

Village of Gates Mills

**Financial Statements
For the Year Ended December 31, 2011**



Dave Yost • Auditor of State

Members of Council
Village of Gates Mills
1470 Chagrin River Road
Gates Mills, Ohio 44040

We have reviewed the *Independent Auditor's Report* of the Village of Gates Mills, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Gates Mills is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

October 1, 2012

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Village of Gates Mills

For the Year Ended December 31, 2011

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Independent Auditor's Report

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

To the Members of Village Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Gates Mills, Cuyahoga County, Ohio (the "Village") as of and for the year ended December 31, 2011, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village, as of December 31, 2011, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

As described in Note 3, the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Members of Village Council
Village of Gates Mills, Ohio

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2012, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cimini & Panichi, Inc.

Cleveland, Ohio
June 15, 2012

Village of Gates Mills

Management's Discussion and Analysis

For the Year Ended December 31, 2011

This discussion and analysis of the Village of Gates Mills, Cuyahoga County, Ohio (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2011, within the limitations of the Village's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2011 are as follows:

Net assets of governmental activities increased \$802,669 (22.8 percent), a significant change from 2010.

The Village's general receipts are primarily property, municipal income and estate taxes. The variance in real estate tax income received in 2011 compared to 2010 was negligible. In 2011 the municipal income tax received was \$296,961 (22.3%) more than received in 2010. The Village received \$1,316,416 estate (inheritance) taxes as compared to \$713,731 received in 2010. Municipal tax and estate tax have fluctuated in the past, making budgeting a challenge.

The General Fund expenses (excluding inheritance tax transfer) decreased \$205,157. The Service Department were down significantly: \$59,700 less repairs were made to the Town Hall, \$60,690 street repairs were diverted to 2012, and there was one less employee. In the Police Department one vehicle was purchased compared to three vehicles purchased in 2010.

Net assets of the business-type activities decreased \$8,126 or 3.8 percent in 2011 as compared to a decrease of \$37,775 or 15.2 percent in 2010.

Using the Basic Financial Statements

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

Report Components

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

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

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

Village of Gates Mills

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Basis of Accounting

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

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

Reporting the Village as a Whole

The statement of net assets and the statement of activities reflect how the Village did financially during 2011, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year-end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Village's general receipts.

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

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

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

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

Village of Gates Mills

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Reporting the Village's Most Significant Funds

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

Governmental Funds – Most of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. In 2011, the Village's major governmental funds are the General Fund, Debt Service Fund, and the Capital Improvement Fund.

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

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

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2010 compared to 2011 on a modified cash basis:

Table 1
Net Assets 2010 and 2011

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 2,665,739	\$ 4,025,250	\$ -	\$ 203,426	\$ 2,665,739	\$ 4,228,676
Investments	<u>857,862</u>	<u>301,020</u>	<u>211,552</u>	<u>-</u>	<u>1,069,414</u>	<u>301,020</u>
Total Assets	\$ <u>3,523,601</u>	\$ <u>4,326,270</u>	\$ <u>211,552</u>	\$ <u>203,426</u>	\$ <u>3,735,153</u>	\$ <u>4,529,696</u>
Net Assets						
Restricted for:						
Capital Improvements	\$ 1,949,827	\$ 2,137,547	\$ -	\$ -	\$ 1,949,827	\$ 2,137,547
Debt Service	2,730	2,730	-	-	2,730	2,730
Other Purposes	122,143	124,749	-	-	122,143	124,749
Unrestricted	<u>1,448,901</u>	<u>2,061,244</u>	<u>211,552</u>	<u>203,426</u>	<u>1,660,453</u>	<u>2,264,670</u>
Total Net Assets	\$ <u>3,523,601</u>	\$ <u>4,326,270</u>	\$ <u>211,552</u>	\$ <u>203,426</u>	\$ <u>3,735,153</u>	\$ <u>4,529,696</u>

Village of Gates Mills

Management's Discussion and Analysis

For the Year Ended December 31, 2011

In 2011, net assets of governmental activities increased \$802,669 or 22.8 percent, a significant change from the prior year. This was mainly the result of high estate tax income of \$1,316,416 and budget cuts.

