



Mary Taylor, CPA
Auditor of State

**CITY OF MAYFIELD HEIGHTS
CUYAHOGA COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

City of Mayfield Heights
Cuyahoga County
6154 Mayfield Road
Mayfield Heights, Ohio 44124

To the City Council:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mayfield Heights, Cuyahoga County, Ohio, as of December 31, 2009, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

July 14, 2010

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2009

The discussion and analysis of the City of Mayfield Heights' (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2009. 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 those financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

This is the City of Mayfield Heights' sixth publication of its financial statements under the new GASB Statement No. 34 reporting model.

Total assets of the City decreased from \$69,119,555 to \$64,122,677, a total decrease of \$4,996,878. This can be attributed to non-depreciable and depreciable capital assets decreasing along with decreases in investments and intergovernmental receivables.

Total liabilities of the City decreased from \$16,819,679 to \$15,005,431, a total decrease of \$1,814,248. The most significant factor can be attributed to a decrease in long-term liabilities as the City continues to pay down its debt service obligations.

Total net assets decreased from \$52,299,876 to \$49,117,246, a total decrease of \$3,182,630. This is a decrease of 6.09 percent. See the above explanations on total assets and total liabilities as to why net assets decreased.

Using This Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. These statements are prepared and organized so the reader can understand the City of Mayfield Heights as a financial whole, or as an entire operating entity. The statements provide a detailed look at the City's specific financial activities.

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.

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2009

Reporting the City of Mayfield Heights as a Whole

Statement of Net Assets and the Statement of Activities

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

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

- Assets
- Liabilities
- Net Assets
- Program Revenue and Expenses
- General Revenues
- Net Assets Beginning of Year and End of Year

Reporting the City of Mayfield Heights' Most Significant Funds

Fund Financial Statements

The presentation of the City's major funds begins on page 12. The City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements and identify certain services and activities provided to our residents. However, these fund financial statements focus on the City's most significant funds. The City's major funds are the General Fund and the General Bond Retirement Fund.

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2009

Governmental Funds

Governmental funds are used to account for all activities which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that are 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 assists in determining whether there are more or less financial resources available in the near future for important City services. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds.

The City of Mayfield Heights as a Whole

Government-wide Financial Analysis

As noted earlier, the Statement of Net Assets looks at the City as a whole and can be used as an indicator of the City's financial position. The Statement of Net Assets in Table 1 provides a summary of the City's net assets for 2009 compared to 2008.

Table 1 - Net Assets

| | Governmental Activities | |
|--|-------------------------|----------------------|
| | 2009 | 2008 |
| <u>Assets</u> | | |
| Current and Other Assets | \$ 28,146,952 | \$ 31,381,254 |
| Capital Assets | 35,975,725 | 37,738,301 |
| Total Assets | 64,122,677 | 69,119,555 |
| <u>Liabilities</u> | | |
| Long-term Liabilities | 8,869,472 | 10,195,658 |
| Other Liabilities | 6,135,959 | 6,624,021 |
| Total Liabilities | 15,005,431 | 16,819,679 |
| <u>Net Assets</u> | | |
| Invested in Capital Assets Net of Debt | 31,054,678 | 32,550,471 |
| Restricted | 528,078 | 464,079 |
| Unrestricted | 17,534,490 | 19,285,326 |
| Total Net Assets | \$ 49,117,246 | \$ 52,299,876 |

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2009

Total assets for the City are \$64,122,677. The largest portion of the City's assets is in capital assets totaling \$35,975,725, which represents 56.10 percent of the total.

Total liabilities for the City are \$15,005,431. The most significant liability is the Municipal Complex Bond Anticipation Notes payable for \$3,300,000 and Judgment Notes Payable for \$1,200,000. When combined, the long-term notes payable represent 29.99 percent of the total.

Total net assets for the City are \$49,117,246. The most significant portions of these assets are represented by unrestricted net assets of \$17,534,490 and Invested in Capital Assets, Net of Related Debt of \$31,054,678, which represents 35.70 percent and 63.23 percent of the total, respectively.

Table 2 shows the changes in net assets for the years ended December 31, 2009 and December 31, 2008, and corresponds to the Statement of Activities on page 11.

Table 2 - Change in Net Assets

| | Governmental Activities | |
|------------------------------------|-------------------------|----------------------|
| | 2009 | 2008 |
| Revenues | | |
| Program Revenues: | | |
| Charges for Services | \$ 1,505,723 | \$ 2,002,177 |
| Operating Grants and Contributions | 729,076 | 885,584 |
| Capital Grants and Contributions | 71,623 | 467,702 |
| General Revenues: | | |
| Property Taxes | 5,191,256 | 5,178,935 |
| Income Taxes | 9,744,729 | 11,117,155 |
| Other Taxes | 104,302 | 158,795 |
| Grants and Entitlements | 2,231,255 | 2,768,227 |
| Other | 520,178 | 974,080 |
| Total Revenues | 20,098,142 | 23,552,655 |
| Program Expenses | | |
| Security of Persons and Property | 11,034,865 | 10,768,306 |
| Public Health and Welfare | 306,959 | 305,513 |
| Leisure Time Activities | 1,534,430 | 1,639,302 |
| Community Environment | 868,816 | 909,504 |
| Basic Utility Services | 1,166,976 | 1,154,333 |
| Transportation | 5,789,405 | 5,016,307 |
| General Government | 2,460,342 | 2,559,788 |
| Interest and Fiscal Charges | 118,979 | 247,987 |
| Total Program Expenses | 23,280,772 | 22,601,040 |
| Increase in Net Assets | (3,182,630) | 951,615 |
| Net Assets, Beginning of Year | 52,299,876 | 51,348,261 |
| Net Assets, End of Year | \$ 49,117,246 | \$ 52,299,876 |

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2009

Total revenue decreased in 2009 over 2008 by \$3,454,513, a percentage of 14.67 percent. The decrease is mainly attributed to a decrease in income tax collections along with a decrease in grants and entitlements.

Capital grants and contributions decreased by \$396,079 due to the City not receiving any significant grants in 2009 as compared to a grant received in 2008 from WRDA in the amount of \$452,000. Income taxes decreased by \$1,372,426 due to the continuing downturn in the economy, while grants and entitlements decreased by \$536,972.

Total program expenses increased overall by \$679,732, a percentage of 3.01 percent. The most significant increase was in transportation by \$773,098 and was mainly due to the City's 2009 road program which was not capitalized because the project will not be completed until 2010.

Governmental Activities

Several revenue sources fund the City's governmental activities. The most significant revenue source is municipal income tax. The income tax rate is 1 percent and residents of the City who work in another community receive a .50 percent credit for the first 1 percent paid to another community. The rate of 1 percent and .50 percent credit have been in effect since 1982. Income tax as a revenue source was first enacted in 1967. The City has a significant commercial tax base, which provides financial stability. Major employers such as Rockwell Automation, Parker Hannifin, Meridia Hillcrest Hospital (Cleveland Clinic), and Progressive Casualty Insurance continue to contribute to the City's tax base. In 2009, the City's revenue from income tax was \$9,744,729.

