fund – The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Cemetery Fund – The Cemetery Fund is used to account for the Village monies that have been designated for the general operation of the Village's cemetery.

General Permanent Improvement Fund – This fund is used to account for grant and Ohio Public Works Commission loan receipts that are restricted for the acquisition or construction of Village capital projects.

Streetscape Project Fund – This fund is used to account for bond receipts restricted to the for the streetscape capital improvement project.

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

GOVERNMENTAL ACTIVITIES (Continued)

Other governmental funds of the Village account for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds focus on the determination of the changes in net assets, financial positions, and cash flows, and are classified as either enterprise or internal service.

Enterprise Funds

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following major Enterprise funds:

Water Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

Internal Service Fund

This fund is used to account for the financing of services provided by one department or agency to other departments or agencies on a cost reimbursement basis. The Village's only Internal Service fund is the Revolving Working Equipment fund, which is used to account for the purchase of long lasting capital equipment.

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 Village under a trust agreement for individuals, private organizations or other governmental entities and are therefore not available to support the Village's own programs. Agency funds are custodial in nature, where the Village deposits and pays cash as directed by another entity or individual. The Village maintains two agency funds, the Miscellaneous Deposit and the Paid/Received as Agent funds. The Miscellaneous Deposits fund accounts for the performance deposits provided by contractors for small jobs in the Village. The Paid/Received as Agent fund is used to account for the Village of Moreland Hills's hydrant maintenance assessment. The assessment collected by the Village of Chagrin Falls through the submission of water bills to the Moreland Hill's residents.

VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the Village, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the Village at December 31, 2004. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Village's governmental activities. Program Cash Receipts include monies provided by the recipient of the services offered by the program, grants and contributions that are restricted to meeting the operations or capital requirements of particular program. Revenues which are not classified as program revenues are presented as general revenues of the Village, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which the governmental programs are self-financing or draw from the general revenues of the Village.

Fund Financial Statements The Village segregates transactions related to certain Village 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 Village at this more detailed level. The focus of governmental and enterprise funds 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. The internal service fund is presented on the face of the proprietary fund statements. The fiduciary fund is reported by type.

D. Cash and Investments

Investments are included in fund balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. The Village invested in U.S. Government Securities and Certificates of Deposit, which are valued at cost.

E. Inventory

On the modified cash basis of accounting, inventories of supplies are reported as disbursements when purchased.

F. Property, Plant and Equipment

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The accompanying financial statements do not report these items as assets.

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accumulated Leave

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

H. Net Assets

The financial statements report restricted net assets when contributors, grantors, or other external factors impose limitations in their use.

I. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, and object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are cancelled and reappropriated in the next year.

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

NOTE 3. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2004
Demand deposits	\$860,390
Petty Cash	150
U.S. Agency Securities	1,842,250
Certificates of deposit	9,801,083
Total deposits	\$12,503,873

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool. Although the Village followed all state statutory requirements for these deposits, noncompliance with federal requirements could potentially subject the Village to a successful claim by the Federal Depository Insurance Corporation.

Investments: The U.S. Agency Securities are held in book-entry form by the Federal Reserve, in the name of the Village's financial institution. The financial institution maintains records identifying the Village as owner of these securities.

NOTE 4. COMPLIANCE

A. Expenditures and Encumbrances exceeded Appropriations

As of October 31, 2004 the following funds had expenditures plus encumbrances in excess of appropriations in violation of Ohio Revised Code Section 5705.41(B):

<u>Fund / Account</u>	<u>Annual Appropriations</u>	<u>Expenditures Plus Encumbrances as of October 31, 2004</u>	<u>Variance</u>
General Fund:			
Police Law Enforcement – Part Time	\$116,400	\$117,743	(\$1,343)
Police Law Enforcement – Other	38,000	39,715	(1,715)
Police Law Enforcement – Prisoner Sustenance	19,000	19,326	(326)
Fire Fighting – Unemployment and Workers' Comp.	5,200	6,807	(1,607)
Fire Fighting – Contractual Services	17,800	19,901	(2,101)
Police/Fire Communications – Other	0	197	(197)

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

NOTE 4. COMPLIANCE (Continued)

