



Dave Yost • Auditor of State

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Munroe Falls
Summit County
43 Munroe Falls Avenue
Munroe Falls, Ohio 44262

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Munroe Falls, Summit County, Ohio, (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Munroe Falls, Summit County, Ohio, as of December 31, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund, Fire Department Special Levy Fund, and EMS Special Levy Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2013, 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 grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

August 16, 2013

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

The management's discussion and analysis of the City of Munroe Falls' (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2012 are:

- The City has continued to pursue economic development efforts for the limited land that is available, which is primarily seen with the Town Center property. A developer has purchased some of the Town Center property and is scheduled to build a retail building in 2013.
- Uncertain economic times have shown up in a reduction of municipal income taxes collected, which is the City's largest revenue source. Furthermore, the County reduced property valuations, which resulted in lower property tax revenues. Due to this, the City has made aggressive efforts at controlling operating costs and limiting the growth of personnel costs. These cost controlling efforts along with strong fund reserve balances will provide an assurance to the residents of our community that the City will continue to maintain the highest level of public safety, recreation, and street maintenance. The City monitors its sources of revenue very closely for any changes or fluctuations and continually looks for new revenue sources.

Using This Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City of Munroe Falls as a financial whole or as an entire operating entity. The statements proceed to provide an increasingly detailed look at our specific financial condition.

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of the net position. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

Reporting the City of Munroe Falls as a Whole

Statement of Net Position and Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City do financially during 2012?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

These two statements report the City's net position and the changes in that net position. The changes in net position are important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

The *Statement of Net Position* and the *Statement of Activities* are divided into the following categories:

- Assets
- Liabilities
- Deferred Inflows of Resources
- Net Position
- Program Revenue and Expenses
- General Revenues
- Net Position Beginning of Year and Year's End

Reporting the City of Munroe Falls' Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 8. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds which account for the multitude of services and facilities provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Munroe Falls, the major funds are the general, fire department special levy, EMS special levy, general obligation bond retirement, capital improvement, and the water funds.

Governmental Funds

Most of the City's activities are reported in the governmental funds which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. Governmental funds are reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Government fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the *Statement of Net Position* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

Proprietary Funds

The City's only proprietary fund (the water fund) is an enterprise fund which uses the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statements for the City as a whole.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's only fiduciary fund is an agency fund.

The City as a Whole

The *Statement of Net Position* looks at the City as a whole. Table 1 provides a summary of the City's net position for 2012 compared to 2011.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and Other Assets	\$4,492,193	\$5,101,256	\$2,586,691	\$2,810,463	\$7,078,884	\$7,911,719
Capital Assets, Net	6,630,869	6,411,756	2,809,502	2,798,623	9,440,371	9,210,379
<i>Total Assets</i>	11,123,062	11,513,012	5,396,193	5,609,086	16,519,255	17,122,098
Liabilities						
Current and Other Liabilities	140,619	125,697	31,148	32,343	171,767	158,040
Long-Term Liabilities:						
Due Within One Year	409,317	233,805	115,000	109,250	524,317	343,055
Due in More than One Year	428,924	920,724	511,773	628,271	940,697	1,548,995
<i>Total Liabilities</i>	978,860	1,280,226	657,921	769,864	1,636,781	2,050,090
Deferred Inflows of Resources	694,794	696,906	0	0	694,794	696,906
Net Position						
Net Investment in Capital Assets	6,172,972	5,757,403	2,203,707	2,122,169	8,376,679	7,879,572
Restricted:						
Capital Projects	419,645	386,675	0	0	419,645	386,675
Debt Service	29,791	25,143	0	0	29,791	25,143
Street Maintenance and Repair	220,391	353,987	0	0	220,391	353,987
Fire Department	276,499	255,733	0	0	276,499	255,733
EMS	340,434	565,571	0	0	340,434	565,571
Other Purposes	177,241	263,545	0	0	177,241	263,545
Unrestricted	1,812,435	1,927,823	2,534,565	2,717,053	4,347,000	4,644,876
<i>Total Net Position</i>	\$9,449,408	\$9,535,880	\$4,738,272	\$4,839,222	\$14,187,680	\$14,375,102

By comparing assets, liabilities and deferred inflows of resources, one can see the overall position of the City has declined as evidenced by the decrease in net position. Management continues to diligently plan expenses, staying carefully within the City's revenues in an effort to maintain excellent levels of service within the constraints of the budget.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the current year. Table 2 shows total revenues, expenses and changes in net position for the years 2012 and 2011.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program Revenues:						
Charges for Services and Sales	\$303,802	\$346,683	\$821,697	\$812,526	\$1,125,499	\$1,159,209
Operating Grants and Contributions	319,984	322,829	0	0	319,984	322,829
Capital Grants and Contributions	36,000	36,373	0	296,057	36,000	332,430
Total Program Revenues	659,786	705,885	821,697	1,108,583	1,481,483	1,814,468
General Revenues:						
Property Taxes	657,676	768,552	0	0	657,676	768,552
Income Tax	1,070,532	1,161,479	0	0	1,070,532	1,161,479
Grants and Entitlements not Restricted to Specific Programs	262,253	521,071	0	0	262,253	521,071
Interest	45,360	61,144	0	0	45,360	61,144
Other	50,301	84,745	1,897	3,064	52,198	87,809
Total General Revenues	2,086,122	2,596,991	1,897	3,064	2,088,019	2,600,055
Total Revenues	2,745,908	3,302,876	823,594	1,111,647	3,569,502	4,414,523
Program Expenses:						
General Government	696,435	774,472	0	0	696,435	774,472
Security of Persons and Property	1,581,089	1,640,682	0	0	1,581,089	1,640,682
Transportation	384,542	407,925	0	0	384,542	407,925
Public Health and Welfare	39,527	39,735	0	0	39,527	39,735
Leisure Time Activities	61,630	88,208	0	0	61,630	88,208
Water Operations	0	0	923,013	660,015	923,013	660,015
Interest and Fiscal Charges	70,688	107,463	0	0	70,688	107,463
Total Program Expenses	2,833,911	3,058,485	923,013	660,015	3,756,924	3,718,500
Excess of Revenues Over (Under) Expenses	(88,003)	244,391	(99,419)	451,632	(187,422)	696,023
Transfers	1,531	0	(1,531)	0	0	0
Change in Net Position	(86,472)	244,391	(100,950)	451,632	(187,422)	696,023
Net Position Beginning of Year	9,535,880	9,291,489	4,839,222	4,387,590	14,375,102	13,679,079
Net Position End of Year	\$9,449,408	\$9,535,880	\$4,738,272	\$4,839,222	\$14,187,680	\$14,375,102