Table 2
Changes in Net Assets

	Governmental Activities 2010	Business- Type Activities 2010	Governmental Activities 2011	Business- Type Activities 2011	Total 2010	Total 2011
Receipts:						
Program Receipts:						
Charges for Services and Sales	\$ 609,062	\$ 627,910	\$ 612,818	\$ 645,289	\$ 1,236,972	\$ 1,258,107
Operating Grants and Contributions	30,358	-	82,179	-	30,358	82,179
Capital Grants and Contributions	10,725	-	5,745	-	10,725	5,745
Total Program Receipts	<u>650,145</u>	<u>627,910</u>	<u>700,742</u>	<u>645,289</u>	<u>1,278,055</u>	<u>1,346,031</u>
General Receipts:						
Municipal Income Taxes	1,330,588	-	1,627,549	-	1,330,588	1,627,549
Property Taxes	2,305,338	-	2,310,871	-	2,305,338	2,310,871
Estate Taxes	713,731	-	1,316,416	-	713,731	1,316,416
Grants and Entitlements not Restricted to Specific Programs	736,256	-	538,578	-	736,256	538,578
Notes Issued	1,485,000	-	450,000	-	1,485,000	450,000
Premium on Debt Issue	7,336	-	1,778	-	7,336	1,778
Sale of Capital Assets	8,698	-	-	-	8,698	-
Interest	19,782	-	13,225	-	19,782	13,225
Total General Receipts	<u>6,606,729</u>	<u>-</u>	<u>6,258,417</u>	<u>-</u>	<u>6,606,729</u>	<u>6,258,417</u>
Total Receipts	<u>7,256,874</u>	<u>627,910</u>	<u>6,959,159</u>	<u>645,289</u>	<u>7,884,784</u>	<u>7,604,448</u>
Disbursements:						
General Government	1,369,328	-	1,256,172	-	1,369,328	1,256,172
Security of Persons and Property	1,915,815	-	1,887,141	-	1,915,815	1,887,141
Public Health Services	10,266	-	15,424	-	10,266	15,424
Leisure Time Activities	229,632	-	231,173	-	229,632	231,173
Community Environment	2,198	-	2,067	-	2,198	2,067
Basic Utility Services	24,870	-	51,703	-	24,870	51,703
Transportation	976,234	-	853,144	-	976,234	853,144
Capital Outlay	460,178	-	197,805	-	460,178	197,805
Principal Retirement	2,295,000	-	1,485,000	-	2,295,000	1,485,000
Interest and Fiscal Charges	51,550	-	18,511	-	51,550	18,511
Water	-	727,672	-	727,672	727,672	727,672
Wastewater	-	23,363	-	84,093	23,363	84,093
Total Disbursements	<u>7,335,071</u>	<u>751,035</u>	<u>5,998,140</u>	<u>811,765</u>	<u>8,086,106</u>	<u>6,809,905</u>
Excess (Deficiency) Before Transfers	(78,197)	(123,125)	961,019	(166,476)	(201,322)	794,543
Transfers	<u>(85,350)</u>	<u>85,350</u>	<u>(158,350)</u>	<u>158,350</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(163,547)	(37,775)	802,669	(8,126)	(201,322)	794,453
Net Assets Beginning of Year	<u>3,687,148</u>	<u>249,327</u>	<u>3,523,601</u>	<u>211,552</u>	<u>3,936,475</u>	<u>3,735,153</u>
Net Assets End of Year	\$ <u>3,523,601</u>	\$ <u>211,552</u>	\$ <u>4,326,270</u>	\$ <u>203,426</u>	\$ <u>3,735,153</u>	\$ <u>4,529,696</u>

Village of Gates Mills

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Receipts

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

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

Disbursements

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

Security of Persons and Property is the costs of police and fire protection plus street lighting.

Public Health Services are cemetery costs.

Leisure Time Activities are the costs of maintaining the Village's parklands plus providing community activities such as Halloween Party, Easter Hunt, Concert, and Art Show. There was no Jr. Strawhat due to lack of registrations.

Community Environment is the cost of providing building inspections.

Basic Utility Services is the cost of maintaining ditches.

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

Governmental Activities

On the Statement of Activities (page 11) the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for general government, security of persons and property, transportation, capital outlay, and principal retirement. The next three columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for service and grants and contributions received by the Village that must be used to provide a specific service. The Net (Disbursement) columns compare the program receipts to the cost of the service. This "Total" amount represents the cost of the service which is paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

Village of Gates Mills

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Table 3
Governmental Activities

	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>
General Government	\$ 1,369,328	\$ (798,293)	\$ 1,256,172	\$ (692,035)
Security of Persons and Property	1,915,815	(1,911,049)	1,887,141	(1,867,514)
Public Health Services	10,266	(7,666)	15,424	(2,849)
Leisure Time Activities	229,632	(183,697)	231,173	(159,283)
Community Environment	2,198	(2,198)	2,067	(2,067)
Basic Utility Services	24,870	(24,870)	51,703	(51,703)
Transportation	976,234	(976,234)	853,144	(853,144)
Capital Outlay	460,178	(434,369)	197,805	(165,292)
Principal Retirement	2,295,000	(2,295,000)	1,485,000	(1,485,000)
Interest and Fiscal Charges	<u>51,550</u>	<u>(51,550)</u>	<u>18,511</u>	<u>(18,511)</u>
Total Disbursements	\$ <u>7,335,071</u>	\$ <u>(6,684,926)</u>	\$ <u>5,998,140</u>	\$ <u>(5,297,398)</u>

Business-Type Activities

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

The Village's Funds

Total governmental funds, excluding transfers, had receipts of \$6,959,159 and disbursements of \$5,998,140. The most significant change within governmental funds occurred within the General Fund. The fund balance increased \$612,343 mostly as the result of an abnormally high amount of estate tax receipts. The average amount estimated for estate tax income is \$350,000 per year. (Note: By ordinance even though the estate tax is posted to the General Fund, it is immediately transferred to the Capital Improvement Fund.)