A. Expenditures and Encumbrances exceeded Appropriations (Continued)

<u>Fund / Account</u>	<u>Annual Appropriations</u>	<u>Expenditures Plus Encumbrances as of October 31, 2004</u>	<u>Variance</u>
General Fund (Continued):			
Police/Fire Communications – Travel and Education	\$1,500	\$2,271	(\$771)
Police/Fire Communications – Utilities	6,000	10,266	(4,266)
Police/Fire Communications – Contractual Services	71,000	78,032	(7,032)
Police/Fire Communications – Operating Expenses	2,000	8,591	(6,591)
Police/Fire Communications – Capital Outlay	96,500	100,429	(3,929)
Cemetery – Part Time	5,200	7,029	(1,829)
Cemetery – Pension	8,300	8,873	(573)
Cemetery – Contractual Services	9,000	9,867	(867)
Parks – Salaries & Wages	25,600	27,804	(2,204)
Parks – Part Time	3,500	4,548	(1,048)
Parks – Utilities	3,500	5,869	(2,369)
Parks – Operating Expenses	7,900	14,576	(6,676)
Building Department – Pension	2,200	4,815	(2,615)
Forestry – Salaries & Wages	10,500	12,008	(1,508)
Forestry – Overtime	1,000	1,042	(42)
Forestry – Part Time	1,400	2,582	(1,182)
Refuse Collection/Disposal – Salaries & Wages	7,400	9,910	(2,510)
Refuse Collection/Disposal – Overtime	1,400	1,497	(97)
Refuse Collection/Disposal – Part Time	700	1,297	(597)
Refuse Collection/Disposal – Operating Expenses	3,000	7,105	(4,105)
Parking – Salaries & Wages	500	1,995	(1,495)
Parking – Working Equipment	1,592	2,645	(1,053)
Parking – Operating Expenses	2,000	3,720	(1,720)
Parking – Capital Outlay	5,000	10,306	(5,306)
Sidewalks – Salaries & Wages	5,200	5,626	(426)
Sidewalks – Part Time	600	613	(13)
Mayor’s Office – Operating Expenses	5,000	5,662	(662)

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

NOTE 4. COMPLIANCE (Continued)

A. Expenditures and Encumbrances exceeded Appropriations (Continued)

<u>Fund / Account</u>	<u>Annual Appropriations</u>	<u>Expenditures Plus Encumbrances as of October 31, 2004</u>	<u>Variance</u>
General Fund (Continued):			
Legislative – Operating Expenses	\$500	\$807	(\$307)
Legislative – Capital Outlay	9,000	9,544	(544)
Court – Salaries & Wages	1,000	1,229	(229)
Court – Contractual Services	50,000	50,610	(610)
Finance – Part Time	14,000	19,008	(5,008)
Lands and Buildings – Salaries & Wages	14,500	18,462	(3,962)
Lands and Buildings – Overtime	500	1,587	(1,087)
Lands and Buildings – Utilities	67,000	74,869	(7,869)
Lands and Buildings – Operating Expenses	18,000	30,705	(12,705)
State Examiners – Fees & Misc. Services	0	12,000	(12,000)
Chief Admin. Officer – Part Time	2,000	4,979	(2,979)
Chief Admin. Officer – Other	0	98	(98)
Chief Admin. Officer – Contractual Services	14,500	14,593	(93)
Other – Pension	11,600	19,761	(8,161)
Other – Workers' Compensation	59,200	106,601	(47,401)
Other – Travel & Education	0	1,433	(1,433)
Other – Insurance	25,100	50,960	(25,860)
Other – Utilities	1,600	1,667	(67)
Non-Governmental Expenditures – Reimbursements	700	1,250	(550)
Non-Governmental – Other	0	7,433	(7,433)
Special Revenue Funds:			
Streets Construction			
Maintenance and Repair Fund:			
Street Maint./Repair – Salaries & Wages	27,500	29,921	(2,421)
Street Maint./Repair – Part Time	1,500	2,786	(1,286)
Street Maint./Repair – Operating Expenses	6,000	12,802	(6,802)
Street Maint./Repair – Capital Outlay	0	765	(765)
Snow/Ice Removal – Salaries & Wages	15,000	15,030	(30)
Snow/Ice Removal – Contractual Services	1,000	1,560	(560)

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

NOTE 4. COMPLIANCE (Continued)