Governmental Activities

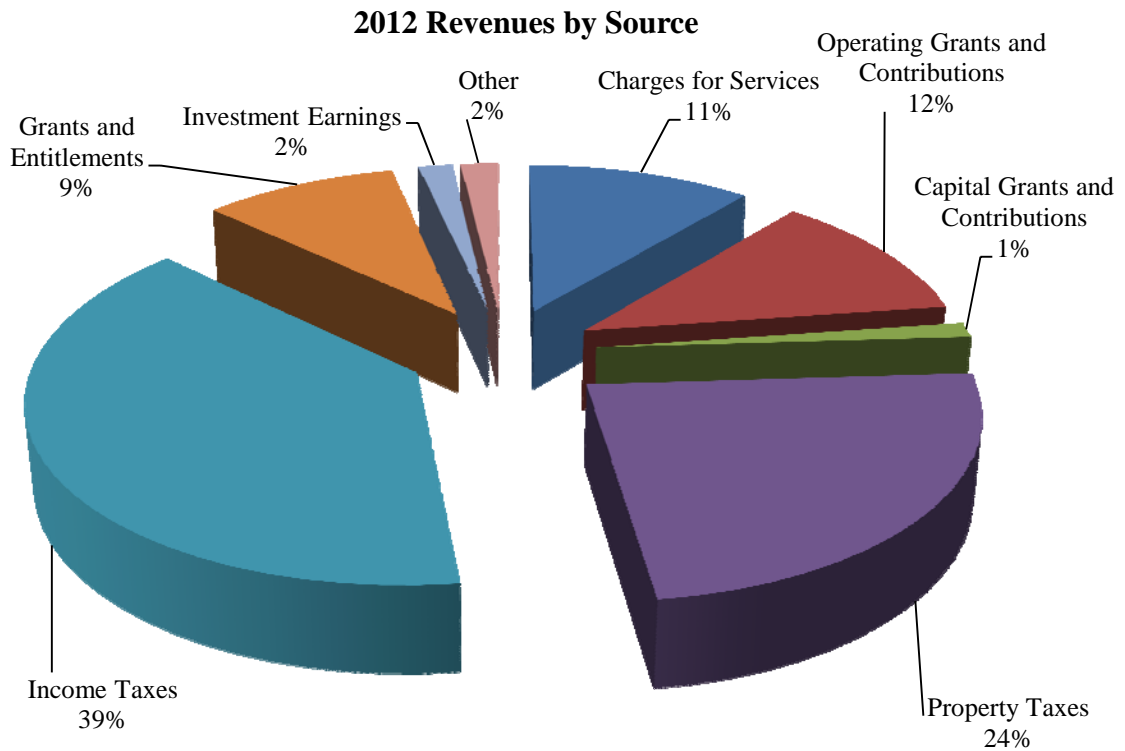
Several revenue sources fund the City's governmental activities with City income tax being the largest. An income tax of 2 percent is levied on substantially all income earned within the City. In addition, income of residents earned outside of the City is subject to income tax; however, credit is allowed for income taxes paid to other municipalities and to the Joint Economic Development District up to 100 percent of the City's current tax rate. Income tax revenues decreased slightly in 2012, mainly due to lower economic activity throughout the county.

General revenues from property taxes and local government funds are also significant revenue generators. Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January of that preceding year, the lien date. Assessed

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

values are established by the County Fiscal Officer at 35 percent of the appraised market value. All property is required to be revalued every six years with triennial updates. Property tax revenues decreased by \$110,876 due to lower assessed property values.

Grants and entitlements not restricted to specific programs were lower than the prior year due to a significant decrease in inheritance taxes collected in 2012. Investment income for 2012 was less than 2011 as interest rates have decreased from the prior year's rates. Operating grants and contributions and capital grants remained in line with the prior year.

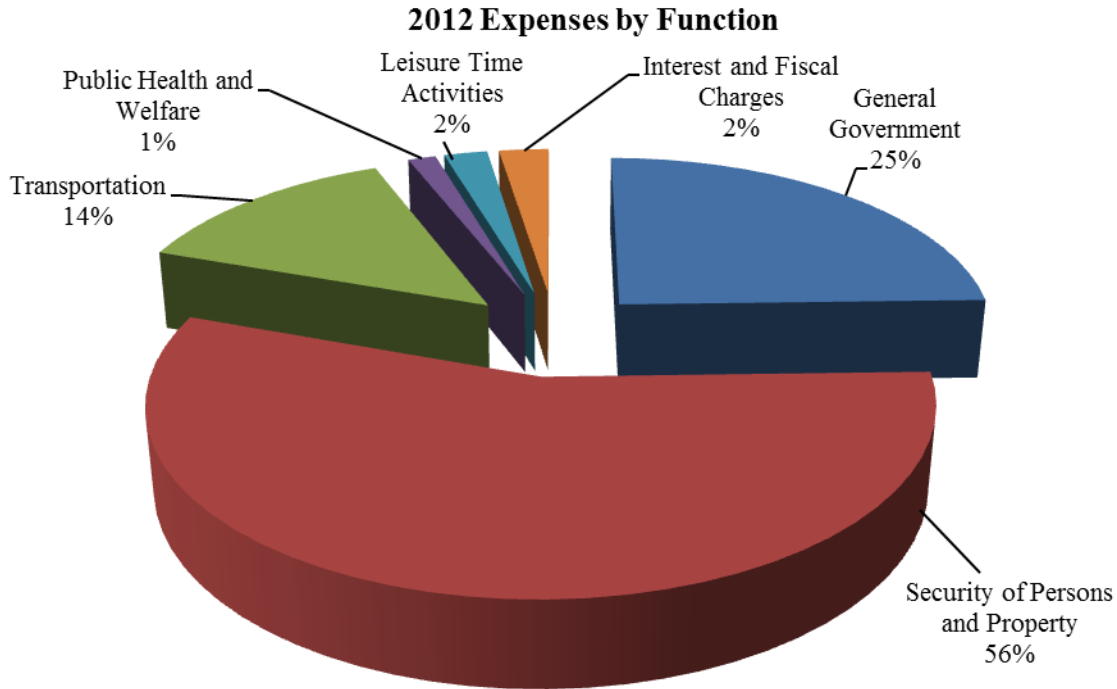


The police department continues to operate very efficiently utilizing full and part time personnel. The police department is funded primarily from revenues generated through the general fund. The fire department is primarily a volunteer force and works from two fire stations. Operations are funded primarily through fire and EMS special levies and rescue billing collections. For 2012, security of persons and property spending was carefully monitored and was lower than the prior year.

General government expenses include such services as planning, zoning, administration, finance, legal, legislature, lands and buildings, and engineering. These expenses decreased in 2012 due to many small reductions in expenses with the majority coming from decreased repairs and maintenance, hospitalization, and workers' compensation costs.

