

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

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2012**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

City Council
City of Maple Heights
5353 Lee Road
Maple Heights, Ohio 44137

We have reviewed the *Independent Auditor's Report* of the City of Maple Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2012 through December 31, 2012. 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 City of Maple Heights is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

September 9, 2013

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**CITY OF MAPLE HEIGHTS
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Members of City Council
City of Maple Heights, Ohio

Report on the Financial Statements

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 City of Maple Heights, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Maple Heights, Ohio, as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison for the General Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the financial statements, during 2012 the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and restated its December 31, 2011 net position of Governmental Activities due to a reclassification of debt issuance costs. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2013, on our consideration of the City of Maple Heights, Ohio'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Maple Heights, Ohio's internal control over financial reporting and compliance.


James G. Zupka, CPA, Inc.
Certified Public Accountants

June 21, 2013

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City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

The management's discussion and analysis of the City of Maple Heights' (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2012 are as follows:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$39,726,170. Of this amount, \$4,351,732 is considered unrestricted.
- The City's total net position increased in 2012. Net position of governmental activities decreased \$26,795, which represents a 0.1 percent decrease from 2011. Net position of business-type activities increased by \$365,572 in 2012.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$105,161. Approximately \$(1,117,179) of the total fund balance is considered unassigned (deficit) at December 31, 2012.
- The general fund reported a fund balance of \$53,259 at the end of the current fiscal year. The unassigned (deficit) fund balance for the General Fund is \$(139,246).

Using this Annual Financial Report

This management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements – Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the residual being reported as *net position*. Over time, increase or decrease in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, in evaluating the overall position of the City, non-financial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered. Both the Statement of Net Position and the Statement of Activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities: most of the City's basic services are reported here, including the police, fire, street maintenance, parks and recreation, and general administration. Income tax, state and county taxes, licenses, permits and charges for services finance most of these activities.
- Business-type activities: the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's solid waste system and advertising banner activity are reported here.

Fund Financial Statements - Reporting the City's Most Significant Funds

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds.

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

Proprietary Funds

There are two different types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its solid waste system and advertising banner activity. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City does not maintain any internal service funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found starting on page 23 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the City's own programs. The fiduciary fund financial statements can be found starting on page 26 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found starting on page 27 of this report.

Government-wide Financial Analysis – The City as a Whole

As noted earlier, the Statement of Net Position looks at the City as a whole and can prove to be a useful indicator of the City's financial position.

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

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

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

Table 1 provides a summary of the City's net assets for 2012 as compared to 2011.

Table 1 - Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011 *	2012	2011	2012	2011 *
<u>Assets</u>						
Current and Other Assets	\$ 12,570,480	\$ 14,018,008	\$ 1,781,210	\$ 1,438,684	\$ 14,351,690	\$ 15,456,692
Capital Assets	51,932,317	52,251,479	-	-	51,932,317	52,251,479
Total Assets	64,502,797	66,269,487	1,781,210	1,438,684	66,284,007	67,708,171
<u>Deferred Outflows of Resources</u>						
Deferral on Refunding	35,866	42,487	-	-	35,866	42,487
<u>Liabilities</u>						
Current and other Liabilities	1,462,369	1,961,455	106,652	129,698	21,571,217	21,686,371
Long-term Liabilities	21,464,565	21,556,673	-	-	1,462,369	1,961,455
Total Liabilities	22,926,934	23,518,128	106,652	129,698	23,033,586	23,647,826
<u>Deferred Inflows of Resources</u>						
Property Taxes	3,560,117	4,715,439	-	-	3,560,117	4,715,439
<u>Net Position</u>						
Net Investment in Capital Assets	34,230,411	34,081,108	-	-	34,230,411	34,081,108
Restricted	1,144,027	2,490,183	-	-	1,144,027	2,490,183
Unrestricted	2,677,174	1,507,116	1,674,558	1,308,986	4,351,732	2,816,102
Total Net Position	\$ 38,051,612	\$ 38,078,407	\$ 1,674,558	\$ 1,308,986	\$ 39,726,170	\$ 39,387,393

* Restated

Net position may serve over time as a useful indicator of a government's financial position. For the City, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$39,726,170 as of December 31, 2012. At the end of the current year, the City is able to report positive balances in all three categories of net position, both for the government as a whole as well as for its separate governmental and business-type activities.

The largest portion of the City's net position (86.2 percent) reflects the investments in capital assets less any related debt to acquire those assets that is still outstanding. These capital assets are used to provide services to the City's citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position reflects resources that are subject to restrictions as to how they may be used. The remaining balance of the City's net assets may be used to meet the government's on-going obligations to citizens and creditors. It is important to note that the total unrestricted net position are \$4,351,732; the unrestricted net position of the City's business-type activities, \$1,674,558, may not be used to fund governmental activities.

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

Total assets for 2012 decreased \$1,424,164 or 2.1 percent when compared to 2011. The decrease in total assets was mainly due to a decrease in intergovernmental and property taxes receivable. In 2011 the City entered into numerous grant agreements with OPWC and in 2012 the County performed a re-evaluation on the City's property tax values which decreased the average home value in the City by 33 percent. The city is expecting to lose \$1.3 million in 2013. The City's total liabilities decreased \$614,240 from 2011 to 2012. This is primarily from a decrease in the City's long-term liabilities as a result of paying down the City's long-term obligations.

In order to further understand what makes up the changes in net assets for the current year, Table 2 provides further details regarding the results of activities for the current year.

Table 2 - Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for Services	\$ 4,186,540	\$ 3,749,919	\$ 1,714,812	\$ 2,041,405	\$ 5,901,352	\$ 5,791,324
Operating Grants and Contributions	804,403	803,952	-	-	804,403	803,952
Capital Grants and Contributions	250,128	1,397,010	-	-	250,128	1,397,010
General Revenues:						
Property Taxes	5,314,478	5,423,264	-	-	5,314,478	5,423,264
Income Taxes	8,001,551	7,121,939	-	-	8,001,551	7,121,939
Investment Earnings	610	2,087	-	-	610	2,087
Grants and Entitlements	1,563,732	2,581,987	-	-	1,563,732	2,581,987
Gain on Sale of Capital Assets	6,090	3,583	-	-	6,090	3,583
Other	323,127	310,727	-	-	323,127	310,727
Total Revenues	20,450,659	21,394,468	1,714,812	2,041,405	22,165,471	23,435,873
Program Expenses						
Security of Persons and Property	9,828,283	10,337,082	-	-	9,828,283	10,337,082
Public Health	88,850	96,777	-	-	88,850	96,777
Leisure Time Activities	857,237	881,271	-	-	857,237	881,271
Community Environment	687,475	842,075	-	-	687,475	842,075
Basic Utility Services	916,648	925,306	-	-	916,648	925,306
Transportation	1,957,097	1,822,181	-	-	1,957,097	1,822,181
General Government	5,452,571	5,967,985	-	-	5,452,571	5,967,985
Interest and Fiscal Charges	689,293	739,287	-	-	689,293	739,287
Solid Waste Collection	-	-	1,349,240	1,449,716	1,349,240	1,449,716
Total Program Expenses	20,477,454	21,611,964	1,349,240	1,449,716	21,826,694	23,061,680
Change in Net Position	(26,795)	(217,496)	365,572	591,689	338,777	374,193
Net Position, Beginning of Year, as Restated	38,078,407	38,295,903	1,308,986	717,297	39,387,393	39,013,200
Net Position, End of Year	\$38,051,612	\$38,078,407	\$1,674,558	\$1,308,986	\$39,726,170	\$39,387,393

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

Governmental Activities

Several types of revenue fund our governmental activities, with the City income tax being the largest contributor. The income tax rate was 2.5 percent for 2012. Both residents of the city and non-residents who work inside the City are subject to the income tax; however, if residents work in a municipality that has an income tax, the City provides 100 percent credit up to 2.5 percent for those who pay income tax to another city. The income tax revenue for 2012 was \$8,001,551. Of the \$20,450,659 in total revenues, income tax accounts for 39.1 percent of that total. The increase in income tax revenues from 2011 was due to improving economic conditions. Due to the completion of various grant funded road projects and the expiration of the American Recovery Act funds in 2011, capital grants and grants and entitlements had a significant reduction in 2012. Property taxes of \$5,314,478 account for 26.0 percent of total revenues and operating grants and contributions, capital grants and contributions, general revenues from grants and entitlements, gain on sale of capital asset and investment earnings account for 12.8 percent of total revenues and charges for services and other revenues make up the remaining 22.1 percent. The City monitors its source of revenues very closely for fluctuation, especially income tax.