A. Expenditures and Encumbrances Exceeded Appropriations (Continued)

<u>Fund / Account</u>	<u>Annual Appropriations</u>	<u>Expenditures Plus Encumbrances as of October 31, 2004</u>	<u>Variance</u>
Special Revenue Funds (Continued):			
Streets Construction			
Maintenance and Repair (Continued):			
Snow/Ice Removal – Operating Expenses	\$80,000	\$106,051	(\$26,051)
Storm Sewer/Drains – Part Time	900	1,243	(343)
Traffic Signs/Signals – Overtime	1,300	2,424	(1,124)
Traffic Signs/Signals – Part Time	400	1,430	(1,030)
Traffic Signs/Signals – Operating Expenses	2,000	4,514	(2,514)
Service Garage – Overtime	0	139	(139)
Service Garage – Contractual Services	4,000	16,294	(12,294)
Administrative and Other – Part Time	0	50	(50)
Administrative and Other – Insurance	9,400	19,110	(9,710)
Administrative and Other – Contractual Services	0	167	(167)
Administrative and Other – Operating Expenses	37,500	55,833	(18,333)
Law Enforcement Reimbursement Fund:			
Law Enforcement – Operating Expenses	0	3,979	(3,979)
Confiscated Property Fund:			
Confiscated Property – Operating Expenses	2,000	3,081	(1,081)
G.R.E.A.T. Grant Fund:			
G.R.E.A.T. Program – Operating Expenses	10,000	10,156	(156)
Law Enforcement and Education:			
Law Enforcement and Education – Transfer Out	0	1,681	(1,681)

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

NOTE 4. COMPLIANCE (Continued)

A. Expenditures and Encumbrances Exceeded Appropriations (Continued)

<u>Fund / Account</u>	<u>Annual Appropriations</u>	<u>Expenditures Plus Encumbrances as of October 31, 2004</u>	<u>Variance</u>
Capital Projects Funds:			
General Permanent Improvement Fund:			
General Permanent – Capital Outlay	\$261,000	\$971,024	(\$710,024)
Traffic Signal Fund:			
New Traffic Signal System – Capital Outlay	143,300	179,960	(36,660)
Bell Street Construction Fund:			
Bell Street – Capital Outlay	0	7,381,170	(7,381,170)
West Washington Street Fund:			
West Washington Street – Contractual Services	0	134	(134)
West Washington Street – Capital Outlay	0	9,504	(9,504)
2003 Street Program Fund:			
2003 Street Program – Contractual Services	0	14,549	(14,549)
2003 Street Program – Operating Expenses	0	101,073	(101,073)
2004 Street Program Fund:			
2004 Street Program – Capital Outlay	250,000	251,813	(1,813)
High Street Fund:			
High Street – Contractual Services	7,600	30,798	(23,198)
High Street – Capital Outlay	219,800	220,421	(621)
Streetscape Project Fund:			
Streetscape – Contractual Services	275,500	4,195,490	(3,919,990)
Enterprise Funds:			
Water Fund:			
Distribution – Overtime	7,100	7,161	(61)
Distribution – Contractual Services	10,900	11,584	(684)

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

NOTE 4. COMPLIANCE (Continued)

A. Expenditures and Encumbrances Exceeded Appropriations (Continued)

<u>Fund / Account</u>	<u>Annual Appropriations</u>	<u>Expenditures Plus Encumbrances as of October 31, 2004</u>	<u>Variance</u>
Enterprise Funds (Continued):			
Water Fund (Continued):			
Office Administration – Part Time	\$0	\$20	(\$20)
Office Administration – Insurance	14,100	28,665	(14,565)
Office Administration – Contractual Services	4,900	5,255	(355)
Supply – Part Time	700	1,064	(364)
Supply – Other	0	142	(142)
Supply – Contractual Services	4,500	63,492	(58,992)
Non-Governmental Expenditures – Reimbursements	0	5,194	(5,194)
Non-Governmental Expenditures – Other	0	3,392	(3,392)
Water Reserve – Contractual Services	0	20,608	(20,608)
Sewer Fund:			
Office Administration – Overtime	0	111	(111)
Office Administration – Insurance	12,800	28,665	(15,865)
Sanitary Sewer – Part Time	1,500	4,026	(2,526)
Treatment – Part Time	9,800	15,604	(5,804)
Treatment – Operating Expenses	70,000	72,936	(2,936)
Non-Governmental – Reimbursements	0	5,041	(5,041)
Non-Governmental – Other	0	3,045	(3,045)
Agency Fund:			
Working Equipment Fund:			
Working Equipment – Overtime	0	95	(95)
Working Equipment – Contractual Services	35,000	39,613	(4,613)
Working Equipment – Operating Expenses	19,400	21,059	(1,659)
Paid/Received as Agent Fund:			
Paid/Received as Agent – Reimbursements	7,000	18,301	(11,301)
Expendable Trust Fund:			
Whitesburg Nature Preserve Fund:			
Whitesburg Nature Preserve – Contractual Services	0	9,000	(9,000)
Whitesburg Nature Preserve – Operating Expenses	0	100	(100)

