



Mary Taylor, CPA
Auditor of State

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

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, 2006, 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, 2006, and the respective changes in modified cash financial position and the respective budgetary comparison for the General, Street Construction, Maintenance and Repair, and 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 July 25, 2007, 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

July 25, 2007

Village of Moreland Hills
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2006
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, 2006, 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 2006 are as follows:

Net assets of governmental activities increased by \$1,614,669 or 19.8 percent, over 2005. 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 40.5 percent and 22.4 percent of the total cash received for governmental activities during the year. Income Tax receipts decreased by approximately 16.2 percent over 2005 due to certain individual tax returns coming in considerably lower than in prior years. Also, Property tax receipts changed very little compared to 2005 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 2006, 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, 2006
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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 2006 compared to 2005 on a modified cash basis.

	Governmental Activities 2006	Governmental Activities 2005
Assets		
Cash and Cash Equivalents	\$9,762,781	\$8,148,112
Total Assets	\$9,762,781	\$8,148,112
Net Assets		
Restricted for:		
Capital Outlay	4,377,024	3,529,446
Debt Service	304,663	297,475
Other Purposes	1,962,704	1,987,556
Unrestricted	3,118,390	2,333,635
Total Net Assets	\$9,762,781	\$8,148,112

As mentioned previously, net assets of governmental activities increased by \$1,614,669 or 19.8 percent during 2006. The increase was primarily due to an increase in the General Fund balance mostly due to an increase in interest 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, 2006
Unaudited

Table 2 reflects the changes in net assets during 2006 and also provides a comparative analysis of government-wide data.

(Table 2)
Changes in Net Assets

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2005</u>
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$152,889	\$165,179
Operating Grants and Special Assessments	322,830	307,446
Capital Grants and Special Assessments	288,046	487,630
Total Program Receipts	<u>763,765</u>	<u>960,255</u>
General Receipts:		
Property Taxes	1,561,435	1,553,790
Income Taxes	2,823,774	3,369,996
Grants and Entitlements Not Restricted to Specific Programs	1,324,049	758,989
Interest	348,952	210,430
Miscellaneous	144,477	207,963
Total General Receipts	<u>6,202,687</u>	<u>6,101,168</u>
Total Receipts	<u>6,966,452</u>	<u>7,061,423</u>
Disbursements:		
General Government	1,077,331	1,208,375
Security of Persons and Property:	1,524,845	1,418,143
Public Health Services	17,314	18,846
Community Environment	62,930	65,649
Basic Utility Services	1,143,510	976,111
Transportation	675,962	448,321
Capital Outlay	674,802	1,117,095
Principal Retirement	105,000	95,000
Interest and Fiscal Charges	70,089	75,889
Total Disbursements	<u>5,351,783</u>	<u>5,423,429</u>
Increase in Net Assets	1,614,669	1,637,994
Net Assets, January 1	<u>8,148,112</u>	<u>6,510,118</u>
Net Assets, December 31	<u>\$9,762,781</u>	<u>\$8,148,112</u>

Program receipts represented only 11.0 percent of total receipts during 2006 and compared to 13.6 percent in 2005. 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. The reduction in expenditures is largely due to the completion of capital projects in fiscal year 2005.

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

General receipts represent 89.0 percent of the Village's total receipts during 2006 compared to 86.4 percent during 2005, 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 28.5 percent of all governmental expenses during 2006. General government and basic utility services also represent significant disbursements, accounting for 20.1 and 21.4 percent of total expenses during 2006, 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 2006	Net Cost of Services 2006
General Government	\$1,077,331	(\$1,015,266)
Security of Persons and Property	1,524,845	(1,469,026)
Public Health Services	17,314	(3,362)
Community Environment	62,930	(62,930)
Basic Utility Services	1,143,510	(905,751)
Transportation	675,962	(659,149)
Capital Outlay	674,802	(386,756)
Principal Retirement	105,000	(15,689)
Interest and Fiscal Charges	70,089	(70,089)
Total Expenses	\$5,351,783	(\$4,588,018)

The dependence upon property and income tax receipts is apparent as over 81 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, 2006
Unaudited

The Government's Funds

Total governmental funds had receipts of \$6,966,452 and disbursements of \$5,351,783. The largest positive change within governmental funds occurred in the General Fund which increased by \$783,353, primarily due to additional funds received from interest and a decrease in disbursements. The Village plans to start setting aside some of these funds for future capital improvements to the municipal complex. Some of the other increases were in the Property Improvement and Police and Fire Levy funds which together totaled \$605,902.