The other major revenue source for the City is the property tax. The City's charter millage is 10.00 and has remained the same since 1951. The tax duplicate for collection year 2009 was \$576,555,968 and has been certified at \$540,914,590 for the 2010 collection year. While this source is not as significant as the income tax, the duplicate has declined due to the elimination of the tangible personal property tax and the overall decline in valuations due to the economy.

The City's Funds

Information about the City's major funds begins on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenue of \$26,359,866 and expenditures of \$29,141,454 (including other financing sources and uses). The most significant fund is the General Fund with a year end fund balance of \$8,808,512, which included an unreserved balance of \$8,675,331 compared to expenditures of \$16,624,351, not including \$1,645,000 that was transferred from the General Fund to help finance various special revenue funds.

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2009

The other major fund in 2009 was the General Bond Retirement Fund. The General Bond Retirement Fund recorded \$6,157,620 in expenditures. The full amount was related to the repayment of the long-term notes.

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 prepared and presented to City Council for approval. A detailed line item budget for all departments is provided as part of the appropriation process. During the year, several amendments were made to the General Fund budget, with the major amendment being at the end of the year to adjust various line item amounts.

The City's original conservative revenue estimate of \$18,297,255 was higher than the final estimate of \$17,216,538, due mainly to a decrease in the estimate of income taxes. The original expenditure budget of \$19,290,251 was increased by several amended appropriations to a total of \$19,431,161, for an increase of \$140,910.

Capital Assets and Debt Administration

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

| | Governmental Activities | |
|-----------------------------|-------------------------|----------------------|
| | 2009 | 2008 |
| Land | \$ 3,024,620 | \$ 3,024,620 |
| Construction-in-progress | 6,335,515 | 6,243,696 |
| Land Improvements | 297,617 | 331,112 |
| Buildings | 6,354,297 | 6,530,888 |
| Machinery and Equipments | 757,299 | 800,430 |
| Furniture and Equipment | 312,869 | 351,272 |
| Vehicles | 1,307,243 | 1,388,405 |
| Infrastructures: | | |
| Roads | 8,560,872 | 9,787,648 |
| Water Mains | 723,439 | 745,411 |
| Sanitary Sewers | 6,749,466 | 6,933,711 |
| Storm Sewers | 1,552,488 | 1,601,108 |
| Total Capital Assets | \$ 35,975,725 | \$ 37,738,301 |

Total capital assets for governmental activities of the City for 2009 were \$35,975,725, a decrease of \$1,762,576 from 2008. The reason for this decrease can be attributed to the capital asset additions not exceeding current year depreciation expenses.

City of Mayfield Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2009

Long-Term Obligations

As of December 31, 2009, the City had \$6,121,047 in long-term notes and OPWC loans outstanding with \$53,602 due in a year (see Note 13).

Table 4 - Outstanding Debt at December 31

| | Governmental Activities | |
|-----------------------------------|-------------------------|---------------------|
| | 2009 | 2008 |
| Long-Term Bond Anticipation Notes | \$ 4,500,000 | \$ 6,000,000 |
| OPWC Loans | 1,621,047 | 1,582,830 |
| Manuscript Bonds | - | 5,000 |
| Total Outstanding Debt | \$ 6,121,047 | \$ 7,587,830 |

As of December 31, 2009, the City had no outstanding general obligation bonds. The amount of long-term (based on maturity dates) general obligation bond anticipation notes is \$4,500,000. Notes were first issued in 2002 to finance the Municipal Complex Improvement Project and in 2006 for the Shemo Settlement. The City has utilized loans from the Ohio Public Works Commission (OPWC) to fund several of its major capital improvement projects. The City continues to retain the Aa3 from Moody's Investors Services.

Current Financial Related Activities

The City continues its strong financial position, which can be attributed to its conservative approach in fiscal management. The City has adopted a policy of limited debt issuance. Most capital improvements and equipment replacements are financed from current revenues.

Contacting the City's Finance Department

This financial report is designed to provide our residents, taxpayers, creditors, and investors with a general overview of the City's finances and demonstrate the City's accountability for all money it receives, spends, and invests. If you have questions concerning this report or need additional financial information, contact the Director of Finance, Robert G. Tribby, at Mayfield Heights City Hall, 6154 Mayfield Road, Mayfield Heights, Ohio 44124, by telephone at 440-442-2626, ext. 201, or by e-mail at roberttribby@mayfieldheights.org

City of Mayfield Heights, Ohio

Statement of Net Assets December 31, 2009

| | Governmental Activities |
|---|-----------------------------|
| ASSETS | |
| Equity in Pooled Cash and Cash Equivalents | \$ 5,500,534 |
| Investments | 13,476,078 |
| Materials and Supplies Inventory | 50,611 |
| Accounts Receivable | 92,683 |
| Accrued Interest Receivable | 81,477 |
| Intergovernmental Receivable | 1,190,046 |
| Prepaid Items | 58,667 |
| Income Taxes Receivable | 2,430,212 |
| Property Taxes Receivable | 5,214,902 |
| Special Assessments Receivable | 51,742 |
| Nondepreciable Capital Assets | 9,360,135 |
| Depreciable Capital Assets | 26,615,590 |
| Total Assets | <u>64,122,677</u> |
| LIABILITIES | |
| Accounts Payable | 308,775 |
| Contracts Payable | 215,751 |
| Accrued Wages and Benefits | 144,275 |
| Intergovernmental Payable | 763,295 |
| Accrued Interest Payable | 18,750 |
| Retainage Payable | 40,241 |
| Deferred Revenue | 4,644,872 |
| Long-term Liabilities: | |
| Due within one year | 898,945 |
| Due in more than one year | 7,970,527 |
| Total Liabilities | <u>15,005,431</u> |
| NET ASSETS | |
| Invested in Capital Assets, Net of Related Debt | 31,054,678 |
| Restricted for: | |
| Other Purpose | 528,078 |
| Unrestricted | 17,534,490 |
| Total Net Assets | <u><u>\$ 49,117,246</u></u> |

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

City of Mayfield Heights, Ohio

Statement of Activities For the Year Ended December 31, 2009

| <u>Functions</u> | <u>Expenses</u> | Program Revenues | | | <u>Net (Expense) Revenue and Changes in Net Assets</u> |
|---|---------------------|---------------------------------|---|---|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Governmental Activities</u> |
| Governmental activities: | | | | | |
| Security of Persons and Property | \$11,034,865 | \$ 297,912 | \$ 132,383 | \$ 28,036 | \$ (10,576,534) |
| Public Health and Welfare | 306,959 | 3,513 | - | - | (303,446) |
| Leisure Time Activities | 1,534,430 | 388,077 | - | 33,000 | (1,113,353) |
| Community Development | 868,816 | 545,658 | - | 10,587 | (312,571) |
| Basic Utility Services | 1,166,976 | 1,265 | - | - | (1,165,711) |
| Transportation | 5,789,405 | 65,310 | 596,693 | - | (5,127,402) |
| General Government | 2,460,342 | 203,988 | - | - | (2,256,354) |
| Interest and Fiscal Charges | 118,979 | - | - | - | (118,979) |
| Total Governmental activities | <u>\$23,280,772</u> | <u>\$1,505,723</u> | <u>\$ 729,076</u> | <u>\$ 71,623</u> | <u>(20,974,350)</u> |
| General Revenues: | | | | | |
| Property Taxes levied for: | | | | | |
| General Purposes | | | | | 3,438,012 |
| Debt Service Purpose | | | | | 1,441,286 |
| Other Purposes | | | | | 311,958 |
| Income Taxes levied for: | | | | | |
| General Purposes | | | | | 9,744,729 |
| Other Taxes | | | | | 104,302 |
| Grants & Entitlements not restricted to specific programs | | | | | 2,231,255 |
| Investment Income | | | | | 350,972 |
| All Other Revenues | | | | | 169,206 |
| Total General Revenues | | | | | <u>17,791,720</u> |
| Change in Net Assets | | | | | (3,182,630) |
| Net Assets - Beginning of Year | | | | | 52,299,876 |
| Net Assets - End of Year | | | | | <u>\$ 49,117,246</u> |