Transportation costs include street lighting, snow and ice removal and the costs of maintaining the City streets. These costs were less in 2012 mainly from decreased usage of salt and overtime needed due to a mild winter.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited



The City's Funds

The City of Munroe Falls uses fund accounting as mandated by governmental legal requirements. The intent of accounting and reporting using this method is to demonstrate compliance with these finance related requirements.

Governmental Funds

Information about the City's governmental funds begins on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$2,837,481 and expenditures of \$3,378,585. The most significant fund is the general fund with a year end balance of \$1,913,892, which included an unassigned fund balance of \$1,723,526, compared to annual expenditures of \$1,833,512. The City focuses on its governmental funds to provide a financial picture on activities as they provide information on how the City did over a period of one year as well as where the City's funds stood at December 31, 2012. The information provided is useful to determine the City's available balances. At December 31, 2012, the City's combined ending cash and cash equivalents balance was \$2,958,455. Along those same lines, the City's 2012 ending combined governmental fund balance is \$3,280,026.

The fire department special levy and EMS special levy special revenue funds had revenues of \$162,203 and \$305,178, respectively. The fire department special levy fund had an increase of fund balance, ending the year with a fund balance of \$263,497. The EMS special levy fund had a decrease of fund balance, ending the year with a fund balance of \$323,688.

The general obligation bond retirement fund had a fund balance of \$8,515 and an ending cash and cash equivalents balance of \$8,515. Revenues for the year were \$204,273, with expenditures of \$230,570.

The capital improvement fund had a fund balance of \$286,371. The cash and cash equivalents balance was \$235,134. Revenues for the year were \$225,415, with expenditures of \$141,088.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Business-Type Fund

As mentioned earlier, the City's lone business-type activity is the water fund. Net position of the water fund decreased in 2012 by \$100,950. This was mainly due to lower grant funding than the prior year and higher operational costs.

The City continues the process of identifying the long-term maintenance and replacement needs of its water line infrastructure and other capital assets requirements. A water model study was completed in 2004, which identified all waterline capacities throughout the entire City. This has enabled the Service Department to better estimate replacement and repair costs.

General Fund Budgeting Highlights

The City'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. At the direction of Council, all capital projects and requests for capital purchases must be reviewed and approved individually by Council. Recommendations and requests for budget changes are referred to the Finance Committee of City Council for review, after which they are sent to the formal Council meeting for ordinance enactment on the change. The City's legal level of control has been established by Council at the personal services and other object level within each fund and department.

The most significant budgeted fund is the general fund. The general fund supports many major activities such as the police, building and planning departments as well as the legislative and most executive activities. Some major capital projects are funded with general fund dollars. By legislation, these funds are transferred from the general fund to capital projects funds where the revenue and expenditures for the capital improvement are tracked and monitored. For the general fund, the original budgeted revenues were \$1,937,846 and the final budgeted amount was \$1,877,938. The majority of this \$59,908 difference was due to lower anticipated income and property tax revenue. The City continued to maintain a respectable level of liquidity in the general fund by reducing final expenditures and thus maintaining unrestricted cash at year end. The variance from final budget to actual expenditures in general government was due to a concerted effort by the City to reduce expenditures.

Capital Assets and Debt Administration

Capital Assets

Table 3
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$1,653,686	\$1,653,686	\$31,689	\$31,689	\$1,685,375	\$1,685,375
Land Improvements	206,646	221,848	0	0	206,646	221,848
Buildings and Improvements	2,695,854	2,782,956	622,560	636,093	3,318,414	3,419,049
Equipment	825,108	670,489	172,621	108,213	997,729	778,702
Infrastructure	1,249,575	1,082,777	1,982,632	2,022,628	3,232,207	3,105,405
Totals	<u>\$6,630,869</u>	<u>\$6,411,756</u>	<u>\$2,809,502</u>	<u>\$2,798,623</u>	<u>\$9,440,371</u>	<u>\$9,210,379</u>

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Total governmental capital assets for the City of Munroe Falls as of December 31, 2012 were \$6,630,869, which was an increase of \$219,113 from the prior year. Additions were primarily made to equipment and infrastructure. Business-type capital assets slightly increased with the majority of the increase relating to equipment and infrastructure, as well. For additional information see Note 8 to the basic financial statements.

Debt

On December 31, 2012, the City of Munroe Falls had \$1,354,095 in outstanding debt from general obligation bonds, capital appreciation bonds and capital leases. This represents obligations backed by the full faith and credit of the government. Table 4 summarizes bonds and loans outstanding as of December 31, 2012.

Table 4
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activity		Total	
	2012	2011	2012	2011	2012	2011
Refunding Bond - Series A						
Capital Appreciation Bonds	\$80,192	\$130,000	\$0	\$0	\$80,192	\$130,000
Accretion on Capital						
Appreciation Bonds	257,905	351,303	0	0	257,905	351,303
Refunding Bond - Series B						
General Obligation Bonds	29,205	44,955	185,795	275,045	215,000	320,000
Capital Asset Acquisition Bonds - 2008						
General Obligation Bonds	100,000	195,000	0	0	100,000	195,000
Premium on Bonds	2,498	4,996	0	0	2,498	4,996
Capital Asset Acquisition Bonds - 2011						
General Obligation Bonds	150,000	170,000	420,000	440,000	570,000	610,000
Premium on Bonds	9,022	10,526	20,978	22,476	30,000	33,002
Capital Leases	98,500	120,695	0	0	98,500	120,695
Totals	<u>\$727,322</u>	<u>\$1,027,475</u>	<u>\$626,773</u>	<u>\$737,521</u>	<u>\$1,354,095</u>	<u>\$1,764,996</u>

The general obligation bonds and capital appreciation bonds were for the city hall, safety building expansion, water improvements, and capital asset acquisitions, and are paid from property tax levies in the bond retirement fund and charges for services in the water fund. For additional information see Note 12 to the basic financial statements.

The capital lease was for the lease-purchase of a new fire truck. Payments for the fire truck began in 2005. For additional information see Note 7 to the basic financial statements.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Current Financial Related Activities

The City of Munroe Falls is challenged with limited areas for development of industrial, commercial, and residential properties. The City Council endeavors to keep debt obligations low. Our finances are planned so that we can pay cash for as many of the facility improvements and acquisitions as possible without jeopardizing liquidity and reserve balance needs. Our Debt and Fund Reserve Policies provide financial analysis tools for measuring and maintaining healthy fund balances. These policies, integrated with a comprehensive five-year budgeting forecast, helps to give a warning system for long-term effects on decisions made in the current period. The City's leadership is committed to controlling and reducing the cost of government operations while still providing the services the citizens need. Efforts are continually made to enhance revenue opportunities. Our commitment to our residents is full disclosure of the financial position of the City.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all money it receives, spends or invests. If you have any questions about this report or need financial information contact the Director of Finance, David P. Bailey, CPA, 43 Munroe Falls Avenue, Munroe Falls, Ohio 44262, telephone (330) 688-7491, or the website at www.munroefalls.com.