The Governmental Activities' total expenses decreased by \$1,134,510 from 2011, which was mainly attributed to decreases in Security of Persons and Property and General Government. These expenses decreased due to elimination of positions through layoffs, retirements and concession agreements with union which included furlough days. The largest program function for the City relates to Security of Persons and Property. In 2012, 47.9 percent of program expenses for governmental activities were for Security of Persons and Property, which includes police, fire, jail, auxiliary police, school guards and safety dispatch. The next largest functions for expenses were General Government for 26.7 percent and Transportation, which accounted for 9.6 percent of the expenses in 2012.

Business-Type Activities

The Business-type activities increased the City's net position by \$365,572.

Total program revenue decreased by \$326,593 in 2012 due to an increase in delinquent special assessment collections in 2011.

Program revenue exceeded program expense in the amount of \$365,572 for the Solid Waste Collection operations for 2012. This is due to increased receivable on refuse billings through special assessments charged by the Cuyahoga County Auditor's office.

The City's Funds

Governmental Funds

As of December 31, 2012, the City's governmental funds reported an ending combined fund balance of \$105,161, a decrease of \$32,565 in comparison with the prior year. \$(1,100,980) of the ending combined fund balance (deficit) for 2012 constitutes *assigned and unassigned fund balance* combined, which is available for spending at the governments discretion. The remaining components of the combined fund balance are *nonspendable, restricted or committed* which indicate that fund balances are not available for new spending because the fund balances are not in spendable form or have already been restricted or committed by external or internal constraints.

Information about the City's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$23,434,141 and total expenditures and other financing uses of \$23,466,706. The net change in fund balance for the year in the General Fund showed an increase in fund balance of \$639,593.

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

The City has experienced a financial shortfall which has resulted in deficit cash spending in the General Fund of \$335,450 and deficits in other less significant funds at December 31, 2012. Continued operations are dependent upon the City's ability to meet financing requirements and current obligations. See Note 19 for more information regarding the Going Concern.

General Fund Budgeting Highlights

For the General Fund, final budget basis revenue, including other financing sources was \$1,300,000 over the original budget estimates of \$13,665,704. Original General Fund budgeted expenditures, including other financing uses, were \$14,009,616; amended budgeted expenditures were \$14,641,906. Actual General Fund expenditures, including other financing uses were \$14,604,573, \$37,333 less than budgeted.

The difference between the General Fund's final budgeted revenues and actual receipts is mainly due to actual property and income tax projections being lower than anticipated.

Business-Type Funds

The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the Solid Waste Collection, and Recreation Banner funds. The proprietary fund financial statements can be found on page 23 through 25 of this report.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2012, the City had \$51,932,317 invested in land, construction-in-progress, buildings, equipment, vehicles, and infrastructure.

Table 3 shows fiscal year 2012 balances of Capital Assets as compared to 2011:

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

	Governmental Activities	
	2012	2011
Land	\$ 310,031	\$ 262,331
Construction-in-progress	2,065,027	729,744
Buildings	11,508,700	11,508,700
Equipment	1,495,899	1,455,094
Vehicles	4,577,988	4,955,265
Infrastructures:		
Roads	30,738,625	30,738,625
Traffic Signals	3,107,785	2,895,701
Storm Sewers	22,823,953	22,718,131
Sidewalks	1,424,833	1,424,833
Less: Accumulated Depreciation	(26,120,524)	(24,436,945)
Total Capital Assets	\$ 51,932,317	\$ 52,251,479

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Vehicles, such as trucks for snow plowing and police cruisers, are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame. The older vehicles are generally traded in to the dealers when a new vehicle is purchased.

Capital assets for governmental activities decreased \$319,162, mainly due to current year depreciation expense exceeding capital asset additions for 2012.

More detailed information about the City's capital assets is presented in the notes to the basic financial statements.

Debt

At December 31, 2012, the City had \$17,385,490 in outstanding bonds, notes, and loans of which \$12,815,000 was in general obligation bonds. Table 4 summarizes the outstanding obligation of the City.

Table 4 - Outstanding Debt at December 31

	Governmental Activities	
	2012	2011
General Obligation Bonds	\$12,815,000	\$13,240,000
Capital Appreciation Bonds	1,647,911	1,647,911
OWDA Loans	813,612	1,025,357
OPWC Loans	1,509,401	1,224,029
Capital Lease Payable	268,832	349,655
Accrued police and fire pension liability	330,734	339,369
Total Outstanding Debt	\$ 17,385,490	\$ 17,826,321

The City's general obligation bonds rated by Moody's Investor Services, Inc. are "A2".

The general obligation bonds are composed of 2004 Various Purpose Bonds, and 2010 Various Purpose and Refunding Bonds. The OWDA and OPWC loans are reported with governmental activities with some of the debt costs paid from revenues collected from storm sewer charges.

The OPWC loans for the Broadway Sanitary Interceptor Extension and Broadway Avenue Reconstruction improvements are pending upon completion of the project. As of December 31, 2012, \$59,180 and \$315,639 of the original projected loan of \$91,860 and \$550,000, respectively has been received. The project completion report for the East 141st Street and Maple Heights Improvements was submitted prior to balance sheet date with \$333,013 drawn against the line of credit; however a final amortization schedule has not been prepared by OPWC.

City of Maple Heights, Ohio
Management's Discussion and Analysis (Unaudited)
For the Year Ended December 31, 2012

State statutes limit the amount of general obligation debt a governmental entity may issue to 10.5 percent of total assessed valuation. The City's net legal debt margin within the 10.5 percent limit was \$18,158,978 at December 31, 2012.

More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

Current Related Financial Activities

The triennial property valuation saw the city's residential property value decreased by 33%, resulting in an estimated 1.3 million decrease in property taxes collected in 2013. To help offset this decrease in revenue, the city laid off 7 positions in early 2013. In addition, the city also contracted with Municipal Building Inspection Services to perform inspection services for the building department, resulting in an additional 6 layoffs. The city is also exploring lease options on city owned land for a digital billboard on Warrensville Center road. Negotiations for this lease are currently ongoing. The city is considering a 6 mill operating levy for the November 5th general election which would bring in \$1.8 million in additional revenue if passed in 2014. The city is also exploring a joint dispatch center with the adjoining cities of Bedford and Bedford Heights.

Contacting the City of Maple Heights' Finance Department

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance at the City of Maple Heights, 5353 Lee Road, Maple Heights, Ohio 44137, telephone 216-662-6000, or e-mail to edean@mapleheightsohio.com.

Basic Financial Statements

City of Maple Heights, Ohio

Statement of Net Position

December 31, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 136,124	\$ 315,166	\$ 451,290
Materials and Supplies Inventory	109,512	-	109,512
Accounts Receivable	560,837	-	560,837
Intergovernmental Receivable	2,293,307	-	2,293,307
Prepaid Items	119,024	-	119,024
Municipal Income Taxes Receivable	3,909,253	-	3,909,253
Property Taxes Receivable	4,962,766	-	4,962,766
Special Assessments Receivable	479,657	1,466,044	1,945,701
Nondepreciable Capital Assets	2,375,058	-	2,375,058
Depreciable Capital Assets	49,557,259	-	49,557,259
Total Assets	64,502,797	1,781,210	66,284,007
DEFERRED OUTFLOWS OF RESOURCES			
Deferral on Refunding	35,866	-	35,866
Total Deferred Outflows of Resources	35,866	-	35,866
LIABILITIES			
Accounts Payable	184,361	106,305	290,666
Accrued Wages and Benefits	229,923	-	229,923
Intergovernmental Payable	919,002	347	919,349
Accrued Interest Payable	64,446	-	64,446
Claims Payable	64,637	-	64,637
Long-term Liabilities:			
Due within one year	1,511,159	-	1,511,159
Due in more than one year	19,953,406	-	19,953,406
Total Liabilities	22,926,934	106,652	23,033,586
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	3,560,117	-	3,560,117
Total Deferred Inflows of Resources	3,560,117	-	3,560,117
NET POSITION			
Net Investment in Capital Assets	34,230,411	-	34,230,411
Restricted for:			
Capital Projects	320,192	-	320,192
Sewer Maintenance	570,117	-	570,117
Other Purposes	253,718	-	253,718
Unrestricted	2,677,174	1,674,558	4,351,732
Total Net Position	\$ 38,051,612	\$ 1,674,558	\$ 39,726,170

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

City of Maple Heights, Ohio

Statement of Activities

For the Year Ended December 31, 2012

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
Security of Persons and Property	\$ 9,828,283	\$ 749,734	\$ 30,316	\$ -
Public Health Services	88,850	412,338	-	-
Leisure Time Activities	857,237	59,552	-	-
Community Environment	687,475	774,212	-	-
Basic Utility Services	916,648	138,402	-	142,334
Transportation	1,957,097	130,590	774,087	-
General Government	5,452,571	1,921,712	-	107,794
Interest and Fiscal Charges	689,293	-	-	-
Total Governmental activities	<u>20,477,454</u>	<u>4,186,540</u>	<u>804,403</u>	<u>250,128</u>
Business-type activities:				
Solid Waste Collection	1,349,240	1,714,812	-	-
Total Business-type activities	<u>1,349,240</u>	<u>1,714,812</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 21,826,694</u>	<u>\$ 5,901,352</u>	<u>\$ 804,403</u>	<u>\$ 250,128</u>

