

Village of Middlefield

Geauga County

For the Year Ended December 31, 2011

**Village of Middlefield
Geauga County**

Year ended December 31, 2011

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Village of Middlefield
Geauga County
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(unaudited)

The discussion and analysis of the Village of Middlefield's (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2011, within the limitations of the Village's cash basis of accounting. The intent of this discussion and analysis is to look at the Village's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Village's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- This annual report is presented on a cash basis of accounting.
- For governmental activities, 2011 net assets were \$3,143,350. For business-type activities, 2011 net assets were \$1,369,950.
- In 2011, general receipts accounted for \$3,086,042 (excluding transfers) in revenue or 88 percent of all governmental activities receipts. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$417,771 or 12 percent of total governmental activities revenues of \$3,503,813.
- In 2011, the Village had \$3,778,948 in expenses related to governmental activities; only \$417,771 of these expenses was offset by program specific charges for services, grants or contributions. General receipts (primarily municipal taxes) of \$3,086,042 were not adequate to provide for these programs.
- In 2011, among major funds, the general fund had \$700,513 in revenues and \$1,680,342 in expenditures. The general fund's fund balance increased by \$93,559 to \$199,691.
- In 2011, for business-type activities, program revenues were \$1,294,661. These offset expenses of \$1,101,519.

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

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

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

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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 cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the 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 cash basis of accounting.

Reporting the Village as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The analyses of the Village's major funds are on page 8. Fund financial reports provide detailed information about the Village's major funds. The Village uses many funds to account for a multitude of financial transactions. However, these financial statements focus on the Village's most significant funds. The Village's major governmental funds are the general fund, income tax fund, and recreation center construction. The Village's major proprietary funds are the water fund, sewer fund, sewer capital improvement and new well capital improvement fund (2011).

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

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

Notes to the Basic Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Village as a Whole

Tables 1 provide a summary of the Village's net assets for 2011 compared to 2010 on the cash basis:

Table 1

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Cash and investments	\$ 3,143,350	\$ 3,402,485	\$ 1,369,950	\$ 1,192,808	\$ 4,513,300	\$ 4,595,293
<i>Total Assets</i>	<u>3,143,350</u>	<u>3,402,485</u>	<u>1,369,950</u>	<u>1,192,808</u>	<u>4,513,300</u>	<u>4,595,293</u>
Net Assets:						
Restricted						
Capital projects	1,192,590	1,192,620	-	-	1,192,590	1,192,620
Other purposes	1,751,069	2,103,733	-	-	1,751,069	2,103,733
Unrestricted	<u>199,691</u>	<u>106,132</u>	<u>1,369,950</u>	<u>1,192,808</u>	<u>1,569,641</u>	<u>1,298,940</u>
<i>Total Net Assets</i>	<u>\$ 3,143,350</u>	<u>\$ 3,402,485</u>	<u>\$ 1,369,950</u>	<u>\$ 1,192,808</u>	<u>\$ 4,513,300</u>	<u>\$ 4,595,293</u>

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Table 2 shows the net changes in net assets for 2011 and 2010.