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 2006, 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 \$1,957,127.

Final disbursements were budgeted at \$5,277,485 while actual disbursements were \$5,085,714, 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, 2006, the Village's outstanding debt was \$1,185,000 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, 2006

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$9,762,781</u>
<i>Total Assets</i>	<u><u>\$9,762,781</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$4,377,024
Debt Service	304,663
Other Purposes	1,962,704
Unrestricted	<u>3,118,390</u>
<i>Total Net Assets</i>	<u><u>\$9,762,781</u></u>

See accompanying notes to the basic financial statements

VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY
Statement of Activities - Modified Cash Basis
December 31, 2006

	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	\$1,077,331	\$62,065	\$0	\$0	(\$1,015,266)
Security of Persons and Property	1,524,845	51,549	4,270	0	(1,469,026)
Public Health Services	17,314	13,952	0	0	(3,362)
Community Environment	62,930	0	0	0	(62,930)
Basic Utility Services	1,143,510	8,510	229,249	0	(905,751)
Transportation	675,962	16,813	0	0	(659,149)
Capital Outlay	674,802	0	0	288,046	(386,756)
Redemption of Principal	105,000	0	89,311	0	(15,689)
Interest and Fiscal Charges	70,089	0	0	0	(70,089)
<i>Total Governmental Activities</i>	<u>\$5,351,783</u>	<u>\$152,889</u>	<u>\$322,830</u>	<u>\$288,046</u>	<u>(4,588,018)</u>
		General Receipts			
		Property Taxes Levied for:			
					1,479,145
					82,290
					2,823,774
					1,324,049
					348,952
					144,477
					<u>6,202,687</u>
					1,614,669
					<u>8,148,112</u>
					<u>\$9,762,781</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, 2006

	<u>General</u>	<u>Street Construction, Maintenance, and Repair</u>	<u>Property Improvement</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$3,116,990	\$171,712	\$1,902,312
<i>Total Assets</i>	<u>\$3,116,990</u>	<u>\$171,712</u>	<u>\$1,902,312</u>
Fund Balances			
Reserved:			
Reserved for Encumbrances	\$285,095	\$164,124	\$0
Unreserved:			
Undesignated (Deficit), Reported in:			
General Fund	2,831,895	0	0
Special Revenue Funds	0	7,588	0
Debt Service Fund	0	0	0
Capital Projects Funds	0	0	1,902,312
<i>Total Fund Balances</i>	<u>\$3,116,990</u>	<u>\$171,712</u>	<u>\$1,902,312</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>\$1,806,789</u>	<u>\$1,163,528</u>	<u>\$1,601,450</u>	<u>\$9,762,781</u>
<u>\$1,806,789</u>	<u>\$1,163,528</u>	<u>\$1,601,450</u>	<u>\$9,762,781</u>
\$0	\$45,846	\$463,047	\$958,112
0	0	0	2,831,895
0	1,117,682	628,464	1,753,734
0	0	304,663	304,663
<u>1,806,789</u>	<u>0</u>	<u>205,276</u>	<u>3,914,377</u>
<u>\$1,806,789</u>	<u>\$1,163,528</u>	<u>\$1,601,450</u>	<u>\$9,762,781</u>

VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2006

Total Governmental Fund Balances	<u>\$9,762,781</u>
<i>Net Assets of Governmental Activities</i>	<u>\$9,762,781</u>

See accompanying notes to the basic financial statements

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**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Modified-Cash Basis Fund Balances
Governmental Funds
December 31, 2006*