General Revenues:

Property Taxes levied for:

General Purposes

Debt Service Purpose

Other Purposes

Municipal Income Taxes levied for:

General Purposes

Grants & Entitlements not restricted to specific programs

Investment Income

Gain on Sale of Capital Assets

All Other Revenues

Total General Revenues

Change in Net Position

Net Position - Beginning of Year, Restated

Net Position - End of Year

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

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (9,048,233)	\$ -	\$ (9,048,233)
323,488	-	323,488
(797,685)	-	(797,685)
86,737	-	86,737
(635,912)	-	(635,912)
(1,052,420)	-	(1,052,420)
(3,423,065)	-	(3,423,065)
(689,293)	-	(689,293)
<u>(15,236,383)</u>	<u>-</u>	<u>(15,236,383)</u>
-	365,572	365,572
<u>-</u>	<u>365,572</u>	<u>365,572</u>
<u>(15,236,383)</u>	<u>365,572</u>	<u>(14,870,811)</u>
2,465,143	-	2,465,143
946,321	-	946,321
1,903,014	-	1,903,014
8,001,551	-	8,001,551
1,563,732	-	1,563,732
610	-	610
6,090	-	6,090
323,127	-	323,127
<u>15,209,588</u>	<u>-</u>	<u>15,209,588</u>
(26,795)	365,572	338,777
<u>38,078,407</u>	<u>1,308,986</u>	<u>39,387,393</u>
<u>\$ 38,051,612</u>	<u>\$ 1,674,558</u>	<u>\$ 39,726,170</u>

City of Maple Heights, Ohio
Balance Sheet – Governmental Funds
December 31, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ -	\$ 136,124	\$ 136,124
Materials and Supplies Inventory	41,904	67,608	109,512
Accounts Receivable	316,974	243,863	560,837
Interfund Receivable	-	684,896	684,896
Intergovernmental Receivable	728,813	1,564,494	2,293,307
Prepaid Items	111,375	7,649	119,024
Municipal Income Taxes Receivable	3,909,253	-	3,909,253
Property Taxes Receivable	2,337,303	2,625,463	4,962,766
Special Assessments Receivable	440,917	38,740	479,657
Total Assets	\$ 7,886,539	\$ 5,368,837	\$ 13,255,376
LIABILITIES			
Accounts Payable	\$ 69,694	\$ 114,667	\$ 184,361
Accrued Wages and Benefits	175,425	54,498	229,923
Intergovernmental Payable	266,608	652,394	919,002
Interfund Payable	398,916	285,980	684,896
Claims Payable	64,637	-	64,637
Total Liabilities	975,280	1,107,539	2,082,819
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	1,676,701	1,883,416	3,560,117
Unavailable Revenue-Delinquent Property Taxes	660,602	742,047	1,402,649
Unavailable Revenue-Income Taxes	3,306,837	-	3,306,837
Unavailable Revenue-Special assessments	440,917	38,740	479,657
Unavailable Revenue-Other	772,943	1,545,193	2,318,136
Total Deferred Inflows of Resources	6,858,000	4,209,396	11,067,396
FUND BALANCES (DEFICITS)			
Nonspendable	153,279	75,257	228,536
Restricted	-	749,223	749,223
Committed	-	202,240	202,240
Assigned	39,226	3,115	42,341
Unassigned (Deficits)	(139,246)	(977,933)	(1,117,179)
Total Fund Balances (Deficits)	53,259	51,902	105,161
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 7,886,539	\$ 5,368,837	\$ 13,255,376

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

City of Maple Heights, Ohio
Reconciliation of Total Governmental Funds
To Net Position of Governmental Activities

December 31, 2012

Total Governmental Funds Balance \$ 105,161

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

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds 51,932,317

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

Property taxes	\$	1,402,649	
Municipal income taxes		3,306,837	
Special assessments		479,657	
Intergovernmental		1,670,289	
Charges for services		339,747	
Water Use		308,100	
Total			7,507,279

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. (64,446)

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

General obligation bonds		(12,815,000)	
Capital Appreciation Bonds		(1,647,911)	
OWDA Loans		(813,612)	
OPWC Loans		(1,509,401)	
Capital leases		(268,832)	
Police and Fire Pension Liability		(330,734)	
Compensated absences		(2,921,520)	
Accretion on Bonds		(315,110)	
Premium on Bonds		(683,016)	
Deferral on Refunding		35,866	
Claims Payable		(159,429)	
Total			(21,428,699)

Net Position of Governmental Activities **\$ 38,051,612**

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

City of Maple Heights, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds

For the Year Ended December 31, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property Taxes	\$ 2,427,690	\$ 2,800,098	\$ 5,227,788
Municipal Income Taxes	7,293,044	-	7,293,044
Intergovernmental	1,373,945	1,831,345	3,205,290
Interest	610	-	610
Fees, Licenses, and Permits	1,846,991	51,400	1,898,391
Charges for Services	670,621	1,247,408	1,918,029
Contributions and Donations	1,755	-	1,755
Special Assessments	293,067	3,753	296,820
All Other Revenues	265,721	55,651	321,372
Total Revenues	14,173,444	5,989,655	20,163,099
EXPENDITURES			
Security of Persons and Property	5,903,805	3,296,242	9,200,047
Public Health Services	88,850	-	88,850
Leisure Time Activities	775,682	36,667	812,349
Community Environment	480,914	210,177	691,091
Basic Utility Services	449,834	62,145	511,979
Transportation	-	1,017,960	1,017,960
General Government	4,596,456	547,932	5,144,388
Capital Outlay	-	1,707,730	1,707,730
Debt Service:			
Principal Retirement	-	815,650	815,650
Interest and Fiscal Charges	-	607,038	607,038
Total Expenditures	12,295,541	8,301,541	20,597,082
Excess of Revenues (Under) Expenditures	1,877,903	(2,311,886)	(433,983)
OTHER FINANCING SOURCES (USES)			
Sale of Capital Assets	26,599	-	26,599
OPWC Loans Issued	-	374,819	374,819
Transfers In	655,044	2,214,580	2,869,624
Transfers Out	(1,919,953)	(949,671)	(2,869,624)
Total Other Financing Sources (Uses)	(1,238,310)	1,639,728	401,418
Net Change in Fund Balances	639,593	(672,158)	(32,565)
Fund Balances - Beginning of Year	(586,334)	724,060	137,726
Fund Balances - End of Year	\$ 53,259	\$ 51,902	\$ 105,161

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

City of Maple Heights, Ohio

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended December 31, 2012

Net Change in Fund Balances-Total Governmental Funds \$ (32,565)

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

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

Capital Outlay	\$ 1,741,694	
Depreciation	<u>(2,040,347)</u>	
Total		(298,653)

In the Statement of Activities, only the gain on the disposal of capital assets is reported, whereas, in the Governmental Funds, the proceeds from the disposals increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets. (20,509)

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

Property taxes	86,690	
Municipal income taxes	708,507	
Special assessments	89,156	
Intergovernmental	(516,302)	
Charges for services	(11,032)	
Water Use	<u>(123,249)</u>	
Total		233,770

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of OPWC Loans. (374,819)

Repayment of various debt obligations are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 815,650

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

Compensated absences	(96,287)	
Accrued interest on bonds	5,675	
Annual Accretion on Bonds	(135,897)	
Amortization of bond premiums	42,890	
Amortization of loss on refunding	(6,621)	
Claims Payable	<u>(159,429)</u>	
Total		<u>(349,669)</u>

Change in Net Position of Governmental Activities \$ (26,795)