Table 2

	Governmental <u>Activities</u>		Business-Type <u>Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Receipts:						
Program Receipts:						
Charges for services and sales	\$ 265,970	\$ 290,909	\$ 1,294,661	\$ 1,202,968	\$ 1,560,631	\$ 1,493,877
Operating grants and contributions	36,345	158,578	-	-	36,345	158,578
Capital grants and contributions	115,456	-	-	-	115,456	-
General Receipts:						
Property taxes	464,457	586,028	-	-	464,457	586,028
Municipal income taxes	2,366,581	2,221,409	-	-	2,366,581	2,221,409
Grants and entitlements	123,617	122,618	-	-	123,617	122,618
Interest	7,039	15,144	-	-	7,039	15,144
Sale of capital assets	89,888	-	-	-	89,888	-
Miscellaneous	34,460	40,111	-	-	34,460	40,111
Transfers	<u>16,000</u>	<u>10,979</u>	<u>(16,000)</u>	<u>(10,979)</u>	<u>-</u>	<u>-</u>
Total Receipts	<u>3,519,813</u>	<u>3,445,776</u>	<u>1,278,661</u>	<u>1,191,989</u>	<u>4,798,474</u>	<u>4,637,765</u>
Disbursements:						
Current:						
General government	614,917	720,120	-	-	614,917	720,120
Security of persons and property	1,206,075	1,206,685	-	-	1,206,075	1,206,685
Public health services	108,479	24,131	-	-	108,479	24,131
Leisure time activities	325,101	262,205	-	-	325,101	262,205
Community environment	101,280	53,467	-	-	101,280	53,467
Basic utility services	11,336	71,759	-	-	11,336	71,759
Transportation	269,399	273,691	-	-	269,399	273,691
Capital outlay	97,332	64,669	-	-	97,332	64,669
Debt Service:						
Principal retirement	912,273	906,736	-	-	912,273	906,736
Interest and fiscal charges	132,756	138,291	-	-	132,756	138,291
Water	-	-	496,057	426,938	496,057	426,938
Sewer	<u>-</u>	<u>-</u>	<u>605,462</u>	<u>551,048</u>	<u>605,462</u>	<u>551,048</u>
Total Disbursements	<u>3,778,948</u>	<u>3,721,754</u>	<u>1,101,519</u>	<u>977,986</u>	<u>4,880,467</u>	<u>4,699,740</u>
Changes in Net Assets	<u>\$ (259,135)</u>	<u>\$ (275,978)</u>	<u>\$ 177,142</u>	<u>\$ 214,003</u>	<u>\$ (81,993)</u>	<u>\$ (61,975)</u>

For governmental activities, net assets decreased \$259,135 in 2011, which represents an 8 percent decrease from 2010.

In 2011, general receipts accounted for \$3,086,042 in revenue or 88 percent of all governmental receipts (excluding transfers). Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$417,771 or 12 percent of total governmental revenues of \$3,503,813.

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(unaudited)

Governmental Activities

In 2011, net assets of the Village's governmental activities decreased by \$259,135. The governmental expenses of \$3,778,948 were primarily offset by program revenues of \$417,771, general revenues of \$3,086,042 and the prior year cash balance. Program revenues supported 11% of the total governmental activities.

In 2011, the primary sources of revenue for governmental activities are derived from property taxes, and income taxes. These two revenue sources represent 92% of total general revenue.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Tables 3 shows, for governmental activities the total cost of services and the net cost of services for 2011 and 2010. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

**Table 3
Program Expenses**

	<u>2011</u>		<u>2010</u>		<u>Net Change</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
<i>Governmental Activities:</i>						
General government	\$ 614,917	\$ (547,756)	\$ 720,120	\$ (644,453)	\$ (105,203)	\$ 96,697
Security of persons and property	1,206,075	(1,090,172)	1,206,685	(1,067,076)	(610)	(23,096)
Public health services	108,479	(85,242)	24,131	(9,034)	84,348	(76,208)
Leisure time activities	325,101	(259,535)	262,205	(194,888)	62,896	(64,647)
Community environment	101,280	(101,280)	53,467	(53,467)	47,813	(47,813)
Basic utility services	11,336	6,754	71,759	(53,574)	(60,423)	60,328
Transportation	269,399	(141,585)	273,691	(140,079)	(4,292)	(1,506)
Capital outlay	97,332	(97,332)	64,669	(64,669)	32,663	(32,663)
Debt service:						
Principal retirement	912,273	(912,273)	906,736	(906,736)	5,537	(5,537)
Interest and fiscal charges	132,756	(132,756)	138,291	(138,291)	(5,535)	5,535
<i>Business-Type Activities:</i>						
Water	496,057	123,937	426,938	130,959	69,119	(7,022)
Sewer	605,462	69,203	551,048	94,014	54,414	(24,811)
Water emergency	-	2	-	9	-	(7)
Total expenses	<u>\$ 4,880,467</u>	<u>\$ (3,168,035)</u>	<u>\$ 4,699,740</u>	<u>\$ (3,047,285)</u>	<u>\$ 180,727</u>	<u>\$ (120,750)</u>

For 2011 and 2010, 11 and 9 percent of general government activities were supported through program revenues, respectively. For all governmental activities, general revenue and prior year cash balance support is all expenses as shown in the above table. The community, as a whole, is by far the primary support for the Village of Middlefield.

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Management's Discussion and Analysis
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(unaudited)

Business-type Activities

The dependence upon program revenues is apparent as 100 percent of business-type activities are supported through these receipts for 2011. The infrastructure is beginning to age but the Village has ongoing maintenance projects to upgrade the infrastructure.

