



**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005



**Auditor of State
Betty Montgomery**

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Moreland Hills
Cuyahoga County
4350 S.O.M. Center Road
Moreland Hills, Ohio 44022

To the Village Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Moreland Hills, Cuyahoga County, Ohio, (the Village) as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Moreland Hills, Cuyahoga County, Ohio, as of December 31, 2005, and the respective changes in modified cash financial position and the respective budgetary comparisons for the General, Street Construction, Maintenance and Repair, and the Police and Fire Levy funds thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2006, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

May 3, 2006

Village of Moreland Hills
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

This discussion and analysis of the financial performance of the Village of Moreland Hills, Cuyahoga County, Ohio, (the Village) provides an overall review of the Village's financial activities for the year ended December 31, 2005, within the limitations of the Village's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2005 are as follows:

Net assets of governmental activities increased by \$1,637,994 or 25.2 percent, over 2004. This was a combination of an increase in fund balances of the General Fund, Police and Fire Levy Fund, Property Improvement Fund, Waste Water Treatment Plant Expansion Fund, and Other Governmental Funds.

The Village's general receipts are primarily income and property taxes. These receipts represent respectively 47.7 percent and 22.0 percent of the total cash received for governmental activities during the year. Income Tax receipts increased by approximately 22.4 percent over 2004 due to certain individual tax returns however, Property tax receipts changed very little compared to 2004 except for the normal increase in valuation.

During the year the Village's bond rating remained at Aa2 and was upgraded from Aa3 by Moody's Investors Service during 2004 due to its extremely wealthy and stable residential base and healthy financial operations.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

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

Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the Village did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the Village at year-end. The statement of activities compares cash disbursements with program receipts for each governmental program activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Village's general receipts.

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

In the statement of net assets and the statement of activities, we express the Village's activities as the following:

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

Reporting the Government's Most Significant Funds

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

Governmental Funds - Most of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Village's major governmental funds are the General, Street Construction, Maintenance and Repair, Property Improvement, Waste Water Treatment Plant Expansion, and Police and Fire Levy funds. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Village of Moreland Hills
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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

The Government as a Whole

Table 1 provides a summary of the Village's net assets for 2005 compared to 2004 on a modified cash basis.

(Table 1)

Net Assets

	Governmental Activities 2005	Governmental Activities 2004
Assets		
Cash and Cash Equivalents	\$8,148,112	\$6,510,118
Total Assets	\$8,148,112	\$6,510,118
Net Assets		
Restricted for:		
Capital Outlay	3,529,446	2,822,774
Debt Service	297,475	298,100
Other Purposes	1,987,556	1,557,040
Unrestricted	2,333,635	1,832,204
Total Net Assets	\$8,148,112	\$6,510,118

As mentioned previously, net assets of governmental activities increased by \$1,637,994 or 25.2 percent during 2005. The increase was primarily due to an increase in the General Fund balance mostly due to an increase in income tax receipts and increases in fund balances of various other funds including the Police and Fire Levy fund, Property Improvement Fund, and Waste Water Treatment Expansion Fund.

Village of Moreland Hills
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Table 2 reflects the changes in net assets during 2005 and also provides a comparative analysis of government-wide data.