These variances were corrected by December 31, 2004.

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

NOTE 4. COMPLIANCE (Continued)

B. Appropriations Exceeded Estimated Resources

As of October 31, 2004, the following funds had appropriations in excess of estimated resources in violation of Ohio Revised Code Section 5705.39:

<u>Fund</u>	<u>Estimated Resources as of October 31, 2004</u>	<u>Appropriations as of October 31, 2004</u>	<u>Variance</u>
Capital Projects Funds:			
Traffic Signal System	\$30,444	\$158,300	(\$127,856)
Ridgewood Road Sewers	(2,904)	14,200	(17,104)
2004 Road Program	43,653	280,000	(236,347)
High Street Sanitary Sewers	27,339	227,400	(200,061)
2004 Sidewalk Program	11,931	96,000	(84,069)
Streetscape	2,207,226	2,275,500	(68,274)

As of December 31, 2004, the following funds had appropriations in excess of estimated resources in violation of Ohio Revised Code Section 5705.39:

<u>Fund</u>	<u>Estimated Resources as of December 31, 2004</u>	<u>Appropriations as of December 31, 2004</u>	<u>Variance</u>
Capital Projects Funds:			
Traffic Signal System	\$76,984	\$155,208	(\$78,224)
Ridgewood Road Sewers	3,444	14,114	(10,670)
2003 Road Program	35,675	71,924	(36,249)
2004 Road Program	110,384	222,545	(112,161)
High Street Sanitary Sewers	94,323	206,909	(112,586)
2004 Sidewalk Program	30,170	60,825	(30,655)
Falls Road Watermain	125,343	252,704	(127,361)

C. Encumbrance of Funds

A review of expenditures in fiscal year 2004 disclosed that 39 out of 48 reviewed (or \$1,005,602 out of \$1,531,004 reviewed) were not encumbered in accordance with Ohio Revised Code Section 5705.41 (D).

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

NOTE 5. PROPERTY TAX

Real property taxes become a lien on January 1 proceeding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

NOTE 6. LOCAL INCOME TAX

The Village levies a municipal income tax of 1.5 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Regional Income Tax Agency (RITA) either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

NOTE 7. DEBT

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
1998 Ohio Public Works Commission	\$197,592	0.00%
2003 Ohio Public Works Commission	101,175	0.00%
2004 Ohio Public Works Commission	251,550	0.00%
1998 Advance Refunding General Obligation Bonds	2,145,000	6.508%
1988 Miles Road Sewers - Special Assessment Bonds	85,000	7.625%
1992 Hickory Hill Sewers - Special Assessment Bonds	135,000	6.03%
2003 General Obligation Bonds Streetscape	<u>2,285,000</u>	3.77%
Total	<u><u>\$5,200,317</u></u>	

The Ohio Public Works Commission (OPWC) loans relate to a road and sewer rehabilitation projects. These loans are interest free. The 1998 OPWC loan was for \$282,274 and will be repaid in semiannual installments of \$7,057 over 20 years. The 2003 OPWC loan was for \$106,500 and will be repaid in semiannual installments of \$2,663 over 20 years. The 2004 OPWC loan was for \$258,000 and will be repaid in semiannual installments of \$6,450 over 20 years. The 1998 Advance Refunding General Obligation Bonds were used for improvements to the Village wastewater treatment plant. The 1988 and 1992 Special Assessment bonds were used for sanitary sewer improvements. The 2003 General Obligation Bonds are being used for the Streetscape capital improvement project.