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

City of Maple Heights, Ohio

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual – General Fund For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Municipal Income Taxes	\$ 6,900,000	\$ 7,450,000	\$ 7,292,827	\$ (157,173)
Property Taxes	2,680,000	2,601,114	2,427,690	(173,424)
Intergovernmental	1,817,900	1,509,586	1,529,440	19,854
Charges for Services	510,000	812,176	718,305	(93,871)
Fees, Licenses, and Permits	1,440,304	1,831,004	1,777,427	(53,577)
Special assessments	150,000	300,000	293,067	(6,933)
Contributions and Donations	5,000	1,000	1,755	755
Interest	1,000	1,000	610	(390)
Other	160,500	433,824	216,129	(217,695)
Total Revenues	<u>13,664,704</u>	<u>14,939,704</u>	<u>14,257,250</u>	<u>(682,454)</u>
Expenditures:				
Current:				
Security of Persons and Property	5,906,200	5,978,000	5,980,723	(2,723)
Public Health Services	88,850	88,850	88,850	-
Leisure Time Activities	704,810	712,700	709,427	3,273
Community Environment	497,313	494,000	493,928	72
Basic Utility Services	474,608	468,650	466,279	2,371
General Government	4,737,835	4,979,706	4,945,413	34,293
Total Expenditures	<u>12,409,616</u>	<u>12,721,906</u>	<u>12,684,620</u>	<u>37,286</u>
Excess of Revenues Over (Under) Expenditures	<u>1,255,088</u>	<u>2,217,798</u>	<u>1,572,630</u>	<u>(645,168)</u>
Other Financing Sources (Uses)				
Sale of Equipment	1,000	26,000	26,599	599
Transfer In	-	-	655,044	655,044
Transfer Out	(1,600,000)	(1,920,000)	(1,919,953)	47
Total Other Financing Sources (Uses)	<u>(1,599,000)</u>	<u>(1,894,000)</u>	<u>(1,238,310)</u>	<u>655,690</u>
Net Change in Fund Balance	(343,912)	323,798	334,320	10,522
Fund Balance at Beginning of Year	(758,440)	(758,440)	(758,440)	-
Prior Year Encumbrances Appropriated	35,377	35,377	35,377	-
Fund Balance- End of Year	<u>\$ (1,066,975)</u>	<u>\$ (399,265)</u>	<u>\$ (388,743)</u>	<u>\$ 10,522</u>

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

City of Maple Heights, Ohio
Statement of Fund Net Position –
Proprietary Funds

December 31, 2012

	Business-Type Activities - Enterprise Funds		
	Solid Waste Collection	Recreation Banner	Total
ASSETS			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 315,165	\$ 1	\$ 315,166
Special Assessments Receivable	1,466,044	-	1,466,044
Total Assets	1,781,209	1	1,781,210
LIABILITIES			
Current Liabilities:			
Accounts Payable	106,305	-	106,305
Intergovernmental Payable	347	-	347
Total Liabilities	106,652	-	106,652
NET POSITION			
Unrestricted	1,674,557	1	1,674,558
Total Net Position	\$ 1,674,557	\$ 1	\$ 1,674,558

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

City of Maple Heights, Ohio
Statement of Revenues, Expenses, and Changes in Fund Net Position –
Proprietary Funds

For the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds		
	Solid Waste Collection	Recreation Banner	Total
OPERATING REVENUES			
Charges for Services	\$ 1,714,812	\$ -	\$ 1,714,812
Total Operating Revenues	1,714,812	-	1,714,812
OPERATING EXPENSES			
Salaries	20,043	-	20,043
Contractual Services	1,329,197	-	1,329,197
Total Operating Expense	1,349,240	-	1,349,240
Change in Net Position	365,572	-	365,572
Net Position - Beginning of Year	1,308,985	1	1,308,986
Net Position - End of Year	\$ 1,674,557	\$ 1	\$ 1,674,558

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

City of Maple Heights, Ohio

Statement of Cash Flows – Proprietary Funds

For the Year Ended December 31, 2012

	Business-Type Activities - Enterprise Funds		
	Solid	Recreation	Total
	Waste Collection	Banner	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Charges for Services	\$ 1,538,429	\$ -	\$ 1,538,429
Cash Payments to Employees for Services	(20,000)	-	(20,000)
Cash Payments for Goods and Services	(1,352,286)	-	(1,352,286)
Net Cash Provided by Operating Activities	166,143	-	166,143
Cash and Cash Equivalents - Beginning of Year	149,022	1	149,023
Cash and Cash Equivalents - End of Year	\$ 315,165	\$ 1	\$ 315,166
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 365,572	\$ -	\$ 365,572
(Increase) in Assets:			
Special Assessment Receivable	(176,383)	-	(176,383)
Increase (Decrease) in Liabilities:			
Accounts Payable	(23,089)	-	(23,089)
Intergovernmental Payable	43	-	43
Net Cash Provided by Operating Activities	\$ 166,143	\$ -	\$ 166,143

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

City of Maple Heights, Ohio
Statement of Fiduciary Assets and Liabilities –
Fiduciary Funds

December 31, 2012

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 964,157</u>
Liabilities	
Intergovernmental Payable	54,394
Deposits Held and Due to Others	<u>909,763</u>
Total Liabilities	<u>\$ 964,157</u>

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 1: **THE REPORTING ENTITY**

The City of Maple Heights (the “City”) is a home rule municipal corporation established under the laws of the State of Ohio which operates under its own Charter. The current Charter, which provides for a Council/Mayor form of government, was adopted in 1932. Legislative authority is vested in an eight-member Council. The President of Council is elected at-large, and seven members are elected from districts, all for two-year terms. The Mayor is elected to a four-year term.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. The City provides various services including police and fire protection, health, parks and recreation, street maintenance, planning and zoning, sewer services, Mayor’s court, community development, public transit, senior adult and general administrative services. The operation of these activities is directly controlled by Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

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

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

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

A. Basis of Presentation

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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

A. Basis of Presentation (Continued)

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary 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.

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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

B. Fund Accounting (Continued)

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used.

Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources compared to liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

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

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

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds.

Solid Waste Collection Fund – The Solid Waste Collection Fund accounts for the operations of the refuse pick-up and hauling system provided by the City.

Recreation Banner Fund – The Recreation Banner Fund accounts for revenues from sales of advertising banners at City parks.

Fiduciary Funds - Fiduciary fund reporting focuses on net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for deposits held for contractors and developers.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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

D. Basis of Accounting (Continued)

Revenues – Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned.

Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferral on refunding reported in the government-wide statement of net position. A deferral on refunding results from the difference in the carrying value of the refunding debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenues. Property taxes and represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations and project revenue represents imposed nonexchange revenues. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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

D. Basis of Accounting (Continued)

Deferred Outflows/Inflows of Resources (Continued)

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

Expenses/Expenditures

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances. Council appropriations are made to personal costs (including benefits), other costs, capital outlay, debt service and transfer accounts for each department. The legal level of budgetary control is at the object level (i.e. personal costs) whereby the City maintains this control by not permitting expenditures to exceed appropriations for departments of the City without approval of City Council. Adjustments to the budget can only be made within a department and then within each category. Further legislation is needed in order to move budget authority from personnel costs to other costs or vice versa, or between departments.

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

The appropriation 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 resolution for that fund that covered the entire year. The amounts reported as the final budgeted amount represent the final appropriation amounts passed by Council during the year.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the balance sheet.

Investments are reported at fair value, which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price.

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

In applying GASB Statement No. 31, the City utilized the following methods and assumptions as of December 31, 2012:

The portfolio was limited to nonparticipating interest-earning investment contracts and State Treasury Asset Reserve of Ohio (STAR Ohio). Most of the City's investments are reported at fair value, which is the quoted market price as of the valuation date. For investments in STAR Ohio, fair value is determined by the pool's share price. Exceptions to the fair value requirement include money market investments.

Money market investments, including U.S. Treasury and agency obligations that had a remaining maturity of one year or less at the time of purchase by the City, are reported at amortized cost.

Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss exceeding the cumulative value of those investments are subject to GASB Statement No. 31. The gain/loss resulting from valuation will be reported within the investment earnings account on the Statement of Activities. The City's policy is to hold investments until market values equal or exceed cost.

During 2012, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), STAR Ohio is an investment pool managed by the State Treasurer's Office. STAR Ohio 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, 2012.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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

F. Cash and Cash Equivalents (Continued)

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2012 amounted to \$610, which all was assigned from other funds of the City.

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

G. Inventory

Inventories are stated at cost, on the first-in, first-out basis. At December 31, 2012, the General Fund and Street Construction, Maintenance, and Repair non-major special revenue fund maintained the only significant inventory. The costs of governmental fund type inventories are recorded as expenditures in the fund when purchased. The reserve for inventory indicates that a portion of the fund balance is not available for future expenditures. For proprietary funds, inventory is expended when consumed.

H. Prepays

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

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide Statement of Net Position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of curbs, sidewalks, storm sewers, streets and traffic signals. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized. All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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

I. Capital Assets (Continued)

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings	65 years
Equipment	5 to 20 years
Vehicles	5 to 15 years
Infrastructure	20 to 75 years

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivables/payables”. Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year-end taking into consideration any limits specified in the City’s termination policy. The entire compensated absence liability is reported on the government-wide financial statements.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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

M. Fund Balance

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

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

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

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

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

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

The City applies restricted resource 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.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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

N. Net Position

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

The government-wide statement of net position reports \$1,144,027 of the restricted component of net position, none of which is restricted by enabling legislation. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for waste collection. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this description are reported as non-operating.

P. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. There were no such transactions in 2012.

