



**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2003



**Auditor of State
Betty Montgomery**

CITY OF OLMSTED FALLS
CUYAHOGA COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Olmsted Falls
Cuyahoga County
26100 Bagley Road
Olmsted Falls, Ohio 44138

We have audited the accompanying general-purpose financial statements of the City of Olmsted Falls, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Olmsted Falls, Cuyahoga County, Ohio as of December 31, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

November 9, 2004

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**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

*Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2003*

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				
Assets				
Equity in Pooled Cash and Cash Equivalents	\$842,204	\$1,934,369	\$736,093	\$2,634,862
Receivables:				
Income Tax	914,095	0	0	124,649
Property Tax	563,630	813,704	214,237	0
Accounts	21,367	55,414	0	0
Due From Other Funds	7,358	0	0	295,938
Due From Other Governments	168,844	208,478	15,718	0
Special Assessments	0	105,925	3,282,333	0
Materials and Supplies Inventory	4,887	0	0	0
Prepaid Items	102,934	0	0	0
Fixed Assets	0	0	0	0
Other Debits				
Amount Available in Debt Service Fund	0	0	0	0
Amount to be Provided from General Gov Resources	0	0	0	0
Total Assets and Other Debits	<u>2,625,319</u>	<u>3,117,890</u>	<u>4,248,381</u>	<u>3,055,449</u>
Liabilities, Fund Equity and Other Credits				
Accounts Payable	54,314	133,280	0	453,753
Due to Other Funds	10,938	0	0	0
Due to Other Governments	0	0	0	0
Compensated Absences Payable	0	0	0	0
Deferred Revenue	1,229,419	1,075,804	3,512,288	76,327
Deposits Held and Due to Others	0	0	0	0
Capital Lease Obligation Payable	0	0	0	0
Notes Payable	0	0	0	3,090,000
Ohio Water and Sewer Rotary Commission Loans Payable	0	0	0	0
Special Assessment Ohio Water Development Authority Loans Payable with Governmental Commitment	0	0	0	0
Total Liabilities	<u>1,294,671</u>	<u>1,209,084</u>	<u>3,512,288</u>	<u>3,620,080</u>
Fund Equity and Other Credits				
Investment in General Fixed Assets	0	0	0	0
Fund Balances:				
Reserved for Encumbrances	519,661	209,645	4,200	41,105
Designated for Capital Assets	0	0	0	1,534,326
Unreserved, Undesignated (Deficit)	810,987	1,699,161	731,893	(2,140,062)
Total Fund Equity and Other Credits	<u>1,330,648</u>	<u>1,908,806</u>	<u>736,093</u>	<u>(564,631)</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$2,625,319</u>	<u>\$3,117,890</u>	<u>\$4,248,381</u>	<u>\$3,055,449</u>

See accompanying notes to the general purpose financial statements

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Agency	General Fixed Assets	General Long-Term Obligations	
\$408,431	\$0	\$0	\$6,555,959
0	0	0	1,038,744
0	0	0	1,591,571
0	0	0	76,781
0	0	0	303,296
0	0	0	393,040
0	0	0	3,388,258
0	0	0	4,887
0	0	0	102,934
0	6,977,885	0	6,977,885
0	0	731,893	731,893
0	0	6,467,391	6,467,391
<u>408,431</u>	<u>6,977,885</u>	<u>7,199,284</u>	<u>27,632,639</u>
0	0	0	641,347
292,358	0	0	303,296
1,325	0	111,455	112,780
0	0	329,888	329,888
0	0	0	5,893,838
114,748	0	0	114,748
0	0	135,250	135,250
0	0	2,135,000	5,225,000
0	0	396,075	396,075
0	0	4,091,616	4,091,616
<u>408,431</u>	<u>0</u>	<u>7,199,284</u>	<u>17,243,838</u>
0	6,977,885	0	6,977,885
0	0	0	774,611
0	0	0	1,534,326
0	0	0	1,101,979
0	6,977,885	0	10,388,801
<u>\$408,431</u>	<u>\$6,977,885</u>	<u>\$7,199,284</u>	<u>\$27,632,639</u>

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Year Ended December 31, 2003*

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
Revenues:			
Local Taxes	\$2,644,605	\$736,400	\$231,812
Licenses and Permits	128,242	0	0
Intergovernmental	543,218	444,616	34,784
Charges for Services	172,863	315,303	0
Fines and Forfeitures	152,543	355	0
Special Assessments	0	100,100	281,751
Miscellaneous	74,850	520	6,438
<i>Total Revenues</i>	<u>3,716,321</u>	<u>1,597,294</u>	<u>554,785</u>
Expenditures:			
Current:			
General Government	1,446,482	13,785	4,600
Security Pers & Prop	2,101,242	456,252	0
Physical Environment	77,108	436,658	0
Transportation	391,097	488,728	0
Economic Environment	214,929	1,185	0
Public Health	24,682	47,358	0
Cultural & Rec	995	52,479	0
Debt Service:			
Principal	67,508	0	288,098
Interest and Fiscal Charges	9,614	0	229,524
Capital Outlay	34,507	195,704	0
<i>Total Expenditures</i>	<u>4,368,164</u>	<u>1,692,149</u>	<u>522,222</u>
<i>Excess of Revenues Over/ (Under) Expenditures</i>	<u>(651,843)</u>	<u>(94,855)</u>	<u>32,563</u>
Other Financing Sources and (Uses):			
OWDA Loans Issued	0	0	0
Sale of Fixed Assets	155,516	0	0
Transfer In	104,876	0	61,396
Transfers Out	(78,726)	(2,744)	0
<i>Total Other Financing Sources and (Uses)</i>	<u>181,666</u>	<u>(2,744)</u>	<u>61,396</u>
<i>Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing (Uses)</i>	<u>(470,177)</u>	<u>(97,599)</u>	<u>93,959</u>
<i>Fund Balances - at 01-01-2003</i>	<u>1,800,825</u>	<u>2,006,405</u>	<u>642,134</u>
<i>Fund Balances - at 12-31-2003</i>	<u><u>\$1,330,648</u></u>	<u><u>\$1,908,806</u></u>	<u><u>\$736,093</u></u>