General Fund Budgeting Highlights

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

The Village amended its General Fund budget a few times to reflect changing circumstances. Final total budgeted Intergovernmental Revenues were more than expected due to estate tax income. Actual property taxes received were \$207,965 less than originally budgeted. Municipal income taxes were \$700,370 more than originally budgeted. The Village's Income Tax Administrator studied the variance in municipal tax income and concluded that the amount received in 2011 will probably be the typical amount received in the near future.

Village of Gates Mills

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Capital Assets and Debt

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

As of December 31, 2011, the Village's outstanding principal on all loans and notes was \$4,755,971. See details in the Notes 11 and 12 to the financial statements. Of this amount:

- \$3,458,767 is for two loans with the Ohio Water Development Authority (OWDA) that are secured by assessments. These loans were for a water project which began in 1995.
- \$664,424 is for a non-interest bearing loan with the Ohio Public Works Commission (OPWC), also for the water project.
- \$182,780 is for a non-interest bearing loan with OPWC for a wastewater project.
- \$450,000 is for a Library Note with Key Bank which is renewable annually. Currently it is renewed for the amount not collected in donations.

Current Issues

Great effort was made in 2011 to find a health insurance carrier for a reasonable cost. The employees completed applications that were sent to eight health insurance carriers. After comparing several plans the Wage and Benefit Committee decided to continue with Aetna. The coverage offered was far inferior to what was previously offered; Aetna discontinued the current plan. The Village will help the employees by paying part of the out-of-pocket charges. The goal is to research other avenues to help with the cost to both the Village and the employees.

Since the Village has a permit it is faced with new regulations from the EPA regarding storm water. The required programs will be started in 2012. Conforming to these regulations will be costly. Even though grants are being pursued, the Village will bear a large part of the costs. One project, a rain garden, will be completely financed by the EPA. The project of improving the run-off of storm water in the service yard will be completed partly by the Service Department and partly by outside contractors. This project involves separating the garage floor drains from the storm water system, redirecting it to the sanitary system. The cost will be the Village's. Other requirements include education will also be a cost to the Village.

A committee will be formed to create ways to promote the Village of Gates Mills. The purpose will be to stabilize the tax base and promote growth. The committee will gather information about the Village, including the school systems (private and public) and distribute it to realtors, on the website, and at the Library.

More thought and research is being given to collaboration of services. Cuyahoga County is being considered as a place to center joint enhanced 911 services.

The Mayor, Council members, Treasurer, Clerk, and other members of the administration are greatly concerned about the discontinuance of the Ohio estate (inheritance) tax. It has provided a majority of the funds needed for road and culvert repair/replacement. In 2010 \$713,731 was received and \$1,316,416 was received in 2011.

Village of Gates Mills

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Contacting the Village's Financial Management

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

Village of Gates Mills

Statement of Net Assets – Modified Cash Basis

December 31, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 4,025,250	\$ 203,426	\$ 4,228,676
Investments	<u>301,020</u>	<u>-</u>	<u>301,020</u>
Total Assets	\$ <u>4,326,270</u>	\$ <u>203,426</u>	\$ <u>4,529,696</u>
Net Assets			
Restricted for:			
Capital Improvements	\$ 2,137,547	\$ -	\$ 2,137,547
Debt Service	2,730	-	2,730
Other Purposes	124,749	-	124,749
Unrestricted	<u>2,061,244</u>	<u>203,426</u>	<u>2,264,670</u>
Total Net Assets	\$ <u>4,326,270</u>	\$ <u>203,426</u>	\$ <u>4,529,696</u>

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

Village of Gates Mills

Statement of Activities – Modified Cash Basis

For the Year Ended December 31, 2011

	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$ 1,256,172	\$ 564,137	\$ -	\$ -
Security of Persons and Property	1,887,141	-	19,627	-
Public Health Services	15,424	6,250	6,325	-
Leisure Time Activities	231,173	9,918	56,227	5,745
Community Environment	2,067	-	-	-
Basic Utility Services	51,703	-	-	-
Transportation	853,144	-	-	-
Capital Outlay	197,805	32,513	-	-
Principal Retirement	1,485,000	-	-	-
Interest and Fiscal Charges	18,511	-	-	-
Total Governmental Activities	<u>5,998,140</u>	<u>612,818</u>	<u>82,179</u>	<u>5,745</u>
Business-Type Activities				
Water	727,672	639,562	-	-
Wastewater	84,093	5,727	-	-
Total Business-Type Activities	<u>811,765</u>	<u>645,289</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,809,905</u>	<u>\$ 1,258,107</u>	<u>\$ 82,179</u>	<u>\$ 5,745</u>

General Receipts

Property Taxes Levied for:

 General Purposes

 Police Pension

 Conservation

Municipal Income Taxes

Estate Tax

Grants and Entitlements not

 Restricted to Specific Programs

Notes Issued

Premium on Debt Issue

Interest

 Total General Receipts

Transfers

 Total General Receipts and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

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

Net (Disbursements) Receipts and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ (692,035)	\$ -	\$ (692,035)
(1,867,514)	-	(1,867,514)
(2,849)	-	(2,849)
(159,283)	-	(159,283)
(2,067)	-	(2,067)
(51,703)	-	(51,703)
(853,144)	-	(853,144)
(165,292)	-	(165,292)
(1,485,000)	-	(1,485,000)
<u>(18,511)</u>	<u>-</u>	<u>(18,511)</u>
<u>(5,297,398)</u>	<u>-</u>	<u>(5,297,398)</u>
-	(88,110)	(88,110)
<u>-</u>	<u>(78,366)</u>	<u>(78,366)</u>
<u>-</u>	<u>(166,476)</u>	<u>(166,476)</u>
<u>(5,297,398)</u>	<u>(166,476)</u>	<u>(5,463,874)</u>
2,075,106	-	2,075,106
54,407	-	54,407
181,358	-	181,358
1,627,549	-	1,627,549
1,316,416	-	1,316,416
538,578	-	538,578
450,000	-	450,000
1,778	-	1,778
<u>13,225</u>	<u>-</u>	<u>13,225</u>
6,258,417	-	6,258,417
<u>(158,350)</u>	<u>158,350</u>	<u>-</u>
<u>6,100,067</u>	<u>158,350</u>	<u>6,258,417</u>
802,669	(8,126)	794,543
<u>3,523,601</u>	<u>211,552</u>	<u>3,735,153</u>
\$ <u>4,326,270</u>	\$ <u>203,426</u>	\$ <u>4,529,696</u>

Village of Gates Mills

Statement of Modified Cash Basis Assets and Fund Balances Governmental Funds

December 31, 2011

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 1,771,224	\$ 2,730	\$ 2,137,547	\$ 113,749	\$ 4,025,250
Investments	<u>301,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>301,020</u>
Total Assets	\$ <u>2,072,244</u>	\$ <u>2,730</u>	\$ <u>2,137,547</u>	\$ <u>113,749</u>	\$ <u>4,326,270</u>
Fund Balances					
Restricted	\$ -	\$ 2,730	\$ -	\$ 98,916	\$ 101,646
Committed	11,000	-	2,137,547	14,833	2,163,380
Unassigned	<u>2,061,244</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,061,244</u>
Total Fund Balances	\$ <u>2,072,244</u>	\$ <u>2,730</u>	\$ <u>2,137,547</u>	\$ <u>113,749</u>	\$ <u>4,326,270</u>

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

Village of Gates Mills

Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances Governmental Funds

For the Year Ended December 31, 2011

	General Fund	Debt Service Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Receipts					
Municipal Income Taxes	\$ 1,627,549	\$ -	\$ -	\$ -	\$ 1,627,549
Property Taxes	2,075,106	-	-	235,765	2,310,871
Intergovernmental	1,709,394	-	-	171,551	1,880,945
Special Assessments	32,513	-	-	-	32,513
Charges for Services	363,306	-	96,586	16,168	476,060
Fines, Licenses and Permits	104,246	-	-	-	104,246
Interest	13,033	-	-	192	13,225
Miscellaneous (Donations)	-	-	5,745	56,227	61,972
Total Receipts	5,925,147	-	102,331	479,903	6,507,381
Disbursements					
Current:					
General Government	1,203,698	-	-	52,474	1,256,172
Security of Persons and Property	1,697,733	-	-	189,408	1,887,141
Public Health Services	-	-	-	15,424	15,424
Leisure Time Activities	13,715	-	-	217,458	231,173
Community Environment	2,067	-	-	-	2,067
Basic Utility Services	51,703	-	-	-	51,703
Transportation	742,471	-	-	110,673	853,144
Capital Outlay	-	-	197,805	-	197,805
Debt Service:					
Principal Retirement	-	451,778	1,033,222	-	1,485,000
Interest and Fiscal Charges	18,511	-	-	-	18,511
Total Disbursements	3,729,898	451,778	1,231,027	585,437	5,998,140
Excess of Receipts Over (Under)					
Disbursements	2,195,249	(451,778)	(1,128,696)	(105,534)	509,241
Other Financing Sources (Uses)					
Sale of Notes	-	450,000	-	-	450,000
Premium on Debt Issue	-	1,778	-	-	1,778
Transfers In	-	-	1,316,416	108,140	1,424,556
Transfers Out	(1,582,906)	-	-	-	(1,582,906)
Total Other Financing Sources (Uses)	(1,582,906)	451,778	1,316,416	108,140	293,428
Net Change in Fund Balances	612,343	-	187,720	2,606	802,669
Fund Balances Beginning of Year,					
Restated	1,459,901	2,730	1,949,827	111,143	3,523,601
Fund Balances End of Year	\$ 2,072,244	\$ 2,730	\$ 2,137,547	\$ 113,749	\$ 4,326,270