	General	Street Construction, Maintenance, and Repair	Property Improvement	Waste Water Treatment Plant Expansion	Police and Fire Levy
Receipts					
Municipal Income Taxes	\$2,823,774	\$0	\$0	\$0	\$0
Property and Other Local Taxes	799,998	0	0	0	616,992
Special Assessments	0	0	0	228,522	0
Charges for Services	62,065	0	0	0	0
Fines, Licenses and Permits	51,424	16,813	0	0	0
Intergovernmental	211,397	133,289	843,645	0	80,067
Interest	267,586	0	0	66,659	0
Miscellaneous	127,729	5,324	11,424	0	0
<i>Total Receipts</i>	<u>4,343,973</u>	<u>155,426</u>	<u>855,069</u>	<u>295,181</u>	<u>697,059</u>
Disbursements					
Current:					
General Government	1,077,331	0	0	0	0
Security of Persons and Property	1,004,336	0	0	0	366,226
Public Health Services	14,966	0	0	0	0
Community Environment	62,930	0	0	0	0
Basic Utility Services	692,135	0	0	4,306	0
Transportation	82,648	557,536	0	0	0
Capital Outlay	63,274	0	500,000	99,779	0
Debt Service:					
Principal Retirement	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0
<i>Total Disbursements</i>	<u>2,997,620</u>	<u>557,536</u>	<u>500,000</u>	<u>104,085</u>	<u>366,226</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,346,353</u>	<u>(402,110)</u>	<u>355,069</u>	<u>191,096</u>	<u>330,833</u>
Other Financing Sources (Uses)					
Transfers In	0	350,000	0	0	0
Transfers Out	(500,000)	0	0	0	(80,000)
Advances In	1,240,000	0	0	0	0
Advances Out	(1,303,000)	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(563,000)</u>	<u>350,000</u>	<u>0</u>	<u>0</u>	<u>(80,000)</u>
<i>Net Change in Fund Balances</i>	783,353	(52,110)	355,069	191,096	250,833
<i>Fund Balances Beginning 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>
<i>Fund Balances End of Year</i>	<u>\$3,116,990</u>	<u>\$171,712</u>	<u>\$1,902,312</u>	<u>\$1,806,789</u>	<u>\$1,163,528</u>

See accompanying notes to the basic financial statements

Other Governmental Funds	Total Governmental Funds
\$0	\$2,823,774
144,445	1,561,435
318,560	547,082
22,462	84,527
125	68,362
119,445	1,387,843
14,707	348,952
0	144,477
<u>619,744</u>	<u>6,966,452</u>
	1,077,331
154,283	1,524,845
2,348	17,314
0	62,930
447,069	1,143,510
35,778	675,962
11,749	674,802
105,000	105,000
<u>70,089</u>	<u>70,089</u>
<u>826,316</u>	<u>5,351,783</u>
<u>(206,572)</u>	<u>1,614,669</u>
230,000	580,000
0	(580,000)
1,303,000	2,543,000
<u>(1,240,000)</u>	<u>(2,543,000)</u>
<u>293,000</u>	<u>0</u>
86,428	1,614,669
<u>1,515,022</u>	<u>8,148,112</u>
<u>\$1,601,450</u>	<u>\$9,762,781</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, 2006*

Net Change in Fund Balances - Total Governmental Funds	<u>\$1,614,669</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$1,614,669</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, 2006

	Budgeted Amounts			(Optional)
	Original	Final	Actual	Variance with Final Budget Positive (Negative)
Receipts				
Municipal Income Taxes	\$2,357,610	\$2,357,610	\$2,823,774	\$466,164
Property and Other Local Taxes	667,930	667,930	799,998	132,068
Charges for Services	51,819	51,819	62,065	10,246
Fines, Licenses and Permits	42,935	42,935	51,424	8,489
Intergovernmental	176,498	176,498	211,397	34,899
Interest	223,411	223,411	267,586	44,175
Miscellaneous	106,643	106,643	127,729	21,086
<i>Total receipts</i>	<u>3,626,846</u>	<u>3,626,846</u>	<u>4,343,973</u>	<u>717,127</u>
Disbursements				
Current:				
General Government	1,224,814	1,282,808	1,212,101	70,707
Security of Persons and Property	965,050	1,025,989	1,022,538	3,451
Public Health Services	14,966	14,966	14,966	0
Community Environment	64,580	70,190	63,907	6,283
Basic Utility Services	756,937	796,228	748,549	47,679
Transportation	108,373	113,998	98,062	15,936
Capital Outlay	131,500	141,649	122,591	19,058
<i>Total Disbursements</i>	<u>3,266,220</u>	<u>3,445,828</u>	<u>3,282,714</u>	<u>163,114</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>360,626</u>	<u>181,018</u>	<u>1,061,259</u>	<u>880,241</u>
Other Financing Sources (Uses)				
Transfers Out	(228,657)	(528,657)	(500,000)	28,657
Advances In	0	0	1,240,000	1,240,000
Advances Out	(1,303,000)	(1,303,000)	(1,303,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,531,657)</u>	<u>(1,831,657)</u>	<u>(563,000)</u>	<u>1,268,657</u>
<i>Net Change in Fund Balance</i>	<u>(1,171,031)</u>	<u>(1,650,639)</u>	<u>498,259</u>	<u>2,148,898</u>
<i>Fund Balance Beginning of Year</i>	<u>2,203,528</u>	<u>2,203,528</u>	<u>2,203,528</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>130,108</u>	<u>130,108</u>	<u>130,108</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$1,162,605</u>	<u>\$682,997</u>	<u>\$2,831,895</u>	<u>\$2,148,898</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, 2006*