See accompanying notes to the general purpose financial statements

Capital Projects	Totals (Memorandum Only)
\$274,727	\$3,887,544
0	128,242
296,466	1,319,084
0	488,166
0	152,898
225	382,076
33,350	115,158
<u>604,768</u>	<u>6,473,168</u>
7,523	1,472,390
0	2,557,494
0	513,766
5,000	884,825
0	216,114
0	72,040
0	53,474
0	355,606
43,484	282,622
<u>2,564,232</u>	<u>2,794,443</u>
<u>2,620,239</u>	<u>9,202,774</u>
<u>(2,015,471)</u>	<u>(2,729,606)</u>
374,314	374,314
5,000	160,516
0	166,272
<u>(59,132)</u>	<u>(140,602)</u>
<u>320,182</u>	<u>560,500</u>
(1,695,289)	(2,169,106)
<u>1,130,658</u>	<u>5,580,022</u>
<u>(\$564,631)</u>	<u>\$3,410,916</u>

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

*Combined Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For the Year Ended December 31, 2003*

	General Fund		
	Budget	Actual	Variance
Revenues:			
Local Taxes	\$2,588,664	\$2,632,792	\$44,128
Licenses and Permits	128,233	128,242	9
Intergovernmental	505,729	541,891	36,162
Charges for Services	176,222	181,608	5,386
Fines and Forfeitures	153,000	152,543	(457)
Miscellaneous	84,266	88,205	3,939
Special Assessments	0	0	0
<i>Total Revenues</i>	<u>3,636,114</u>	<u>3,725,281</u>	<u>89,167</u>
Expenditures:			
Current:			
General Government	1,696,182	1,625,142	71,040
Security Pers & Prop	2,448,543	2,395,505	53,038
Physical Environment	83,705	83,705	0
Transportation	546,926	502,083	44,843
Economic Environment	240,357	230,946	9,411
Public Health	24,682	24,682	0
Cultural & Rec	2,372	2,372	0
Debt Service:			
Principal	67,508	67,508	0
Interest and Fiscal Charges	9,614	9,614	0
Capital Outlay	34,907	34,907	0
<i>Total Expenditures</i>	<u>5,154,796</u>	<u>4,976,464</u>	<u>178,332</u>
<i>Excess of Revenues Over/ (Under) Expenditures</i>	<u>(1,518,682)</u>	<u>(1,251,183)</u>	<u>267,499</u>
Other Financing Sources and (Uses):			
Notes Issued	0	0	0
OWDA Loans Issued	0	0	0
Sale of Fixed Assets	155,516	155,516	0
Transfer In	104,876	104,876	0
Transfers Out	(78,726)	(78,726)	0
<i>Total Other Financing Sources and (Uses)</i>	<u>181,666</u>	<u>181,666</u>	<u>0</u>
<i>Excess of Revenues and Other Sources Over/(Under) Expenditures and Other (Uses)</i>	<u>(1,337,016)</u>	<u>(1,069,517)</u>	<u>267,499</u>
<i>Fund Balance - 12/31/02</i>	719,684	719,684	0
Prior Year Encumbrances Appropriated	618,060	618,060	0
<i>Fund Balance - 12/31/03</i>	<u>\$728</u>	<u>\$268,227</u>	<u>\$267,499</u>

Special Revenue Funds			Debt Service Funds		
Budget	Actual	Variance	Budget	Actual	Variance
\$729,010	\$736,400	\$7,390	\$233,564	\$231,812	(\$1,752)
0	0	0	0	0	0
414,032	437,747	23,715	31,436	34,784	3,348
311,529	263,023	(48,506)	0	0	0
1,300	355	(945)	0	0	0
0	520	520	6,439	6,438	(1)
99,000	100,100	1,100	290,629	281,751	(8,878)
<u>1,554,871</u>	<u>1,538,145</u>	<u>(16,726)</u>	<u>562,068</u>	<u>554,785</u>	<u>(7,283)</u>
18,250	14,582	3,668	9,200	8,800	400
503,364	472,645	30,719	0	0	0
704,006	611,711	92,295	0	0	0
765,452	567,665	197,787	0	0	0
3,350	1,210	2,140	0	0	0
49,800	47,358	2,442	0	0	0
165,873	76,216	89,657	0	0	0
0	0	0	2,463,000	2,423,098	39,902
0	0	0	279,000	229,525	49,475
554,243	211,042	343,201	0	0	0
<u>2,764,338</u>	<u>2,002,429</u>	<u>761,909</u>	<u>2,751,200</u>	<u>2,661,423</u>	<u>89,777</u>
<u>(1,209,467)</u>	<u>(464,284)</u>	<u>745,183</u>	<u>(2,189,132)</u>	<u>(2,106,638)</u>	<u>82,494</u>
0	0	0	2,135,000	2,135,000	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	40,629	61,396	20,767
(3,198)	(2,744)	(454)	0	0	0
<u>(3,198)</u>	<u>(2,744)</u>	<u>(454)</u>	<u>2,175,629</u>	<u>2,196,396</u>	<u>20,767</u>
(1,212,665)	(467,028)	745,637	(13,503)	89,758	103,261
1,573,507	1,573,507	0	637,934	637,934	0
484,965	484,965	0	4,200	4,200	0
<u>\$845,807</u>	<u>\$1,591,444</u>	<u>\$745,637</u>	<u>\$628,631</u>	<u>\$731,892</u>	<u>\$103,261</u>

