

VILLAGE OF MIDDLEFIELD

AUDIT REPORT

For the Years Ended December 31, 2004

Charles E. Harris and Associates, Inc.
Certified Public Accountants



**Auditor of State
Betty Montgomery**

Members of Village Council
Village of Middlefield
14860 N. State Avenue
Middlefield, Ohio 44062

We have reviewed the *Report of Independent Accountants* of the Village of Middlefield, Geauga County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2004 to December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 23, 2005

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VILLAGE OF MIDDLEFIELD
Audit Report
For the years ended December 31, 2004

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Middlefield
Middlefield, Ohio

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

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

As discussed in Note 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities and business-type activities, each major fund, and the aggregate remaining fund information of the Village as of December 31, 2004 and the respective changes in cash basis financial position and the respective budgetary comparison for the General and Income Tax Funds thereof for the year then ended in conformity with the accounting basis Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 8, 2005 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Charles E. Harris & Associates, Inc.
April 8, 2005

Village of Middlefield
Geauga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

The discussion and analysis of The Village of Middlefield's (the Village) financial performance provides an overall review of the Village's financial activities for the fiscal year ended December 31, 2004, within the limitations of the Village's modified cash basis of accounting. The intent of this discussion and analysis is to look at the Village's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Village's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

Overall:

- For governmental activities, net assets decreased \$1.7 million, which represents a 38 percent decrease from 2004.
- General revenues accounted for \$3.4 million in revenue or 87 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$524,329 or 13 percent of total governmental revenues of \$3.9 million.
- The Village had \$5.6 million in expenses related to governmental activities; only \$524,329 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily municipal taxes) of \$3.4 million were adequate to provide for these programs.
- Among major funds, the general fund had \$1.33 million in revenues and \$1.36 million in expenditures. The general fund's fund balance decreased to \$128,419 from \$156,828.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand The Village as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

Village of Middlefield
Geauga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

The *Statement of Net Assets* and *Statement of Activities* provides information about the activities of the whole Village, presenting an aggregate view of the Village finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed. The fund financial statements also look at the Village's most significant funds with all other non-major funds presented in total in one column. In the case of the Village of Middlefield, the General Fund and Income Tax Fund by far are the most significant funds.

Reporting the Village as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Village to provide programs and activities, the view of the Village as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include *all assets* and *liabilities* using the *modified cash basis of accounting* similar to the accounting used by most private-sector companies. Under this basis of accounting, receipts and disbursements are recorded when cash is received or paid.

These two statements report the Village's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Village as a whole, the *financial position* of the Village has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Village's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Village has two kinds of activity:

- Governmental Activities - Most of the Village's programs and services are reported here including, general government, security of persons and property, public health services, leisure time activities, community environment, basic utility services, and transportation.
- Business-type activity – The Village has a number of business-type activities which are financed by fees charged to the customers receiving the services.

Village of Middlefield
Geauga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the Village's major funds begins on page 12. Fund financial reports provide detailed information about the Village's major funds. The Village uses many funds to account for a multitude of financial transactions. However, these financial statements focus on the Village's most significant funds. The Village's major governmental fund are the general fund and Income Tax Fund.

Governmental Funds Most of the Village's activities are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end available for spending in future periods. These funds are reported using the modified cash basis of accounting. The governmental fund statements provide a detailed *view* of the Village's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as enterprise funds. The proprietary funds for the Village consist exclusively of enterprise funds.

The Village as a Whole

Table 1 shows net assets for fiscal year 2004. Since this is the first year the Village has prepared financial statements following the modified cash basis of accounting, net asset comparisons to prior fiscal years are not available.

Village of Middlefield
Geauga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

	Table 1	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Assets:		
Cash and Investments	<u>\$ 2,738,174</u>	<u>\$ 1,290,542</u>
<i>Total Assets</i>	<u>2,738,174</u>	<u>1,290,542</u>
Net Assets:		
Restricted	453,358	-
Unrestricted	<u>2,284,816</u>	<u>1,290,542</u>
<i>Total Net Assets</i>	<u>\$ 2,738,174</u>	<u>\$ 1,290,542</u>

The table on the following page shows the net changes in net assets for fiscal year 2004. Since this is the first year the Village has prepared the financial statements following modified cash basis, revenue and expense comparisons to fiscal year 2003 are not available.