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

City of Mayfield Heights, Ohio

Balance Sheet – Governmental Funds December 31, 2009

| | General Fund | General Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|-------------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 42,747 | \$ 444,812 | \$ 5,012,975 | \$ 5,500,534 |
| Investments | 7,662,852 | - | 5,813,226 | 13,476,078 |
| Materials and Supplies Inventory | 38,456 | - | 12,155 | 50,611 |
| Accrued Interest Receivable | 59,168 | - | 22,309 | 81,477 |
| Accounts Receivable | 81,829 | - | 10,854 | 92,683 |
| Intergovernmental Receivable | 752,746 | 81,431 | 355,869 | 1,190,046 |
| Prepaid Items | 57,754 | - | 913 | 58,667 |
| Income Taxes Receivable | 2,430,212 | - | - | 2,430,212 |
| Property and Other Taxes Receivable | 3,922,054 | 980,910 | 311,938 | 5,214,902 |
| Special Assessments Receivable | - | - | 51,742 | 51,742 |
| Total Assets | \$ 15,047,818 | \$1,507,153 | \$ 11,591,981 | \$ 28,146,952 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 196,060 | \$ - | \$ 112,715 | \$ 308,775 |
| Accrued Wages | 128,161 | - | 16,114 | 144,275 |
| Contracts Payable | - | - | 215,751 | 215,751 |
| Intergovernmental Payable | 580,332 | - | 182,963 | 763,295 |
| Retainage Payable | - | - | 40,241 | 40,241 |
| Deferred Revenue | 5,334,753 | 1,062,341 | 607,214 | 7,004,308 |
| Total Liabilities | 6,239,306 | 1,062,341 | 1,174,998 | 8,476,645 |
| Fund Balances: | | | | |
| Reserved for: | | | | |
| Encumbrances | 36,971 | - | 233,587 | 270,558 |
| Inventory | 38,456 | - | 12,155 | 50,611 |
| Prepaid Items | 57,754 | - | 913 | 58,667 |
| Unreserved: | | | | |
| Designated for: | | | | |
| Accrued Compensation Reserve | - | - | 686,501 | 686,501 |
| Undesignated, Reported in: | | | | |
| General Fund | 8,675,331 | - | - | 8,675,331 |
| Special Revenue Funds | - | - | 511,438 | 511,438 |
| Debt Service Funds | - | 444,812 | 90,690 | 535,502 |
| Capital Projects Funds | - | - | 8,881,699 | 8,881,699 |
| Total Fund Balance | 8,808,512 | 444,812 | 10,416,983 | 19,670,307 |
| Total Liabilities and Fund Balance | \$ 15,047,818 | \$1,507,153 | \$ 11,591,981 | \$ 28,146,952 |

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

City of Mayfield Heights, Ohio

Reconciliation of Total Governmental Fund Balances to Net Assets of Net Assets of Governmental Activities December 31, 2009

| | | |
|----------------------------------|--|---------------|
| Total Governmental Fund Balances | | \$ 19,670,307 |
|----------------------------------|--|---------------|

*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 | | 35,975,725 |
|---|--|------------|

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

| | | |
|------------------------|---------|-----------|
| Property taxes | 554,088 | |
| Municipal income taxes | 960,507 | |
| Special assessments | 51,742 | |
| Intergovernmental | 777,230 | |
| Charges for services | 15,869 | |
| Total | | 2,359,436 |

| | | |
|--|--|----------|
| In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. | | (18,750) |
|--|--|----------|

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

| | | |
|-------------------------|-------------|-------------|
| OPWC loans | (1,621,047) | |
| Bond anticipation notes | (4,500,000) | |
| Compensated absences | (2,748,425) | |
| Total | | (8,869,472) |

| | | |
|---------------------------------------|--|----------------------|
| Net Assets of Governmental Activities | | <u>\$ 49,117,246</u> |
|---------------------------------------|--|----------------------|

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

City of Mayfield Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended December 31, 2009

| | General Fund | General Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-------------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| Property Taxes | \$ 3,330,927 | \$1,465,880 | \$ 306,180 | \$ 5,102,987 |
| Income Taxes | 9,560,642 | - | - | 9,560,642 |
| Other Taxes | 104,302 | - | - | 104,302 |
| Intergovernmental | 1,984,898 | 215,517 | 1,123,143 | 3,323,558 |
| Interest | 347,362 | 14,813 | 9,856 | 372,031 |
| Licenses and Permits | - | - | 14,244 | 14,244 |
| Fines and Forfeitures | 777,246 | - | 3,235 | 780,481 |
| Charges for Services | 328,126 | - | 329,797 | 657,923 |
| Special Assessments | - | - | 12,270 | 12,270 |
| All Other Revenues | 113,248 | 755 | 55,203 | 169,206 |
| Total Revenues | <u>16,546,751</u> | <u>1,696,965</u> | <u>1,853,928</u> | <u>20,097,644</u> |
| EXPENDITURES | | | | |
| Security of Persons and Property | 10,183,970 | - | 529,935 | 10,713,905 |
| Public Health | 305,935 | - | - | 305,935 |
| Leisure Time Activities | 1,275,690 | - | 252,780 | 1,528,470 |
| Community Development | 562,903 | - | 290,226 | 853,129 |
| Basic Utility Service | 835,696 | - | 116,837 | 952,533 |
| Transportation | 1,116,778 | - | 3,431,592 | 4,548,370 |
| General Government | 2,343,379 | 7,620 | 28,444 | 2,379,443 |
| Debt Service: | | | | |
| Principal Retirement | - | 6,000,000 | 58,602 | 6,058,602 |
| Interest and Fiscal Charges | - | 150,000 | 250 | 150,250 |
| Total Expenditures | <u>16,624,351</u> | <u>6,157,620</u> | <u>4,708,666</u> | <u>27,490,637</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(77,600)</u> | <u>(4,460,655)</u> | <u>(2,854,738)</u> | <u>(7,392,993)</u> |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Sale of Capital Assets | - | - | 19,586 | 19,586 |
| OPWC Loans Issued | - | - | 91,819 | 91,819 |
| Notes Issued | - | 4,500,000 | - | 4,500,000 |
| Transfer In | 5,817 | - | 1,645,000 | 1,650,817 |
| Transfer Out | (1,645,000) | - | (5,817) | (1,650,817) |
| Total Other Financing Sources (Uses) | <u>(1,639,183)</u> | <u>4,500,000</u> | <u>1,750,588</u> | <u>4,611,405</u> |
| Net Change in Fund Balances | <u>(1,716,783)</u> | <u>39,345</u> | <u>(1,104,150)</u> | <u>(2,781,588)</u> |
| Fund Balances - Beginning of Year | 10,517,301 | 405,467 | 11,525,548 | 22,448,316 |
| Increase (Decrease) in Reserve for Inventory | 7,994 | - | (4,415) | 3,579 |
| Fund Balances - End of Year | <u>\$ 8,808,512</u> | <u>\$ 444,812</u> | <u>\$ 10,416,983</u> | <u>\$ 19,670,307</u> |