Basic Financial Statements

City of Munroe Falls, Ohio

Statement of Net Position

December 31, 2012

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,958,455	\$2,419,077	\$5,377,532
Materials and Supplies Inventory	56,338	3,253	59,591
Accrued Interest Receivable	28,827	0	28,827
Accounts Receivable	117,008	154,705	271,713
Intergovernmental Receivable	336,869	0	336,869
Prepaid Items	17,969	9,656	27,625
Income Taxes Receivable	258,517	0	258,517
Property Taxes Receivable	718,210	0	718,210
Nondepreciable Capital Assets	1,653,686	31,689	1,685,375
Depreciable Capital Assets, Net	4,977,183	2,777,813	7,754,996
<i>Total Assets</i>	<u>11,123,062</u>	<u>5,396,193</u>	<u>16,519,255</u>
Liabilities			
Accounts Payable	12,898	20,151	33,049
Accrued Wages	49,846	3,779	53,625
Intergovernmental Payable	59,332	5,152	64,484
Accrued Interest Payable	3,240	2,066	5,306
Retainage Payable	15,303	0	15,303
Long-Term Liabilities:			
Due Within One Year	409,317	115,000	524,317
Due In More Than One Year	428,924	511,773	940,697
<i>Total Liabilities</i>	<u>978,860</u>	<u>657,921</u>	<u>1,636,781</u>
Deferred Inflows of Resources			
Property Taxes	694,794	0	694,794
Net Position			
Net Investment in Capital Assets	6,172,972	2,203,707	8,376,679
Restricted for:			
Capital Projects	419,645	0	419,645
Debt Service	29,791	0	29,791
Street Maintenance and Repair	220,391	0	220,391
Fire Department	276,499	0	276,499
EMS	340,434	0	340,434
Other Purposes	177,241	0	177,241
Unrestricted	1,812,435	2,534,565	4,347,000
<i>Total Net Position</i>	<u>\$9,449,408</u>	<u>\$4,738,272</u>	<u>\$14,187,680</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Activities
For the Year Ended December 31, 2012

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$696,435	\$76,599	\$9,477	\$0
Security of Persons and Property	1,581,089	211,085	56,205	0
Transportation	384,542	8,705	254,302	36,000
Public Health and Welfare	39,527	3,623	0	0
Leisure Time Activities	61,630	3,790	0	0
Interest and Fiscal Charges	70,688	0	0	0
<i>Total Governmental Activities</i>	2,833,911	303,802	319,984	36,000
Business-Type Activity:				
Water	923,013	821,697	0	0
<i>Total</i>	<u>\$3,756,924</u>	<u>\$1,125,499</u>	<u>\$319,984</u>	<u>\$36,000</u>

General Revenues

Property Taxes Levied for:

General Purposes

Fire Department

EMS

General Obligation Bond Retirement

Income Tax Levied for:

General Purposes

Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Interest

Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
(\$610,359)	\$0	(\$610,359)
(1,313,799)	0	(1,313,799)
(85,535)	0	(85,535)
(35,904)	0	(35,904)
(57,840)	0	(57,840)
(70,688)	0	(70,688)
(2,174,125)	0	(2,174,125)
<u>0</u>	<u>(101,316)</u>	<u>(101,316)</u>
<u>(2,174,125)</u>	<u>(101,316)</u>	<u>(2,275,441)</u>
210,217	0	210,217
131,386	0	131,386
148,903	0	148,903
167,170	0	167,170
906,944	0	906,944
163,588	0	163,588
262,253	0	262,253
45,360	0	45,360
50,301	1,897	52,198
2,086,122	1,897	2,088,019
<u>1,531</u>	<u>(1,531)</u>	<u>0</u>
<u>2,087,653</u>	<u>366</u>	<u>2,088,019</u>
(86,472)	(100,950)	(187,422)
<u>9,535,880</u>	<u>4,839,222</u>	<u>14,375,102</u>
<u>\$9,449,408</u>	<u>\$4,738,272</u>	<u>\$14,187,680</u>

City of Munroe Falls, Ohio

Balance Sheet

Governmental Funds

December 31, 2012

	General	Fire Department Special Levy	EMS Special Levy	General Obligation Bond Retirement	Capital Improvement
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,731,452	\$269,170	\$282,022	\$8,515	\$235,134
Materials and Supplies Inventory	33,600	0	0	0	0
Accrued Interest Receivable	28,827	0	0	0	0
Accounts Receivable	36,063	0	61,256	0	644
Intergovernmental Receivable	102,324	23,396	26,516	30,104	36,000
Prepaid Items	15,801	118	297	0	418
Income Taxes Receivable	227,495	0	0	0	31,022
Property Taxes Receivable	228,943	143,088	162,166	184,013	0
<i>Total Assets</i>	<u>\$2,404,505</u>	<u>\$435,772</u>	<u>\$532,257</u>	<u>\$222,632</u>	<u>\$303,218</u>
Liabilities					
Accounts Payable	\$6,847	\$205	\$473	\$0	\$2,804
Accrued Wages	32,896	1,546	8,827	0	0
Intergovernmental Payable	39,409	4,040	10,587	0	0
Retainage Payable	0	0	0	0	0
<i>Total Liabilities</i>	<u>79,152</u>	<u>5,791</u>	<u>19,887</u>	<u>0</u>	<u>2,804</u>
Deferred Inflows of Resources					
Property Taxes	221,449	138,405	156,859	178,081	0
Unavailable Revenue	190,012	28,079	31,823	36,036	14,043
<i>Total Deferred Inflows of Resources</i>	<u>411,461</u>	<u>166,484</u>	<u>188,682</u>	<u>214,117</u>	<u>14,043</u>
Fund Balances					
Nonspendable	49,401	118	297	0	418
Restricted	0	263,379	323,391	8,515	285,953
Committed	99,682	0	0	0	0
Assigned	41,283	0	0	0	0
Unassigned	1,723,526	0	0	0	0
<i>Total Fund Balances</i>	<u>1,913,892</u>	<u>263,497</u>	<u>323,688</u>	<u>8,515</u>	<u>286,371</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$2,404,505</u>	<u>\$435,772</u>	<u>\$532,257</u>	<u>\$222,632</u>	<u>\$303,218</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2012*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	\$3,280,026
		<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
		Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,630,869
\$432,162	\$2,958,455	Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
22,738	56,338	Delinquent Property Taxes	23,416
0	28,827	Income Taxes	117,024
19,045	117,008	Grants	239,554
118,529	336,869	Total	379,994
1,335	17,969		
0	258,517	Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(3,240)
0	718,210	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
\$593,809	\$4,492,193	General Obligation Bonds	(279,205)
		Capital Appreciation Bonds	(338,097)
\$2,569	\$12,898	Capital Leases	(98,500)
6,577	49,846	Premium on Bonds	(11,520)
5,296	59,332	Compensated Absences	(110,919)
15,303	15,303	Total	(838,241)
29,745	137,379	<i>Net Position of Governmental Activities</i>	<i>\$9,449,408</i>
0	694,794		
80,001	379,994		
80,001	1,074,788		
24,073	74,307		
417,997	1,299,235		
41,993	141,675		
0	41,283		
0	1,723,526		
484,063	3,280,026		
\$593,809	\$4,492,193		