Q. Interfund Activity

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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

R. Extraordinary and Special Items

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

S. Estimates

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

NOTE 3: **CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD'S ADJUSTMENTS**

A. Changes in Accounting Principles

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

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

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

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 3: CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD'S ADJUSTMENTS (Continued)

A. Changes in Accounting Principles (Continued)

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

B. Prior Period's Adjustments

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

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

	Governmental Activities
Net Position as of December 31, 2011	\$ 38,319,663
Restatement:	
Unamortized Debt Issuance Costs	(241,256)
Net Position as of December 31, 2011, as Restated	<u>\$ 38,078,407</u>

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City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 4: FUND BALANCES

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

Fund Balances	General	Other Governmental Funds	Total
<i>Nonspendable</i>			
Prepaid Items	\$ 111,375	\$ 7,649	\$ 119,024
Inventories	41,904	67,608	109,512
<i>Total Nonspendable</i>	153,279	75,257	228,536
<i>Restricted for</i>			
Clerk of Court Computerization	\$ -	\$ 103,582	\$ 103,582
Streets and Highways	-	667	667
Sewers	-	279,100	279,100
Other Law Enforcement	-	161,290	161,290
Housing Foreclosure	-	70,847	70,847
Housing Revitalization	-	2,638	2,638
DARE Program	-	14,049	14,049
Other Sources	-	23,556	23,556
Commissary	-	30,027	30,027
Capital projects	-	63,467	63,467
<i>Total Restricted</i>	-	749,223	749,223
<i>Committed to</i>			
EMS Services	-	38,479	38,479
Neighborhood Housing Services	-	163,761	163,761
<i>Total Committed</i>	-	202,240	202,240
<i>Assigned to</i>			
Encumbrances	39,226	-	39,226
Senior Programs	-	3,115	3,115
<i>Total Assigned</i>	39,226	3,115	42,341
<i>Unassigned (Deficit)</i>	(139,246)	(977,933)	(1,117,179)
Total Fund Balances	\$ 53,259	\$ 51,902	\$ 105,161

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are identified as follows:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/Expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to constrain that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a part of restricted, committed, or assigned fund balance for Governmental Funds, and note disclosure for Proprietary Funds (GAAP basis).

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

	<u>General</u>
GAAP Basis	\$ 639,593
Revenue Accruals	83,806
Expenditure Accruals	(335,786)
Encumbrances (Budget Basis) outstanding at year end	<u>(53,293)</u>
Budget Basis	<u>\$ 334,320</u>

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 6: DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City into three categories.

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

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

Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies may be deposited or invested in the following securities:

1. United States Treasury notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily;
4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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

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

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by eligible securities pledged to and deposited either within the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred and five percent of the deposits being secured.

At year-end, the carrying amount of the City's deposits was \$1,404,126 and the bank balance was \$1,714,359, of which \$1,007,241 was covered by Federal depository insurance. At December 31, 2012, the City had \$3,000 in undeposited cash on hand, which is included as part of "equity in pooled cash and equivalents".

Investments

Investments are reported at fair value. As of December 31, 2012, the City had the following investments:

<u>Investment type</u>	<u>Fair Value</u>	<u>Less than 1 Year</u>
STAR Ohio	<u>\$ 8,321</u>	<u>\$ 8,321</u>

Interest Rate Risk

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. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City investment policy also limits security purchases to those that mature within two years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than one year.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

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

Custodial Risk

Custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the City must meet a set of prescribed standards and be periodically reviewed.

Credit Risk

Credit risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that the portfolio be diversified both by types of investment and issuer. All investments of the city are registered and carry a rating AAAM by Standard & Poor's.

Concentration of Credit Risk

Concentration of credit risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio and indicates that no more than 20 percent of available funds are to be invested in individual U.S. Government Securities.

NOTE 7: **RECEIVABLES**

A. **Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the state statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable the following June 20.

Tangible personal property tax revenue received in calendar year 2012 (other than public utility property tax) represents the collection of calendar year 2012 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2012 were levied after October 1, on the value as of December 31, 2011.

Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 7: **RECEIVABLES** (Continued)

The County treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Maple Heights. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2012, was \$15.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based are as follows:

<u>Property Category</u>	<u>Assessed Value</u>	<u>Percent</u>
Real Estate	\$307,532,590	97.20 %
Public Utility	8,862,220	2.80
Total	<u>\$316,394,810</u>	<u>100.00 %</u>

B. **Income Taxes**

The residents of the City are required to pay City income taxes on income they earn outside the City. Prior to January 1, 1990, 100 percent tax credit was allowed for all income taxes paid to other municipalities. Effective January 1, 1990, the credit against a person's City income tax liability for municipal income taxes paid at a rate of 2 percent on the same income to another municipal corporation was reduced from 100 percent to 75 percent.

Effective January 1, 1995 the credit was increased from 75 percent to 80 percent. On March 1, 2007 voters approved the income tax levy of 2.5 percent on all income earned within the City as well as income of residents earned outside the City. The City allows a 100 percent credit on the income tax rate of 2.5 percent on the income earned outside the City and paid to another municipality. Employers within the City are required to withhold income tax on employee compensation and remit this tax to an intermediary collection agency (Regional Income Tax Agency) at least quarterly. Corporations and self-employed individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually with the collection agency. The collection agency remits taxes collected to the City each month.

C. **Intergovernmental Receivables**

<u>Revenue Description</u>	<u>Amount</u>
Local Government	\$ 466,443
Homestead and Rollback	381,680
Gasoline and Auto Registration tax	387,024
Estate tax	13,036
Permissive tax	10,194
CAT tax reimbursement	2,257
Water use fees	409,838
Grants	553,259
Court Costs	66,311
Miscellaneous	3,265
Total	<u>\$ 2,293,307</u>

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 8: CAPITAL ASSETS

	Balance 12/31/2011	Additions	Deletions	Balance 12/31/2012
<u>Governmental Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 262,331	\$ 47,700	\$ -	\$ 310,031
Construction in progress	729,744	1,653,189	(317,906)	2,065,027
Total non-depreciable assets	992,075	1,700,889	(317,906)	2,375,058
Capital Assets, being depreciated:				
Buildings	11,508,700	-	-	11,508,700
Equipment	1,455,094	40,805	-	1,495,899
Vehicles	4,955,265	-	(377,277)	4,577,988
Infrastructure:				
Roads	30,738,625	-	-	30,738,625
Traffic Signals	2,895,701	212,084	-	3,107,785
Storm Sewers	22,718,131	105,822	-	22,823,953
Sidewalks	1,424,833	-	-	1,424,833
Total Capital Assets, being depreciated	75,696,349	358,711	(377,277)	75,677,783
Less Accumulated depreciation:				
Buildings	(5,370,496)	(343,359)	-	(5,713,855)
Equipment	(767,762)	(144,268)	-	(912,030)
Vehicles	(2,721,934)	(293,895)	356,768	(2,659,061)
Infrastructure:				
Roads	(8,688,909)	(764,201)	-	(9,453,110)
Traffic Signals	(1,561,426)	(155,390)	-	(1,716,816)
Storm Sewers	(4,816,191)	(303,612)	-	(5,119,803)
Sidewalks	(510,227)	(35,622)	-	(545,849)
Total Accumulated depreciation	(24,436,945)	(2,040,347)	356,768	(26,120,524)
Total Capital Assets being depreciated, net	51,259,404	(1,681,636)	(20,509)	49,557,259
Governmental Activities Capital Assets, net	\$ 52,251,479	\$ 19,253	\$ (338,415)	\$ 51,932,317

Depreciation expense was charged to governmental activities as follows:

Security of Persons and Property	\$ 466,218
Transportation	955,212
General Government	65,669
Leisure Time Activities	119,549
Basic Utility Services	433,699
	\$ 2,040,347

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 9: LONG-TERM OBLIGATIONS

The original issue date, interest rates and original issuance amount for each of the City's bonds and long-term notes follow:

<u>Debt Issue</u>	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
General Obligation Bonds			
General Obligation Various Purpose	2004	2.00%-5.25%	4,110,000
General Obligation Various Purpose	2010	.88%-4.87%	11,275,000
Capital Appreciation Bonds	2010	7.25%-7.5%	1,647,911
OWDA Loan			
Kenyon/Gardenview Sewer Improvement	1996	4.16%	2,515,205
Phase I Sewer Improvement	1996	4.35%	765,161
Phase II Sewer Improvement	1997	4.04%	110,426
OPWC Loan			
Maplewood/Northwood Sewers Improvements	1994	0%	686,898
Southgate Park/Lee Road South Improvements	1997	0%	185,649
Industrial Avenue/E. 141st Improvement	2003	0%	556,403
Northfield Road Improvements	2005	0%	360,000
East 141st Street and Maple Heights Improvements	2009	0%	333,013
Broadway Sanitary Inreceptor Extension *	2011	0%	91,860
Broadway Avenue Reconstruction *	2011	0%	550,000