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

City of Mayfield Heights, 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, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (2,781,588)

*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 outlay in the current period.

| | | |
|----------------|--------------------|-------------|
| Capital Outlay | 413,678 | |
| Depreciation | <u>(2,156,168)</u> | |
| Total | | (1,742,490) |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (20,086)

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

| | | |
|--------------------------|---------------|-----|
| Property and other taxes | 88,269 | |
| Municipal income taxes | 184,087 | |
| Special assessments | (8,101) | |
| Intergovernmental | (279,626) | |
| Charges for services | <u>15,869</u> | |
| Total | | 498 |

Other financing sources in the Governmental funds that increase long-term liabilities in the Statement of Net Assets. These sources were attributed to the issuance of bond anticipation notes and OPWC loans. (4,591,819)

Repayment of bond and note principal are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 6,058,602

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 | (140,597) | |
| Change in Inventory | 3,579 | |
| Accrued interest on bonds | <u>31,271</u> | |
| Total | | (105,747) |

Change in Net Assets of Governmental Activities \$ (3,182,630)

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

City of Mayfield Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – General Fund For the Year Ended December 31, 2009

| | Budgeted Amounts | | Actual | Variance with |
|---|---------------------|---------------------|---------------------|--|
| | Original | Final | | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Property Taxes | \$ 3,566,302 | \$ 3,417,356 | \$ 3,330,927 | \$ (86,429) |
| Municipal Income Tax | 10,441,230 | 9,790,000 | 9,809,104 | 19,104 |
| Other Taxes | 111,345 | 104,400 | 106,820 | 2,420 |
| Charges for Services | 372,535 | 349,300 | 342,179 | (7,121) |
| Fees, Licenses and Permits | 807,089 | 756,750 | 785,763 | 29,013 |
| Intergovernmental | 2,433,916 | 2,282,110 | 2,273,606 | (8,504) |
| Investment Income | 410,610 | 385,000 | 405,105 | 20,105 |
| Other Taxes | 104,228 | 81,623 | 107,217 | 25,594 |
| Total Revenues | <u>18,247,255</u> | <u>17,166,539</u> | <u>17,160,721</u> | <u>(5,818)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Security of Persons & Property | 10,608,756 | 10,731,756 | 10,376,391 | 355,365 |
| Public Health Services | 335,885 | 356,585 | 297,580 | 59,005 |
| Leisure Time Activities | 1,429,420 | 1,423,120 | 1,299,291 | 123,829 |
| Community Environment | 663,100 | 663,100 | 576,782 | 86,318 |
| Basic Utility Services | 883,700 | 883,700 | 832,211 | 51,489 |
| Transportation | 1,105,135 | 1,168,635 | 1,145,960 | 22,675 |
| General Government | 2,649,255 | 2,559,265 | 2,411,733 | 147,532 |
| Total Expenditures | <u>17,675,251</u> | <u>17,786,161</u> | <u>16,939,948</u> | <u>846,213</u> |
| Excess of Revenues Over (Under) Expenditures | <u>572,004</u> | <u>(619,622)</u> | <u>220,773</u> | <u>840,395</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers In | - | - | 5,817 | 5,817 |
| Transfers Out | (1,615,000) | (1,645,000) | (1,645,000) | - |
| Advances In | 50,000 | 50,000 | 50,000 | - |
| Total Other Financing Sources (Uses) | <u>(1,565,000)</u> | <u>(1,595,000)</u> | <u>(1,589,183)</u> | <u>5,817</u> |
| Net Change in Fund Balance | <u>(992,996)</u> | <u>(2,214,622)</u> | <u>(1,368,410)</u> | <u>846,212</u> |
| Fund Balance - Beginning of Year | 8,870,651 | 8,870,651 | 8,870,651 | - |
| Prior Year Encumbrances Appropriated | 80,631 | 80,631 | 80,631 | - |
| Fund Balance - End of Year | <u>\$ 7,958,286</u> | <u>\$ 6,736,660</u> | <u>\$ 7,582,872</u> | <u>\$ 846,212</u> |

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

City of Mayfield Heights, Ohio

Statement of Assets and Liabilities

Agency Funds

December 31, 2009

| | Agency Funds |
|--|-------------------------|
| ASSETS | |
| Equity in Pooled Cash and Cash Equivalents | \$ 209,273 |
| Total Assets | <u>\$ 209,273</u> |
| | |
| LIABILITIES | |
| Accounts Payable | 21,876 |
| Deposits Held and Due to Others | 187,397 |
| Total Liabilities | <u>\$ 209,273</u> |

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2009

NOTE 1: **REPORTING ENTITY**

The City of Mayfield Heights, Ohio (the “City”) is a home-rule municipal corporation established under the laws of the State of Ohio. The City operates under its own charter. The current charter, which provides for a council-mayor form of government, was adopted by the voters on July 2, 1951.

The City, in order to provide the necessary services to its citizens, is segmented into many different departments. Among these are the police, fire fighting, street maintenance, planning and zoning, emergency medical technicians, parks and recreation system, public improvements department, and general administrative staff to provide support to these service groups. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. All are responsible to the citizens of the City and are included as part of the primary government.

A legally separate organization is a component unit of the primary government if **1)** the primary government is financially accountable for the organization, **2)** the nature and significance of the relationship between the primary government and the organization are such that exclusion would cause the reporting entity’s basic financial statements to be misleading or incomplete, or **3)** the organization is closely related to or financially integrated with the primary government. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

The City is associated with certain organizations which are identified as jointly governed organizations. The jointly governed organizations are the Eastern Suburban Regional Council of Governments and the Mayfield Union Cemetery as presented in Note 17 to the basic financial statements. The City is also associated with an organization defined as a risk sharing pool (Notes 14 and 15).

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 government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described on the following pages.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

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

A. **Basis of Presentation**

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

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

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 are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods and 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 program is self-financing or draws from the general revenues of the City.

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

B. **Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The City has no proprietary funds.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Governmental Funds Governmental funds are those through which 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 purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund The General Fund is the operating fund of the City and is used to account for all financial resources except those required by law or contract 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 and/or the general laws of Ohio.

General Bond Retirement Fund The General Bond Retirement Fund accounts for the note proceeds and interest revenues to be used for the municipal complex improvement.