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

	General	Fire Department Special Levy	EMS Special Levy	General Obligation Bond Retirement	Capital Improvement
Revenues					
Property Taxes	\$220,722	\$137,952	\$156,345	\$174,738	\$0
Income Taxes	906,815	0	0	0	167,184
Special Assessments	0	0	0	0	0
Intergovernmental	259,680	23,317	29,425	29,535	36,000
Interest	41,379	0	0	0	0
Fines, Licenses and Permits	150,064	0	0	0	0
Charges for Services	18,025	0	116,180	0	0
Contributions and Donations	8,917	0	352	0	0
Other	46,491	934	2,876	0	22,231
<i>Total Revenues</i>	<u>1,652,093</u>	<u>162,203</u>	<u>305,178</u>	<u>204,273</u>	<u>225,415</u>
Expenditures					
Current:					
General Government	631,838	2,326	2,636	2,946	0
Security of Persons and Property	1,025,834	136,305	494,684	0	0
Transportation	94,964	0	0	0	0
Public Health and Welfare	39,527	0	0	0	0
Leisure Time Activities	41,349	0	0	0	0
Capital Outlay	0	0	0	0	97,324
Debt Service:					
Principal Retirement	0	0	20,000	65,558	37,195
Interest and Fiscal Charges	0	0	6,749	1,874	6,569
Capital Appreciation Bonds Interest	0	0	0	160,192	0
<i>Total Expenditures</i>	<u>1,833,512</u>	<u>138,631</u>	<u>524,069</u>	<u>230,570</u>	<u>141,088</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(181,419)</u>	<u>23,572</u>	<u>(218,891)</u>	<u>(26,297)</u>	<u>84,327</u>
Other Financing Sources (Uses)					
Transfers In	7,320	0	0	17,624	0
Transfers Out	0	(2,231)	(2,231)	0	(17,624)
<i>Total Other Financing Sources (Uses)</i>	<u>7,320</u>	<u>(2,231)</u>	<u>(2,231)</u>	<u>17,624</u>	<u>(17,624)</u>
<i>Net Change in Fund Balances</i>	(174,099)	21,341	(221,122)	(8,673)	66,703
<i>Fund Balances Beginning of Year</i>	<u>2,087,991</u>	<u>242,156</u>	<u>544,810</u>	<u>17,188</u>	<u>219,668</u>
<i>Fund Balances End of Year</i>	<u>\$1,913,892</u>	<u>\$263,497</u>	<u>\$323,688</u>	<u>\$8,515</u>	<u>\$286,371</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2012*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	(\$539,573)
		<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
		Governmental funds report capital outlays as expenditures.	
		However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	
\$0	\$689,757	Capital Asset Additions	445,569
0	1,073,999	Current Year Depreciation	<u>(226,456)</u>
18,513	18,513		
259,156	637,113		
3,981	45,360		
1,020	151,084		
0	134,205		
5,649	14,918		
<u>0</u>	<u>72,532</u>		
<u>288,319</u>	<u>2,837,481</u>		
		Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
		Delinquent Property Taxes	(32,081)
		Income Taxes	(3,467)
19,496	659,242	Grants	(33,794)
2,518	1,659,341	Other	<u>(22,231)</u>
393,455	488,419		
0	39,527		
0	41,349		
6,972	104,296		
80,000	202,753		
8,274	23,466		
<u>0</u>	<u>160,192</u>		
<u>510,715</u>	<u>3,378,585</u>		
		Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
			362,945
		In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	
		Accrued Interest	9,273
		Amortization of Bond Premium	4,002
(222,396)	(541,104)	Bond Accretion	<u>(66,794)</u>
0	24,944		
<u>(1,327)</u>	<u>(23,413)</u>		
		Some expenses, such as compensated absences, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
<u>(1,327)</u>	1,531		<u>16,135</u>
(223,723)	(539,573)		
<u>707,786</u>	<u>3,819,599</u>		
<u>\$484,063</u>	<u>\$3,280,026</u>	<i>Change in Net Position of Governmental Activities</i>	<u><u>(\$86,472)</u></u>

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$247,464	\$240,414	\$220,722	(\$19,692)
Income Taxes	1,062,821	1,027,842	930,136	(97,706)
Intergovernmental	346,718	336,841	309,250	(27,591)
Interest	42,912	41,690	38,275	(3,415)
Fines, Licenses and Permits	164,970	160,270	147,142	(13,128)
Charges for Services	20,209	19,633	18,025	(1,608)
Contributions and Donations	9,997	9,713	8,917	(796)
Other	42,755	41,535	38,134	(3,401)
<i>Total Revenues</i>	<u>1,937,846</u>	<u>1,877,938</u>	<u>1,710,601</u>	<u>(167,337)</u>
Expenditures				
Current:				
General Government	655,592	681,238	630,043	51,195
Security of Persons and Property	1,004,490	1,050,490	1,014,621	35,869
Transportation	111,744	111,744	101,682	10,062
Public Health and Welfare	39,527	39,527	39,527	0
Leisure Time Activities	42,972	42,972	41,377	1,595
<i>Total Expenditures</i>	<u>1,854,325</u>	<u>1,925,971</u>	<u>1,827,250</u>	<u>98,721</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	83,521	(48,033)	(116,649)	(68,616)
Other Financing Uses				
Transfers Out	(6,180)	(6,180)	(6,180)	0
<i>Net Change in Fund Balance</i>	77,341	(54,213)	(122,829)	(68,616)
<i>Fund Balance Beginning of Year</i>	1,697,338	1,697,338	1,697,338	0
Prior Year Encumbrances Appropriated	14,859	14,859	14,859	0
<i>Fund Balance End of Year</i>	<u>\$1,789,538</u>	<u>\$1,657,984</u>	<u>\$1,589,368</u>	<u>(\$68,616)</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Department Special Levy Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$139,630	\$138,927	\$137,952	(\$975)
Intergovernmental	23,601	23,482	23,317	(165)
Other	1,137	1,132	1,124	(8)
<i>Total Revenues</i>	164,368	163,541	162,393	(1,148)
Expenditures				
Current:				
General Government	0	2,600	2,326	274
Security of Persons and Property	198,285	195,685	138,483	57,202
<i>Total Expenditures</i>	198,285	198,285	140,809	57,476
<i>Excess of Revenues Over (Under) Expenditures</i>	(33,917)	(34,744)	21,584	56,328
Other Financing Uses				
Transfers Out	(2,231)	(2,231)	(2,231)	0
<i>Net Change in Fund Balance</i>	(36,148)	(36,975)	19,353	56,328
<i>Fund Balance Beginning of Year</i>	248,285	248,285	248,285	0
Prior Year Encumbrances Appropriated	183	183	183	0
<i>Fund Balance End of Year</i>	\$212,320	\$211,493	\$267,821	\$56,328