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

Village of Gates Mills

Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis – General Fund

For the Year Ended December 31, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Municipal Income Taxes	\$ 927,179	\$ 927,179	\$ 1,627,549	\$ 700,370
Property Taxes	2,283,071	2,283,071	2,075,106	(207,965)
Intergovernmental	973,804	973,804	1,709,394	735,590
Special Assessments	18,522	18,522	32,513	13,991
Charges for Services	206,967	206,967	363,306	156,339
Fines, Licenses and Permits	59,387	59,387	104,246	44,859
Interest	7,425	7,425	13,033	5,608
Total Receipts	<u>4,476,355</u>	<u>4,476,355</u>	<u>5,925,147</u>	<u>1,448,792</u>
Disbursements				
Current:				
General Government	1,416,550	1,222,211	1,222,209	2
Security of Persons and Property	1,788,650	1,697,734	1,697,733	1
Leisure Time Activities	16,500	13,715	13,715	-
Community Environment	3,000	2,067	2,067	-
Basic Utility Services	26,000	51,703	51,703	-
Transportation	855,500	742,474	742,471	3
Total Disbursements	<u>4,106,200</u>	<u>3,729,904</u>	<u>3,729,898</u>	<u>6</u>
Excess of Receipts Over (Under) Disbursements	370,155	746,451	2,195,249	1,448,798
Other Financing Sources (Uses)				
Transfers Out	<u>(551,000)</u>	<u>(1,582,906)</u>	<u>(1,582,906)</u>	<u>-</u>
Net Change in Fund Balance	(180,845)	(836,455)	612,343	1,448,798
Fund Balance Beginning of Year	<u>1,448,901</u>	<u>1,448,901</u>	<u>1,448,901</u>	<u>-</u>
Fund Balance End of Year	\$ <u>1,268,056</u>	\$ <u>612,446</u>	\$ <u>2,061,244</u>	\$ <u>1,448,798</u>

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

Village of Gates Mills

**Statement of Fund Net Assets – Modified Cash Basis
Proprietary Funds**

December 31, 2011

	<u>Business-Type Activities</u>		
	<u>Wastewater Fund</u>	<u>Water Fund</u>	<u>Total Proprietary Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ <u>30</u>	\$ <u>203,396</u>	\$ <u>203,426</u>
Net Assets			
Unrestricted	\$ <u>30</u>	\$ <u>203,396</u>	\$ <u>203,426</u>

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

Village of Gates Mills

Statement of Cash Receipts, Disbursements, and Changes in Fund Net Assets – Modified Cash Basis Proprietary Funds

For the Year Ended December 31, 2011

	Business-Type Activities		
	Wastewater Fund	Water Fund	Total Proprietary Funds
Operating Receipts			
Charges for Services	\$ <u>5,727</u>	\$ <u>10,848</u>	\$ <u>16,575</u>
Total Operating Receipts	<u>5,727</u>	<u>10,848</u>	<u>16,575</u>
Operating Disbursements			
Contractual Services	33,704	19,625	53,329
Supplies and Materials	<u>31,149</u>	<u>-</u>	<u>31,149</u>
Total Operating Disbursements	<u>64,853</u>	<u>19,625</u>	<u>84,478</u>
Operating Loss	<u>(59,126)</u>	<u>(8,777)</u>	<u>(67,903)</u>
Non-Operating Receipts (Disbursements)			
Special Assessments	-	628,714	628,714
Principal Retirement	(19,240)	(471,346)	(490,586)
Interest and Other Fiscal Charges	<u>-</u>	<u>(236,701)</u>	<u>(236,701)</u>
Total Non-Operating Receipts (Disbursements)	<u>(19,240)</u>	<u>(79,333)</u>	<u>(98,573)</u>
Loss before Transfers	(78,366)	(88,110)	(166,476)
Transfers In	<u>78,350</u>	<u>80,000</u>	<u>158,350</u>
Change in Net Assets	(16)	(8,110)	(8,126)
Net Assets Beginning of Year	<u>46</u>	<u>211,506</u>	<u>211,552</u>
Net Assets End of Year	\$ <u><u>30</u></u>	\$ <u><u>203,396</u></u>	\$ <u><u>203,426</u></u>

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

Village of Gates Mills

Statement of Fiduciary Net Assets – Modified Cash Basis Fiduciary Funds

December 31, 2011

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ <u>97,957</u>
Net Assets	
Held in Trust for Building Deposits	\$ <u>97,957</u>

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

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 1: Reporting Entity

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

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

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

A. Primary Government

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Village consists of all funds, departments, boards, and agencies that are not legally separate from the Village. The primary government provides the following services to its citizens: police and fire protection, EMS, recreation, planning, zoning, street maintenance and repair, recycling, and general administrative services.

B. Component Units

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

The Village is associated with a jointly-governed organization, the East Suburban Regional Council of Governments (ESRCOG). This organization is presented in Note 16 to the basic financial statements.

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

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 2: Summary of Significant Accounting Policies

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

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

A. Basis of Presentation

The Village's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information. All of the above noted statements are presented on the modified cash basis.