The other governmental funds of the City account for grants and other resources whose use is restricted 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, investments trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. 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 deposits and monies held for contractors, developers, community activities, and police bond account.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of 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 (i.e. revenues) and decreases (i.e. expenses) in total net assets.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. Basis of Accounting

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

Revenues – Exchange and Nonexchange Transactions Revenue resulting from exchange transactions, in which the City 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 year in which the exchange on which the tax is imposed takes place. 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 fiscal year in which all eligibility requirements have been satisfied and the revenue is available. 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

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

D. **Basis of Accounting** (Continued)

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), fines and forfeitures, interest, grants and entitlements, 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, 2009, but which were levied to finance year 2010 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.

E. **Cash, Cash Equivalents, and Investments**

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

The City complies with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. As a governmental entity other than an external investment pool in accordance with GASB Statement No. 31, the City's investments are stated at market value, except for interest-earnings investment contracts (Note 6).

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

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

E. **Cash, Cash Equivalents, and Investments** (Continued)

In applying GASB Statement No. 31, the City utilized the following methods and assumptions as of December 31, 2009:

The portfolio of the City was limited to United States Agency securities, nonparticipating interest-earning investment contracts. Nonparticipating investment contracts, such as non-negotiable certificates of deposit, are reported at cost.

Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss resulting from the valuation will be recognized within the General Fund to the extent its cash and investment balance exceeds the cumulative value of those investments subject to GASB Statement No. 31.

The City's policy is to hold investments until maturity or until market values equal or exceed cost.

Interest revenue credited to the General Fund during fiscal year 2009 amounted to \$347,362, with the remaining interest revenue being properly allocated to the respective funds in 2009.

For presentation on the statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. **Materials and Supplies Inventory**

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventory consists of expendable supplies.

G. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2009 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.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$2,500. Interest incurred during the construction of capital assets is not capitalized.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method utilizing the half-year convention over the following useful lives:

| <u>Description</u> | Governmental Activities <u>Estimated Lives</u> |
|--------------------------|--|
| Building and Improvement | 20 - 60 years |
| Machinery and Equipment | 5 - 20 years |
| Furniture and Fixtures | 15 - 20 years |
| Vehicles | 5 - 20 years |
| Infrastructure | 15 - 50 years |

I. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future (those employees who will be eligible to receive termination benefits in the next twenty years). The amount is based on accumulated sick leave and employee wage rates at year-end, taking into consideration any limits specified in the City's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. 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 judgments, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due.

K. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances, inventories, and prepaid items. The City also maintains a designation of unreserved fund balance for an account titled "Accrued Compensation Reserve."

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of governments. The City has no net assets which are restricted by enabling legislation. Net assets that are restricted by other purposes is mostly comprised of the Street Construction, Maintenance, and Repair Fund, and the State Highway Fund, the Summer Day Camp Fund.

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Interfund Activity

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

N. 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 2009.

O. Estimates

The preparation of 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.

P. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

An annual appropriation budget is prepared for all funds other than the agency funds of the City. Budgetary comparisons are presented in this report on the budgetary basis.

The legal level of budgetary control is at the personnel services and other object levels within each department for the General Fund, the Street Construction, Maintenance, and Repair Fund, the State Highway Improvement Fund, the Summer Day Camp Fund, and the Juvenile Diversion Program Fund, and at the other object level for the remaining funds. Any budgetary modifications at this level may only be made by resolution of City Council.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Budgetary Data (Continued)

Tax Budget - A tax budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 15 of each year for the period January 1 to December 31, of the following year. A proposed budget of estimated revenues and expenditures is submitted by the Mayor to members of City Council of the City by November 15 of each year for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. On or about January 1, the certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time the final appropriations were passed by Council.

Appropriations - A temporary appropriation measure to control disbursements may be passed on or about January 1 of each year for the period from January 1 to March 31. The annual appropriations ordinance must be passed by April 1 and may be amended or supplemented during the year as new information becomes available, provided that total fund appropriations at the personnel services and other object levels within each department for the General Fund, the Street Construction, Maintenance, and Repair Fund, the State Highway Improvement Fund, the Summer Day Camp Fund, and the Juvenile Diversion Program Fund, and at the other object level for the remaining funds (legal level of control) do not exceed current estimated resources, as certified. 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 appropriation amounts passed by Council during the year.

Encumbrances - As part of formal budgetary control, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Budgetary Data (Continued)

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

NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2009, the City implemented GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not affect the presentation of the financial statements of the City.

NOTE 4: ACCOUNTABILITY

Fund balance at December 31, 2009 included the following individual fund deficits:

Nonmajor Special Revenue Funds

| | |
|--|-------------------|
| Street Light Special Assessment Operating Fund | \$ 6,648 |
| Police Pension Fund | 64,943 |
| Fire Pension Fund | <u>64,943</u> |
| Total | <u>\$ 136,534</u> |

The deficits in the Street Light Special Assessment Operating Fund, Police Pension and Fire Pension Special Revenue funds resulted from accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

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 Fund is 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:

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

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

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the related liabilities are incurred (GAAP basis).
- c. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
- d. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statement for the General Fund.

| <u>Net Change in Fund Balance</u> | |
|-----------------------------------|-----------------------------|
| GAAP Basis | \$(1,716,783) |
| Increase (Decrease) Due to: | |
| Revenue Accruals | 613,970 |
| Advances In | 50,000 |
| Expenditure Accruals | (219,568) |
| Net Impact of Encumbrances | (96,029) |
| Budgetary Basis | <u><u>\$(1,368,410)</u></u> |

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS**

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 6: CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim monies 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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any Federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All Federal agency securities shall be direct issuances of Federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provide that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 6: CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

A. Cash on Hand

At December 31, 2009, the City had \$2,350 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents".

B. Deposits

At December 31, 2009, the carrying amount of the City's deposits was \$9,822,457 (including \$4,115,000 in certificates of deposit). Based on criteria described in GASB Statement No. 40, *Deposits and Investments Risk Disclosures*, as of December 31, 2009, \$2,074,471 of the City's bank balance was covered by Federal Depository Insurance and \$8,384,287 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposit may not be returned. The City's policy is to place deposits with major local banks approved by the City's Council. All deposits, except for deposits held by fiscal and escrow agents, are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by Chapter 135 of the Ohio Revised Code is held in financial institution pools at Federal Reserve Banks, or at member banks of the federal reserve system in the name of the respective depository bank, and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at a Federal Reserve Bank in the name of the City.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

C. **Investments**

The City has a formal investment policy. The City follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value. At December 31, 2009, fair value was \$24,349 above the City's net cost for investments. At December 31, 2008, fair value was \$43,779 above net cost. Fair value is determined by quoted market prices and acceptable other pricing methodologies.

D. **Interest Rate Risk**

As a means of limiting its exposure to fair value of losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

E. **Credit Risk**

The credit risks of the City's investments are in the table below. The credit ratings were provided from Moody's and Standard and Poor's. The City has no investment policy that would further limit its investment choices.

F. **Custodial Credit Risk**

For an investment custodial credit risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by a third party custodian designated by the Finance Director. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the finance director or qualified trustee.