The Village's Funds

In 2011, all governmental funds had total revenues of \$3,413,925 and expenditures of \$3,778,948. The net change in fund balance for the year was most significant in the income tax fund, where the fund balance decreased by \$318,020 for 2011.

General Fund Budgeting Highlights

The Village's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted funds are the general and the income tax funds.

During the course of 2011 the Village amended its general and income tax fund budget a few times. The Village uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

In 2011, for the general fund, original and final budget basis revenue and other financing sources was \$1,665,621. Total actual revenues were \$1,790,401. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$1,696,842, \$73,521 under the final budget of \$1,770,363.

In 2011, for the income tax fund, original and final budget basis revenue was \$2,350,000. Total actual revenues were \$2,354,578. Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$2,672,598, \$787,914 under the final budget of \$3,460,512.

Debt Administration

Debt

At December 31, 2011, the Village had \$440,513 in OPWC loans and \$13,925,653 in OWDA loans with \$916,521 due within one year. These issues were used for improvements to the Village's water and sewer systems. See Note 11 to the financial statements.

Current Financial Related Activities

The Village of Middlefield is strong financially. As the preceding information shows, the Village heavily depends on its property/income taxpayers. However, financially the future is not without challenges.

Contacting the District's Financial Management

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

Village of Middlefield
Geauga County
Statement of Net Assets - Modified Cash Basis
December 31, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in pooled cash and cash equivalents	\$ 1,210,293	\$ 744,036	\$ 1,954,329
Cash in segregated accounts	120,665	-	120,665
Investments	1,812,392	625,914	2,438,306
Total assets	<u>3,143,350</u>	<u>1,369,950</u>	<u>4,513,300</u>
Net Assets			
Restricted for:			
Capital projects	1,110,750	-	1,110,750
Other purposes	1,832,909	-	1,832,909
Unrestricted	199,691	1,369,950	1,569,641
Total net assets	<u>\$ 3,143,350</u>	<u>\$ 1,369,950</u>	<u>\$ 4,513,300</u>

See accompanying notes to the financial statements.

Village of Middlefield
Geauga County
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2011

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 614,917	\$ 63,579	\$ 3,582	\$ -	\$ (547,756)	\$ -	\$ (547,756)
Security of persons and property	1,206,075	98,572	17,331	-	(1,090,172)	-	(1,090,172)
Public health services	108,479	23,237	-	-	(85,242)	-	(85,242)
Leisure time activities	325,101	57,382	8,184	-	(259,535)	-	(259,535)
Community environment	101,280	-	-	-	(101,280)	-	(101,280)
Basic utility services	11,336	18,090	-	-	6,754	-	6,754
Transportation	269,399	5,110	7,248	115,456	(141,585)	-	(141,585)
Capital outlay	97,332	-	-	-	(97,332)	-	(97,332)
Debt service:							
Principal retirement	912,273	-	-	-	(912,273)	-	(912,273)
Interest and fiscal charges	132,756	-	-	-	(132,756)	-	(132,756)
Total governmental activities	3,778,948	265,970	36,345	115,456	(3,361,177)	-	(3,361,177)
Business Type Activity							
Water	496,057	619,994	-	-	-	123,937	123,937
Sewer	605,462	674,665	-	-	-	69,203	69,203
Water Emergency	-	2	-	-	-	2	2
Total business-type activities	1,101,519	1,294,661	-	-	-	193,142	193,142
Total government	\$ 4,880,467	\$ 1,560,631	\$ 36,345	\$ 115,456	(3,361,177)	193,142	(3,168,035)
General Receipts							
Municipal income taxes levied for:							
General purposes					15,585	-	15,585
Security of persons and property					2,350,996	-	2,350,996
Property taxes levied for:							
General purposes					352,815	-	352,815
Security of persons and property					111,642	-	111,642
Grants and entitlements not restricted to specific programs					123,617	-	123,617
Sale of capital assets					89,888	-	89,888
Interest					7,039	-	7,039
Miscellaneous					34,460	-	34,460
Total general receipts					3,086,042	-	3,086,042
Transfers					16,000	(16,000)	-
Total general receipts and transfers					3,102,042	(16,000)	-
Change in net assets					(259,135)	177,142	(81,993)
Net assets beginning of year					3,402,485	1,192,808	4,595,293
Net assets end of year					\$ 3,143,350	\$ 1,369,950	\$ 4,513,300

See accompanying notes to the financial statements.