Government-wide Financial Statements

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

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

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 2: Summary of Significant Accounting Policies (continued)

Fund Financial Statements

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

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

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the Village are financed. In 2011, the Village's major governmental funds are as follows:

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

Debt Service Fund – This fund is used to accumulate resources for the payment of bonds and note indebtedness except those required to be accounted for in another fund. In 2011, the Village used the Debt Service Fund jointly with other funds to record the receipt and payment of bond anticipation notes which are renewed annually.

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

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

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 2: Summary of Significant Accounting Policies (continued)

Proprietary Funds

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

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

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

Fiduciary Funds

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

C. Basis of Accounting

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

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

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 2: Summary of Significant Accounting Policies (continued)

D. Budgetary Process

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

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

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

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

E. Cash and Investments

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

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

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

During 2011, the Village invested in a money market fund, U.S. Treasury Notes, CD's, and STAR Ohio. The U.S. Treasury Notes and CD's are reported at cost. The money market fund is recorded at the amount reported by Key Bank at December 31, 2011.

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 2: Summary of Significant Accounting Policies (continued)

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2011.

Interest earnings are allocated to Village funds according to state statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2011 was \$13,033.

F. Restricted Assets

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

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Interfund Receivables/Payables

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

J. Accumulated Leave

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

K. Employer Contributions to Cost-Sharing Pension Plans

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

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 2: Summary of Significant Accounting Policies (continued)

L. Long-Term Obligations

The Village's modified cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither other financing sources nor capital outlay expenditures are reported at inception. Lease payments are reported when paid. The Village had no lease payments in 2011.

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for debt service include resources restricted for the retirement of a \$450,000 library project bank note. Net assets restricted for other purposes include police pension, law enforcement receipts (confiscated items, drug fines, etc.), and land conservation.

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

N. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans. The Village does not have any nonspendable fund balances.

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

Enabling legislation authorizes the Village to assess, levy, charge, or otherwise mandates payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Village can be compelled by an external party-such as citizen's public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 2: Summary of Significant Accounting Policies (continued)

N. Fund Balance (continued)

In 2011 the Village's restricted funds were Street, Construction, Maintenance and Repair (SCMR), State Highway, federal grant for fire training, Law Enforcement for drug and alcohol education and enforcement, Police and Fire Pension, Land Conservation, state grant for storm water retrofit, Purcell fund for beautification, Storer fund for specific projects, and Debt Service.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of Village Council. Those committed amounts cannot be used for any other purpose unless Village Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by Village Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

In 2011 the Village's committed funds were Underground Storage Tanks to be used to pay the deductible if there is a claim, Park Recreation, Cemetery, Mayor's Discretionary, and Capital Improvement.

Assigned Amounts in the assigned fund balance classification are intended to be used by the Village for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by Village Council or a Village official delegated that authority by ordinance, or by state statute.

In 2011, the Village had no assigned funds.

Unassigned Unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

In 2011, the General fund was the only fund that was unassigned.

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

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 2: Summary of Significant Accounting Policies (continued)

O. Interfund Transactions

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

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

Note 3: Change in Basis of Accounting and Restatement of Fund Balance

For the year ended December 31, 2011, the Village adopted Governmental Accounting Standard Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of GASB Statement No. 54 had the following effect on cash fund balances previously reported:

<u>Fund Balances</u>	<u>General</u>	<u>Debt Service</u>	<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Fund Balance, December 31, 2010	\$ 1,448,901	\$ 2,730	\$ 1,949,827	\$ 122,143	\$ 3,523,601
Adjustment for Change in Fund Structure	<u>11,000</u>	<u>-</u>	<u>-</u>	<u>(11,000)</u>	<u>-</u>
Fund Balance, January 1, 2011	\$ <u>1,459,901</u>	\$ <u>2,730</u>	\$ <u>1,949,827</u>	\$ <u>111,143</u>	\$ <u>3,523,601</u>

Note 4: Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements, and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The outstanding advances as of December 31, 2011 were as follows:

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

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 5: Deposits and Investments

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

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

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

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

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

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

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

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

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 5: Deposits and Investments (continued)

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of December 31, 2011, \$1,189,036 of the Village's bank balance of \$1,440,839 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department, not in the Village's name.

The Village has no deposit policy for custodial risk beyond the requirements of state statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105% of the deposits being secured.

Investments

As of December 31, 2011, the Village had the following investments:

	<u>Carrying Value</u>	<u>Maturity</u>
Money Market	\$ 29,981	1 Day
U.S. Treasury Notes	301,020	November 15, 2013
STAR Ohio	<u>3,044,627</u>	
Total Investments	3,375,628	
Demand Deposits	<u>1,252,025</u>	
Total Equity in Pooled Cash And Cash Equivalents	\$ <u><u>4,627,653</u></u>	

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

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The U.S. Treasury Notes are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Village's name.

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 5: Deposits and Investments (continued)

The Village has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investment to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

Note 6: Income Taxes

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

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

Note 7: Property Taxes

Property taxes include amounts levied against all real property, and public utility property located in the Village. Real property tax receipts received in 2011 represents the collection of 2010 taxes. Real property taxes received in 2011 were levied after October 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by state statute at 35% of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due December 31, with the remainder payable around July 14. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2011 represents 2010 collections. Public utility real and tangible property taxes received in 2011 became a lien on December 31, 2010, were levied after October 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35% of true value; public utility tangible property is currently assessed at varying percentages of true value.