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

NOTE 7. DEBT (Continued)

Amortization of the above debt, including interest, is scheduled as follows:

	OPWC Loans	General Obligation (Adv. Refund) Bonds	Special Assessment Miles Rd Sewer	Special Assessment Hickory Rd Sewers	General Obligation Bonds Streetscape
2005	\$25,885	\$352,280	\$26,481	\$23,400	\$222,375
2006	32,339	358,520	24,956	22,500	224,675
2007	32,339	348,480	23,432	21,562	221,700
2008	32,339	348,120	26,906	20,625	223,200
2009	32,339	351,800		19,688	223,850
2010-2014	161,695	1,045,640		67,500	1,094,838
2015-2019	147,581				855,418
2020-2024	85,800				
Total	<u>\$550,317</u>	<u>\$2,804,840</u>	<u>\$101,775</u>	<u>\$175,275</u>	<u>\$3,066,056</u>

NOTE 8. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (OPERS) of Ohio. OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2004, members of OP&F contributed 1.5% to OP&F while the Village picked up or contributed 8.5% on behalf of the members. The Village also contributed their employer amount equal to 19.5% of participant's wages. In addition to the Village contributing 8.5% on behalf of OPERS members (pick-up) the Village also contributed its employer portion of 13.55% of participant's gross salaries. The Village has paid all contributions required through December 31, 2004.

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

NOTE 9. RISK MANAGEMENT

The Northern Ohio Risk Management Association (NORMA) is jointly owned and operated by the Cities of Bedford Heights, Eastlake, Highland Heights, Maple Heights, Mayfield Heights, Richmond Heights, Solon, South Euclid, and the Villages of Chagrin Falls and Hudson for the purpose of enabling 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 commit to the joint venture for terms of three years. Each member provides operating resources to NORMA based on actuarially determined rates and shares in NORMA's residual equity based on the municipalities' percentage of contributions. 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 \$150,000 per occurrence, will be paid from the self-insurance pool with any excess paid from the stop loss coverage carried by the pool. Any losses over these amounts would be the obligation of the individual members to make additional supplementary payments up to a maximum of the regular annual payment.

For the year ended December 31, 2004, the Village paid \$33,363 in premiums to NORMA.

Management believes that the cash reserves for unpaid losses is adequate for current needs but that they may be required to increase the cash contribution in the future, if determined as necessary.

There were no reductions in the insurance coverage from previous year, nor have settlements exceeded insurance coverage in any of the prior three years.

NOTE 10. CONTINGENT LIABILITIES

The Village is defendant in lawsuits. Although the outcome of these suits is not presently determinable, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition.

NOTE 11. JOINT VENTURE

The Bedford Heights Municipal Jail (the "Facility") is a joint venture among the municipalities of Chagrin Falls, Glenwillow, and Bedford Heights. The facility is governed by a management advisory board consisting of the elected mayors of the three member municipalities. The board has complete authority over all aspects of the facilities operation. The facility provides all participating communities access to the use of the minimum security misdemeanor jail. The term of the joint venture shall be a minimum of twenty-five years. The Village of Chagrin Falls' interest in the facility is \$300,000, which represents 23 percent of the total facility. The facility is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit or burden on the Village. Complete financial statements can be obtained from the City of Bedford Heights, 5661 Perkins Road, Bedford Heights, Ohio 44146.



**Auditor of State
Betty Montgomery**

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

Village of Chagrin Falls
Cuyahoga County
21 West Washington Street
Chagrin Falls, Ohio 44022

To the Village Council:

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Village of Chagrin Falls, Cuyahoga County, Ohio, (the Village) as of and for the year ended December 31, 2004, wherein we noted the Village revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, which collectively comprise the Village's basic financial statements and have issued our report thereon dated July 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated July 14, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-003. In a separate letter to the Village's management dated July 14, 2005, we reported other matters related to noncompliance we deemed immaterial.

Village of Chagrin Falls
Cuyahoga County
Independent Accounts' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

July 14, 2005

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

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

Finding Number	2004-001
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Expenditures Plus Encumbrances Exceeding Appropriations

Ohio Rev. Code Section 5705.41 (B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated. Budgetary expenditures as enacted by the Village may not exceed appropriations at the legal level of control for all funds.