Village of Middlefield
Geauga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

Table 2

	Governmental Activities	Business-Type Activities
Revenue:		
Program Revenues:		
Charges for Services and Sales	\$ 375,685	\$ 872,633
Operating Grants and Contributions	148,644	-
General Revenues:		
Property Taxes	355,614	-
Municipal Income Taxes	2,604,846	-
Other Local Taxes	188,645	-
Grants and Entitlements	155,941	-
Sale of Capital Assets	10,430	-
Interest	76,667	-
Miscellaneous	24,539	-
Transfers	5,236	(5,236)
Total Revenues	3,946,247	867,397
Expenses:		
Current:		
General Government	770,126	-
Security of Persons and Property	920,659	-
Public Health Services	60,170	-
Leisure Time Activities	279,054	-
Community Environment	173,285	-
Basic Utility Services	18,352	-
Transportation	1,906,052	-
Capital Outlay	53,120	-
Debt Service:		
Principal Retirement	1,428,842	-
Fiscal and Interest Charges	28,000	-
Water	-	320,004
Sewer	-	495,283
Sewer Capital Improvement	-	216,504
Total Expenses	5,637,660	1,031,791
Changes in Net Assets	\$ (1,691,413)	\$ (164,394)

Village of Middlefield
Geauga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

Governmental Activities

Net assets of the Village's governmental activities decreased by \$1.7 million. The governmental expenses of \$5,637,660 were primarily offset by program revenues of \$524,329, general revenues of \$3,416,682 and the prior year cash balance. Program revenues supported 13 percent of the total governmental activities.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes. These two revenue sources represent 80% of total governmental revenue.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

Table 3

**Total and Cost of Program Services
Governmental Activities**

	Total Cost of Service	Net Cost of Service
General Government	\$ 770,126	\$ 625,799
Security of Persons and Property	920,659	867,971
Public Health Services	60,170	43,272
Leisure Time Activities	279,054	244,356
Community Environment	173,285	173,285
Basic Utility Services	18,352	18,352
Transportation	1,906,052	1,814,415
Capital Outlay	53,120	(130,961)
Redemption of Principal	1,428,842	1,428,842
Interest and Fiscal Charges	28,000	28,000
Total Expenses	<u>\$ 5,637,660</u>	<u>\$ 5,113,331</u>

Over 13 percent of general government activities are supported through charges for services revenues. For all governmental activities, general revenue and prior year cash balance support the remaining expenses as shown in the above table. The community, as a whole, is by far the primary support for the Village of Middlefield.

Village of Middlefield
Geauga County
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

The Village's Funds

Information about the Village's major funds starts on page 12. These funds are accounted for using the modified cash basis of accounting. All governmental funds had total revenues of \$3.9 million and expenditures of \$5.6 million. The net change in fund balance for the year was most significant in the debt service fund, where the debt service fund's net assets decreased by \$1.4 million for fiscal year 2004.

General Fund Budgeting Highlights

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

During the course of fiscal year 2004 the Village amended its General Fund budget numerous times. The Village uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. For the General Fund, budget basis revenue was \$1,336,241, the original estimate was \$1,227,396. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$1,364,650 million, \$28,409 below revenues.

Debt

At December 31, 2004, the Village had \$379,287 in Ohio Public Works Commission Loans outstanding.

Current Financial Related Activities

The Village of Middlefield is strong financially. As the preceding information shows, the Village heavily depends on its property/income taxpayers.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information contact Carol Osborne, Treasurer at 14860 N. State Avenue, Middlefield, Ohio 44062.