	Budgeted Amounts			(Optional) Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Fines, Licenses and Permits	\$21,635	\$21,635	\$16,813	(\$4,822)
Intergovernmental	178,365	178,365	133,289	(45,076)
Miscellaneous	0	0	5,324	5,324
<i>Total receipts</i>	<u>200,000</u>	<u>200,000</u>	<u>155,426</u>	<u>(44,574)</u>
Disbursements				
Current:				
Transportation	577,663	766,931	721,660	45,271
<i>Total Disbursements</i>	<u>577,663</u>	<u>766,931</u>	<u>721,660</u>	<u>45,271</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(377,663)</u>	<u>(566,931)</u>	<u>(566,234)</u>	<u>697</u>
Other Financing Sources (Uses)				
Transfers In	600,000	350,000	350,000	0
<i>Total Other Financing Sources (Uses)</i>	<u>600,000</u>	<u>350,000</u>	<u>350,000</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	222,337	(216,931)	(216,234)	697
<i>Fund Balance Beginning of Year</i>	56,554	56,554	56,554	0
Prior Year Encumbrances Appropriated	167,268	167,268	167,268	0
<i>Fund Balance End of Year</i>	<u>\$446,159</u>	<u>\$6,891</u>	<u>\$7,588</u>	<u>\$697</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, 2006*

	Budgeted Amounts		Actual	(Optional) Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$615,537	\$615,537	\$616,992	\$1,455
Intergovernmental	79,879	79,879	80,067	188
<i>Total receipts</i>	<u>695,416</u>	<u>695,416</u>	<u>697,059</u>	<u>1,643</u>
Disbursements				
Current:				
Security of Persons and Property	412,128	412,128	412,072	56
<i>Total Disbursements</i>	<u>412,128</u>	<u>412,128</u>	<u>412,072</u>	<u>56</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>283,288</u>	<u>283,288</u>	<u>284,987</u>	<u>1,699</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>	203,288	203,288	204,987	1,699
<i>Fund Balance Beginning of Year</i>	<u>912,695</u>	<u>912,695</u>	<u>912,695</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$1,115,983</u></u>	<u><u>\$1,115,983</u></u>	<u><u>\$1,117,682</u></u>	<u><u>\$1,699</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, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$106,444</u>
<i>Total Assets</i>	<u><u>\$106,444</u></u>
Net Assets	
Unrestricted	<u><u>\$106,444</u></u>

See accompanying notes to the basic financial statements

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**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

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 of 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 ensuring 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 Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308.

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, 2006
(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, 2006
(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, 2006. 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 a 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, 2006
(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, object 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, 2006
(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 \$249,119. Of the Village's bank balance of \$262,898, \$162,898 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, 2006
(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, 2006, the Village had the following investments:

Investment Type	Carrying Value	Investment Maturity
STAR Ohio	\$ 4,850,106	< 6 Months
FHLB	250,000	29 days
FHLB	1,000,000	16 days
FHLB	500,000	21 Months
FHLB	500,000	22 Months
FHLB	500,000	22 Months
FHLB	500,000	10 Months
Repurchase Agreement -Sweep Account	1,520,000	1 day
Total	<u>\$ 9,620,106.00</u>	

The weighted average maturity is 10 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 34%, 50% and 16% respectively.

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)**

NOTE 4. COMPLIANCE

A. Appropriations exceeded Estimated Revenues

As of July 31, 2006, 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:			
Street Construction, Maintenance & Repair	\$223,822	\$744,931	\$521,109
Capital Projects Funds:			
South Woodland/River Road	299	71,061	70,762
Chagrin River Road Resurfacing	37	159,000	158,963
Miles Road Resurfacing	354	116,000	115,646
Historic Falls Road Improvement	0	164,000	164,000
Chagrin River Road Widening	11,952	250,705	238,753
Bentleyville Road Watermain	317,626	983,848	666,222

These variances were corrected by December 31, 2006.