G. **Concentration of Credit Risk**

Safety of principal is the foremost objective of the City's investment program. Investments of the City shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed income generated from the remainder of the portfolio.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

Cash and investments at year-end were as follows:

| <u>Investment Type:</u> | <u>Fair Value</u> | <u>Credit Rating (*)</u> | <u>Investment Maturities (in Years)</u> | |
|-----------------------------|-----------------------|------------------------------|---|--------------|
| | | | <u>1-3</u> | <u>3-5</u> |
| U.S. Agencies | \$ 9,361,078 | Aaa/AAA | \$ 5,254,737 | \$ 4,106,341 |
| Carrying Amount of Deposits | 9,822,457 | | | |
| Petty Cash | 2,350 | | | |
| Total | <u>\$19,185,885</u> | | | |

* Credit Ratings were obtained from Moody's and Standard & Poor's, respectively, for all investments.

NOTE 7: **RECEIVABLES**

Receivables at December 31, 2009, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments, and accounts (billing for rental and permits, etc.). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

A. **Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2009 for real and public property taxes represents collections of 2008 taxes. Property tax payments received during 2009 for tangible personal property (other than public utility property) are for 2009 taxes.

2009 real property taxes are levied after October 1, 2009 on the assessed value as of January 1, 2009, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2009 real property taxes are collected in and intended to finance 2010 operations.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2009 public utility property taxes which became a lien at December 31, 2008 are levied after October 1, 2009, and are collected in 2010 with real property taxes.

2009 tangible personal property taxes are levied after October 1, 2008 on the value as of December 31, 2008. Collections are made in 2009. Tangible personal property assessments will be phased out over future periods. The assessed percentage for 2009 is zero.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

The full tax rate for all City operations for the year ended December 31, 2009 was \$10.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2009 property tax receipts were based are as follows:

| | |
|---|-----------------------|
| Real Property - 2009 Tax Valuation | \$ 564,749,160 |
| Public Utility Tangible Property - 2009 Tax Valuation | 5,822,350 |
| Tangible Personal Property - 2009 Tax Valuation | <u>5,984,458</u> |
| Total | <u>\$ 576,555,968</u> |

Real property taxes are payable annually or semi-annually. If paid annually, 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.

Tangible personal property taxes paid by multi-county taxpayers are due by 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 at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2009, and for which there is an enforceable legal claim. In the general, police pension, fire pension, and general bond retirement funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2009 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 revenue while the remainder of the receivable is deferred.

B. **Municipal Income Taxes**

An income tax of 1.0 percent is levied on substantially all income earned within the City. In addition, residents of the City are required to pay City income taxes on income earned outside the City; however, credit is allowed for income taxes paid to other municipalities up to 50 percent of the first percent paid. The allocation of income tax revenue to the City's General Fund is determined by City Ordinance.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 7: **RECEIVABLES** (Continued)

B. **Municipal Income Taxes** (Continued)

Employers within the City are required to withhold income tax on employee compensation and remit this tax to the City's collection agency at least quarterly. Major employers are required to remit withholdings to the City's collection agency at least monthly. Corporations and self-employed individual taxpayers are required to pay estimated taxes quarterly and file a declaration annually. The Regional Income Tax Agency administers and collects income taxes for the City. Payments are remitted monthly, net of collection fees of 3 percent.

C. **Special Assessments**

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

All special assessments are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the combined balance sheet.

Special assessments expected to be collected in more than one year amount to \$51,742 in the special assessment bond retirement fund. At December 31, 2009, the amount of delinquent special assessments was \$8,324.

D. **Other Local Taxes**

With certain exceptions, a tax of 5 percent is levied by the City on individuals, companies and organizations which collect an admission charge and reported in the General Fund. Additionally, the City levies a transient guest tax on individuals staying at motels located in the City at a rate of 3 percent.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 7: **RECEIVABLES** (Continued)

E. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

| | <u>Amount</u> |
|---|---------------------|
| <u>Governmental Activities</u> | |
| Local Government | \$ 406,603 |
| Estate Tax | 151,337 |
| Gasoline/Motor Vehicle License/Permissive Taxes | 338,903 |
| Homestead and Rollback Reimbursement | 269,357 |
| Utility Property Tax Loss Reimbursement | 13,390 |
| Other | 10,456 |
| Total Governmental Activities | <u>\$ 1,190,046</u> |

NOTE 8: **INTERFUND TRANSACTIONS**

A. **Interfund Transfers**

As of December 31, 2009, interfund transfers were as follows:

| <u>Fund</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------------------|---------------------|----------------------|
| General | \$ 5,817 | \$ 1,645,000 |
| Nonmajor Governmental Funds | 1,645,000 | 5,817 |
| Total | <u>\$ 1,650,817</u> | <u>\$ 1,650,817</u> |

Interfund transfers were needed to provide additional resources for current operations. The above interfund transfers were eliminated on the government-wide statement of net assets because they were between governmental funds.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2009 follows:

| | Balance 12/31/2008 | Additions | Reductions | Balance 12/31/2009 |
|--|-----------------------|-----------------------|--------------------|-----------------------|
| <u>Governmental Activities</u> | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 3,024,620 | \$ - | \$ - | \$ 3,024,620 |
| Construction in Progress | 6,243,696 | 91,819 | - | 6,335,515 |
| Total Capital Assets Not Being Depreciated | <u>9,268,316</u> | <u>91,819</u> | <u>-</u> | <u>9,360,135</u> |
| Capital Assets, Being Depreciated: | | | | |
| Land Improvements | 1,220,330 | | | 1,220,330 |
| Buildings | 9,008,577 | 49,313 | - | 9,057,890 |
| Machinery and Equipments | 2,016,875 | 91,063 | - | 2,107,938 |
| Furniture and Fixtures | 839,814 | 6,007 | | 845,821 |
| Vehicles | 3,557,636 | 175,476 | (122,764) | 3,610,348 |
| Infrastructures | | | | |
| Roads | 26,892,631 | - | - | 26,892,631 |
| Water Mains | 1,098,642 | - | - | 1,098,642 |
| Sanitary Sewers | 9,212,285 | - | - | 9,212,285 |
| Storm Sewers | 2,430,957 | - | - | 2,430,957 |
| Totals at Historical Cost | <u>56,277,747</u> | <u>321,859</u> | <u>(122,764)</u> | <u>56,476,842</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (889,218) | (33,495) | - | (922,713) |
| Buildings | (2,477,689) | (225,904) | - | (2,703,593) |
| Machinery and Equipments | (1,216,445) | (134,194) | - | (1,350,639) |
| Furniture and Equipment | (488,542) | (44,410) | - | (532,952) |
| Vehicles | (2,169,231) | (236,552) | 102,678 | (2,303,105) |
| Infrastructures | | | | |
| Roads | (17,104,983) | (1,226,776) | - | (18,331,759) |
| Water Mains | (353,231) | (21,972) | - | (375,203) |
| Sanitary Sewers | (2,278,574) | (184,245) | - | (2,462,819) |
| Storm Sewers | (829,849) | (48,620) | - | (878,469) |
| Total Accumulated Depreciation | <u>(27,807,762)</u> | <u>(2,156,168)</u> | <u>102,678</u> | <u>(29,861,252)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>28,469,985</u> | <u>(1,834,309)</u> | <u>(20,086)</u> | <u>26,615,590</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 37,738,301</u> | <u>\$ (1,742,490)</u> | <u>\$ (20,086)</u> | <u>\$ 35,975,725</u> |