Village of Middlefield, Geauga County
Statement of Net Assets - Modified Cash Basis
 December 31, 2004

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Investments	\$ 2,738,174	\$ 1,290,542	\$ 4,028,716
<i>Total Assets</i>	<u>\$ 2,738,174</u>	<u>\$ 1,290,542</u>	<u>\$ 4,028,716</u>
Net Assets			
Restricted for:			
Other Purposes	\$ 453,358	\$ -	\$ 453,358
Unrestricted	<u>2,284,816</u>	<u>1,290,542</u>	<u>3,575,358</u>
<i>Total Net Assets</i>	<u>\$ 2,738,174</u>	<u>\$ 1,290,542</u>	<u>\$ 4,028,716</u>

See accompanying notes to the financial statements

Village of Middlefield, Geauga County
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2004

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
General Government	\$ 770,126	\$ 144,327	-	\$ (625,799)	\$ -	\$ (625,799)
Security of Persons and Property	920,659	47,277	5,411	(867,971)	-	(867,971)
Public Health Services	60,170	-	16,898	(43,272)	-	(43,272)
Leisure Time Activities	279,054	-	34,698	(244,356)	-	(244,356)
Community Environment	173,285	-	-	(173,285)	-	(173,285)
Basic Utility Services	18,352	-	-	(18,352)	-	(18,352)
Transportation	1,906,052	-	91,637	(1,814,415)	-	(1,814,415)
Capital Outlay	53,120	184,081	-	130,961	-	130,961
Redemption of Principal	1,428,842	-	-	(1,428,842)	-	(1,428,842)
Interest and Fiscal Charges	28,000	-	-	(28,000)	-	(28,000)
<i>Total Governmental Activities</i>	5,637,660	375,685	148,644	(5,113,331)	-	(5,113,331)
Business Type Activity						
Water	320,004	400,266	-	-	80,262	80,262
Sewer	495,283	472,332	-	-	(22,951)	(22,951)
New Well Capital Improvement	-	-	-	-	-	-
Sewer Capital Improvement	216,504	-	-	-	(216,504)	(216,504)
Other	-	35	-	-	35	35
Total	\$ 6,669,451	\$ 1,248,318	\$ 148,644	\$ (5,113,331)	\$ (159,158)	\$ (5,272,489)
General Receipts						
Property Taxes Levied for:						
General Purposes				\$ 194,666	-	\$ 194,666
Special Purposes				160,948	-	160,948
Municipal Income Taxes				2,604,846	-	2,604,846
Other Local Taxes				188,645	-	188,645
Grants and Entitlements not Restricted						
to Specific Programs				155,941	-	155,941
Sale of Capital Assets				10,430	-	10,430
Interest				76,667	-	76,667
Miscellaneous				24,539	-	24,539
<i>Total General Receipts</i>				3,416,682	-	3,416,682
Transfers				5,236	(5,236)	-
<i>Total General Receipts and Transfers</i>				3,421,918	(5,236)	3,416,682
Change in Net Assets				(1,691,413)	(164,394)	(1,855,807)
<i>Net Assets Beginning of Year</i>				4,429,587	1,454,936	5,884,523
<i>Net Assets End of Year</i>				<u>\$ 2,738,174</u>	<u>\$ 1,290,542</u>	<u>\$ 4,028,716</u>

See accompanying notes to the financial statements

Village of Middlefield, Geauga County
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2004

	General	Income Tax	Debt Service	Utilities Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Investments	\$ 128,419	\$ 1,272,878	\$ -	\$ 466,495	\$ 870,382	\$ 2,738,174
<i>Total Assets</i>	<u>\$ 128,419</u>	<u>\$ 1,272,878</u>	<u>\$ -</u>	<u>\$ 466,495</u>	<u>\$ 870,382</u>	<u>\$ 2,738,174</u>
Fund Balances						
Reserved:						
Reserved for Encumbrances	\$ -	\$ 21,000	\$ -	\$ -	\$ -	\$ 21,000
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	128,419	-	-	-	-	128,419
Special Revenue Funds	-	1,251,878	-	-	370,761	1,622,639
Capital Projects Funds	-	-	-	466,495	417,024	883,519
Permanent Fund	-	-	-	-	82,597	82,597
<i>Total Fund Balances</i>	<u>\$ 128,419</u>	<u>\$ 1,272,878</u>	<u>\$ -</u>	<u>\$ 466,495</u>	<u>\$ 870,382</u>	<u>\$ 2,738,174</u>

See accompanying notes to the financial statements

Village of Middlefield, Geauga County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2004

Total Governmental Fund Balances	<u>\$ 2,738,174</u>
<i>Net Assets of Governmental Activities</i>	<u>\$ 2,738,174</u>