B. Negative Cash Fund Balances

As of July 31, 2006, the following funds had negative cash fund balances in violation of Section 5705.10, revised code:

<u>Fund</u>	<u>Cash Fund Balance</u>
Special Revenue Fund:	
Water Maintenance and Repair	(\$2,848)
Capital Projects Funds:	
Chagrin River Road Resurfacing	(4,222)
Miles Road Resurfacing	(25,402)

These negative fund balances were corrected by December 31, 2006.

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)**

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.

NOTE 7. DEBT

Debt outstanding as of December 31, 2006:

	<u>Principal</u>	<u>Interest Rate</u>
1989 Street Improvement Bonds	\$145,000	6-7.5%
1998 Various Purpose Imp. Bonds	1,040,000	4.55 and 5.125%
Total	<u>\$1,185,000</u>	

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

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)**

NOTE 7. DEBT (Continued)

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

Year ending December 31:	Street Improvement	Various Purpose Improvement	Total
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	-	112,413	112,413
2012-2016	-	574,281	574,281
2017-2018	-	220,887	220,887
Total	<u>\$ 166,750</u>	<u>\$ 1,405,426</u>	<u>\$ 1,572,176</u>

NOTE 8. RETIREMENT SYSTEMS

A. Ohio Public Employees Retirement System

The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2006, the members of all three plans were required to contribute 9 percent of their annual covered salaries. The Village's contribution rate for pension benefits for 2006 was 13.7 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)**

NOTE 8. RETIREMENT SYSTEMS (Continued)

A. Ohio Public Employees Retirement System (Continued)

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$88,832, \$95,489 and \$83,809 respectively; The full amount has been contributed for 2006, 2005 and 2004.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the Village is required to contribute 19.5 percent for police officers. Contributions are authorized by State statute. The Village's contributions to the Fund for police and were \$93,080 for the year ended December 31, 2006, \$89,231 and \$81,508 for the years ended December 31, 2005 and December 31, 2004. The full amount has been contributed for 2006, 2005 and 2004.

NOTE 9. POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)**

NOTE 9. POSTEMPLOYMENT BENEFITS (Continued)

A. Ohio Public Employees Retirement System (Continued)

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$43,451. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. Police and Firemen's Disability and Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The Village's actual contributions for 2006 that were used to fund postemployment benefits were \$61,394 for police. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)**

NOTE 10. 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 11. 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 2006, the Village paid \$123,106 to the Chagrin Valley Engineering, Ltd.

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Mary Taylor, CPA

Auditor of State

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

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, 2006, which collectively comprise the Village's basic financial statements and have issued our report thereon dated July 25, 2007. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We do not believe the significant deficiency described above is a material weakness.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated July 25, 2007.

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 matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

We also noted a certain noncompliance or other matter that we reported to the Village's management in a separate letter dated July 25, 2007.

The Village's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

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



Mary Taylor, CPA
Auditor of State

July 25, 2007

VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006

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

FINDING NUMBER 2006-001

Noncompliance and Significant Deficiency - Appropriations Exceeding Estimated Resources

Ohio Revised Code Section 5705.39 prohibits appropriations from each fund from exceeding the total estimated resources.

We noted the following funds had appropriations exceeding estimated resources as of July 31, 2006:

<u>Fund</u>	<u>Total Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Special Revenue Fund:			
Street Construction, Maintenance & Repair	\$223,822	\$744,931	\$521,109
Capital Projects Funds:			
South Woodland/River Road	299	71,061	70,762
Chagrin River Road Resurfacing	37	159,000	158,963
Miles Road Resurfacing	354	116,000	115,646
Historic Falls Road Improvement	0	164,000	164,000
Chagrin River Road Widening	11,952	250,705	238,753
Bentyville Road Watermain	317,626	983,848	666,222

These variances were corrected by December 31, 2006.

We recommend the Village monitor and amend the appropriations and certificate of estimated resources to ensure that appropriations do not exceed estimated resources and that all transfers and advances are included on the Certificate of Estimated Resources.

Management's Response

The Village will include all future transfers and advances on the Certificate of Estimated Resources filed with the County Auditor and monitor the appropriations versus estimated resources to ensure compliance with the above Revised Code section.

**VILLAGE OF MORELAND HILLS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Ohio Revised Code Section 5705.10 – Negative Fund Balances	Not fully corrected	Re-issued in the management letter.



Mary Taylor, CPA
Auditor of State

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
SEPTEMBER 11, 2007