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 9: **CAPITAL ASSETS** (Continued)

*Depreciation expense was charge to governmental functions as follows:

| | Other Capital Assets | Infrastructure | Total |
|----------------------------------|----------------------------|----------------|--------------|
| Security of Persons and Property | \$ 333,656 | \$ - | \$ 333,656 |
| Basic Utilities | 57,538 | 254,837 | 312,375 |
| Community Environment | 18,589 | - | 18,589 |
| Leisure Time Activities | 71,688 | - | 71,688 |
| Transportation | 70,876 | 1,226,776 | 1,297,652 |
| General Government | 122,208 | - | 122,208 |
| Total Deprecation Expense | \$ 674,555 | \$ 1,481,613 | \$ 2,156,168 |

NOTE 10: **COMPENSATED ABSENCES**

City employees generally earn vacation ranging from two to five weeks based on length of service. It is fully vested when earned. Normally, all vacation time should be taken in the year available unless written approval for carryover of vacation is obtained. Upon termination of employment the employee receives all accumulated vacation time and the pro-rated portion earned for the current year. All employees, earn sick leave of 15 days per year; 4.615 hours for every 80 hours paid (excluding overtime). Employees who have at least 10 years of service receive, upon termination of employment, one half of the first 1,000 hours of accumulated sick leave and then one-third of anything over 1,000 hours.

NOTE 11: **PENSION PLAN**

A. **Ohio Public Employees Retirement System**

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional 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 member and (vested) employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to 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.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 11: **PENSION PLAN** (Continued)

A. Ohio Public Employees Retirement System (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2009, the members of all three plans were required to contribute 10.00 percent of their annual covered salaries. The City's contribution rate of 14.00 percent was allocated to fund pension benefits at 7.00 percent from January 1 through March 31, 2009 and 8.50 percent from April 1 through December 31, 2009. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's required contributions to OPERS for the years ended December 31, 2009, 2008, and 2007 were \$374,278, \$321,966, and \$394,951, respectively; 89.53 percent has been contributed for 2009 and 100 percent has been contributed for 2008 and 2007. The unpaid contribution to fund pension obligations for 2009, in the amount of \$67,011, is recorded as a liability within the respective funds.

B. Ohio Police and Fire Pension Fund

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 E. Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.00 percent of their annual covered salary, while the City is required to contribute 19.50 percent and 24.0 percent for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 12.75 percent for police officers and 17.25 percent for firefighters. The City's required contributions to OP&F for police and firefighters were \$574,055 and \$621,966 for the year ended December 31, 2009, \$567,315 and \$590,908 for the year ended December 31, 2008, and \$545,387 and \$571,369 for the year ended December 31, 2007; 70.56 percent and 71.30 percent, respectively, has been contributed for 2009 and 100 percent for 2008 and 2007. The unpaid contributions to fund pension obligations for 2009 were \$169,008 for police and \$178,491 for firefighter. These amounts have been recorded as liabilities within the respective funds.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 12: POST-EMPLOYMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) maintains a cost-sharing, multiple-employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

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

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. The 2009 local government employer contribution rate was 14.00 percent of covered payroll.

OPERS Post-employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 7.00 percent from January 1 through March 31, 2009 and 5.50 percent from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's actual employer contributions for 2009 which were used to fund post-employment benefits were \$265,567.

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

B. 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 postemployment 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-employment 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. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by OP&F meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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.

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

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

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 12: **POST-EMPLOYMENT BENEFIT PLANS** (Continued)

B. **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, 2009, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of the 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 for 2009, 2008, and 2007 that were used to fund post-employment benefits were \$198,711 for police and \$174,928 for firefighters, \$196,404 for police and \$166,223 for firefighters, and \$188,704 for police and \$160,555 for firefighters, respectively.

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City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 13: LONG-TERM OBLIGATIONS

Changes in the long-term obligations of the City for the year ended December 31, 2009, are as follows:

| | Original Issuance Amount | Maturity Year | Balance 12/31/2008 | Increase | Decrease | Balance 12/31/2009 | Amount Due In a Year |
|--|--------------------------------|------------------|-----------------------|--------------------|----------------------|-----------------------|----------------------------|
| <u>Long-Term Obligations - Governmental Activities</u> | | | | | | | |
| <i>Manuscript Bonds:</i> | | | | | | | |
| 5.00% 1999 Aldenham Drive Improv | \$ 50,000 | 2009 | \$ 5,000 | \$ - | \$ (5,000) | \$ - | \$ - |
| <i>Total Manuscript Bonds</i> | | | <u>5,000</u> | <u>-</u> | <u>(5,000)</u> | <u>-</u> | <u>-</u> |
| <i>OPWC Loans:</i> | | | | | | | |
| OPWC Loan, 0.00% | \$ 271,155 | 2015 | 86,784 | - | (13,352) | 73,432 | 13,352 |
| OPWC Loan - Mayfield Rd. Improvements, 0.00% | \$ 1,000,000 | 2024 | 731,296 | 91,819 | - | 823,115 | - |
| OPWC Loan - Mayfield Rd. Sanitary Sewer, 0.00% | \$ 805,000 | 2028 | 764,750 | - | (40,250) | 724,500 | 40,250 |
| <i>Total OPWC Loans</i> | | | <u>1,582,830</u> | <u>91,819</u> | <u>(53,602)</u> | <u>1,621,047</u> | <u>53,602</u> |
| <i>Other Long-Term Liabilities:</i> | | | | | | | |
| Municipal Complex Improvements - Bond Anticipation Notes, 1.25% | | 8/2010 | 3,600,000 | 3,300,000 | (3,600,000) | 3,300,000 | - |
| Claims and Judgments - Bond Anticipation Notes, 1.25% | | 8/2010 | 2,400,000 | 1,200,000 | (2,400,000) | 1,200,000 | - |
| Compensated Absences | | | 2,607,828 | 952,645 | (812,048) | 2,748,425 | 845,343 |
| <i>Total Other Long-Term Liabilities</i> | | | <u>8,607,828</u> | <u>5,452,645</u> | <u>(6,812,048)</u> | <u>7,248,425</u> | <u>845,343</u> |
| Total Long-Term Obligations - Governmental Activities | | | <u>\$10,195,658</u> | <u>\$5,544,464</u> | <u>\$(6,870,650)</u> | <u>\$ 8,869,472</u> | <u>\$898,945</u> |

The Ohio Public Works Commission (OPWC) loan - Mayfield Road Improvements' debt obligations will be paid from the Road Improvement Capital Project Fund by revenues transferred from the General Fund. As of December 31, 2009, the City has not completed the projects related to this loan. Therefore, an amortization schedule is not available. The OPWC loan - Mayfield Road Sanitary Sewers' debt obligations will be paid from the Sanitary Sewer Improvement Capital Projects Fund. Municipal Complex Improvement Bond Anticipation Notes (BANs) and Claims and Judgments BANs were reissued in 2009 as one note in anticipation of bond proceeds. The notes will be refinanced until the projects are complete and the City determines it to be advantageous to issue bonds. Payment for the combined note will be made from the General Obligation Bond Retirement Fund. Compensated absences will be paid from the respective funds from which the employees' salary is paid.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 13: **LONG-TERM OBLIGATIONS** (Continued)