(continued)

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

*Combined Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types (continued)
For the Year Ended December 31, 2003*

	Capital Projects Funds		
	Budget	Actual	Variance
Revenues:			
Local Taxes	\$272,000	\$273,608	\$1,608
Licenses and Permits	0	0	0
Intergovernmental	410,000	405,066	(4,934)
Charges for Services	0	0	0
Fines and Forfeitures	0	0	0
Miscellaneous	20,000	22,411	2,411
Special Assessments	3,600	225	(3,375)
<i>Total Revenues</i>	<u>705,600</u>	<u>701,310</u>	<u>(4,290)</u>
Expenditures:			
Current:			
General Government	213,473	7,723	205,750
Security Pers & Prop	0	0	0
Physical Environment	0	0	0
Transportation	0	0	0
Economic Environment	0	0	0
Public Health	0	0	0
Cultural & Rec	0	0	0
Debt Service:			
Principal	2,295,000	2,295,000	0
Interest and Fiscal Charges	43,500	43,484	16
Capital Outlay	4,292,833	4,192,511	100,322
<i>Total Expenditures</i>	<u>6,844,806</u>	<u>6,538,718</u>	<u>306,088</u>
<i>Excess of Revenues Over/ (Under) Expenditures</i>	<u>(6,139,206)</u>	<u>(5,837,408)</u>	<u>301,798</u>
Other Financing Sources and (Uses):			
Notes Issued	3,090,000	3,090,000	0
OWDA Loans Issued	390,000	374,314	(15,686)
Sale of Fixed Assets	5,000	5,000	0
Transfer In	0	0	0
Transfers Out	(59,132)	(59,132)	0
<i>Total Other Financing Sources and (Uses)</i>	<u>3,425,868</u>	<u>3,410,182</u>	<u>(15,686)</u>
<i>Excess of Revenues and Other Sources Over/(Under) Expenditures and Other (Uses)</i>	<u>(2,713,338)</u>	<u>(2,427,226)</u>	<u>286,112</u>
<i>Fund Balance - 12/31/02</i>	2,844,852	2,844,852	0
Prior Year Encumbrances Appropriated	<u>188,052</u>	<u>188,052</u>	<u>0</u>
<i>Fund Balance - 12/31/03</i>	<u><u>\$319,566</u></u>	<u><u>\$605,678</u></u>	<u><u>\$286,112</u></u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)		
<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
\$3,823,238	\$3,874,612	\$51,374
128,233	128,242	9
1,361,197	1,419,488	58,291
487,751	444,631	(43,120)
154,300	152,898	(1,402)
110,705	117,574	6,869
<u>393,229</u>	<u>382,076</u>	<u>(11,153)</u>
<u>6,458,653</u>	<u>6,519,521</u>	<u>60,868</u>
1,937,105	1,656,247	280,858
2,951,907	2,868,150	83,757
787,711	695,416	92,295
1,312,378	1,069,748	242,630
243,707	232,156	11,551
74,482	72,040	2,442
168,245	78,588	89,657
4,825,508	4,785,606	39,902
332,114	282,623	49,491
<u>4,881,983</u>	<u>4,438,460</u>	<u>443,523</u>
<u>17,515,140</u>	<u>16,179,034</u>	<u>1,336,106</u>
<u>(11,056,487)</u>	<u>(9,659,513)</u>	<u>1,396,974</u>
5,225,000	5,225,000	0
390,000	374,314	(15,686)
160,516	160,516	0
145,505	166,272	20,767
<u>(141,056)</u>	<u>(140,602)</u>	<u>(454)</u>
<u>5,779,965</u>	<u>5,785,500</u>	<u>4,627</u>
(5,276,522)	(3,874,013)	1,402,509
5,775,977	5,775,977	0
<u>1,295,277</u>	<u>1,295,277</u>	<u>0</u>
<u>\$1,794,732</u>	<u>\$3,197,241</u>	<u>\$1,402,509</u>

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**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

A. THE REPORTING ENTITY

The City of Olmsted Falls, Cuyahoga County, (the City) 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 City was incorporated in 1851 and became a city in 1972. Under the City Charter adopted in July 1972, the City has an elected mayor-council form of government. Council is composed of seven members, three at large and one for each of the City's four wards, all elected for terms of two years. The Director of Law, Director of Finance, Safety Director, Service Director and part-time Community Development Director are appointed by the Mayor and confirmed by Council.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The City as a primary government consists of all funds and the departments, which are not legally separate from the City. They include a police force, a fire fighting force, a mayor's court, a street maintenance and sanitation force, planning and zoning departments, a park and recreation system and a staff to provide essential support to these service providers. The operation of each of these activities is directly controlled by the City Council through the budgetary process and is therefore included as part of the reporting entity. Included in the determination of the City's reporting entity is the Mayor's Court of Olmsted Falls (Court). The territorial jurisdiction of the Court is in the boundaries of the City and has been included in the City's financial statements as an agency fund. The mayor is an elected official who has fiduciary responsibility for the collection and distribution of the court fees and fines.

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

The City is associated with five jointly governed organizations, the Northeast Ohio Public Energy Council, Chestnut Grove Union Cemetery, Joint Economic Development District, Southwest Council of Governments, and the Southwest General Health Center. A jointly governed organization is managed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility on the part of the participating governments. These organizations are presented in Note 16.

The Olmsted Falls City School and the Berea City School Districts service the boundaries of the City. Both are distinct political subdivisions of the State of Ohio and each is operated under an elected school board possessing its own budgetary and taxing authority. Accordingly, the school districts are not considered part of the City and its operations are not included within the accompanying financial statements.