Village of Middlefield
Geauga County
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2011

	<u>General</u>	<u>Income Tax</u>	<u>Recreation Center Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in pooled cash and cash equivalents	\$ 199,691	\$ 19,433	\$ 25,628	\$ 965,541	\$ 1,210,293
Cash in segregated accounts	-	118,365	-	2,300	120,665
Investments	-	1,237,425	500,000	74,967	1,812,392
Total assets	<u>\$ 199,691</u>	<u>\$ 1,375,223</u>	<u>\$ 525,628</u>	<u>\$ 1,042,808</u>	<u>\$ 3,143,350</u>
Fund Balances					
Restricted	-	1,375,223	525,628	1,042,808	2,943,659
Unassigned	199,691	-	-	-	199,691
Total fund balances	<u>\$ 199,691</u>	<u>\$ 1,375,223</u>	<u>\$ 525,628</u>	<u>\$ 1,042,808</u>	<u>\$ 3,143,350</u>

See accompanying notes to the financial statements.

Village of Middlefield
Geauga County
Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	Income Tax	Recreation Center Construction	Other Governmental Funds	Total Governmental Funds
Receipts					
Municipal income taxes	\$ 15,585	\$ 2,350,996	\$ -	\$ -	\$ 2,366,581
Property and other local taxes	352,815	-	-	111,642	464,457
Charges for services	103,339	-	-	86,757	190,096
Fines, licenses and permits	58,724	-	-	745	59,469
Intergovernmental	128,550	-	-	117,096	245,646
Gifts and contributions	-	-	-	13,049	13,049
Interest	7,039	-	-	3	7,042
Miscellaneous	34,461	3,582	-	29,542	67,585
Total receipts	700,513	2,354,578	-	358,834	3,413,925
Disbursements					
Current:					
General government	381,706	233,211	-	-	614,917
Security of persons and property	1,045,797	-	-	160,278	1,206,075
Public health services	-	58,482	-	49,997	108,479
Leisure time activities	106,266	81,986	-	136,849	325,101
Community environment	81,394	19,886	-	-	101,280
Basic utility services	11,336	-	-	-	11,336
Transportation	53,843	84,039	-	131,517	269,399
Capital outlay	-	-	-	97,332	97,332
Debt service:					
Principal retirement	-	904,238	-	8,035	912,273
Interest and fiscal charges	-	132,756	-	-	132,756
Total disbursements	1,680,342	1,514,598	-	584,008	3,778,948
Excess of receipts over (under) disbursements	(979,829)	839,980	-	(225,174)	(365,023)
Other financing sources (uses)					
Sale of capital assets	89,888	-	-	-	89,888
Transfers in	1,000,000	-	-	205,500	1,205,500
Transfers out	(16,500)	(1,158,000)	-	(15,000)	(1,189,500)
Total other financing sources (uses)	1,073,388	(1,158,000)	-	190,500	105,888
Net change in fund balance	93,559	(318,020)	-	(34,674)	(259,135)
Fund balances beginning of year	106,132	1,693,243	525,628	1,077,482	3,402,485
Fund balances end of year	\$ 199,691	\$ 1,375,223	\$ 525,628	\$ 1,042,808	\$ 3,143,350

See accompanying notes to the financial statements.

Village of Middlefield
Geauga County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Municipal income taxes	\$ 7,272	\$ 7,272	\$ 15,585	\$ 8,313
Property and other local taxes	321,730	321,730	352,815	31,085
Charges for services	150,600	150,600	103,339	(47,261)
Fines, licenses and permits	46,800	46,800	58,724	11,924
Intergovernmental	119,179	119,179	128,550	9,371
Interest	20,000	20,000	7,039	(12,961)
Miscellaneous	40	40	34,461	34,421
Total receipts	665,621	665,621	700,513	34,892
Disbursements				
Current:				
General government	382,222	382,222	381,706	516
Security of persons and property	1,086,372	1,086,372	1,045,797	40,575
Leisure time activities	107,020	107,020	106,266	754
Community environment	84,006	84,006	81,394	2,612
Basic utility services	11,337	11,337	11,336	1
Transportation	57,947	57,947	53,843	4,104
Total disbursements	1,728,904	1,728,904	1,680,342	48,562
Excess of receipts under disbursements	(1,063,283)	(1,063,283)	(979,829)	83,454
Other financing sources (uses)				
Sale of capital assets	-	-	89,888	89,888
Transfers in	1,000,000	1,000,000	1,000,000	-
Transfers out	(41,459)	(41,459)	(16,500)	24,959
Total other financing sources (uses)	958,541	958,541	1,073,388	114,847
Net change in fund balance	(104,742)	(104,742)	93,559	198,301
Fund balance at beginning of year	106,132	106,132	106,132	-
Fund balance at end of year	\$ 1,390	\$ 1,390	\$ 199,691	\$ 198,301