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
EMS Special Levy Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$158,443	\$170,911	\$156,345	(\$14,566)
Intergovernmental	29,820	32,166	29,425	(2,741)
Charges for Services	121,530	131,094	119,921	(11,173)
Contributions and Donations	357	385	352	(33)
Other	3,068	3,309	3,027	(282)
<i>Total Revenues</i>	313,218	337,865	309,070	(28,795)
Expenditures				
Current:				
General Government	0	2,800	2,636	164
Security of Persons and Property	533,005	533,205	501,648	31,557
Debt Service:				
Principal Retirement	20,000	20,000	20,000	0
Interest and Fiscal Charges	6,749	6,749	6,749	0
<i>Total Expenditures</i>	559,754	562,754	531,033	31,721
<i>Excess of Revenues Under Expenditures</i>	(246,536)	(224,889)	(221,963)	2,926
Other Financing Uses				
Transfers Out	(2,231)	(2,231)	(2,231)	0
<i>Net Change in Fund Balance</i>	(248,767)	(227,120)	(224,194)	2,926
<i>Fund Balance Beginning of Year</i>	312,842	312,842	312,842	0
Prior Year Encumbrances Appropriated	180,288	180,288	180,288	0
<i>Fund Balance End of Year</i>	\$244,363	\$266,010	\$268,936	\$2,926

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Fund Net Position
Enterprise Fund
December 31, 2012

	Water
Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$2,419,077
Materials and Supplies Inventory	3,253
Accounts Receivable	154,705
Prepaid Items	9,656
<i>Total Current Assets</i>	2,586,691
<i>Non-Current Assets:</i>	
Land	31,689
Depreciable Capital Assets, Net	2,777,813
<i>Total Non-Current Assets</i>	2,809,502
<i>Total Assets</i>	5,396,193
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	20,151
Accrued Wages	3,779
Intergovernmental Payable	5,152
Accrued Interest Payable	2,066
General Obligation Bonds Payable	115,000
<i>Total Current Liabilities</i>	146,148
<i>Long-Term Liabilities:</i>	
General Obligation Bonds Payable (net of current portion)	511,773
<i>Total Liabilities</i>	657,921
Net Position	
Net Investment in Capital Assets	2,203,707
Unrestricted	2,534,565
<i>Total Net Position</i>	\$4,738,272

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Enterprise Fund
For the Year Ended December 31, 2012*

	Water
Operating Revenues	
Charges for Services	\$821,697
Other	1,897
	823,594
<i>Total Operating Revenues</i>	<i>823,594</i>
Operating Expenses	
Personal Services	151,697
Contractual Services	573,162
Materials and Supplies	21,244
Depreciation	111,918
	858,021
<i>Total Operating Expenses</i>	<i>858,021</i>
<i>Operating Loss</i>	<i>(34,427)</i>
Non-Operating Expenses	
Interest and Fiscal Charges	(64,992)
	(64,992)
<i>Loss before Transfers</i>	<i>(99,419)</i>
Transfers Out	(1,531)
	(1,531)
<i>Change in Net Position</i>	<i>(100,950)</i>
<i>Net Position Beginning of Year</i>	<i>4,839,222</i>
<i>Net Position End of Year</i>	<i>\$4,738,272</i>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2012

	Water
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$836,099
Other Cash Receipts	4,167
Cash Payments to Employees for Services	(167,010)
Cash Payments for Goods and Services	(575,974)
<i>Net Cash Provided by Operating Activities</i>	97,282
Cash Flows from Noncapital Financing Activities	
Transfers Out	(1,531)
Cash Flows from Capital and Related Financing Activities	
Principal Paid on General Obligation Bonds	(109,250)
Interest Paid on General Obligation Bonds	(32,128)
Payments for Capital Acquisitions	(122,797)
<i>Net Cash Used in Capital and Related Financing Activities</i>	(264,175)
<i>Net Decrease in Cash and Cash Equivalents</i>	(168,424)
<i>Cash and Cash Equivalents Beginning of Year</i>	2,587,501
<i>Cash and Cash Equivalents End of Year</i>	\$2,419,077
	(continued)

City of Munroe Falls, Ohio
Statement of Cash Flows
Enterprise Fund (continued)
For the Year Ended December 31, 2012

	<u>Water</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	(\$34,427)
Adjustments:	
Depreciation	111,918
(Increase) Decrease in Assets:	
Accounts Receivable	16,672
Prepaid Items	548
Materials and Supplies Inventory	(463)
Increase in Liabilities:	
Accrued Wages	407
Intergovernmental Payable	<u>2,627</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$97,282</u></u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2012

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$58,748</u></u>
Liabilities	
Undistributed Monies	<u><u>\$58,748</u></u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 1 – Description of the City and Reporting Entity

The City of Munroe Falls, Ohio, (the City) is incorporated as a municipal corporation under the laws of the State of Ohio. The City operates under a Council-Mayor form of government and provides the following services: security of persons and property (police and fire), public health and welfare, leisure time activities, transportation (highways and streets), water utility system and general government services.

The Mayor and City Council members are elected officials serving four-year terms. The department heads for police, fire, service, law and finance are appointed by the Mayor with approval from Council.

Reporting Entity

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 primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Munroe Falls this includes police, fire, emergency medical services, street construction, parks, water utility, general administrative services and a City Council.

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 organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

Note 2 – Summary of Significant Accounting Policies

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 more significant of the City's accounting policies are described below.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position 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 position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the single business-type activity of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental program is self-financing or draws from the general revenues of the City.

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City 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. Fiduciary funds are reported by type.

Fund Accounting

The City uses funds 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. The City's funds are classified as either governmental, proprietary or fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources, and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

General Fund The general fund accounts for and reports all financial resources except those required to be accounted for and reported in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Fire Department Special Levy Fund The fire department special levy special revenue fund accounts and reports property tax collections restricted for 50 percent of full-time fire department salaries and fringe benefits.

EMS Special Levy Fund The EMS special levy special revenue fund accounts for and reports property tax collections restricted to support EMS services in the City and 50 percent of full-time fire department salaries and fringe benefits.