The Cuyahoga County Public Library (the Library), located within the boundaries of the City, is a distinct political subdivision of the State of Ohio operated under the supervision of the Cuyahoga County Public Library District. The Library is not a component unit of the reporting entity and is not reflected within the accompanying financial statements.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

A. THE REPORTING ENTITY (Continued)

Each year, the residents of Olmsted Falls are assessed, through a tax levy, for a portion of the general operating expenses of the Chestnut Grove Union Cemeteries. For 2003, the amount paid to the Chestnut Grove Union Cemetery amounted to \$35,575. The residents are also assessed, through a tax levy, for a portion of the operating expenses of Southwest General Hospital. The amount paid in 2003 to the Southwest General Hospital amounted to \$47,358. Both of these organizations exercise their own budgetary and financial management authority. Therefore they are not considered part of the City and their operations are not reflected in the City's financial statements.

B. BASIS OF PRESENTATION – FUND ACCOUNTING

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

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

The accounting system is organized on the basis of funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The "Totals" columns on the general-purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories: governmental and fiduciary. Each category in turn, is divided into separate "fund types." The City uses the following fund types and account groups:

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions typically are financed. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The following are the City's governmental fund types:

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

GOVERNMENTAL FUND TYPES (Continued)

General Fund

This fund is the operating fund of the City and 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 City for any purpose provided it is expended or transferred according to the Charter of the City of Olmsted Falls and/or the general laws of Ohio.

Special Revenue Funds

These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds

These funds are used to account for the accumulation of financial resources for, and the payment of general obligation and special assessment debt principal, interest and related costs.

Capital Projects Funds

These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City only utilizes agency funds. The City's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. Included in the agency fund is a settlement received from CSX Corporation to use for appropriate public purposes including noise mitigation. The City will establish a capital projects fund and transfer the settlement received from CSX Corporation into that fund.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group

This account group accounts for all general fixed assets of the City.

General Long-Term Obligations Account Group

This account group accounts for all unmatured long-term indebtedness of the City.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) of net current assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental funds.

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized. If available, revenue from income taxes is recognized in the period in which the income is earned; revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5); and revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes, interest, grants, and fees.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

D. BUDGETARY PROCESS

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. 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. All funds, other than the agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the City Council. The Director of Finance is authorized to transfer appropriations between line items within a function or object of any department.

Tax Budget

At the last Council meeting in May, the Mayor presents the annual operating budget for the following year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported as the budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect when final appropriations were passed by Council.

Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund level for all funds. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations may not exceed current estimated resources, as certified. During the year, several supplemental appropriation measures were passed. The amounts reported as the budgeted amounts represent the final appropriation amounts passed by Council during the year.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

D. BUDGETARY PROCESS (Continued)

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

E. CASH AND CASH EQUIVALENTS

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

During 2003, the City's investments were limited to non-negotiable certificates of deposits and STAROhio. Investments are reported at fair value, except for non-negotiable certificates of deposits, which are reported at cost. Fair value is based on quoted market prices or for investments in STAROhio are valued at STAROhio's share price, which is the price the investments could be sold for on December 31, 2003.

The provisions of the Ohio Revised Code restrict investment procedures. Interest revenue credited to the general fund during 2003 amounted to \$ 53,489 which includes \$42,863 of interest revenue assigned from other City funds. This revenue is listed as miscellaneous.

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

F. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure in the year in which the services are consumed.

G. INVENTORY

Inventories are presented at cost on a first-in, first-out basis and are recorded as expenditures in the governmental funds when used. Inventory consists of expendable supplies held for consumption.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

H. FIXED ASSETS

General fixed assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the general fixed assets account group. Infrastructure fixed assets, except for traffic signals, acquired during fiscal year 2003, are not capitalized by the City and are not reported as part of the general fixed assets account group. Infrastructure assets not reported consist of streets, storm sewers, drains, signs and traffic signals acquired prior to January 1, 2002.

All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are capitalized at their estimated fair market values as of the date received. The City has elected not to record depreciation in the general fixed assets account group.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset's life are not capitalized.

I. INTERFUND ASSETS AND LIABILITIES

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables" and "interfund payables." The City has no short-term interfund loans outstanding as of December 31, 2003.

J. COMPENSATED ABSENCES

Holiday, personal, vacations and others are a use it or lose it policy. Individual exceptions are allowed to carry forward certain unused amounts into the next year. Generally, such requests are infrequent and will not be considered at this time.

Sick leave benefits are accrued as a liability using the vesting method. The financial reporting policy for recognition of compensated absences of sick time is based upon all employees considered vested after one year of employment and eligible for termination cash out. Or, it is assumed that all hired employees will terminate employment from the city and be eligible for cash out of unused sick time based upon the allocation ratio in effect at the fiscal year-end.

For governmental funds, the City provides a liability for unpaid accumulated sick leave for employees. The current portion of unpaid compensated absences is an accrued liability in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the general long-term obligation account group. At December 31, 2003 the current portion of unpaid compensated absences equaled \$0 and the long-term portion of unpaid compensated absences equaled \$329,888.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

K. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

In general, governmental fund payables and accrued liabilities that, once incurred, is paid in a timely manner and in full from current financial resources is reported as obligations of the funds. However, capital lease obligations, long-term notes and loans, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year-end are generally considered not to have been made with current expendable available financial resources. Capital leases are recognized as a liability of the general long-term obligations account group until due.