See accompanying notes to the financial statements.

Village of Middlefield
Geauga County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Income Tax Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Municipal income taxes	\$ 2,350,000	\$ 2,350,000	\$ 2,350,996	\$ 996
Miscellaneous	-	-	3,582	3,582
Total receipts	<u>2,350,000</u>	<u>2,350,000</u>	<u>2,354,578</u>	<u>4,578</u>
Disbursements				
Current:				
General government	446,070	446,070	233,211	212,859
Public health services	58,482	58,482	58,482	-
Leisure time activities	81,987	81,987	81,986	1
Community environment	19,886	19,886	19,886	-
Transportation	659,091	659,091	84,039	575,052
Debt service:				
Principal retirement	933,084	933,084	904,238	28,846
Interest and fiscal charges	103,912	103,912	132,756	(28,844)
Total disbursements	<u>2,302,512</u>	<u>2,302,512</u>	<u>1,514,598</u>	<u>787,914</u>
Excess of receipts over disbursements	<u>47,488</u>	<u>47,488</u>	<u>839,980</u>	<u>792,492</u>
Other financing uses				
Transfers out	<u>(1,158,000)</u>	<u>(1,158,000)</u>	<u>(1,158,000)</u>	<u>-</u>
Net change in fund balance	(1,110,512)	(1,110,512)	(318,020)	792,492
Fund balance at beginning of year	<u>1,693,243</u>	<u>1,693,243</u>	<u>1,693,243</u>	<u>-</u>
Fund balance at end of year	<u>\$ 582,731</u>	<u>\$ 582,731</u>	<u>\$ 1,375,223</u>	<u>\$ 792,492</u>

See accompanying notes to the financial statements.

Village of Middlefield
Geauga County
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
December 31, 2011

	Water	Sewer	Sewer Capital Improvement	New Well Capital Improvement	Other Enterprise Fund	Total Enterprise Funds
Assets						
Equity in pooled cash and cash equivalents	\$ 332,858	\$ 214,173	\$ 114,532	\$ 53,763	\$ 28,710	\$ 744,036
Investments	-	-	350,000	225,000	50,914	625,914
Total assets	<u>\$ 332,858</u>	<u>\$ 214,173</u>	<u>\$ 464,532</u>	<u>\$ 278,763</u>	<u>\$ 79,624</u>	<u>\$ 1,369,950</u>
Net assets						
Unrestricted	<u>332,858</u>	<u>214,173</u>	<u>464,532</u>	<u>278,763</u>	<u>79,624</u>	<u>1,369,950</u>
Total net assets	<u><u>\$ 332,858</u></u>	<u><u>\$ 214,173</u></u>	<u><u>\$ 464,532</u></u>	<u><u>\$ 278,763</u></u>	<u><u>\$ 79,624</u></u>	<u><u>\$ 1,369,950</u></u>

See accompanying notes to the financial statements.

Village of Middlefield
Geauga County
Statement of Cash Receipts, Disbursements and Changes in Net Assets - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2011