See accompanying notes to the financial statements

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

	General	Income Tax	Debt Service	Utilities Capital Improvement	Other Governmental Funds	Total Governmental Funds
Receipts						
Municipal Income Taxes	\$ 3,501	\$ 2,601,345	\$ -	\$ -	\$ -	\$ 2,604,846
Property and Other Local Taxes	383,311	-	-	-	160,948	544,259
Charges for Services	105,032	39,295	-	-	50,681	195,008
Fines, Licenses and Permits	46,630	-	-	184,081	647	231,358
Intergovernmental	155,941	-	-	-	97,963	253,904
Interest	68,291	-	8,376	-	-	76,667
Miscellaneous	13,105	700	-	-	10,734	24,539
<i>Total Receipts</i>	775,811	2,641,340	8,376	184,081	320,973	3,930,581
Disbursements						
Current:						
General Government	259,528	510,598	-	-	-	770,126
Security of Persons and Property	829,280	-	-	-	91,379	920,659
Public Health Services	-	-	-	-	60,170	60,170
Leisure Time Activities	48,348	107,383	-	-	123,323	279,054
Community Environment	116,436	56,849	-	-	-	173,285
Basic Utility Services	18,352	-	-	-	-	18,352
Transportation	17,340	1,764,845	-	-	123,867	1,906,052
Capital Outlay	-	-	-	-	53,120	53,120
Debt Service:						
Principal Retirement	-	-	1,400,000	-	28,842	1,428,842
Interest and Fiscal Charges	-	-	28,000	-	-	28,000
<i>Total Disbursements</i>	1,289,284	2,439,675	1,428,000	-	480,701	5,637,660
<i>Excess of Receipts Over (Under) Disbursements</i>	(513,473)	201,665	(1,419,624)	184,081	(159,728)	(1,707,079)
Other Financing Sources (Uses)						
Transfers In	550,000	-	61,610	929	211,696	824,235
Transfers Out	(75,366)	(728,633)	-	-	(15,000)	(818,999)
Sale of Fixed Assets	10,430	-	-	-	-	10,430
<i>Total Other Financing Sources (Uses)</i>	485,064	(728,633)	61,610	929	196,696	15,666
<i>Net Change in Fund Balances</i>	(28,409)	(526,968)	(1,358,014)	185,010	36,968	(1,691,413)
Fund Balances Beginning of Year	156,828	1,799,846	1,358,014	281,485	833,414	4,429,587
Fund Balances End of Year	\$ 128,419	\$ 1,272,878	\$ -	\$ 466,495	\$ 870,382	\$ 2,738,174

See accompanying notes to the financial statements

Village of Middlefield, Geauga County
*Reconciliation of the Statement of Receipts, Disbursements and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2004*

Net Change in Fund Balances - Total Governmental Funds	<u>\$ (1,691,413)</u>
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<i>Change in Net Assets of Governmental Activities</i>	<u>\$ (1,691,413)</u>
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See accompanying notes to the financial statements

Village of Middlefield, Geauga County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Municipal Income Taxes	\$ 3,057	\$ 3,233	\$ 3,501	\$ 268
Property and Other Local Taxes	334,686	353,979	383,311	29,332
Charges for Services	91,708	96,995	105,032	8,037
Fines, Licenses and Permits	40,715	43,062	46,630	3,568
Intergovernmental	136,159	144,008	155,941	11,933
Interest	59,628	63,065	68,291	5,226
Miscellaneous	11,443	12,102	13,105	1,003
<i>Total receipts</i>	677,396	716,444	775,811	59,367
Disbursements				
Current:				
General Government	254,419	267,145	259,528	7,617
Security of Persons and Property	812,955	853,620	829,280	24,340
Leisure Time Activities	47,396	49,767	48,348	1,419
Community Environment	114,143	119,853	116,436	3,417
Basic Utility Services	17,991	18,891	18,352	539
Transportation	16,999	17,849	17,340	509
<i>Total Disbursements</i>	1,263,903	1,327,125	1,289,284	37,841
<i>Excess of Receipts Over (Under) Disbursements</i>	(586,507)	(610,681)	(513,473)	97,208
Other Financing Sources (Uses)				
Sale of Capital Assets	-	-	10,430	10,430
Transfers In	550,000	550,000	550,000	-
Transfers Out	(75,366)	(75,366)	(75,366)	-
<i>Total Other Financing Sources (Uses)</i>	474,634	474,634	485,064	10,430
<i>Net Change in Fund Balance</i>	(111,873)	(136,047)	(28,409)	107,638
<i>Fund Balance Beginning of Year</i>	156,828	156,828	156,828	-
<i>Fund Balance End of Year</i>	<u>\$ 44,955</u>	<u>\$ 20,781</u>	<u>\$ 128,419</u>	<u>\$ 107,638</u>