Under Ohio law, a debt retirement fund may be created and used for the payment of all debt principal and interest. Generally accepted accounting principles require the allocation of the debt liability amount to the capital projects funds and the general long term obligations account group, with principal and interest payments on short-term notes being recorded in the fund which received the note proceeds and on matured general long term debt being reported in the debt service fund. To comply with GAAP reporting requirements, the City's debt retirement funds have been split among the appropriate funds and the account group. Debt service funds resources used to pay both principal and interest have also been allocated accordingly.

L. FUND RESERVES AND DESIGNATIONS

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances.

Designated fund balances represent management's intended use of resources and reflect actual plans for the fire department capital asset replacement program and construction of a fire station.

M. INTERFUND TRANSACTIONS

During the normal course of operations, the City has transactions between funds. Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. ESTIMATES

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

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 2 – ACCOUNTABILITY AND COMPLIANCE

A. FUND DEFICIT

The Capital Projects fund type had a deficit of \$564,631 which was the result of recognition of accruals on the modified accrual basis. The Capital Improvement fund had a fund deficit of \$1,157,793. The General fund provides operating transfers when cash is required, not when accruals occur.

B. LEGAL COMPLIANCE

Contrary to Ohio Rev. Code Sections 5705.41 (B) & (D), the City had the following funds in which expenditures plus encumbrances exceeded appropriations as of September 30, 2003:

<u>Fund</u>	<u>Appropriation</u>	<u>Expenditures + Encumbrances</u>	<u>Variance</u>
As of September 30, 2003:			
General	\$ 3,718,060	\$ 4,099,785	\$ 381,725
Street Maintenance & Repair	318,672	364,354	45,682
Parks and Recreation	9,210	40,229	31,019
Storm Sewer	73,300	82,869	9,569
Recreation	1,000	3,785	2,785
Sewer O.M. & R	114,575	407,230	292,655
Court Computers	2,000	2,676	676
Capital Improvement	2,847,856	3,394,096	546,240

The City did take the necessary actions which resulted in expenditures plus encumbrances not exceeding appropriations at December 31, 2003.

NOTE 3– BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures for all funds (budget) rather than as a reservation of fund balance for governmental fund types (GAAP).
4. Short-term note proceeds and note principal retirement for governmental funds are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 3– BUDGETARY BASIS OF ACCOUNTING (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis:

	Excess of Revenues and Other Financing Sources Over (Under) Expenditure and Other Financing Uses All Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	(470,177)	(97,599)	93,959	(1,695,289)
Net Adjustments for Revenue Accounts	8,960	(59,149)	0	96,542
Net Adjustments for Expenditure Accruals	(608,300)	(310,280)	(4,200)	(1,623,479)
Note Proceeds			2,135,000	3,090,000
Principal Retirement	<u>0</u>	<u>0</u>	<u>(2,135,000)</u>	<u>(2,295,000)</u>
Budget Basis	<u>(1,069,517)</u>	<u>(467,028)</u>	<u>89,759</u>	<u>(2,427,226)</u>

NOTE 4 – DEPOSITS AND INVESTMENTS

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

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the finance director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligation of the State of Ohio;
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) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
7. The State Treasurer's investment pool (STAROhio).

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. 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 finance director or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

A. DEPOSITS

At year-end, the carrying amount of the City's deposits was \$3,540,900 and the bank balance was \$3,846,110. Of the bank balance:

1. \$200,000 was covered by federal depository insurance.
2. \$3,646,110 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

B. INVESTMENTS

Investments are classified under guidelines of GASB Statement No. 3 into three categories. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's, trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
STAROhio	\$3,015,059	\$3,015,059

A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$6,555,959	\$0
STAROhio	(3,015,059)	3,015,059
GASB Statement No. 3	\$3,540,900	\$3,015,059

NOTE 5 – RECEIVABLES

Receivables at December 31, 2003, consisted of municipal income taxes, property taxes, accounts, due from other funds, due from other governments, and special assessments. All receivables are considered fully collectible.

A. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2003 for real and public utility property taxes represents collections of the 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

The 2003 real property taxes are levied after October 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2003 public utility property taxes which became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

The 2003 tangible personal property taxes are levied after October 1, 2002, on the values as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent for inventory.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 5 – RECEIVABLES (Continued)

A. PROPERTY TAXES (Continued)

The full tax rate applied to real property for the fiscal year ended December 31, 2003 was \$15.10 for \$1,000 of assessed valuation. The assessed values of real and tangible personal property, upon which 2003 property tax receipts were based, are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Property	\$170,321,110
Public Utility Tangible	\$4,911,080
Tangible Personal	<u>4,075,986</u>
 Total	 <u>\$179,308,176</u>

B. INCOME TAX

The City levies an income tax of 1.50% on substantially all income earned within the City. In addition, residents of the City are required to pay City income tax on income earned outside the City; however, a 50% credit up to 1.50% is allowed for income taxes paid to other municipalities. Employers within the City are required to withhold income tax on employee earnings and remit the tax at least quarterly to the Regional Income Tax Agency, who administers the City's income tax collections. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

By City Ordinance, income taxes shall be deposited in the General Fund, except that ten percent and two percent of such balance shall be deposited annually in the Capital Improvement General Improvements Fund and the Capital Improvement Service Equipment Fund, respectively.