* - estimated amount of project

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 9: LONG-TERM OBLIGATIONS (Continued)

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2012 was as follows:

	Balance 12/31/2011	Additions	Reductions	Balance 12/31/2012	Due in One Year
Governmental Activities					
General Obligations Bonds					
Various Purpose Bonds, due 2018	\$ 2,050,000	\$ -	\$ (335,000)	\$ 1,715,000	\$ 345,000
Unamortized Premium	39,230	-	(5,604)	33,626	-
Various Purpose and Refunding, due 2030	11,190,000	-	(90,000)	11,100,000	90,000
Capital Appreciation Bonds, due 2024	1,647,911	-	-	1,647,911	-
Accretion on Bonds	179,213	135,897	-	315,110	-
Unamortized Premium	686,676	-	(37,286)	649,390	-
Total general Obligation Bonds	<u>15,793,030</u>	<u>135,897</u>	<u>(467,890)</u>	<u>15,461,037</u>	<u>435,000</u>
OWDA Loans					
Kenyon/Gardenview Sewer, due 2016	758,150	-	(156,553)	601,597	163,133
Phase I Sewer, due 2016	233,415	-	(48,036)	185,379	50,149
Phase II Sewer, due 2016	33,792	-	(7,156)	26,636	7,234
Total OWDA Loans	<u>1,025,357</u>	<u>-</u>	<u>(211,745)</u>	<u>813,612</u>	<u>220,515</u>
OPWC Loans					
Maplewood/Northwood Sewers, due 2016	154,552	-	(34,345)	120,207	34,345
Southgate Park/Lee Road South, due 2109	69,622	-	(9,282)	60,340	9,282
Industrial Avenue/E.141, due 2023	333,842	-	(27,820)	306,022	27,820
Northfield Road, due 2030	333,000	-	(18,000)	315,000	18,000
East 141st Street and Maple Heights	333,013	-	-	333,013	17,771
Broadway Sanitary Interceptor Extension	-	59,180	-	59,180	-
Broadway Avenue Reconstruction	-	315,639	-	315,639	-
Total OPWC Loans	<u>1,224,029</u>	<u>374,819</u>	<u>(89,447)</u>	<u>1,509,401</u>	<u>107,219</u>
Other long-term obligations:					
Capital leases payable	349,655	-	(80,823)	268,832	83,929
Accrued compensated absences	2,825,233	343,382	(247,095)	2,921,520	629,347
Accrued police and fire pension liability	339,369	-	(8,635)	330,734	9,007
Claims Payable	-	159,429	-	159,429	26,142
Total other long-term obligations	<u>3,514,257</u>	<u>502,811</u>	<u>(336,553)</u>	<u>3,680,515</u>	<u>748,425</u>
Total governmental Long-term Liabilities	<u>\$ 21,556,673</u>	<u>\$ 1,013,527</u>	<u>\$ (1,105,635)</u>	<u>\$ 21,464,565</u>	<u>\$ 1,511,159</u>

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 9: LONG-TERM OBLIGATIONS (Continued)

General Obligation Bonds will be paid from the Bond Retirement Debt Service Fund. The accrued police and fire pension liability will be paid from levied taxes in the Police Pension Fund and Fire Pension Special Revenue Funds. Compensated absences will be paid from the fund which the employees' salaries are paid from. The Ohio Water Development Authority (OWDA) and Ohio Public Works Commission (OPWC) loans will be paid from sewer user charges, which are paid from the Sewer Maintenance Special Revenue Fund and Bond Retirement Fund Debt Service Fund. See Note 10 for further detail on capital leases.

The OPWC loans for the Broadway Sanitary Interceptor Extension and Broadway Avenue Reconstruction improvements are pending upon completion of the project. As of December 31, 2012, \$59,180 and \$315,639 of the original projected loan of \$91,860 and \$550,000, respectively has been received. Final amortization schedules are not available and the amount of loans are not included in the amortization schedule below.

The project completion report for the East 141st Street and Maple Heights Improvements was submitted prior to balance sheet date with \$333,013 drawn against the line of credit; however a final amortization schedule has not been prepared by OPWC. Therefore, the \$17,771 Due in One Year amount is an estimated based on anticipated payments in 2013 and the total estimated amortization amounts have been included in the amortization schedules below.

In prior years, the City defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. The refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the City's government-wide financial statements. As of December 31, 2012, the amount of defeased debt outstanding but removed from the financial statements amounted to \$715,000.

The City's overall legal debt margin was \$18,158,978 at December 31, 2012.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2012 were as follows:

Year	Governmental Activities					
	General Obligation Bonds		OPWC Loans		OWDA Loans	
	Principal	Interest	Principal	Principal	Interest	
2013	\$ 435,000	\$ 526,131	\$ 107,219	\$ 220,515	\$ 31,876	
2014	710,000	511,394	107,219	229,873	22,518	
2015	725,000	489,894	107,219	239,833	12,764	
2016	755,000	457,644	90,046	123,391	2,597	
2017	790,000	424,006	72,874	-	-	
2018-2022	3,379,346	2,823,870	325,080	-	-	
2023-2027	4,153,565	2,622,300	206,676	-	-	
2028-2032	3,515,000	313,887	118,249	-	-	
	\$ 14,462,911	\$ 8,169,126	\$ 1,134,582	\$ 813,612	\$ 69,755	

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 9: **LONG-TERM OBLIGATIONS** (Continued)

Year	Governmental Activities	
	Accrued Police and Fire Pension	
	Principal	Interest
2013	\$ 9,007	\$ 13,980
2014	9,394	13,593
2015	9,798	13,189
2016	10,219	12,767
2017	10,659	12,328
2018-2022	60,580	63,619
2023-2027	74,778	30,891
2028-2032	92,305	22,628
2033-2035	53,994	3,495
	\$ 330,734	\$ 186,490

NOTE 10: **CAPITAL LEASE**

The City has entered into lease agreements as lessee for financing which relate to various equipment and vehicles. These leases are long-term agreements which meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*. These amounts represent the present value of the minimum lease payments at the inception of the leases.

	Governmental Activities
Assets:	
Equipment	\$ 103,175
Vehicles	202,378
Building	118,234
Less: Accumulated Depreciation	(85,422)
Total	\$ 338,365

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments.

Year	Governmental Activities
2013	\$ 92,836
2014	116,096
2015	87,286
2016	13,050
Total minimum lease payments	309,268
Less: Amount representing interest	(40,436)
Present value of minimum lease payments	\$ 268,832

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 10: **CAPITAL LEASE** (Continued)

Lease payments are made from the General Fund, Capital Projects Fund and Ambulance Billing Service Fund. The lease payment amounts will be paid with current, available resources that have accumulated in the fund for payment early in the following year.

NOTE 11: **COMPENSATED ABSENCES**

City employees earn vacation leave at graduated rates based on length of service. The City accrues the vacation leave benefits as earned. The City's current vacation policy specifies that accumulated vacation leave must be used prior to December 31 of the year following the year in which it is earned. City employees are paid for earned unused vacation leave at the time of termination or retirement.

City employees earn sick leave which, if not taken, accumulates until retirement. Sick leave is accumulated at the rate for 4.6 hours for every 80 hours worked. Upon retirement, an employee is paid up to 25 percent to 40 percent of accumulated sick leave, subject to certain limitations and depending on number of service years, calculated at current wage rates.

NOTE 12: **PENSION PLANS**

A. **Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional and Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code.

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension plan.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 12: **PENSION PLANS** (Continued)

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

For the year ended December 31, 2012, the members of all three plans were required to contribute 10.0 percent of their annual covered salary to fund pension obligations. The City contributed 14.0 percent of covered payroll.

The City's required contributions for pension obligations to the Traditional and Combined plans for the years ended December 31, 2012, 2011, and 2010, were \$419,421, \$476,539, and \$485,697, respectively; 92.46 percent has been contributed for 2012 and 100 percent for 2011 and 2010.

B. **Ohio Police and Fire Pension Fund**

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

Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by state statute. The City's contributions to the Fund for police and firefighters were \$364,265 and \$474,116, respectively, for the year ended December 31, 2012, \$410,697 and \$504,259, respectively, for the year ended December 31, 2011, and \$406,754 and \$508,004, respectively, for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. For 2012, 50.42 percent for police and 51.43 percent for firefighters has been contributed, with the remainder being reported as a liability.

NOTE 13: **POST-EMPLOYMENT BENEFITS**

A. **Ohio Public Employees Retirement System**

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

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 13: **POST-EMPLOYMENT BENEFITS** (Continued)

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

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.html>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care coverage. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, the City contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of the post-employment health care benefits. For 2012, the employer contribution allocated to the health care plan was 4.0% during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care for the years ended December 31, 2011, 2010, and 2009, were \$167,768, \$190,615, and \$280,473, respectively; 92.46 percent has been contributed for 2012 and 100 percent has been contributed for 2011 and 2010.