See accompanying notes to the financial statements

Village of Middlefield, Geauga County
*Statement of Receipts, Disbursements and Changes
 In Fund Balance - Budget and Actual -Budget Basis
 Special Revenue - Income Tax Fund
 For the Year Ended December 31, 2004*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Receipts				
Municipal Income Taxes	\$ 3,447,003	\$ 2,403,590	\$ 2,601,345	\$ 197,755
Charges for Services	52,069	36,308	39,295	2,987
Miscellaneous	928	647	700	53
<i>Total receipts</i>	<u>3,500,000</u>	<u>2,440,545</u>	<u>2,641,340</u>	<u>200,795</u>
Disbursements				
Current:				
General Government	307,698	522,472	510,598	11,874
Leisure Time Activities	64,711	109,880	107,383	2,497
Community Environment	34,259	58,171	56,849	1,322
Transportation	1,063,537	1,805,887	1,785,845	20,042
<i>Total Disbursements</i>	<u>1,470,205</u>	<u>2,496,410</u>	<u>2,460,675</u>	<u>35,735</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	2,029,795	(55,865)	180,665	236,530
Other Financing Sources (Uses)				
Transfers Out	(728,633)	(728,633)	(728,633)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(728,633)</u>	<u>(728,633)</u>	<u>(728,633)</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	1,301,162	(784,498)	(547,968)	236,530
<i>Fund Balance Beginning of Year</i>	827,628	827,628	827,628	-
Prior Year Encumbrances Appropriated	972,218	972,218	972,218	-
<i>Fund Balance End of Year</i>	<u>\$ 3,101,008</u>	<u>\$ 1,015,348</u>	<u>\$ 1,251,878</u>	<u>\$ 236,530</u>

See accompanying notes to the financial statements

Village of Middlefield, Geauga County
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
December 31, 2004

	Business-Type Activities					Total Enterprise Funds
	Water	Sewer	New Well Capital Improvement	Sewer Capital Improvement	Other Enterprise Funds	
Assets						
Equity in Pooled Cash and Investments	\$ 106,008	\$ 95,100	\$ 314,976	\$ 715,395	\$ 59,063	\$ 1,290,542
<i>Total Assets</i>	<u>\$ 106,008</u>	<u>\$ 95,100</u>	<u>\$ 314,976</u>	<u>\$ 715,395</u>	<u>\$ 59,063</u>	<u>\$ 1,290,542</u>
Net Assets						
Unrestricted	<u>\$ 106,008</u>	<u>\$ 95,100</u>	<u>\$ 314,976</u>	<u>\$ 715,395</u>	<u>\$ 59,063</u>	<u>\$ 1,290,542</u>

See accompanying notes to the financial statements

Village of Middlefield, Geauga County
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2004*