(Table 2)
Changes in Net Assets

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$165,179	\$226,825
Operating Grants and Special Assessments	307,446	378,249
Capital Grants and Special Assessments	487,630	493,901
Total Program Receipts	<u>960,255</u>	<u>1,098,975</u>
General Receipts:		
Property Taxes	1,553,790	1,362,647
Income Taxes	3,369,996	2,752,635
Grants and Entitlements Not Restricted to Specific Programs	758,989	732,829
Interest	210,430	102,187
Miscellaneous	207,963	95,142
Total General Receipts	<u>6,101,168</u>	<u>5,045,440</u>
Total Receipts	<u>7,061,423</u>	<u>6,144,415</u>
Disbursements:		
General Government	1,208,375	1,034,772
Security of Persons and Property:	1,418,143	1,350,977
Public Health Services	18,846	18,954
Community Environment	65,649	79,521
Basic Utility Services	976,111	898,975
Transportation	448,321	728,329
Capital Outlay	1,117,095	1,527,335
Principal Retirement	95,000	85,000
Interest and Fiscal Charges	75,889	80,117
Total Disbursements	<u>5,423,429</u>	<u>5,803,980</u>
Increase in Net Assets	1,637,994	340,435
Net Assets, January 1	<u>6,510,118</u>	<u>6,169,683</u>
Net Assets, December 31	<u>\$8,148,112</u>	<u>\$6,510,118</u>

Program receipts represented only 13.6 percent of total receipts during 2005 and compared to 17.8 percent in 2004. Program receipts are primarily comprised of charges for services and special assessments against properties for maintenance and expansion of infrastructure and revenues from restricted intergovernmental receipts such as motor vehicle license and gas tax money and grants.

Village of Moreland Hills
Cuyahoga County
Management's Discussion and Analysis
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Unaudited

General receipts represent 86.4 percent of the Village's total receipts during 2005 compared to 82.1 percent during 2004, and of this amount, over 80 percent are local municipal income taxes and property taxes and the balance is comprised of state grants and entitlements. Other receipts are insignificant and somewhat unpredictable revenue sources.

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

Governmental Activities

If you look at the Statement of Activities on page 10, you will see that the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The largest program disbursements for governmental activities are for security of persons and property, which account for 26.1 percent of all governmental expenses during 2005. General government and capital outlay also represent significant disbursements, accounting for 22.3 and 20.6 percent of total expenses during 2005, respectively. The next three columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and grants received by the Village that must be used to provide a specific service. The net (Disbursements) Receipts and Changes in Net Assets column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service, which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts, which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)
Governmental Activities

	Total Cost Of Services 2005	Net Cost of Services 2005
General Government	\$1,208,375	(\$1,157,574)
Security of Persons and Property	1,418,143	(1,370,128)
Public Health Services	18,846	7,190
Community Environment	65,649	(65,649)
Basic Utility Services	976,111	(743,444)
Transportation	448,321	(433,051)
Capital Outlay	1,117,095	(607,465)
Principal Retirement	95,000	(17,164)
Interest and Fiscal Charges	75,889	(75,889)
Total Expenses	\$5,423,429	(\$4,463,174)

The dependence upon property and income tax receipts is apparent as over 82 percent of governmental activities are supported through these general receipts.

Village of Moreland Hills
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The Government's Funds

Total governmental funds had receipts of \$7,061,423 and disbursements of \$5,423,429. The largest positive change within governmental funds occurred in the General Fund which increased by \$501,433, primarily due to additional funds received from income tax collections. The Village plans to start setting aside some of these funds for future capital improvements to the municipal complex. The other increases were in the Property Improvement and Police and Fire Levy funds which together totaled \$567,736.

General Fund Budgeting Highlights

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

During 2005, the Village amended its General Fund budget several times to reflect changing circumstances. There was no change between final actual and original budgeted receipts. The difference between final budgeted receipts and actual receipts was \$802,518.

Final disbursements were budgeted at \$5,314,268 while actual disbursements were \$5,171,505, which includes year end encumbrances. Although actual receipts exceeded expectations, actual disbursements were reduced. The Village kept spending very close to budgeted amounts as demonstrated by the minor reported variances.

Capital Assets and Debt Administration

Capital Assets

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

Outstanding Debt

At December 31, 2005, the Village's outstanding debt was \$1,290,000 comprising of Various Purpose and Street improvement bonds. For further information regarding the Village's debt, refer to Note 7 to the basic financial statements.