Changes to the health care plan were adopted by the PERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 13: **POST-EMPLOYMENT BENEFITS** (Continued)

B. **Ohio Police and Fire Pension Fund**

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

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

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 E. Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

The Ohio Revised Code provides for contribution requirements of the participating employers and of the 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, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of the covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 1150 and 401(h).

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 13: **POST-EMPLOYMENT BENEFITS** (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

The City's contributions to OP&F for police and fire for health care for the years ending December 31, 2012, 2011, and 2010, were \$192,486 and \$185,524, \$217,428 and \$197,319, and \$215,340 and \$198,784, respectively. The full amount has been contributed for 2011 and 2010. For 2012, 50.42 percent for police and 51.43 percent for firefighters has been contributed, with the remainder being reported as a liability.

NOTE 14: **RISK MANAGEMENT**

The Northern Ohio Risk Management Association (NORMA) is jointly owned and operated by the cities of Bedford Heights, Chagrin Falls, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon, South Euclid and University Heights for the purpose of enabling its members to obtain maximum exposure protection at the least possible cost. The pool has a complete package of coverage, including property, general liability, automobile liability, employee dishonesty, boiler and machinery, and other coverages, supplemented by an umbrella liability policy. The members formed a not-for-profit corporation known as NORMA, Inc. to administer the pool. NORMA is governed by a board of trustees that consists of one representative from each of the participating members. Each entity must commit to the joint venture for terms of three years.

Each member provides operating resources to NORMA based on actuarially determined rates and shares in NORMA's residual equity based on the City's percentage of contributions. In the event of losses, the first \$1,000 to \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$100,000 per occurrence, will be paid from the self-insurance pool with any excess paid from the stop loss coverage carried by the pool. As of December 31, 2012, NORMA had an aggregate stop loss ranging from \$400,000 to \$750,000 per policy year. Any losses over these amounts would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment. This has not been necessary throughout the 20-year history of the pool.

Starting in 2009, the City has provided employees (and eligible dependents) medical and prescription drug benefits on a partially self-insured basis. CIGNA serves as third party administrator to process and pay claims. Upon meeting the required employee contributions as well as staying within a CIGNA provider, maximum coverage is provided by the plan parameters. However, if an individual seeks care at a non- CIGNA provider, then 70 percent of the cost is covered. Furthermore, the plan allows for catastrophic (stop-loss) coverage of \$50,000 per occurrence. Employee medical benefits are charged to the General Fund.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 14: **RISK MANAGEMENT** (Continued)

The claims liability of \$64,637 reported in the General Fund at December 31, 2012, is based on an estimate of costs relating to incurred but not reported claims. Changes in the fund's claim liability amount were:

		<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2012	\$	341,495	1,031,203	1,308,061	\$ 64,637
2011		352,441	1,781,548	1,792,494	341,495
2010		343,765	1,546,367	1,537,691	352,441

Historically, under the Ohio Workers' Compensation System for public employer taxing districts, there have been two types of rating plans: base rating and experience rating. Ohio laws were subsequently amended to include an additional plan called retrospective rating, which is offered to Ohio employers who meet the eligibility standards. Under the terms of the State of Ohio's retrospective rating plan, an employer initially pays a fraction of the premium (the minimum premium) it would pay as an experience-rated risk. As costs for the employer's injured workers' claims are incurred, the employer must reimburse the State for those costs, subject to the plans individual claim cost limitation and the employer's premium limitation.

During 2012, the City applied for and was accepted into the State of Ohio's Retrospective Rating Plan. The City has established a Workers' Compensation Self-Insurance Fund (an Internal Service Fund) to account for and pay workers' compensation claims from accumulated assets of the fund. The City's retrospective rating plan provides for an aggregate stop loss limit on premiums of 150 percent of the employer's normal premium in the year the claim occurred and a \$200,000 limit per individual claim.

As of January 1, 2012, the City became self insured as an alternate method of funding workers' compensation. The City contracts with a third party administrator, who in turn, processes all the claims.

At December 31, 2012, \$159,429 has been accrued for workers' compensation claims. The claims represent estimates of amounts to be paid for reported claims and incurred but not reported claims and reported in the City's General Fund. It is calculated using trends in actual claims experience based on the requirements of GASB Statement No. 30, which requires a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated. The estimate was not affected by incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the balance of claims liabilities during the past two years are as follows:

		<u>2012</u>
Estimated claims payable January 1	\$	-
Plus: Current year claims		707,649
Less: Claim payments		<u>(548,220)</u>
Estimated claims payable December 31	\$	159,429

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 14: **RISK MANAGEMENT** (Continued)

The City also pays unemployment claims to the State of Ohio as incurred.

The City continues to carry commercial insurance for other risks of loss, including employee health, dental and life insurance. There were no reductions in insurance coverage from the previous year, nor have settlements exceeded insurance coverage in any of the prior three fiscal years.

NOTE 15: **CONTINGENCIES/PENDING LITIGATION**

The City received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2012.

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

NOTE 16: **INTERFUND TRANSFERS AND BALANCES**

A. **Interfund Transfers**

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

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 655,044	\$ 1,919,953
Non-major Governmental Funds	2,214,580	949,671
Total	<u>\$ 2,869,624</u>	<u>\$ 2,869,624</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; and to provide additional resources for current operations.

The Non-major Governmental Funds transfers consisted of \$130,866 to the Capital Improvement Fund for street reconstruction projects in accordance with Ohio Revised Code Section 5705.13(C), \$163,761 to the NHS Grant Fund for the purpose of mitigating noise and vibration damage for those homes affected by the Norfolk Southern Railroad expansion. The City returned \$655,044 from the Railroad Retribution Fund to the General Fund in accordance with ORC 5705.14(D). The transfers were proper and in accordance with Ohio Revised Code 5705.14, 5705.15, and 5705.16.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 16: **INTERFUND TRANSFERS AND BALANCES** (Continued)

B. Interfund Balances

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

	Receivables	Payables
Major Funds		
General	\$ -	\$ (398,916)
Non-major Governmental Funds		
<i>Special Revenue Funds:</i>		
Computer Fee Fund	103,582	-
Street Lighting	27,236	-
Sewer Maintenance	178,329	-
Neighborhood Housing Services	158,663	-
Drug Law Enforcement	82,773	-
Housing Foreclosure	70,847	-
Ambulance Billing	-	(1,542)
<i>Capital Projects Fund:</i>		
Capital Improvement	-	(284,438)
Northfield Road Improvement	63,466	
	\$ 684,896	\$ (684,896)

The General Fund received an advance from the Northfield Road Improvement Capital Projects Fund in the amount of \$63,466, which created an interfund receivable/payable. The balance resulted to advance the grant money to the fund that made the original payment for the goods and services before the grant money was received. The interfund loans provided from the Computer Fee Fund, Street Lighting Fund, Sewer Maintenance Fund, Neighborhood Housing Services Fund, Drug Law Enforcement Fund and Housing Foreclosure Fund were made to eliminate the negative cash balances in the General Fund (\$335,450), Ambulance Billing Fund (\$1,542), and Capital Improvement Fund (\$284,438).

NOTE 17: **JOINTLY GOVERNED ORGANIZATIONS**

A. Southeast Area Law Enforcement Organization

The Southeast Area Law Enforcement Organization is comprised of seven municipalities in southeastern Cuyahoga County for the purpose of providing assistance in the form of a SWAT team, Bomb Unit, Investigate Unit, Narcotics Unit, Crisis Negotiation Team, and Communications Unit. In 2012, the City contributed \$20,000 to the organization. The Southeast Area Law Enforcement organization financial statements may be obtained by contacting the Finance Director of the City of Bedford, Ohio.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 17: **JOINTLY GOVERNED ORGANIZATIONS** (continued)

B. Chagrin/Southeast Council of Governments

The Chagrin/Southeast Council of Governments operates the Chagrin/Southeast HazMat Response Team. The team was formed in 1990 to assist local fire departments in responding to incidents involving industrial chemicals. In 2012, the City contributed \$3,500 to the organization. The Chagrin/Southeast Council of Governments financial statements may be obtained by contacting the Finance Director of the City of Bedford Heights, Ohio.

The Council has established two subsidiary organizations, the West Shore Hazardous Materials Committee ("HAZ MAT") which provides hazardous material protection and assistance, and the West Shore Enforcement Bureau which provides extra assistance to cities in the form of a Swat Team.

C. Northeast Ohio Public Energy Council (NOPEC)

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity and natural gas. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity and natural gas on behalf of their citizens. The intent of NOPEC is to provide electricity and natural gas at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity and natural gas to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Maple Heights did not contribute to NOPEC during 2012. Financial information can be obtained by contacting the Board Chairman, 1615 Clark Avenue, Cleveland, Ohio, 44109.