During our testing, we noted the following funds had expenditures exceeding appropriations as of October 31, 2004:

<u>Fund / Account</u>	<u>Annual Appropriations</u>	<u>Expenditures Plus Encumbrances as of October 31, 2004</u>	<u>Variance</u>
General Fund:			
Police Law Enforcement – Part Time	\$116,400	\$117,743	(\$1,343)
Police Law Enforcement – Other	38,000	39,715	(1,715)
Police Law Enforcement – Prisoner Sustenance	19,000	19,326	(326)
Fire Fighting – Unemployment and Workers’ Comp.	5,200	6,807	(1,607)
Fire Fighting – Contractual Services	17,800	19,901	(2,101)
Police/Fire Communications – Other	0	197	(197)
Police/Fire Communications – Travel & Education	1,500	2,271	(771)
Police/Fire Communications – Utilities	6,000	10,266	(4,266)
Police/Fire Communications – Contractual Services	71,000	78,032	(7,032)
Police/Fire Communications – Operating Expenses	2,000	8,591	(6,591)
Police/Fire Communications – Capital Outlay	96,500	100,429	(3,929)
Cemetery – Part Time	5,200	7,029	(1,829)
Cemetery – Pension	8,300	8,873	(573)
Cemetery – Contractual Services	9,000	9,867	(867)
Parks – Salaries and Wages	25,600	27,804	(2,204)
Parks – Part Time	3,500	4,548	(1,048)
Parks – Utilities	3,500	5,869	(2,369)
Parks – Operating Expenses	7,900	14,576	(6,676)
Building Department – Pension	2,200	4,815	(2,615)
Forestry – Salaries & Wages	10,500	12,008	(1,508)
Forestry – Overtime	1,000	1,042	(42)
Forestry – Part Time	1,400	2,582	(1,182)
Refuse Collection/Disposal – Salaries & Wages	7,400	9,910	(2,510)

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

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

Finding Number	2004-001
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Expenditures Plus Encumbrances Exceeding Appropriations (Continued)

<u>Fund / Account</u>	<u>Annual Appropriations</u>	<u>Expenditures Plus Encumbrances as of October 31, 2004</u>	<u>Variance</u>
General Fund (Continued):			
Refuse Collection/Disposal – Overtime	\$1,400	\$1,497	(\$97)
Refuse Collection/Disposal – Part Time	700	1,297	(597)
Refuse Collection/Disposal – Operating Expenses	3,000	7,105	(4,105)
Parking – Salaries & Wages	500	1,995	(1,495)
Parking – Working Equipment	1,592	2,645	(1,053)
Parking – Operating Expenses	2,000	3,720	(1,720)
Parking – Capital Outlay	5,000	10,306	(5,306)
Sidewalks – Salaries & Wages	5,200	5,626	(426)
Sidewalks – Part Time	600	613	(13)
Mayor’s Office – Operating Expenses	5,000	5,662	(662)
Legislative – Operating Expenses	500	807	(307)
Legislative – Capital Outlay	9,000	9,544	(544)
Court – Salaries & Wages	1,000	1,229	(229)
Court – Contractual Services	50,000	50,610	(610)
Finance – Part Time	14,000	19,008	(5,008)
Lands and Buildings – Salaries & Wages	14,500	18,462	(3,962)
Lands and Buildings – Overtime	500	1,587	(1,087)
Lands and Buildings – Utilities	67,000	74,869	(7,869)
Lands and Buildings – Operating Expenses	18,000	30,705	(12,705)
State Examiners – Fees & Misc. Services	0	12,000	(12,000)
Chief Admin. Officer – Part Time	2,000	4,979	(2,979)
Chief Admin. Officer – Other	0	98	(98)
Chief Admin. Officer – Contractual Services	14,500	14,593	(93)
Other – Pension	11,600	19,761	(8,161)
Other – Workers’ Compensation	59,200	106,601	(47,401)
Other – Travel & Education	0	1,433	(1,433)
Other – Insurance	25,100	50,960	(25,860)
Other – Utilities	1,600	1,667	(67)
Non-Governmental Expenditures – Reimbursements	700	1,250	(550)
Non-Governmental – Other	0	7,433	(7,433)
Special Revenue Fund:			
Streets Maintenance and Repair Fund:			
Street Maint./Repair – Salaries & Wages	27,500	29,921	(2,421)
Street Maint./Repair – Part Time	1,500	2,786	(1,286)
Street Maint./Repair – Operating Expenses	6,000	12,802	(6,802)
Street Maint./Repair – Capital Outlay	0	765	(765)
Snow/Ice Removal – Salaries & Wages	15,000	15,030	(30)