The full tax rate for all Village operations for the year ended December 31, 2011, was \$22.5 per \$1,000 of market value as assigned by the County Fiscal Officer. The assessed values of real property and public utility tangible property upon which 2011 property tax receipts were based are as follows:

Real Estate, Agriculture, Residential	\$ 202,260,050
Other Real Estate	6,362,990
Public Utility Tangible	<u>1,934,920</u>
Total Assessed Value	\$ <u>210,557,960</u>

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the county, including the Village. The County Fiscal Officer periodically remits to the Village its portion of the taxes collected.

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 8: Risk Management

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- vehicles; and
- errors and omissions.

The Village's comprehensive property and casualty insurance program is with Selective Insurance Company.

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Blanket Property and Contents	\$ 11,613,304	\$ 1,000
Inland Marine	370,000	1,000
General Liability	1,000,000	-
Automobile Liability	1,000,000	500
Public Officials Liability	1,000,000	5,000
Police Professional Liability	1,000,000	5,000
Employment Practice Liability	1,000,000	5,000
Computer – Hardware	100,000	250
Computer – Software	100,000	250
Public Employee Dishonesty	250,000	2,500
Money and Securities	25,000	2,500
Umbrella over General Liability, Automobile, Law Enforcement, Public Officials, Employment Practices	10,000,000	-

Settled claims have not exceeded this commercial coverage in any of the past three years and there was no significant reduction in coverage from the prior year.

The Village participates in the Ohio Municipal League Group Rating Plan (GRP) for worker's compensation. The intent of the GRP is to achieve the benefit of reduced premiums for the participants, foster safer working conditions, and foster cost-effective claims management skills by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating cities is calculated as one experience and a common premium is applied to all cities in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for all cities in the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. The annual enrollment fee in 2011 was \$4,330 and the estimated savings was \$16,112.

The Village provides health and dental insurance to full-time employees through Aetna, a private carrier. The family, employee plus spouse, employee plus child(ren), and single monthly premiums were \$1,442.80, \$997.10, \$924.90, and \$494.80, respectively, for medical and dental. The employees pay 6% of the premiums by payroll deduction.

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 9: Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

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

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

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional plan benefit. Member contributions, the investment of which is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2011, the member and employer contribution rates were consistent across all three plans.

For the year ended December 31, 2011, the members of all three plans were required to contribute 10% of their annual covered salary to fund pension obligations. The Village contributed 14% of covered payroll for 2011.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2011, 2010, and 2009 were \$153,275, \$160,862, and \$162,555, respectively. The full amount has been contributed for all three years. The Village made no contributions to the member-directed plan for 2011.

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 9: Defined Benefit Pension Plans (continued)

B. Ohio Police and Fire Pension Fund

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2011, members of OP&F contributed 10% of their wages to OP&F and the Village contributed an amount equal to 19.5% for police officers. The Village's required contributions to the Fund for the years ended December 31, 2011, 2010, and 2009 was \$155,639, \$169,659, and \$142,958, respectively. The full amount has been contributed for all three years.

Note 10: Post-employment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan – a cost-sharing, multiple-employer defined benefit plan; the member-directed plan – a defined contribution plan; and the combined plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment healthcare coverage.

In order to qualify for post-employment healthcare coverage, age-and-service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability benefit recipients and qualified survivor benefit recipients is available. The healthcare coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 227 E. Town St., Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 1-800-222-7377.

Funding Policy

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

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 10: Post-employment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, the Village contributed at 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post-employment Healthcare Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment healthcare benefits.

For 2011, the employer contribution allocated to the healthcare for members in the traditional plan was 4%. The portion of employer contributions allocated to healthcare for members in the combined plan was 6.05%. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the healthcare benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and coverage selected.

The Village's contributions allocated to fund post-employment healthcare benefits for the years ended December 31, 2011, 2010, and 2009 were \$43,793, \$58,342, and \$67,872, respectively. The full amount has been contributed for all three years.

The Healthcare Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the healthcare plan.

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The healthcare coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 10: Post-employment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

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% of covered payroll for police employers. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of the covered payroll for police employer units. Active members do not make contributions to the OPEB plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2011, the employer contribution for retiree healthcare plan was 6.75% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The Village's contributions to OP&F for the years ending December 31, 2011, 2010, and 2009 were \$53,875, \$58,728, and \$47,938, respectively. The full amount has been contributed for all three years.

Note 11: Notes Payable

The Village's notes activity for the year ended December 31, 2011, is as follows:

<u>Governmental Activities</u>	<u>Interest Rate</u>	<u>Balance 1/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2011</u>
Library Note	1.25%	\$ 485,000	\$ 450,000	\$ (485,000)	\$ 450,000
Street Improvement Note	1.25%	<u>1,000,000</u>	<u>-</u>	<u>(1,000,000)</u>	<u>-</u>
Total Governmental Activities		\$ <u>1,485,000</u>	\$ <u>450,000</u>	\$ <u>(1,485,000)</u>	\$ <u>450,000</u>

The above notes are collateralized by the Village's taxing authority and mature within one year.