	Water	Sewer	Sewer Capital Improvement	New Well Capital Improvement	Other Enterprise Fund	Total Enterprise Funds
Operating Receipts						
Charges for services	\$ 569,452	\$ 674,665	\$ -	\$ -	\$ -	\$ 1,244,117
Other operating receipts	50,542	-	-	-	2	50,544
Total operating receipts	619,994	674,665	-	-	2	1,294,661
Operating Disbursements						
Personal services	204,679	240,815	-	-	-	445,494
Travel and transportation	150	150	-	-	-	300
Contractual services	131,427	294,856	-	-	-	426,283
Supplies and materials	124,173	69,641	-	-	-	193,814
Total operating disbursements	460,429	605,462	-	-	-	1,065,891
Operating income	159,565	69,203	-	-	2	228,770
Non-operating disbursements						
Capital outlay	(6,785)	-	-	-	-	(6,785)
Principal retirement	(28,843)	-	-	-	-	(28,843)
Total non-operating disbursements	(35,628)	-	-	-	-	(35,628)
Income before transfers	123,937	69,203	-	-	2	193,142
Transfers						
Transfers in	-	-	2,000	-	-	2,000
Transfers out	(15,500)	(2,500)	-	-	-	(18,000)
Change in net assets	108,437	66,703	2,000	-	2	177,142
Net assets beginning of year	224,421	147,470	462,532	278,763	79,622	1,192,808
Net assets end of year	\$ 332,858	\$ 214,173	\$ 464,532	\$ 278,763	\$ 79,624	\$ 1,369,950

See accompanying notes to the financial statements.

Village of Middlefield
Geauga County
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Fund
December 31, 2011

	<u>Agency</u>
Assets	
Equity in pooled cash and cash equivalents	\$ 5,621
Investments	<u>153,648</u>
Total assets	<u>159,269</u>
Net Assets	
Restricted for:	
Deposits	<u>\$ 159,269</u>
Total net assets	<u>\$ 159,269</u>

See accompanying notes to the financial statements.

Village of Middlefield
Geauga County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2011

Note 1 – Reporting Entity

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

The reporting entity is comprised of the primary government, component units and other organizations that were included to ensure that the financial statements are not misleading.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The Village provides general government services, water and sewer utilities, maintenance of Village roads and bridges, park operations, and police services.

B. Component Units

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Village, are accessible to the Village and are significant in amount to the Village. The Village does not have any component units.

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2 C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. The Village has elected not to follow FASB guidance for business-type activities and enterprise funds issued after November 30, 1989. The more significant of the Village's accounting policies are described below. The Village does not apply FASB statements issued after November 30, 1989, to its governmental activities, business-type activities or to its enterprise funds. Following are the more significant of the Village's accounting policies.

Village of Middlefield
Geauga County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2011

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

Village of Middlefield
Geauga County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2011

B. Fund Accounting

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

Governmental Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The Village's major governmental funds are the general fund, income tax fund and the recreation construction fund. The general fund is used to account for all financial resources, except those required to be accounted for in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio. The income tax fund is used to account for the revenue raised by the Village income tax. The recreation construction fund is used to account for monies for the construction of the recreation center. The other governmental funds of the Village account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

The Village classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as enterprise.

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

Water Fund - The water fund accounts for the provision of water to the residents and commercial users located within the Village.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

Sewer Capital Improvement Fund - This fund is used to record tap-in-fees for new construction and expenditures that are used for sewer treatment expenses.

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

Fiduciary Funds

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village's agency fund accounts for bonds that are returned when construction is complete.

C. Basis of Accounting

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

Village of Middlefield
Geauga County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2011

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

D. Budgetary Process

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

The appropriation ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established at the fund, department, and object level for all funds.

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

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

E. Cash and Investments

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

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

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

During 2011, the Village invested in nonnegotiable certificates of deposit and STAR Ohio. The nonnegotiable certificates of deposit are reported at cost.

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

Village of Middlefield
Geauga County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2011

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the general fund during 2011 were \$7,039, which includes \$6,920 assigned from other Village funds.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Village had no restricted assets.

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Interfund Receivables/Payables

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

J. Accumulated Leave

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

K. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

The Village's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor capital outlay expenditures are reported at inception. Lease payments are reported when paid.

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Village of Middlefield
Geauga County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2011

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

N. Fund Balance

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

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

Restricted fund balance category includes amounts that can be spent only for the specific purpose stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

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

Assigned fund balance classification are intended to be used by the Village for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Village Council.