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

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

Finding Number	2004-001
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Expenditures Plus Encumbrances Exceeding Appropriations (Continued)

<u>Fund / Account</u>	<u>Annual Appropriations</u>	<u>Expenditures Plus Encumbrances as of October 31, 2004</u>	<u>Variance</u>
Special Revenue Fund (Continued):			
Streets Maintenance and Repair Fund (Continued):			
Snow/Ice Removal – Contractual Services	\$1,000	\$1,560	(\$560)
Snow/Ice Removal – Operating Expenses	80,000	106,051	(26,051)
Storm Sewer/Drains – Part Time	900	1,243	(343)
Traffic Signs/Signals – Overtime	1,300	2,424	(1,124)
Traffic Signs/Signals – Part Time	400	1,430	(1,030)
Traffic Signs/Signals – Operating Expenses	2,000	4,514	(2,514)
Service Garage – Overtime	0	139	(139)
Service Garage – Contractual Services	4,000	16,294	(12,294)
Administrative and Other – Part Time	0	50	(50)
Administrative and Other – Insurance	9,400	19,110	(9,710)
Administrative and Other – Contractual Services	0	167	(167)
Administrative and Other – Operating Expenses	37,500	55,833	(18,333)
Drug Law Enforcement Fund:			
Drug Law Enforcement – Operating Expenses	0	3,979	(3,979)
Confiscated Property Fund:			
Confiscated Property – Operating Expenses	2,000	3,081	(1,081)
G.R.E.A.T. Grant Fund:			
G.R.E.A.T. Program – Operating Expenses	10,000	10,156	(156)
Law Enforcement and Education:			
Law Enforcement and Education – Transfer Out	0	1,681	(1,681)
Capital Projects Funds:			
General Permanent Improvement Fund:			
General Permanent Improvement – Capital Outlay	261,000	971,024	(710,024)
Traffic Signal Fund:			
New Traffic Signal System – Capital Outlay	143,300	179,960	(36,660)
Bell Street Construction Fund:			
Bell Street – Capital Outlay	0	7,381,170	(7,381,170)
West Washington Street Fund:			
West Washington Street – Contractual Services	0	134	(134)
West Washington Street – Capital Outlay	0	9,504	(9,504)

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

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

Finding Number	2004-001
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Expenditures Plus Encumbrances Exceeding Appropriations (Continued)

<u>Fund / Account</u>	<u>Annual Appropriations</u>	<u>Expenditures Plus Encumbrances as of October 31, 2004</u>	<u>Variance</u>
Capital Projects Funds (Continued):			
2003 Street Program Fund:			
2003 Street Program – Contractual Services	\$0	\$14,549	(\$14,549)
2003 Street Program – Operating Expenses	0	101,073	(101,073)
2004 Street Program Fund:			
2004 Street Program – Capital Outlay	250,000	251,813	(1,813)
High Street Fund:			
High Street – Contractual Services	7,600	30,798	(23,198)
High Street – Capital Outlay	219,800	220,421	(621)
Streetscape Project Fund:			
Streetscape – Contractual Services	275,500	4,195,490	(3,919,990)
Enterprise Funds:			
Water Fund:			
Distribution – Overtime	7,100	7,161	(61)
Distribution – Contractual Services	10,900	11,584	(684)
Office Administration – Part Time	0	20	(20)
Office Administration – Insurance	14,100	28,665	(14,565)
Office Administration – Contractual Services	4,900	5,255	(355)
Supply – Part Time	700	1,064	(364)
Supply – Other	0	142	(142)
Supply – Contractual Services	4,500	63,492	(58,992)
Non-Governmental Expenditures – Reimbursements	0	5,194	(5,194)
Non-Governmental Expenditures – Other	0	3,392	(3,392)
Water Reserve – Contractual Services	0	20,608	(20,608)
Sewer Fund:			
Office Administration – Overtime	0	111	(111)
Office Administration – Insurance	12,800	28,665	(15,865)
Sanitary Sewer – Part Time	1,500	4,026	(2,526)
Treatment – Part Time	9,800	15,604	(5,804)
Treatment – Operating Expenses	70,000	72,936	(2,936)
Non-Governmental Expenditures – Reimbursements	0	5,041	(5,041)
Non-Governmental Expenditures –	0	3,045	(3,045)