C. DUE FROM OTHER GOVERNMENTS

A summary of due from other governments as of December 31, 2003, follows:

General Fund:	<u>Amount</u>
Local Government	\$97,565
Homestead and Rollback	32,629
Local Government Revenue Assistance	5,136
State Local Government	16,265
Estate Tax	<u>17,249</u>
<i>Total General Fund</i>	<u>168,844</u>

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 5 – RECEIVABLES (Continued)

C. DUE FROM OTHER GOVERNMENTS (Continued)

Special Revenue Funds:

State Highway	12,110
Street Construction Maintenance and Repair	149,359
Road Repair	12,377
Fire Levy	7,852
Fire Equipment	3,114
Police Levy	6,874
Parks Develop and Maintenance	5,999
Cemetery	2,096
Southwest General Hospital	2,409
Fire Pension	3,144
Police Pension	3,144
<i>Total Special Revenue Funds</i>	208,478

Debt Service Fund:

Bond Retirement	15,718
<i>Total Intergovernmental Receivables</i>	\$393,040

NOTE 6 – FIXED ASSETS

A summary of changes in general fixed assets at December 31, 2003, were as follows:

	Balance 12/31/2002	Additions	Deletions	Balance 12/31/2003
Land	\$1,039,952	\$7,888	(\$164,366)	\$883,474
Buildings	3,363,551	0	0	3,363,551
Improvements Other than Buildings	51,275	0	0	51,275
Infrastructure: Traffic Signals	61,063	13,845	0	74,908
Machinery, Equipment, and Vehicles	1,854,418	128,360	(74,999)	1,907,779
Construction in progress	37,011	659,887	0	696,898
Total General Fixed Assets	\$6,407,270	\$809,980	(\$239,365)	\$6,977,885

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances as of December 31, 2003, consist of the following due from other funds and due to other funds:

Fund	Due From Other Funds (Receivables)	Due To Other Funds (Payables)
General	\$7,358	\$10,938
Capital Projects:		
Railroad	285,000	0
Capital Improvement	10,938	0
Agency:		
Trust Account	0	\$285,000
Mayor's Court	0	7,358
Total	<u>\$303,296</u>	<u>\$303,296</u>

Interfund transfers during fiscal year 2003 were as follows:

Fund Type	Transfers In	Transfers Out
Governmental		
General Fund	104,876	78,726
Special Revenue	0	2,744
Debt Service	61,396	0
Capital Projects	0	59,132
Total Governmental	<u>166,272</u>	<u>140,602</u>
Agency	<u>0</u>	<u>25,670</u>
Total:	<u><u>166,272</u></u>	<u><u>166,272</u></u>

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 8 – RISK MANAGEMENT

The City of Olmsted Falls is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. During 2003, the City contracted through the Municipal Insurance Alliance Agency of Ohio for various types of insurance as follows:

<u>Company</u>	<u>Type</u>	<u>Coverage</u>
Arch Insurance Company	Building and Property	\$6,681,255
	General Liability	3,000,000
	Public Officials Liability	1,000,000
	Law Enforcement Liability	1,000,000
	Crime Coverage	25,000
	Employee Dishonesty	25,000
	Automobile Liability	1,000,000
	Umbrella Liability	5,000,000
	Inland Marine	553,890
Travelers Property Casualty	Boiler/Machinery	1,000,000

The City carries commercial insurance coverage for all risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years and there were no significant reductions in coverage from the prior year.

Workers' Compensation coverage is provided by the State. The City pays the Ohio Bureau of Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 9 – DEFINED BENEFIT PENSION PLANS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan 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. The authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-6705.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The contribution rate of the City for pension benefits for 2003 was 8.55 percent except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$106,818, \$100,026, and 106,780, respectively. The full amount has been contributed for 2001 and 2002. Contributions during 2003 are 74.84% of the required amount and the remainder is reported as a liability in the general long-term obligation account group.

B. OHIO POLICE AND PENSION FUND

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost sharing multiple employer defined benefit 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. The 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.

Police and firefighter plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's required contributions to the OP&F for police and firefighters were \$79,486 and \$76,718 for the year ended December 31, 2003, \$74,879 and \$72,849 for the year ended December 31, 2002, \$77,995 and \$73,382 for the year ended December 31, 2001, equal to the required contributions for each year. The full amount has been contributed for 2002 and 2001. Contributions during 2003 are 71.71 percent and 72.16 percent of the required amount respectively, with the remainder being reported as a liability in the general long-term obligations account group.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 10 – POSTEMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Ohio Public Employees Retirement System of Ohio (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit as described in GASB Statement No. 12. 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 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.70 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 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 0.50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

All investments are carried at market. 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.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003, which were used to fund post employment benefits, were \$62,467. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select that option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowances toward specific medical expenses, much like a Medical Spending Account.

B. OHIO POLICE 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.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 10 – POSTEMPLOYMENT BENEFITS (Continued)

B. OHIO POLICE AND PENSION FUND (Continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. 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 Ohio Police and Fire Pension Fund 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 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 2003. In addition, since July 1, 1992, most retirees 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 City's actual contributions for 2003 that were used to fund post employment benefits were \$52,427 for police and \$36,589 for fire. The OP&F's total health care expenses for the year ended December 31, 2002, (the latest information available) were \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

NOTE 11 – LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City during 2003 are as follows:

	<u>Outstanding 12/31/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 12/31/03</u>
1998 Ohio Water and Sewer Rotary Commission Loan (W&SRC) 0.00% \$433,158	\$396,075	\$0	\$0	\$396,075
Ohio Water Development Authority Loans (OWDA):				
1989 Sanitary Sewer 7.51% \$817,068	490,526	0	(43,371)	447,155
1991 Water Mains 7.45% \$401,949	279,137	0	(18,482)	260,655
1995 Water Mains 6.56% \$714,860	634,169	0	(23,586)	610,583
1995 Sanitary Sewers 4.35% \$2,290,378	1,975,141	0	(87,659)	1,887,482
<i>Subtotal:</i>	<u>3,378,973</u>	<u>0</u>	<u>(173,098)</u>	<u>3,205,875</u>
2002 Sanitary Sewers	496,379	270,763	0	767,142
2002 Storm Sewers	15,048	103,551	0	118,599
<i>Subtotal OWDA:</i>	<u>3,890,400</u>	<u>374,314</u>	<u>(173,098)</u>	<u>4,091,616</u>
Fire Station Improvement Notes Series 02 2.10%	2,250,000	2,135,000	(2,250,000)	2,135,000
Due to Other Governments	105,435	6,020	0	111,455

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

**NOTE 11 – LONG-TERM
OBLIGATIONS (Continued)**

Compensated Absences	300,621	29,267	0	329,888
Capital Leases	<u>202,758</u>	<u>0</u>	<u>(67,508)</u>	<u>135,250</u>
Total General Long-Term Obligations	<u>\$7,145,289</u>	<u>\$2,544,601</u>	<u>(\$2,490,606)</u>	<u>\$7,199,284</u>

Ohio Water and Sewer Rotary Commission (W&SRC).