Current Issues

The Village continues to be among the area's wealthiest suburbs as reflected in high full value per capita and income measures well above the state and national averages. The Village's moderate tax base is expected to grow at historical rates of around 5 percent. The Village continues to strive for ways and means to make optimum utilization of available resources. Over the past few years the Village has joined consortiums and updated its bidding requirements to get the lowest and best process for all contracts issued and purchases made during the year. Based on prudent management and financially conservative budgeting practices, the Village's financial operations are expected to remain healthy.

Contacting the Government's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Village's finances and to reflect the Village's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Prashant Shah, CPA, Treasurer, Village of Moreland Hills, 4350 S.O.M. Center Road, Moreland Hills, Ohio 44022.

VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY
Statement of Net Assets - Modified Cash Basis
December 31, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$8,148,112</u>
<i>Total Assets</i>	<u><u>\$8,148,112</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$3,529,446
Debt Service	297,475
Other Purposes	1,987,556
Unrestricted	<u>2,333,635</u>
<i>Total Net Assets</i>	<u><u>\$8,148,112</u></u>

See accompanying notes to the basic financial statements

VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY
Statement of Activities - Modified Cash Basis
December 31, 2005

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Special Assessments	Capital Grants and Special Assessments	Governmental Activities
Governmental Activities					
General Government	\$1,208,375	\$50,801	\$0	\$0	(\$1,157,574)
Security of Persons and Property	1,418,143	40,570	7,445	0	(1,370,128)
Public Health Services	18,846	26,036	0	0	7,190
Community Environment	65,649	0	0	0	(65,649)
Basic Utility Services	976,111	10,502	222,165	0	(743,444)
Transportation	448,321	15,270	0	0	(433,051)
Capital Outlay	1,117,095	22,000	0	487,630	(607,465)
Redemption of Principal	95,000	0	77,836	0	(17,164)
Interest and Fiscal Charges	75,889	0	0	0	(75,889)
<i>Total Governmental Activities</i>	<u>\$5,423,429</u>	<u>\$165,179</u>	<u>\$307,446</u>	<u>\$487,630</u>	<u>(4,463,174)</u>
		General Receipts			
		Property Taxes Levied for:			
		General Purposes			1,472,159
		Debt Service			81,631
		Municipal Income Taxes			3,369,996
		Grants and Entitlements			
		Not Restricted to Specific Programs			758,989
		Interest			210,430
		Miscellaneous			207,963
		<i>Total General Receipts</i>			<u>6,101,168</u>
		Change in Net Assets			1,637,994
		<i>Net Assets Beginning of Year</i>			<u>6,510,118</u>
		<i>Net Assets End of Year</i>			<u>\$8,148,112</u>

See accompanying notes to the basic financial statements

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VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005

	<u>General</u>	<u>Street Construction, Maintenance, and Repair</u>	<u>Property Improvement</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,333,637	\$223,822	\$1,547,243
<i>Total Assets</i>	<u>\$2,333,637</u>	<u>\$223,822</u>	<u>\$1,547,243</u>
Fund Balances			
Reserved:			
Reserved for Encumbrances	\$130,109	\$167,268	\$0
Unreserved:			
Undesignated (Deficit), Reported in:			
General Fund	2,203,528	0	0
Special Revenue Funds	0	56,554	0
Debt Service Fund	0	0	0
Capital Projects Funds	0	0	1,547,243
<i>Total Fund Balances</i>	<u>\$2,333,637</u>	<u>\$223,822</u>	<u>\$1,547,243</u>

See accompanying notes to the basic financial statements

<u>Waste Water Treatment Plant Expansion</u>	<u>Police and Fire Levy</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>\$1,615,693</u>	<u>\$912,695</u>	<u>\$1,515,022</u>	<u>\$8,148,112</u>
<u>\$1,615,693</u>	<u>\$912,695</u>	<u>\$1,515,022</u>	<u>\$8,148,112</u>
\$137,995	\$0	\$600,289	\$1,035,661
0	0	0	2,203,528
0	912,695	592,545	1,561,794
0	0	297,475	297,475
<u>1,477,698</u>	<u>0</u>	<u>24,713</u>	<u>3,049,654</u>
<u>\$1,615,693</u>	<u>\$912,695</u>	<u>\$1,515,022</u>	<u>\$8,148,112</u>