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

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

Finding Number	2004-001
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Expenditures Plus Encumbrances Exceeding Appropriations (Continued)

<u>Fund / Account</u>	<u>Annual Appropriations</u>	<u>Expenditures Plus Encumbrances as of October 31, 2004</u>	<u>Variance</u>
Internal Service Fund:			
Working Equipment Fund:			
Working Equipment – Overtime	\$0	\$95	(\$95)
Working Equipment – Contractual Services	35,000	39,613	(4,613)
Working Equipment – Operating Expenses	19,400	21,059	(1,659)
Agency Fund:			
Paid/Received as Agent Fund:			
Paid/Received as Agent – Reimbursements	\$7,000	\$18,301	(\$11,301)
Expendable Trust Fund:			
Whitesburg Nature Preserve Fund:			
Whitesburg Nature Preserve – Contractual Services	0	9,000	(9,000)
Whitesburg Nature Preserve – Operating Expenses	0	100	(100)

These variances were corrected by December 31, 2004.

We recommend that the Village expend only those monies which have been properly appropriated.

We also noted during our testing that the Village did not pass its final appropriations measure until after December 31, 2004.

We recommend that the Village pass its final appropriations before the end of the fiscal year.

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

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

Finding Number	2004-002
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Appropriations Exceeding Estimated Resources

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

During our testing, we noted the following funds had appropriations exceeding the estimated resources at October 31, 2004:

<u>Fund</u>	<u>Estimated Resources as of October 31, 2004</u>	<u>Appropriations as of October 31, 2004</u>	<u>Variance</u>
Capital Projects Funds:			
Traffic Signal System	\$30,444	\$158,300	(\$127,856)
Ridgewood Road Sewers	(2,904)	14,200	(17,104)
2004 Road Program	43,653	280,000	(236,347)
High Street Sanitary Sewers	27,339	227,400	(200,061)
2004 Sidewalk Program	11,931	96,000	(84,069)
Streetscape	2,207,226	2,275,500	(68,274)

During our testing, we noted the following funds had appropriations exceeding the estimated resources at December 31, 2004

<u>Fund</u>	<u>Estimated Resources as of December 31, 2004</u>	<u>Appropriations as of December 31, 2004</u>	<u>Variance</u>
Capital Projects Funds:			
Traffic Signal System	\$76,984	\$155,208	(\$78,224)
Ridgewood Road Sewers	3,444	14,114	(10,670)
2003 Road Program	35,675	71,924	(36,249)
2004 Road Program	110,384	222,545	(112,161)
High Street Sanitary Sewers	94,323	206,909	(112,586)
2004 Sidewalk Program	30,170	60,825	(30,655)
Falls Road Watermain	125,343	252,704	(127,361)

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

VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)

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

Finding Number	2003-003
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PURCHASE ORDER CERTIFICATION*

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

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

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

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

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

VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)

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

Finding Number	2003-003
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Purchase Order Certification* (Continued)

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

A review of expenditures in fiscal year 2004 disclosed that 39 out of 48 transactions reviewed (or \$1,005,602 out of \$1,531,004 reviewed) were not encumbered prior to the purchase commitment. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

**VILLAGE OF CHAGRIN FALLS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Ohio Rev. Code Section 5705.41(B) and (D) Expenditures Plus Encumbrances Exceeding Appropriations	Not Corrected	Re-issued Finding 2004-001
2003-002	Ohio Rev. Code Section 5705.39 Appropriations Exceeding Estimated Resources	Not Corrected	Re-issued Finding 2004-002
2003-003	Ohio Rev. Code Section 5705.41(D) Purchase Order Certification	Not Corrected	Re-issued Finding 2004-003



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VILLAGE OF CHAGRIN FALLS

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
SEPTEMBER 1, 2005**