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

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

O. Interfund Transactions

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

Village of Middlefield
 Geauga County, Ohio
 Notes to the Financial Statements
 For the Years Ended December 31, 2011

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

Note 3 - Fund Balances

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

Fund Balances	<u>General</u>	<u>Income Tax</u>	<u>Recreation Center Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Restricted for</u>					
Income tax	-	1,375,223	-	-	1,375,223
Recreation center construction	-	-	525,628	-	525,628
Recreation center	-	-	-	34,602	34,602
Law enforcement	-	-	-	35,509	35,509
Street and highway repair	-	-	-	17,029	17,029
Cemetery	-	-	-	89,543	89,543
Amulance levy	-	-	-	141,541	141,541
Sick leave	-	-	-	136,801	136,801
Endowment	-	-	-	2,068	2,068
Trust	-	-	-	593	593
Capital improvements	-	-	-	585,122	585,122
Total restricted	<u>-</u>	<u>1,375,223</u>	<u>525,628</u>	<u>1,042,808</u>	<u>2,943,659</u>
Unassigned (deficit)	<u>199,691</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>199,691</u>
Total fund balances	<u>\$ 199,691</u>	<u>\$ 1,375,223</u>	<u>\$ 525,628</u>	<u>\$ 1,042,808</u>	<u>\$ 3,143,350</u>

Note 4 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund and income tax fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is that outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis).

Village of Middlefield
Geauga County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2011

Note 5 – Deposits and Investments

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

Active deposits are public deposits necessary to meet current demands on the Village treasury. Such 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 the Village has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by 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.

Interim monies may 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.

Village of Middlefield
 Geauga County, Ohio
 Notes to the Financial Statements
 For the Years Ended December 31, 2011

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

A. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Village's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105% of the deposits being secured.

At December 31, 2011, the carrying amount of the Village's deposits was \$1,843,050 and the Village's bank balance of \$1,943,932 was not exposed to custodial credit risk.

B. Investments

<u>Investment Type</u>	<u>Fair Value at 12/31/2011</u>	<u>Maturity</u>	<u>Rating</u>
Repurchase agreement	\$ 1,737,130	Daily	A-1 (1)
Investments reported in Income Tax fund:			
Star Ohio	1,037,425	57 (2)	AAAm (1)
Investments reported in other governmental funds:			
Star Ohio	4,967	57 (2)	AAAm (1)
Investments reported in Sewer Capital Improvement fund:			
Star Ohio	<u>50,000</u>	57 (2)	AAAm (1)
	<u>\$ 2,829,522</u>		

(1) Standard and Poor
 (2) Days (Average)

Village of Middlefield
Geauga County, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2011

Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Village will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the Village must meet a set of prescribed standards and be periodically reviewed. The Village's \$1,737,130 investment in repurchase agreements at December 31, 2011 is to be secured by the specific securities upon which the repurchase agreements are based. The investments in the repurchase agreements are held by the counterparty's trust department or agent and not in the Village's name.

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

Credit Risk - STAR Ohio, Federal Farm Credit Bank and Federal Home Loan Bank carries a rating of AAAM and A-1, respectively, by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Village has no policy that addresses credit risk.

Concentration of Credit Risk - The Village places no limit on the amount it may invest in any one issuer. The Village's 2011 investment (repurchase agreement) in Federal Farm Credit Bank and Federal Home Loan Bank represents 11% and 89%, respectively.

Note 6 – Income Taxes

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 the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village's Income Tax Department. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

Note 7 – Property Taxes

Property taxes include amounts levied against all real property and public utility property located in the Village. Real property tax receipts received in 2011 represent the collection of 2010 taxes. Real property taxes received in 2010 were levied after October 1, 2008, on the assessed values as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2011 represent the collection of 2009 taxes, respectively. Public utility real and tangible personal property taxes received in 2010 became a lien on December 31, 2008, were levied after October 1, 2008, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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The full tax rate for all Village operations for the year ended December 31, 2011 and 2010, was \$6.85 per \$1,000 of assessed value. The assessed values of real property and public utility property upon which 2011 and 2010 property tax receipts were based are as follows:

	<u>2011</u>	<u>2010</u>
Real property		
Residential and agricultural	\$ 44,089,970	\$ 44,498,330
Other	38,877,180	38,351,880
Public utility	<u>1,666,680</u>	<u>1,643,590</u>
Total assessed value	<u>\$ 84,633,830</u>	<u>\$ 84,493,800</u>

Note 8 – Risk Management

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

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

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

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

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

Note 9 – Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. 1.) The Traditional Pension Plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan. 2.) The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Members accumulate retirement assets equal to the value of the member and (vested) employer contributions, plus any investment earnings thereon. 3.) The Combined Plan (CP) - a cost-sharing, multiple-employer defined benefit pension 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 MD.