General Obligation Bond Retirement Fund The general obligation bond retirement debt service fund accounts for and reports property tax collections restricted for general obligation long-term debt principal and interest payments.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Capital Improvement Fund The capital improvements capital projects fund accounts for and reports City income tax revenue restricted for various capital projects.

The other governmental funds of the City account for grants and other resources whose use is restricted, committed, or assigned to a particular purpose.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The City's only proprietary fund is an enterprise fund:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City has one major enterprise fund.

Water Fund This fund accounts for the treatment and provision of water to the residents and commercial users of the City.

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The City's two fiduciary funds are agency funds. The agency funds are used to account for contractor deposits and claims.

Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of fund net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred inflows/outflows of resources, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are 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 an accrual basis, 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 6). 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. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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 (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and rentals.

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance 2013 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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 governmental funds.

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 City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During 2012, investments were limited to certificates of deposit, repurchase agreements sweep accounts, STAR Ohio, federal home loan bank bonds, federal farm credit bonds and federal national mortgage association bonds.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as certificates of deposit and repurchase agreements 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 net asset value per share, which is the price the investment could be sold for on December 31, 2012.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2012 amounted to \$41,379, which includes \$26,547 assigned from other City funds.

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.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of the purchase and the expenditure/expense in the year in which services are consumed.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the enterprise fund are reported both in the business-type activity column of the government-wide statement of net position and in the respective fund.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the position or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activity Estimated Lives
Land Improvements	25-35 years	N/A
Buildings and Improvements	25-60 years	25-60 years
Equipment	4-25 years	4-25 years
Infrastructure	50-70 years	50-70 years

The City's infrastructure consists of streets, sidewalks, curbs and culverts. The City reported infrastructure used in governmental activities for the first time in 2003. The City only reports the amounts acquired after 2002.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for employees after one year of service with the City.

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary funds financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and loans are recognized as a liability on the governmental fund financial statements when due.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Fund Balance

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

Nonspendable The 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.

Restricted 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.

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party – such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level formal action (ordinance or resolution, as both are legally binding) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. 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 Amounts in the assigned fund balance classification are intended to be used by the City 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. These amounts are assigned by City Council. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance or by State statute. State statute authorizes the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Net Position

Net position represents the difference between all other elements in the statement of net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes included resources which will be used for security of persons and property, transportation, public health and welfare, and leisure time activities.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues are only charges for services for water services. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

Internal Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods 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 non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized for the term of the bonds using the straight-line method. Bond premiums are presented as an increase of the face amount of the bonds payable. On governmental fund statements, bond premiums are receipted in the year the bonds are issued.

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 Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Minimum Fund Balance Policy

The governing council has adopted a financial policy to maintain a minimum level of unrestricted fund balance (the total of the committed, assigned and unassigned components of fund balance) in the general fund. This amount is intended to provide fiscal stability when economic downturns and other unexpected events occur. If fund balance falls below the minimum target level because it has been used, essentially as a “revenue” source, as dictated by current circumstances, the policy provides for actions to replenish the amount to the minimum target level. Generally, replenishment is to occur within a three-year period.

Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the alternative tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council’s authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of budgetary control has been established by Council at the personal services and other object level within each fund and department. For the other object level the Finance Director has been authorized to allocate appropriations within each department and any object level which he maintains on his books, other than personal services.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time original and final appropriations were enacted by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts on the budgetary statements reflect the first appropriation resolution 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 Council during the year.

Note 3 – Change in Accounting Principles

For 2012, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements," Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53," Statement No. 65, "Items Previously Reported as Assets and Liabilities," and Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62."

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the City’s financial statements.

City of Munroe Falls, Ohio
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GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the City's financial statements.

Note 4 – Budgetary Basis of Accounting

While the City is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general and major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the GAAP basis are:

1. Revenues and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed, or assigned fund balance (GAAP).
4. Investments are reported at fair value (GAAP) rather than cost (budget).
5. Budgetary revenues and expenditures of the compensated absences fund are reclassified to the general fund for GAAP reporting.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and major special revenue funds.

	Net Change in Fund Balance General and Major Special Revenue Funds		
	General	Fire Department Special Levy	EMS Special Levy
GAAP Basis	(\$174,099)	\$21,341	(\$221,122)
Adjustment for Revenue Accruals	34,554	190	3,892
Beginning Fair Value Adjustment for Investments	4,251	0	0
Ending Fair Value Adjustment for Investments	(1,117)	0	0
Adjustment for Expenditure Accruals	62,540	(829)	6,122
Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses:			
Compensated Absences	(7,673)	0	0
Adjustment for Encumbrances	(41,285)	(1,349)	(13,086)
Budget Basis	(\$122,829)	\$19,353	(\$224,194)

Note 5 – Deposits and Investments

The City has chosen to follow State statutes and classify monies held by the City into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the City treasury. Active 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 the 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.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

City of Munroe Falls, Ohio
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For the Year Ended December 31, 2012

3. Written repurchase agreements in the securities listed above;
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);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers' acceptances if training requirements have been met.

The City may also invest any monies not required to be used for a specific period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest, or coupons; and
3. Obligations of the City.

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. Investments may only be made through specified dealers and institutions.

At year end, the City had \$2,200 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

Investments

As of December 31, 2012, the City had the following investments:

Investment Type	Investment Maturities (in Years)			
	Less than 1	1-2	2-3	3-5
Repurchase Agreements:				
Federal Home Loan Mortgage Corporation Bonds	\$295,000	\$0	\$0	\$0
STAR Ohio	1,024,920	0	0	0
Federal Home Loan Bank Bonds	0	325,048	224,001	689,385
Federal Farm Credit Bonds	0	0	0	600,000
Federal National Mortgage Association Bonds	0	0	0	200,000
Total Investments	<u>\$1,319,920</u>	<u>\$325,048</u>	<u>\$224,001</u>	<u>\$1,489,385</u>

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Interest Rate Risk. The City has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the expectation that it will be held to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

Credit Risk. The repurchase agreements were backed by Federal Home Loan Mortgage Corporation Bonds, which carry a rating of Aaa by Moody's. The Federal Home Loan Bank Bonds, Federal Farm Credit Bonds, and Federal National Mortgage Association Bonds also carry a rating of Aaa by Moody's. STAR Ohio carries a rating of AAAM 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 City has no investment policy that addresses credit risk.

Concentration of Credit Risk. With the exception of U.S. Treasury securities, federal government agency securities, and authorized pools, no more than 50 percent of the City's total investment portfolio will be invested in a single security type or with a single financial institution per the Council approved credit risk policy.