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VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2005

Total Governmental Fund Balances	<u>\$8,148,112</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$8,148,112</u></u>

See accompanying notes to the basic financial statements

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Modified-Cash Basis Fund Balances
Governmental Funds
December 31, 2005*

	General	Street Construction, Maintenance, and Repair	Property Improvement	Waste Water Treatment Plant Expansion	Police and Fire Levy
Receipts					
Municipal Income Taxes	\$3,369,996	\$0	\$0	\$0	\$0
Property and Other Local Taxes	799,779	0	0	0	611,218
Special Assessments	0	0	0	220,057	0
Charges for Services	50,801	0	0	0	0
Fines, Licenses and Permits	40,470	15,270	0	22,000	0
Intergovernmental	214,301	118,922	291,173	0	80,971
Interest	158,542	0	0	43,204	0
Miscellaneous	207,963	0	0	0	0
<i>Total Receipts</i>	<u>4,841,852</u>	<u>134,192</u>	<u>291,173</u>	<u>285,261</u>	<u>692,189</u>
Disbursements					
Current:					
General Government	1,119,968	0	0	0	0
Security of Persons and Property	934,289	0	0	0	335,626
Public Health Services	14,947	0	0	0	0
Community Environment	65,649	0	0	0	0
Basic Utility Services	733,897	0	0	0	0
Transportation	99,294	348,162	0	0	0
Capital Outlay	394,001	0	0	189,216	0
Debt Service:					
Principal Retirement	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0
<i>Total Disbursements</i>	<u>3,362,045</u>	<u>348,162</u>	<u>0</u>	<u>189,216</u>	<u>335,626</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,479,807</u>	<u>(213,970)</u>	<u>291,173</u>	<u>96,045</u>	<u>356,563</u>
Other Financing Sources (Uses)					
Transfers In	0	200,000	0	0	0
Transfers Out	(439,353)	0	0	0	(80,000)
Advances In	700,979	0	0	0	0
Advances Out	(1,240,000)	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(978,374)</u>	<u>200,000</u>	<u>0</u>	<u>0</u>	<u>(80,000)</u>
<i>Net Change in Fund Balances</i>	501,433	(13,970)	291,173	96,045	276,563
<i>Fund Balances Beginning of Year</i>	<u>1,832,204</u>	<u>237,792</u>	<u>1,256,070</u>	<u>1,519,648</u>	<u>636,132</u>
<i>Fund Balances End of Year</i>	<u>\$2,333,637</u>	<u>\$223,822</u>	<u>\$1,547,243</u>	<u>\$1,615,693</u>	<u>\$912,695</u>

See accompanying notes to the basic financial statements

Other Governmental Funds	Total Governmental Funds
\$0	\$3,369,996
142,793	1,553,790
300,001	520,058
36,538	87,339
100	77,840
328,640	1,034,007
8,684	210,430
<u>0</u>	<u>207,963</u>
<u>816,756</u>	<u>7,061,423</u>
88,407	1,208,375
148,228	1,418,143
3,899	18,846
0	65,649
242,214	976,111
865	448,321
533,878	1,117,095
95,000	95,000
<u>75,889</u>	<u>75,889</u>
<u>1,188,380</u>	<u>5,423,429</u>
<u>(371,624)</u>	<u>1,637,994</u>
319,353	519,353
0	(519,353)
1,240,000	1,940,979
<u>(700,979)</u>	<u>(1,940,979)</u>
<u>858,374</u>	<u>0</u>
486,750	1,637,994
<u>1,028,272</u>	<u>6,510,118</u>
<u>\$1,515,022</u>	<u>\$8,148,112</u>