	Business-Type Activities					Total Enterprise Funds
	Water	Sewer	New Well Capital Improvement	Sewer Capital Improvement	Other Enterprise Funds	
Operating Receipts						
Charges for Services	\$ 239,525	\$ 472,332	\$ -	\$ -	\$ -	\$ 711,857
Other Operating Receipts	35	-	-	-	35	70
<i>Total Operating Receipts</i>	<u>239,560</u>	<u>472,332</u>	<u>-</u>	<u>-</u>	<u>35</u>	<u>711,927</u>
Operating Disbursements						
Personal Services	160,990	215,235	-	-	-	376,225
Travel Transportation	443	109	-	-	-	552
Contractual Services	73,842	193,894	-	216,504	-	484,240
Materials and Supplies	39,396	51,590	-	-	-	90,986
Capital Outlay	20,818	34,455	-	-	-	55,273
<i>Total Operating Disbursements</i>	<u>295,489</u>	<u>495,283</u>	<u>-</u>	<u>216,504</u>	<u>-</u>	<u>1,007,276</u>
<i>Operating Income (Loss)</i>	(55,929)	(22,951)	-	(216,504)	35	(295,349)
Non-Operating Receipts/Disbursements						
Proceeds of Notes	160,706	-	-	-	-	160,706
Principal Retirement	(24,515)	-	-	-	-	(24,515)
<i>Income (Loss) before Transfers and Advances</i>	80,262	(22,951)	-	(216,504)	35	(159,158)
Transfers						
Transfers In	-	8,638	26,741	116,483	414	152,276
Transfers Out	(37,012)	(120,500)	-	-	-	(157,512)
<i>Total Transfers</i>	(37,012)	(111,862)	26,741	116,483	414	(5,236)
<i>Change in Net Assets</i>	43,250	(134,813)	26,741	(100,021)	449	(164,394)
<i>Net Assets Beginning of Year</i>	<u>62,758</u>	<u>229,913</u>	<u>288,235</u>	<u>815,416</u>	<u>58,614</u>	<u>1,454,936</u>
<i>Net Assets End of Year</i>	<u>\$ 106,008</u>	<u>\$ 95,100</u>	<u>\$ 314,976</u>	<u>\$ 715,395</u>	<u>\$ 59,063</u>	<u>\$ 1,290,542</u>

See accompanying notes to the financial statements

VILLAGE OF MIDDLEFIELD
Notes to the Financial Statements
For the Years Ended December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Middlefield is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village operates under a council/mayor form of government. Elected officials include six council members, a clerk/treasurer, and a mayor. The Village provides various services including a mayor's court, police and fire protection, emergency medical, recreation (including parks), street maintenance and repair, and general administrative services.

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

B. BASIS OF ACCOUNTING

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved)

These statements include adequate disclosure of material matters, as prescribed by the Auditor of State.

C. CASH AND INVESTMENTS

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

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

D. FUND ACCOUNTING

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

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

2. Special Revenue Funds

To account for the proceeds of specific revenue sources (other than from trusts or for capital projects) that are restricted to expenditures for specific purposes. The Village had the following major special revenue fund:

Income Tax Fund - This fund is used to account for the revenue raised by the Village Income Tax.

VILLAGE OF MIDDLEFIELD
Notes to the Financial Statements
For the Years Ended December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

D. FUND ACCOUNTING - (continued)

3. Capital Projects Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following major capital project fund:

Utilities Capital Improvement Fund – This fund is used to record the impact of new construction on the utilities. The expenditures are used for utility infrastructure.

4. Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of, general long term and special assessment debt principal and interest.

5. Enterprise Funds

These funds are used to account for operations that are financed and operated in a manner similar to private business enterprise – where the intent of the governing body is that the costs of providing goods or services to the general public on continuing basis be financed or recovered primarily through user charges; or, where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose. The Village had the following major Enterprise Funds:

Water Fund – This fund is used to record user charges for the costs of providing water services to Village residents and businesses.

Sewer Fund – This fund is used to record user charges for the costs of providing sanitary sewer services to Village residents and businesses.

New Well Capital Improvement Fund – This fund is used to record tap-on-fees for new construction and expenditures are used for water treatment expenses.

Sewer Capital Improvement Fund – This fund is used to record tap-on-fees for new construction and expenditures are used for water treatment expenses.

E. BUDGETARY PROCESS

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

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

VILLAGE OF MIDDLEFIELD
Notes to the Financial Statements
For the Years Ended December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

E. BUDGETARY PROCESS – (continued)

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year- end are carried over, and need not be reappropriated.

A summary of 2004 budgetary activity appears in Note 3.