The City obtained resources from the Ohio Water and Sewer Rotary Commission during fiscal year 1998 to pay for the cost of improvements contained within an Agricultural District within the City. The collections of special assessments within an agricultural district are exempt under the terms of Ohio Revised Code Section 929.03. The full amount of the assessment for the portion of the property, for which the use has changed, pursuant to the Revised Code, is due within ten days and must be repaid by the City regardless of whether the City has collected the full amount from property owners at that time. No part of the Ohio Water and Sewer Rotary Commission debt is due until use has changed per the requirements of the law.

The amount of filing and unbilled special assessments for the improvements within the Agricultural District was \$396,075. There was no change in the status of the parcels for the fiscal year ended December 31, 2003.

Ohio Water Development Authority (OWDA)

The City has obtained loans from OWDA for water and sewer line extension in fiscal years 1989, 1991 and 1995. The sewer projects have been mandated by the Ohio Environmental Protection Agency. These loans will be paid from the debt service funds using special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, the City would make payment.

During fiscal year 2002, the City obtained two loans from OWDA. One loan is for the construction of storm sewer lines. The second loan is for the construction of sanitary sewer lines, the dismantling of a primary treatment plant and conversion to a pump station. These loans have not been finalized, and as a result a repayment schedule is not included in the schedule of debt service requirements and the outstanding loan amounts will be adjusted to reflect any revisions in amounts actually borrowed to complete the projects.

Principal and interest requirements to retire long-term Ohio Water Development Authority loans finalized as of December 31, 2003 are as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2004	183,134	170,722
2005	193,788	160,395
2006	205,101	149,434
2007	217,115	137,799
2008	229,875	125,444
2009-2013	1,138,100	424,746
2014-2018	<u>1,038,763</u>	<u>150,350</u>
Total	<u>3,205,876</u>	<u>\$1,318,890</u>

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 11 – LONG-TERM OBLIGATIONS (Continued)

Fire Station Improvement Notes Series 03

The bond anticipation notes were rolled over prior to the issuance of the financial statements and have a new maturity beyond one year of fiscal year end. The notes payable has been reported in the general long-term obligations account group. The notes are backed by the full faith and credit of the City.

Due to Other Governments, Compensated Absences and Capital Leases

Due to Other Governments represents employer pension obligations paid outside the available period. Compensated absences and the pension obligations will be paid from the fund from which the employee's salary is paid. Capital leases will be paid from the General Fund.

NOTE 12 – SHORT-TERM NOTE DEBT

The City's note activity, including amounts outstanding and interest rates, are reported as follows

	<u>Outstanding 12/31/2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 12/31/2003</u>
2002 Building Improve Notes at 1.90%	\$2,295,000	\$0	(\$2,295,000)	\$0
2003 Building Improve Notes at 1.45%	0	2,140,000	0	2,140,000
2003 Various Purpose Notes at 1.40%	0	950,000	0	950,000
Total:	<u>\$2,295,000</u>	<u>\$3,090,000</u>	<u>(\$2,295,000)</u>	<u>\$3,090,000</u>

Principal and interest requirements to retire the short-term Notes as of December 31, 2003 are as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2004	\$3,090,000	\$44,084

The outstanding bond anticipation notes are backed by the full faith and credit of the City and mature within one year. The note liability is reflected in the Capital Improvement General Improvements Fund.

The notes are issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 13 – CAPITAL LEASES

In 2000, the City entered into a master capital lease-purchase agreement to acquire new equipment for the police, dispatch and administrative departments. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. General fixed assets acquired by lease have been capitalized in the general fixed asset account group in the amount of \$333,293, which represents the present value of the lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal Payments in fiscal year 2003 totaled \$67,508.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2003:

Year	General Long-Term Obligation
2004	77,122
2005	63,658
2006	1,939
Total Minimum Lease Payments	142,719
Less: Amount Representing Interest	(7,469)
Present Value of Minimum Lease Payments	\$135,250

NOTE 14 – CONTINGENCIES

A. GRANTS

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and may be subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2003.

B. LITIGATION

The City of Olmsted Falls is a party to legal proceedings seeking damages. The City management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 15 – OUTSTANDING CONTRACTUAL COMMITMENTS

As of December 31, 2003, the City had the following significant contractual purchase commitments outstanding:

<u>Contractor</u>	<u>Purpose</u>	<u>Amount</u>
Broadway Excavating Inc	Sewer Maintenance & Repairs	\$107,666
Fabrizi Trucking & Paving	Fire Station Construction	132,813
Gateway Electrical Inc	Fire Station Construction	207,505
Sietz Builders Inc	Fire Station Construction	<u>783,964</u>
Total:		\$1,231,948

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS

A. NORTHEAST OHIO PUBLIC ENERGY COUNCIL (NOPEC)

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. 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 at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Olmsted Falls did not contribute to NOPEC during 2003. Financial information can be obtained by contacting Dan DiLiberto, Board Chairman, 1615 Clark Avenue, Cleveland, Ohio, 44109.