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
December 31, 2005*

Net Change in Fund Balances - Total Governmental Funds	<u>\$1,637,994</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$1,637,994</u></u>

See accompanying notes to the basic financial statements

VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
December 31, 2005

	Budgeted Amounts			(Optional)
	Original	Final	Actual	Variance with Final Budget Positive (Negative)
Receipts				
Municipal Income Taxes	\$2,800,000	\$2,800,000	\$3,369,996	\$569,996
Property and Other Local Taxes	761,669	761,669	799,779	38,110
Charges for Services	68,270	68,270	50,801	(17,469)
Fines, Licenses and Permits	22,000	22,000	40,470	18,470
Intergovernmental	220,295	220,295	214,301	(5,994)
Interest	75,000	75,000	158,542	83,542
Miscellaneous	92,100	92,100	207,963	115,863
<i>Total receipts</i>	<u>4,039,334</u>	<u>4,039,334</u>	<u>4,841,852</u>	<u>802,518</u>
Disbursements				
Current:				
General Government	1,119,116	1,178,689	1,141,516	37,173
Security of Persons and Property	931,692	945,411	945,228	183
Public Health Services	15,000	15,000	14,947	53
Community Environment	63,295	67,915	65,758	2,157
Basic Utility Services	695,865	846,850	784,930	61,920
Transportation	157,248	157,248	128,177	29,071
Capital Outlay	486,338	419,338	411,596	7,742
<i>Total Disbursements</i>	<u>3,468,554</u>	<u>3,630,451</u>	<u>3,492,152</u>	<u>138,299</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>570,780</u>	<u>408,883</u>	<u>1,349,700</u>	<u>940,817</u>
Other Financing Sources (Uses)				
Transfers Out	(1,443,817)	(443,817)	(439,353)	4,464
Advances In	700,979	700,979	700,979	0
Advances Out	0	(1,240,000)	(1,240,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(742,838)</u>	<u>(982,838)</u>	<u>(978,374)</u>	<u>4,464</u>
<i>Net Change in Fund Balance</i>	<u>(172,058)</u>	<u>(573,955)</u>	<u>371,326</u>	<u>945,281</u>
<i>Fund Balance Beginning of Year</i>	<u>1,672,616</u>	<u>1,672,616</u>	<u>1,672,616</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>159,586</u>	<u>159,586</u>	<u>159,586</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$1,660,144</u></u>	<u><u>\$1,258,247</u></u>	<u><u>\$2,203,528</u></u>	<u><u>\$945,281</u></u>

See accompanying notes to the basic financial statements

VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY
*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Street Construction, Maintenance, and Repair Fund
December 31, 2005*

	Budgeted Amounts		Actual	(Optional) Variance with Final Budget
	Original	Final		Positive (Negative)
Receipts				
Fines, Licenses and Permits	\$22,000	\$22,000	\$15,270	(\$6,730)
Intergovernmental	101,000	101,000	118,922	17,922
<i>Total receipts</i>	<u>123,000</u>	<u>123,000</u>	<u>134,192</u>	<u>11,192</u>
Disbursements				
Current:				
Transportation	503,219	423,219	374,669	48,550
<i>Total Disbursements</i>	<u>503,219</u>	<u>423,219</u>	<u>374,669</u>	<u>48,550</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(380,219)</u>	<u>(300,219)</u>	<u>(240,477)</u>	<u>59,742</u>
Other Financing Sources (Uses)				
Transfers In	300,000	300,000	200,000	(100,000)
<i>Total Other Financing Sources (Uses)</i>	<u>300,000</u>	<u>300,000</u>	<u>200,000</u>	<u>(100,000)</u>
<i>Net Change in Fund Balance</i>	(80,219)	(219)	(40,477)	(40,258)
<i>Fund Balance Beginning of Year</i>	97,031	97,031	97,031	0
Prior Year Encumbrances Appropriated	140,761	140,761	140,761	0
<i>Fund Balance End of Year</i>	<u>\$157,573</u>	<u>\$237,573</u>	<u>\$197,315</u>	<u>(\$40,258)</u>