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, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

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Member and employer contributions rates were consistent across all three plans (TP, MD and CP). For the year ended December 31, 2011, Village employees were required to contribute 10% of their annual covered salary. The Village's contribution rate for 2011 was 14%. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional plan for the years ended December 31, 2011, 2010, 2009 and 2008 were \$91,534, \$88,866 and \$68,726, respectively. The full amount has been contributed for 2011, 2010 and 2009.

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

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the Village is required to contribute 19.5% for police officers, of which 12.75% was used to fund pension plans. Contributions are authorized by State statute. The Village's contributions to the Fund for the years ended December 31, 2011, 2010 and 2009 were \$71,419, \$69,706 and \$47,169, respectively, equal to the required contributions for each year. The full amount has been contributed for 2011, 2010, and 2009.

Note 10 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage, commonly referred to as OPEB (other postemployment benefits). OPERS administers three separate pension plans, the Traditional Pension Plan (TP), the Member-Directed Plan (MD) and the Combined Plan (CP), all of which are described in Note 9.

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

In order to qualify for post-retirement health care coverage, age and service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, the Village contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

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OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of the post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2011, 2010 and 2009 were \$50,852, \$49,370 and \$68,726,m respectively. The full amount has been contributed for 2011, 2010 and 2009. The actual contribution and the actuarially required contribution amounts are the same.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1, of each year from 2006 to 2008. Rates for law and public safety employees increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

OP&F provides access 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. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% of covered payroll for police employers. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units. Active members do not make contributions to the OPEB Plan.

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

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The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010 (latest information available), the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The Village's total contributions to OP&F for police healthcare for the years ending December 31, 2011, 2010 and 2009, were \$37,810, \$36,903 and \$24,972, respectively. The full amount has been contributed for 2011, 2010 and 2009.

Note 11 – Debt

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

	Balance at <u>1/1/2011</u>	<u>Increase</u>	<u>Decrease</u>	Balance at <u>12/31/2011</u>	Due within <u>one year</u>
O.P.W.C. Loans - 0%	\$ 575,701	\$ -	\$ 135,188	\$ 440,513	\$ 135,186
O.W.D.A. Loan #4463 - 0%	10,090,662	-	600,470	9,490,192	600,470
O.W.D.A. Loan #4756 - 2.75%	4,576,075	-	205,458	4,370,617	209,706
Capitalized Interest	<u>64,844</u>	-	-	<u>64,844</u>	-
	<u>\$ 15,307,282</u>	<u>\$ -</u>	<u>\$ 941,116</u>	<u>\$ 14,366,166</u>	<u>\$ 945,362</u>

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

The Ohio Water Development Authority loans were used for the Village's water and sewer expansion.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011 are as follows:

Year Ending December 31:	O.P.W.C Loans - <u>Principal</u>
2012	\$ 135,186
2013	135,186
2014	135,186
2015	<u>34,955</u>
Total	<u>\$ 440,513</u>

Final schedule of OWDA loans are not available until loans are fully disbursed or closed with the OEPA Project Coordinator.

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Note 12 - Interfund Transactions

The following is a reconciliation of the Village's transfers for 2011:

	2011	
Fund	Transfers In	Transfers Out
General	\$ 1,000,000	\$ 16,500
Income tax	-	1,158,000
Police levy	-	15,000
Equipment replacement	60,000	-
Recreation	80,000	-
Street construction, maintenance and repair	10,000	-
State highway	6,000	-
Cemetery	18,000	-
Sidewalks	20,000	-
Sick leave	11,500	-
Subtotal Nonmajor Governmental Funds	205,500	15,000
Sewer capital improvements	2,000	-
Water revenue	-	15,500
Sewer revenue	-	2,500
Total Enterprise Funds	2,000	18,000
Total	\$ 1,207,500	\$ 1,207,500

Transfers are made from the general fund to subsidize operations of other funds. Transfers are also made from other funds to move money for the payment of debt and capital expenditures. Transfers were in accordance with budgetary authorizations and Ohio Revised Code provisions.

Note 13 – Contingent Liabilities

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

The Village may be a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Village Solicitor, the resolution of these matters will not have a material adverse effect on the financial condition of the Village.