Principal and Interest Requirements

A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2009 follows:

| Year | OPWC | | OPWC - Sanitary Sewer | | Total | |
|-----------|------------------|-------------|-----------------------|-------------|-------------------|-------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2010 | \$ 13,352 | \$ - | \$ 40,250 | \$ - | \$ 53,602 | \$ - |
| 2011 | 13,352 | - | 40,250 | - | 53,602 | - |
| 2012 | 13,352 | - | 40,250 | - | 53,602 | - |
| 2013 | 13,352 | - | 40,250 | - | 53,602 | - |
| 2014 | 13,352 | - | 40,250 | - | 53,602 | - |
| 2015-2019 | 6,672 | - | 201,250 | - | 207,922 | - |
| 2020-2024 | - | - | 201,250 | - | 201,250 | - |
| 2025-2029 | - | - | 120,750 | - | 120,750 | - |
| | <u>\$ 73,432</u> | <u>\$ -</u> | <u>\$ 724,500</u> | <u>\$ -</u> | <u>\$ 797,932</u> | <u>\$ -</u> |

The Ohio Revised Code provides that net general obligation debt of the City, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 5.5 percent of the tax valuation of the City. The Ohio Revised Code further provides that total voted and unvoted net debt of the City less the same exempt debt shall never exceed amount equal to 10.5 percent of its tax valuation. The effects of the debt limitations at December 31, 2009, were an overall debt margin of \$60,538,377 and an unvoted debt margin of \$31,710,578.

NOTE 14: **NORTHERN OHIO RISK MANAGEMENT ASSOCIATION**

The Northern Ohio Risk Management Association (NORMA) is a shared risk pool comprised of the cities of Bedford Heights, Highland Heights, Hudson, Mayfield Heights, Richmond Heights, South Euclid, Eastlake, Solon, Maple Heights, University Heights and the Village of Chagrin Falls, for the purpose of enabling its members to obtain property and liability insurance, including vehicle, 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 its initial entry date. After the initial three years, each City may extend its term by an additional three years.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 14: **NORTHERN OHIO RISK MANAGEMENT ASSOCIATION** (Continued)

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 \$97,500 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 the stop loss coverage 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 2009, the City paid \$103,683 in premiums from the General Fund, which represents 6.95 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 15: **RISK MANAGEMENT**

NORMA provides a pool of self-insurance for liability and property damage, vehicles, boiler and machinery, theft, bonding of city employees, and public officials' errors and omissions. The City's share of NORMA's claims and expenses are accounted among general fund departments and other funds in proportion to the protection provided for the assets in those general fund departments and other funds. 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.

Settled claims have not exceeded commercial coverage in any of the past three years. Also, there have been no significant reductions in the limits of liability.

All employees of the City are covered by a blanket bond, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage.

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

The City provides medical, dental, and prescription benefits for all full-time employees. All payments are made from the General Fund based on amounts needed to pay prior and current year claims. Costs are based on actuarial estimations, demographics, and the City's claim history. Starting in 2008, all employees must contribute a portion of the monthly premiums for medical and prescription coverage. For 2009, the employee portion was either \$50 per month for a single contract, or \$90 per month for a family contract.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

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

In 2009, the City began offering a Health Savings Account (HSA) alternative for its employees. The employees that participated in this program had different monthly premiums. In addition, the City fully funded the deductible for the HSA participants, \$2,500 for a single contract, and \$5,000 for a family contract. The funds were deposited directly into the participant's HSA account established with Charter One/Citizens Bank.

Medical and prescription, dental, and vision benefits are provided through Medical Mutual, Guardian, and Ameritas Group, respectively. Payments are made from the General Fund on a monthly basis. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits for the traditional insurance program is \$546.83 for single coverage and \$1,476.44 for family coverage and the monthly premium for the HSA program is \$325.33 for single coverage and \$878.39 for family coverage. The monthly premium for dental benefits is \$30.43 for single coverage and \$83.18 for family coverage. The monthly coverage for vision benefits is \$4.62 for single coverage and \$11.00 for family coverage.

NOTE 16: **CONTINGENT LIABILITIES**

The City is party to various legal proceedings. City management is of the opinion that ultimate settlement of the majority of such claims not covered by insurance will not result in a material adverse effect on the City's financial position.

NOTE 17: **JOINTLY GOVERNED ORGANIZATION**

Eastern Suburban Regional Council of Governments

The Eastern Suburban Regional Council of Governments (ESRCOG) was formed in 1972 to foster cooperation between member municipalities through sharing of facilities for mutual benefit. The governing body of ESRCOG is a council comprised of one representative from each of the six participating municipalities. The Council operates in accordance with a written agreement establishing ESRCOG pursuant to Ohio Revised Code Chapter 167.

The Council established one subsidiary organization, the Suburban Police Anti-Crime Network (SPAN), which provides for the mutual interchange and sharing of police personnel and police equipment to be utilized by all six (6) participating member municipalities. In 2009, all participating municipalities contributed \$84,000.

The Council adopts a budget for ESRCOG annually. Each member municipality's degree of control is limited to its representation on the Council. In 2009, the City contributed \$14,000, which represents 16.7 percent of the total contributions.

City of Mayfield Heights, Ohio

Notes to the Basic Financial Statements (continued) For the Year Ended December 31, 2009

NOTE 17: **JOINTLY GOVERNED ORGANIZATION** (Continued)

Mayfield Union Cemetery

The Mayfield Union Cemetery is a jointly governed organization among three local communities (the Village of Mayfield, the City of Highland Heights, and the City of Mayfield Heights). The jointly governed organization was formed based on the boundaries in relation to the cemetery. Each of the communities contributes a nominal fee for the Maintenance of the cemetery. The Village of Mayfield assumes the daily accounting and reporting of the cemetery finances. The Cemetery Board consists of three Board members, with one council member appointed from each of the three communities. Financial information can be obtained by contacting the Director of Finance at the Village of Mayfield, 6622 Wilson Mills Road, Mayfield Village, Ohio 44143.

NOTE 18: **REVENUE SHARING AGREEMENT**

Since 1996, the City has been sharing income tax revenue with the Mayfield City School District. Several commercial properties were developed and received property tax abatements from the City through the creation of a Community Reinvestment Area (CRA) and an Enterprise Zone.

During 2009, the City disbursed \$667,806 to the District as a result of the revenue sharing agreements.

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Mary Taylor, CPA

Auditor of State

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

City of Mayfield Heights
Cuyahoga County
6154 Mayfield Road
Mayfield Heights, Ohio 44124

To the City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Mayfield Heights, Cuyahoga County, (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated July 14, 2010.

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

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

Mary Taylor, CPA
Auditor of State

July 14, 2010



Mary Taylor, CPA
Auditor of State

CITY OF MAYFIELD 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
SEPTEMBER 21, 2010**