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 12: Debt

The Village's long-term debt activity for the year ended December 31, 2011, is as follows:

<u>Business-Type Activities</u>	<u>Interest Rate</u>	<u>Balance 1/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2011</u>
OWDA, 1998	6.51%	\$ 1,732,752	\$ -	\$ (203,237)	\$ 1,529,515
OWDA, 1999	5.86%	2,114,309	-	(185,057)	1,929,252
OPWC Loan, 1995	0%	747,476	-	(83,052)	664,424
OPWC Loan, 2001	0%	<u>202,020</u>	<u>-</u>	<u>(19,240)</u>	<u>182,780</u>
Total Business-Type Activities		\$ <u>4,796,557</u>	\$ <u>-</u>	\$ <u>(490,586)</u>	\$ <u>4,305,971</u>

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

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

<u>Year Ending December 31</u>	<u>OWDA Loans</u>	<u>OPWC Loans</u>	<u>Total</u>
2012	\$ 624,994	\$ 102,293	\$ 727,287
2013	624,994	102,293	727,287
2014	624,994	102,293	727,287
2015	624,994	102,293	727,287
2016-2017	1,249,988	204,586	1,454,574
2018-2019	617,912	204,586	822,498
2020	-	19,240	19,240
2021	-	<u>9,620</u>	<u>9,620</u>
Total	\$ <u>4,367,876</u>	\$ <u>847,204</u>	\$ <u>5,215,080</u>

The Ohio Revised Code provides that net general obligation debt of the Village, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 5.5% of the tax valuation of the Village. The Revised Code further provides that total voted and un-voted net debt of the Village, less the same exempt debt, shall never exceed amount equal to 10.5% of its tax valuation. The Village is within these ranges.

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 13: Fund Balance

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the government funds. In 2011, the constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted for:					
Road Maintenance and Improvements	\$ -	\$ -	\$ -	\$ 5,803	\$ 5,803
Fire Operations	-	-	-	188	188
Drug and Alcohol Education and Enforcement	-	-	-	275	275
Police and Fire Pension	-	-	-	27	27
Conservation (by voters)	-	-	-	29,982	29,982
Storm Water Retrofit	-	-	-	218	218
Purcell Fund (Downtown Beautification)	-	-	-	57,396	57,396
Storer Fund	-	-	-	5,027	5,027
Debt Service	-	2,730	-	-	2,730
Total Restricted	<u>-</u>	<u>2,730</u>	<u>-</u>	<u>98,916</u>	<u>101,646</u>
Committed to:					
Underground Storage Tanks	11,000	-	-	-	11,000
Cemetery	-	-	-	7,024	7,024
Park Recreation	-	-	-	3,804	3,804
Mayor's Discretionary	-	-	-	4,005	4,005
Capital Improvement	-	-	2,137,547	-	2,137,547
Total Committed	<u>11,000</u>	<u>-</u>	<u>2,137,547</u>	<u>14,833</u>	<u>2,163,380</u>
Unassigned	<u>2,061,244</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,061,244</u>
Total Fund Balances, December 31	\$ <u>2,072,244</u>	\$ <u>2,730</u>	\$ <u>2,137,547</u>	\$ <u>113,749</u>	\$ <u>4,326,270</u>

Note 14: Contingent Liabilities

The Village is not a defendant in any lawsuits.

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

Village of Gates Mills

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Note 15: Interfund Transfers

During 2011, the following transfers were made:

Transfers from the General Fund to:	
Capital Improvement Fund	\$ 1,316,416
Other Governmental Funds	108,140
Wastewater Fund	78,350
Water fund	<u>80,000</u>
Total Transfers from the General Fund	\$ <u>1,582,906</u>

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

The General Fund transfers to the other governmental funds were made to provide additional resources for current operations and capital improvements.

Note 16: Jointly Governed Organization

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

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

Note 17: Subsequent Events

In preparing these financial statements, the Village has evaluated events and transactions for potential recognition or disclosure through June 15, 2012, the date the financial statements were issued.

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of Village Council
Village of Gates Mills, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Gates Mills, Ohio, (the “Village”) as of and for the year ended December 31, 2011, which collectively comprise the Village’s basic financial statements and have issued our report thereon dated June 15, 2012, wherein we noted the Village adopted Governmental Accounting Standards Board Statement No. 54 as disclosed in Note 3. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Village is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Village’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village’s internal control over financial reporting.

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

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 to be material weaknesses, as defined above.

Members of Village Council
Village of Gates Mills, Ohio

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Village in a separate letter dated June 15, 2012.

This report is intended solely for the information and use of the Village Council, Village Management, others within the entity, and the Auditor of State's Office and is not intended to be and should not be used by anyone other than these specified parties.

Cini & Paricki, Inc.

Cleveland, Ohio
June 15, 2012

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Dave Yost • Auditor of State

VILLAGE OF GATES MILLS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 11, 2012