See accompanying notes to the basic financial statements

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Police and Fire Levy Fund
December 31, 2005*

	<u>Budgeted Amounts</u>		<u>Actual</u>	(Optional)
	<u>Original</u>	<u>Final</u>		Variance with Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$693,058	\$693,058	\$611,218	(\$81,840)
Intergovernmental	0	0	80,971	80,971
<i>Total receipts</i>	<u>693,058</u>	<u>693,058</u>	<u>692,189</u>	<u>(869)</u>
Disbursements				
Current:				
Security of Persons and Property	358,994	358,994	335,626	23,368
<i>Total Disbursements</i>	<u>358,994</u>	<u>358,994</u>	<u>335,626</u>	<u>23,368</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>334,064</u>	<u>334,064</u>	<u>356,563</u>	<u>22,499</u>
Other Financing Sources (Uses)				
Transfers Out	(80,000)	(80,000)	(80,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(80,000)</u>	<u>(80,000)</u>	<u>(80,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	254,064	254,064	276,563	22,499
<i>Fund Balance Beginning of Year</i>	<u>636,132</u>	<u>636,132</u>	<u>636,132</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$890,196</u></u>	<u><u>\$890,196</u></u>	<u><u>\$912,695</u></u>	<u><u>\$22,499</u></u>

See accompanying notes to the basic financial statements

VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
December 31, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$99,319</u>
<i>Total Assets</i>	<u><u>\$99,319</u></u>
Net Assets	
Unrestricted	<u><u>\$99,319</u></u>

See accompanying notes to the basic financial statements

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 1. DESCRIPTION OF THE ENTITY

The Village of Moreland Hills, Cuyahoga County, Ohio (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including road maintenance, police service, sanitary/storm sewer facilities, building inspections, and zoning. The Village contracts with the Village of Chagrin Falls to provide fire protection and ambulance services.

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

Northeast Ohio Public Energy Council

The Village 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 gas. NOPEC is currently comprised over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity and 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 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 Village did not contribute to NOPEC during 2005. Financial information can be obtained by contacting NOPEC, 1615 Clarke Avenue, Cleveland, Ohio 44109.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

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

B. Fund Accounting

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

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Governmental Funds

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Village's major governmental funds:

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

Police & Fire Levy – This fund receives real estate tax, homestead & rollback and personal property tax money for police, fire and emergency medical services for the Village.

Street Construction, Maintenance and Repair Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

Property Improvement Fund - This fund is used to account for grant and estate tax receipts that are restricted for the acquisition or construction of Village capital projects.

Waste Water Treatment Plant Expansion Fund – This fund receives special assessments and permit fees for the repair and construction of the sanitary sewer system.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Village under a trust agreement for individuals, private organizations or other governmental entities and are therefore not available to support the Village's own programs. The Village has no trust funds. Agency funds are custodial in nature, where the Village deposits and pays cash as directed by another entity or individual. The Village's agency fund accounts for the Guaranteed Deposit (Building) Fund.

C. Basis of Presentation

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

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

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

The statement of net assets presents the financial condition of the governmental activities of the Village at December 31, 2005. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Village's governmental activities. Program Cash Receipts include monies provided by the recipient of the services offered by the program, grants and contributions that are restricted to meeting the operations or capital requirements of particular program. Revenues which are not classified as program revenues are presented as general revenues of the Village, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which the governmental programs are self-financing or draw from the general revenues of the Village.

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

D. Cash and Investments

Investments are included in fund balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. The Village invested in a Sweep Account and U.S. Government Securities, which are valued at cost. The Investment in STAR Ohio (the State Treasurer's Investment Pool) is valued at amounts reported by the State Treasurer.