NOTE 18: **ACCOUNTABILITY AND COMPLIANCE**

A. Accountability

There are deficits in the Street Lighting, Police Pension, Fire Pension, Police Services and Fire Services, Non-major Special Revenue Funds and the Capital Improvement Fund, Non-major Capital Projects Funds of \$11,216, \$276,199, \$320,404, \$34,714, \$38,866 and 296,534, respectively, caused by the application of generally accepted accounting principles to these funds. The General Fund is liable for any deficits in these funds and provides operating transfers when cash is required, not when accruals occur.

City of Maple Heights, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2012

NOTE 18: **ACCOUNTABILITY AND COMPLIANCE** (Continued)

B. Compliance

The General Fund, Ambulance Billing Fund, a Non-major Special Revenue Fund and the Capital Improvements Fund, a Non-major Capital Projects Fund had negative cash balances contrary to Ohio Revised Code Section 5705.10 which amounted to \$335,450, \$1,542 and \$284,438, respectively.

Contrary to Ohio Revised Code Section 5705.39 the following had appropriations in excess of estimated resources plus carryover balances:

Fund	Final Estimated Resources plus beginning balance	Final Appropriations	Variance
General Fund	\$ 14,242,641	\$ 14,641,906	\$ (399,265)
Street, Construction, Maintenance, and Repair Fund	983,051	1,030,275	(47,224)

Contrary to Ohio Revised Code Section 5705.41(B) the following had expenditures in excess of appropriations:

Fund	Final Appropriations	Actual Expenditures	Difference
<u>General Fund</u> Security of Persons & Property	\$ 5,978,000	\$ 5,980,723	\$ (2,723)

NOTE 19: **GOING CONCERN**

Ohio Revised Code Section 5705.10, in part, requires that money paid into any fund shall be expended only after such fund received monies to cover expenditures. The City has experienced a financial shortfall which has resulted in deficit spending in the general fund of \$335,450 and deficits in other less significant funds at December 31, 2012. Continued operations are dependent upon the City's ability to meet financing requirements and current obligations.

Due to the reductions in property tax collections expected in 2013, the city was forced to eliminate additional staff positions and seek outsourcing of certain city functions. 7 positions were eliminated in early 2013 due to layoffs, 6 positions were eliminated due to the outsourcing of building inspections functions. In addition, 4 service employees, 2 mechanics and the Assistant Fire Chief position were not filled upon retirement of employees in these areas in 2012. The reduced staffing levels along with the expected lease of city land in 2013 have led to a projected balanced budget in 2013. Recognizing the impact on future services that the city will be able to provide, City Council is pursuing an operating levy on the November 5th general election. If passed, the levy will be assessed on the 2013 tax year, with collections starting in 2014.

JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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Ohio Society of Certified Public Accountants

**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**

To the Members of City Council
City of Maple Heights, Ohio

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Maple Heights, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Maple Heights, Ohio's basic financial statements, and have issued our report thereon dated June 21, 2013, wherein we noted that the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and restated its December 31, 2011 net position of Governmental Activities due to a reclassification of debt issuance costs.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Maple Heights, Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 City of Maple Heights, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Maple Heights, Ohio's internal control.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as **Finding 2012-002** that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Maple Heights, Ohio's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as **Finding 2012-001** and **Finding 2012-003**.

City of Maple Heights, Ohio's Response to Findings

The City of Maple Heights, Ohio's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City of Maple Heights, Ohio's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Maple Heights, Ohio's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Maple Heights, Ohio's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


James G. Zupka, CPA, Inc.
Certified Public Accountants

June 21, 2013

**CITY OF MAPLE HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012**

Finding Number 2012-001 - Material Noncompliance - Proper Encumbrance of Funds

Condition/Criteria

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

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

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

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

Blanket Certificate - Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

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

**CITY OF MAPLE HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012
(CONTINUED)**

Finding Number 2012-001 - Material Noncompliance - Proper Encumbrance of Funds
(Continued)

Cause/Effect

During our testing of non-payroll expenditures, we noted 3 out of 13 expenditures tested, or \$6,137 out of \$23,317, were entered into prior to receiving the Finance Director's certification. We also noted that the City currently utilizes Super Blanket certificates, as described above. During our testing of Super Blanket certificates, we noted that 10 out of the 10 Super Blanket certificates were not closed as of year end.

Recommendation

Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend that the Finance Director utilize the encumbrance method of accounting and certify that the funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

We recommend that the City certify the availability of funds prior to entering into any expenditure commitment.

City's Response

Certain expenditures incurred by departments were not properly encumbered due to department heads and authorized purchasing personnel not following City procedures. This procedure has been communicated to each department several times. It is the City's understanding that directors were under the impression that emergency purchases did not have to follow purchasing procedure due to the timing requirements and the need for the item in question. Recently, the City has again communicated that all purchases need a properly encumbered purchase order before ordering. Failure to adhere to City policies will result in appropriate disciplinary measure being taken. The City is also looking into creating a "Then and Now" certificate for emergency situations.

**CITY OF MAPLE HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012
(CONTINUED)**

Finding Number 2012-002 - Significant Deficiency - Credit Card Purchase

Condition/Criteria

The City has developed a formal written policy for credit cards, but it is lacking in specific detail on what purchases are acceptable uses of public funds. The policy covers the handling of the card and general misuse of credit cards.

We noted that \$1,241 worth of credit card purchases tested, or approximately 29 percent, did not contain proper supporting documentation or was lacking detailed receipts or any receipt. We also noted that the City paid \$57 in sales tax, as well a minimal amount toward personal expenses, which were reimbursed timely.

Cause/Effect

Expenses paid with the City credit card did not have adequate supporting documentation. Lack of proper supporting documentation made it undeterminable whether the expenses were within City guidelines and proper City operational purposes.

Recommendation

Effective control procedures over City-issued credit cards are essential in deterring the misuse of credit cards. We recommend that the City review its current written policy regarding City credit cards to include specific detail on what purchases are acceptable use of public funds, which will assist the City in reducing the risk of theft or fraud. We also recommend that the City enforce its current policy that credit card purchases be reviewed by the Finance Director to help ensure purchases were for a proper public purpose and the City's policy requirements are met.

City's Response

Credit card purchases related to travel and City events should always include related back-up documentation. City Council is planning on putting additional restrictions on credit card purchases and narrowing what the card can be used for through an amended credit card policy. The City is considering having certain expenditures be paid on a reimbursable basis to avoid any future issues.

**CITY OF MAPLE HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012
(CONTINUED)**

Finding Number 2012-003 - Material Noncompliance - Negative Cash Fund Balance

Condition/Criteria

Ohio Revised Code Section 5705.10(H) indicates money paid into any fund shall be used only for the purposes for which such fund is established. A fund with a negative fund balance signifies that monies from other funds were used to meet their obligations.

During our review of the City's general ledger, we noted that three funds had negative cash fund balances at December 31, 2012:

<u>Major Fund</u>	<u>Deficit Cash Balance</u>
General Fund	\$ (335,450)
Ambulance Billing Fund	(1,542)
Capital Improvement Fund	(284,438)

Cause/Effect

The General Fund deficit cash balance represents the balance after advancing money to other deficit funds.

Negative cash fund balances infer revenues from other sources were borrowed to pay obligations of these funds. Additionally, money spent for purposes other than specified in grant agreements could result in the loss of future grant awards.

For reporting purposes, the deficit cash balances were reported as part of the "interfund payable" liability and the funds with positive cash balances offsetting these deficits reports an "interfund receivable" asset. Since the City's cash is pooled, there was no method to determine which funds' cash was used to offset the deficit balances and consequently the "interfund receivable" amounts related to the deficit cash balances were assigned using certain assumptions.

Recommendation

We recommend that the City ensure its fund appropriations and expenditures are consistent with the purposes for which the funds were established. We also recommend that the City consult with its Law Director when questions arise regarding a fund's intended use. We also recommend that the City monitor its cash fund balances on a regular basis in order to ensure that sufficient cash in on hand to pay for obligations and that the City utilize advances when necessary.

City's Response

Due to significant decreases of non-recurring revenues in 2011 and 2012, the City was not able to offset decreases and prior year deficits with spending reductions. The Capital Improvement Fund deficit resulted from the City not being reimbursed for a Municipal Energy Program Grant. This grant was closed in August and the City anticipates reimbursement before fiscal year end.

**CITY OF MAPLE HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF PRIOR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012**

The prior issued audit report, as of December 31, 2010, included material noncompliance citations and significant deficiencies.

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected ?</u>
2010-001	Proper Encumbrance of Funds	No. Repeated as Finding 2012-001.

Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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Dave Yost • Auditor of State

CITY OF MAPLE HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 19, 2013**