B. CHESTNUT GROVE UNION CEMETERY

The Chestnut Grove Union Cemeteries (The Cemetery) 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 Cemetery provides burial grounds and burial services to the public. The Cemetery is a jointly governed organization between the City of Olmsted Falls and Olmsted Township.

A joint council consisting of the council members of Olmsted Falls and the Trustees of Olmsted Township governs the Cemetery. The joint council elects and appoints the members of the Board of Trustees. The members of the Board of Trustees consist of the following: one elected member of the legislative body from each of the political subdivisions and one appointed resident from either of the political subdivisions who is not a member of the legislative body. The joint council exercises control over the operation of the Cemetery through budgeting, appropriating and contracting. The Board of Trustees control daily operations of the Cemetery. During 2003 the City contributed \$35,575 to the Chestnut Grove Union Cemetery.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. JOINT ECONOMIC DEVELOPMENT DISTRICT

The City of Olmsted Falls and Olmsted Township, in an effort to promote growth and economic development, and in accordance with state law, entered into a contract to create the Olmsted Joint Economic Development District (JEDD). The legislative authorities of the City and Township each authorized and directed authorization to enter into a contract for the JEDD. The JEDD was incorporated on September 7, 2001 and JEDD activities initiated December 15, 2001. In accordance with state law, the JEDD Board of Trustees levied a 1.50% income tax effective January 2002.

A Board of Directors governs the JEDD. The Board is composed of the following members: (a) one member representing the City, appointed by the Mayor and approval of the City Council; (b) one member representing the Township, appointed by the Township Trustees; and (c) one member selected by the two members listed. The Board exercises control over the operation of JEDD through budgeting, appropriations, contracting and designating management. The control by the city and township is limited to the representation on the board. During 2003, the City contributed \$12,500 to JEDD.

D. SOUTHWEST COUNCIL OF GOVERNMENTS

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The Council's Board is comprised of one member from each of the nineteen participating entities. The Board exercises total control over the operation of the Council, which includes budgeting, appropriating, contracting, and designating management. The Board adopts an annual budget. Each City's degree of control is limited to its representation on the Board.

The Council has established two subsidiary organizations, the Hazardous Material Response Team ("HAZMAT"), which provides hazardous material protection and assistance, and the Southwest Enforcement Bureau, which provides extra assistance to cities in the form of a SWAT team. During 2003, the City contributed \$7,500 to the Council. The Council's financial reports may be obtained by contacting Terrence B. Hickey, Secretary-Treasurer, 6281 Pearl Road, Parma Heights, Ohio 44130-3084.

E. SOUTHWEST GENERAL HEALTH CENTER

The Southwest General Health Center is an Ohio non-profit corporation providing health services among the communities of Berea, Brook Park, Columbia Township, Middleburg Heights, Olmsted Falls and Strongsville.

The Health Center is governed by a Board of Trustees comprised of the following: one member of the legislative body from each of the member political subdivisions, one resident from each of the member political subdivisions who is not a member of the legislative body, three persons who are residents of any of the member political subdivisions, the president and the vice president of the corporations, and the president and the vice president of the medical staff. The legislative body of each political subdivision elects their own member to serve on the Board of Trustees of the Health Center.

The Board exercises total control over the operations of the Health Center, including budgeting, appropriating, contracting and designating management. Each City's control is limited to its representation on the Board. During 2003, the City contributed \$47,358 to the Health Center.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

NOTE 17 – SUBSEQUENT EVENTS

On February 12, 2004 the City issued fire station improvement notes in the amount of \$2,020,000, at a rate of 1.55 %, with a maturity date of February 10, 2005, and retired fire station improvement notes in the amount of \$2,135,000.

On June 9, 2004 the City issued various purpose improvement notes in the amount of \$950,000, at a rate of 2.00%, with a maturity date of June 9, 2005.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

City of Olmsted Falls
Cuyahoga County
26100 Bagley Road
Olmsted Falls, Ohio 44138

We have audited the financial statements of the City of Olmsted Falls, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2003, and have issued our report thereon dated November 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to the City's management in a separate letter dated November 9, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the City's management in a separate letter dated November 9, 2004.

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

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

Betty Montgomery
Auditor of State

November 9, 2004

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2003-001
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Ohio Rev. Code Sections 5705.41(B) & (D) prohibits a subdivision or taxing unit from making an expenditure or an expenditure plus encumbrance unless it has been properly appropriated. The following funds had expenditures plus encumbrances exceeding appropriations as of September 30, 2003:

<u>Fund</u>	<u>Appropriation Plus Prior Year Encumbrances</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
September 30, 2003:			
General	\$3,718,060	\$4,099,785	\$381,725
Street Maintenance & Repair	318,672	364,354	45,682
Parks and Recreation	9,210	40,229	31,019
Storm Sewer	73,300	82,869	9,569
Recreation	1,000	3,785	2,785
Sewer OM & R	114,575	407,230	292,655
Court Computers	2,000	2,676	676
Capital Improvement	2,847,856	3,394,096	546,240

This weakness could allow expenditures in the above funds to exceed the total of the available fund balance, the appropriations and/or the current year revenues. This also increases the risk of negative cash fund balances.

We recommend the City compare appropriations to expenditures plus encumbrances at the legal level of control to ensure compliance with this requirement. This comparison should be performed on a monthly basis, at a minimum.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Expenditures plus encumbrances exceeded appropriations at the legal level of control	No	Not Corrected, re-issued as 2003-001
2002-002	Inaccurate financial statements	Yes	



**Auditor of State
Betty Montgomery**

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800-282-0370

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CITY OF OLMSTED FALLS

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
DECEMBER 28, 2004**