E. Inventory

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

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Net Assets

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

I. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

NOTE 3. DEPOSITS AND INVESTMENTS

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

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

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

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

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Interim monies held by the Village can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. 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 Village, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the Village's had a book balance of \$203,268. Of the Village's bank balance of \$250,379, \$150,379 was uninsured and uncollateralized. Although the securities were held by pledging institution's trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the Village to a successful claim by the FDIC.

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

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

Investments

As of December 31, 2005, the Village had the following investments:

Investment Type	Carrying Value	Investment Maturity
STAR Ohio	\$ 3,145,163	< 6 Months
FHLB	1,000,000	8 Months
FHLB	750,000	9 Months
FHLB	1,000,000	11 Months
FHLB	500,000	12 Months
FHLB	250,000	13 Months
Repurchase Agreement -Sweep Account	1,399,000	1 day
Total	<u>\$ 8,044,163</u>	

The weighted average maturity is 7 months.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Village's investment policy limits investment portfolio maturities to five year or less.

Credit Risk: The Village's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned Star Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the Village's investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the Village.

Concentration of Risk: The Village places no limit on the amount that may be invested in any one issuer. The Village investments in FHLB, Star Ohio and Repurchase Agreements represent 43%, 39% and 18% respectively.

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 4. COMPLIANCE

A. Expenditures and Encumbrances exceeded Appropriations

As of August 31, 2005, the following funds had expenditures plus encumbrances in excess of appropriations in violation of Section 5705.41 (B) & (D), revised code:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
Special Revenue Funds:			
Route 91 & Miles Road	\$15,950	\$16,058	\$108
S. Woodland/Chagrin Intersection	53,000	238,651	185,651
Sewage Treatment	342,699	435,773	93,074

These variances were corrected by December 31, 2005.

B. Appropriations exceeded Estimated Revenues

As of August 31, 2005, the following funds had appropriations in excess of estimated revenues in violation of Section 5705.39, revised code:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Special Revenue Fund:			
Federal Emergency Grant	\$36,231	\$56,652	\$20,451
Sewage Treatment	29,905	213,092	183,187
Capital Projects Funds:			
Miles Road Resurfacing	130,000	150,000	20,000
Chagrin River Road Widening	234,000	262,092	28,092
Bentleyville Road Watermain	580,000	604,725	24,725

These variances were corrected by December 31, 2005.

C. Negative Cash Fund Balances

As of August 31, 2005, the following funds had negative cash fund balances in violation of Section 5705.10, revised code:

<u>Fund</u>	<u>Cash Fund Balance</u>
Capital Projects Funds:	
S. Woodland/Chagrin Intersection	(\$15,386)
Miles Road Resurfacing	(3,574)
Bentleyville Road Watermain	(91,054)

VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)

NOTE 4. COMPLIANCE (Continued)

C. Negative Cash Fund Balances (Continued)

As of November 30, 2005, the following funds had negative cash fund balances in violation of Section 5705.10, revised code:

<u>Fund</u>	<u>Cash Fund Balance</u>
Capital Projects Funds:	
S.Woodland/Chagrin Intersection	(\$23,960)
Chagrin River Road Resurfacing	(158,963)
Miles Road Resurfacing	(115,646)
Historic Falls Road Improvement	(164,000)
Chagrin River Road Widening	(229,048)
Bentleyville Road Watermain	(194,895)

These negative fund balances were corrected by December 31, 2005.

NOTE 5. PROPERTY TAX

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

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

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

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

NOTE 6. LOCAL INCOME TAX

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

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

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 7. DEBT

Debt outstanding as of December 31, 2005:

	<u>Principal</u>	<u>Interest Rate</u>
1989 Street Improvement Bonds	\$190,000	6-7.5%
1998 Various Purpose Imp. Bonds	1,100,000	4.55 and 5.125%
Total	<u>\$1,290,000</u>	

The outstanding bonds are payable from the proceeds of property taxes and the special assessment bonds are against the individual property owners.