F. PROPERTY, PLANT AND EQUIPMENT

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

G. ACCUMULATED LEAVE

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

H. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program receipts. Direct expenses are those that are clearly identifiable with a specific function or segment. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program receipts are reported instead as general receipts.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF MIDDLEFIELD
Notes to the Financial Statements
For the Years Ended December 31, 2004

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31, 2004 was as follows:

	2004
Demand Deposit	\$ 454,552
Certificates of Deposit	1,751,197
STAR Ohio	1,822,967
 Total deposits and investments	 \$ 4,028,716

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation; (2) collateralized by the financial institution's public entity deposit pool.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2004 is as follows:

2004 Budgeted vs Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,266,444	\$ 1,336,241	\$ 69,797
Special Revenue	2,808,081	3,075,382	267,301
Capital Projects	210,120	272,122	62,002
Debt Service	69,986	69,986	-
Enterprise	862,332	1,024,909	162,577
Expendable Trust	16,514	11,515	(4,999)
 Total	 \$ 5,233,477	 \$ 5,790,155	 \$ 556,678

2004 Budgeted vs Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,402,491	\$ 1,364,650	\$ 37,841
Special Revenue	4,738,916	3,608,241	1,130,675
Capital Projects	656,303	81,962	574,341
Debt Service	1,428,000	1,428,000	-
Enterprise	2,189,455	1,189,303	1,000,152
Expendable Trust	16,100	15,806	294
 Total	 \$ 10,431,265	 \$ 7,687,962	 \$ 2,743,303

VILLAGE OF MIDDLEFIELD
Notes to the Financial Statements
For the Years Ended December 31, 2004

4. PROPERTY TAX

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

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

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

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

5. LOCAL INCOME TAX

This locally levied tax of one percent (1%) is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the Village of Middlefield and to earnings of non-residents (except certain transients) earned in the village. It also applies to net income of business organizations conducted within the Village of Middlefield. Tax receipts are credited to the Income Tax Special Revenue Fund and amounted to \$2,601,345 in 2004.

6. DEBT

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rates</u>
Ohio Public Works Commission Loans	\$ 379,287	0%
Total	<u>\$ 379,287</u>	

The Ohio Public Works Commission Loans were used for improvements to the Village's water treatment and sewer treatment systems. The loans will be paid from user charges.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004 are as follows:

VILLAGE OF MIDDLEFIELD
Notes to the Financial Statements
For the Years Ended December 31, 2004

6. DEBT – (continued)

Year Ending Dec. 31:	<u>O.P.W.C Loans</u>
2005	\$ 53,357
2006	45,115
2007	36,877
2008	36,877
2009	36,877
2010-2014	97,865
2015-2019	40,177
2020-2024	<u>32,142</u>
Total	<u>\$ 379,287</u>

7. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2004, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants gross salaries in 2004. The Village has paid all contributions required through December 31, 2004.

8. RISK MANAGEMENT

The Village of Middlefield has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Public Officials Liability
- Law Enforcement Liability

Settled Claims have not exceeded this commercial coverage in any of the last five years. There have been no significant reductions in insurance coverage from last year.

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

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

VILLAGE OF MIDDLEFIELD
Notes to the Financial Statements
For the Years Ended December 31, 2004

9. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed, by the grantor cannot be determined at this time although the Village expects such amounts, if any, to be material.

10. RESTATEMENT OF PRIOR YEAR FUND BALANCE

The implementation of the GASB 34 format requires the following restatement of prior year fund balance:

	<u>Expendable Trust Fund</u>	<u>Other Governmental Funds</u>
Fund Balance - December 31, 2003	\$ 86,889	\$ 746,525
Restatement - Reclass of Trust Fund Balances	<u>(86,889)</u>	<u>86,889</u>
Fund Balance - January 1, 2004	<u>\$ -</u>	<u>\$ 833,414</u>

**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**

Village of Middlefield
Middlefield, Ohio

We have audited the financial statements of the Village of Middlefield as and for the year ended December 31, 2004, and have issued our report thereon dated April 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Village in a separate letter dated April 8, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Village in a separate letter dated April 8, 2005.

This report is intended solely for the information and use of management and Village Council and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
April 8, 2005

STATUS OF PRIOR YEAR CITATIONS AND RECOMMENDATIONS

The prior audit report, for the period ending December 31, 2003, did not include material citations or recommendations.



**Auditor of State
Betty Montgomery**

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VILLAGE OF MIDDLEFIELD

GEAUGA 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 6, 2005**