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

	<u>Street Improvement</u>	<u>Various Purpose Improvement</u>	<u>Total</u>
Year ending December 31:			
2006	\$ 59,125	\$ 115,081	\$ 174,206
2007	55,750	117,351	173,101
2008	57,375	149,394	206,769
2009	53,625	114,844	168,469
2010	-	116,256	116,256
2011-2015	-	571,063	679,198
2016-2018	-	336,518	452,468
Total	<u>\$ 225,875</u>	<u>\$ 1,520,507</u>	<u>\$ 1,970,467</u>

NOTE 8. RETIREMENT SYSTEMS

Ohio Police and Fire Pension and Ohio Public Employees Retirement System

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System of Ohio (OPERS). 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 2005, 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 for 2005. The Village has paid all contributions required through December 31, 2005.

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 9. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles, Emergency Medical Services, Law Enforcement Liability; and
- Commercial Catastrophe Liability, and errors and omissions.

The Village provides health, dental and vision insurance to full-time employees through a private carrier.

NOTE 10. ENGINEERING SERVICES

The Village contracted with Chagrin Valley Engineering, Ltd. to provide services in connection with the construction of public improvements. The Village Engineer is an employee of Chagrin Valley Engineering, Ltd. During 2005, the Village paid \$155,925 to the Chagrin Valley Engineering, Ltd.



Auditor of State Betty Montgomery

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

Village of Moreland Hills
Cuyahoga County
4350 S.O.M. Center Road
Moreland Hills, Ohio 44022

To the Village Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Moreland Hills, Cuyahoga County, Ohio, (the Village) as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements and have issued our report thereon dated May 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated May 3, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the Village's management dated May 3, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Village of Moreland Hills
Cuyahoga County
Independent Accountants' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Required by *Government Auditing Standards*

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

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

Betty Montgomery
Auditor of State

May 3, 2006

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

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

Finding Number	2005-001
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Negative Cash Fund Balances

Ohio Revised Code Section 5705.10 provides, in part, that money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

We noted the following negative cash fund balances as of August 31, 2005:

<u>Fund</u>	<u>Negative Fund Balance</u>
Capital Projects Funds:	
S.Woodland/River Rd. Inter.Grad.	(\$15,386)
Miles Road Resurfacing	(3,574)
Bentleyville Rd. Watermain	(91,054)

We noted the following negative cash fund balances as of November 31, 2005:

<u>Fund</u>	<u>Negative Fund Balance</u>
Capital Projects Funds:	
S. Woodland/River Rd. Inter.Grad.	(\$23,960)
Chagrin River Rd. Resurfacing	(158,963)
Miles Road Resurfacing	(115,646)
Historic Falls Rd. Improvement	(164,000)
Chagrin River Rd. Safety Widening	(229,048)
Bentleyville Rd. Watermain	(194,895)

The negative cash fund balances were corrected by December 31, 2005.

We recommend the Village utilize transfers and/or advances through Council approval to avoid negative fund cash fund balances throughout the year.

Management's Response

Most of these funds were for capital improvement projects where the Village was sharing the cost of engineering and/or construction with other entities including the State of Ohio, Cuyahoga County, and surrounding communities. The projects were still in progress at year-end when the Village advanced monies from the General Fund to cover the negative cash fund balances. The Village felt that making one advance at the end of the year as opposed to small advances during the year was better utilization of time and available resources and also reduced the potential for errors by limiting the number of memo entries showing smaller advances between funds.

In the future, the Village will make it a goal to comply with Ohio Rev. Code Section 5705.10 and make the advances as and when needed.

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Revised Code Section 5705.41(B) – Expenditures Exceeding Appropriations	Not fully corrected	Re-issued in the management letter.



**Auditor of State
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**VILLAGE OF MORELAND HILLS
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
JUNE 6, 2006**