The following is the City's allocation as of December 31, 2012:

<u>Investment Issuer</u>	<u>Percentage</u>
Federal Home Loan Bank Bonds	36.88 %
Federal Farm Credit Bonds	17.87
Repurchase Agreement Sweep Account:	
Federal Home Loan Mortgage Corporation Bonds	8.78
Federal National Mortgage Association Bonds	5.96

Note 6 – Receivables

Receivables at December 31, 2012, consisted primarily of municipal income taxes, property taxes, accounts, interest, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are deemed collectible in full and are expected to be received within one year; however, property taxes and income taxes, although ultimately collectible, include some portions of delinquencies that will not be collected within one year.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of 2011 taxes.

2012 real property taxes are levied after October 1, 2012 on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

City of Munroe Falls, Ohio
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For the Year Ended December 31, 2012

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. 2012 public utility property taxes, which became a lien December 31, 2011, are levied after October 1, 2012, and collected in 2013 with real property taxes.

The tax rate for all City operations for the year ended December 31, 2012, was \$7.53 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Property	\$106,708,460
Public Utility	1,159,560
Total Valuation	<u>\$107,868,020</u>

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the county, including the City of Munroe Falls. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility tangible personal property taxes and outstanding delinquencies which are measurable as of December 31, 2012, and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2012 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Municipal Income Taxes

The City levies a municipal income tax of two percent on all income earned within the City as well as on income of residents earned outside of the City. In the latter case, the City allows a credit of up to 100 percent on the income earned outside of the City and paid to another municipality. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are required to pay their estimated tax at least quarterly and file a final return annually.

Additional increases in the City’s income tax rate would require voter approval. The income tax, by ordinance, is allocated, after expenditures for collections, with a minimum of 12 percent to the capital improvement fund and the remainder to the general fund. Amounts above the 12 percent may be allocated depending on the capital improvement projections.

Intergovernmental Receivable

A summary of the governmental activities’ principal item of intergovernmental receivables follows:

<i>Governmental Activities:</i>	
Homestead and Rollback	\$117,451
Gas Tax Distribution	100,506
Local Government	64,889
Capital Improvement Grant	36,000
Motor Vehicle License Tax	18,023
Total	<u>\$336,869</u>

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 7 – Capital Leases

The City entered into a capital lease for a fire truck in 2004. The lease obligation meets the criteria of a capital lease and has been recorded on the government-wide statements. Capital assets were capitalized at the present value of the minimum lease payments at the time the lease was entered into.

The asset acquired through a capital lease is as follows:

	Governmental Activities
Asset:	
Equipment	\$252,931
Less: Accumulated depreciation	(70,821)
Total	\$182,110

The fire truck lease provides for minimum, annual lease payments as follows:

	Governmental Activities
2013	\$27,264
2014	27,264
2015	27,264
2016	27,264
Total Minimum Lease Payment	109,056
Less: Amount Representing Interest	(10,556)
Present Value of Minimum Lease Payments	\$98,500

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 8 – Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2012, was as follows:

	Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
<i>Governmental Activities:</i>				
<i>Capital Assets, not being depreciated</i>				
Land	\$1,653,686	\$0	\$0	\$1,653,686
<i>Capital Assets, being depreciated</i>				
Land Improvements	359,209	0	0	359,209
Buildings and Improvements	4,056,712	0	0	4,056,712
Equipment	2,339,985	242,945	(101,297)	2,481,633
Infrastructure	1,224,589	202,624	0	1,427,213
<i>Total Capital Assets, being depreciated</i>	<u>7,980,495</u>	<u>445,569</u>	<u>(101,297)</u>	<u>8,324,767</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(137,361)	(15,202)	0	(152,563)
Buildings and Improvements	(1,273,756)	(87,102)	0	(1,360,858)
Equipment	(1,669,496)	(88,326)	101,297	(1,656,525)
Infrastructure	(141,812)	(35,826)	0	(177,638)
<i>Total Accumulated Depreciation</i>	<u>(3,222,425)</u>	<u>(226,456) *</u>	<u>101,297</u>	<u>(3,347,584)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>4,758,070</u>	<u>219,113</u>	<u>0</u>	<u>4,977,183</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$6,411,756</u>	<u>\$219,113</u>	<u>\$0</u>	<u>\$6,630,869</u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$43,586
Security of Persons and Property	102,253
Transportation	60,336
Leisure Time Activities	20,281
Total Depreciation Expense	<u><u>\$226,456</u></u>

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Capital asset activity for business-type activities for the year ended December 31, 2012, was as follows:

	Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
<i>Business-Type Activity:</i>				
<i>Capital Assets, not being depreciated</i>				
Land	\$31,689	\$0	\$0	\$31,689
<i>Capital Assets, being depreciated</i>				
Buildings	1,044,117	8,323	0	1,052,440
Equipment	621,165	78,466	0	699,631
Infrastructure	3,318,092	36,008	0	3,354,100
<i>Total Capital Assets, being depreciated</i>	4,983,374	122,797	0	5,106,171
<i>Less Accumulated Depreciation:</i>				
Buildings	(408,024)	(21,856)	0	(429,880)
Equipment	(512,952)	(14,058)	0	(527,010)
Infrastructure	(1,295,464)	(76,004)	0	(1,371,468)
<i>Total Accumulated Depreciation</i>	(2,216,440)	(111,918)	0	(2,328,358)
<i>Total Capital Assets being depreciated, Net</i>	2,766,934	10,879	0	2,777,813
<i>Business-Type Activity Capital Assets, Net</i>	\$2,798,623	\$10,879	\$0	\$2,809,502

Note 9 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, 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 Pension 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. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for State and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions. For the year ended December 31, 2012, members in State and local divisions contributed 10 percent of covered payroll. For 2012, member and employer contribution rates were consistent across all three plans.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

The City's 2012 contribution rate was 14 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$92,943, \$75,145, and \$70,607, respectively. For 2012, 97.68 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Contributions to the Member-Directed plan for 2012 were \$9,837 made by the City and \$7,026 made by the plan members.

Ohio Police and Fire Pension Fund

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

Funding Policy – The Ohio Revised Code requires plan members to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$44,517 and \$22,193 for the year ended December 31, 2012, \$50,039 and \$24,181 for the year ended December 31, 2011, and \$58,090 and \$23,984 for the year ended December 31, 2010, respectively. For 2012, 92.49 percent for police and 91.94 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Social Security System

As of December 31, 2012, nineteen part-time firefighters and six auxiliary police officers have elected to be covered by Social Security rather than OPERS or Ohio Police and Fire Pension Fund. The part-time firefighters' and auxiliary police officers' liability is 6.2 percent of wages paid.

Note 10 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan – a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for 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. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment 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 benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through 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 2012, State and local employers contributed at a rate of 14 percent of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for the year. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

The OPERS Retirement Board 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. Active members do not make contributions to the post-employment health care plan.

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$26,554, \$21,469, and \$20,172, respectively. For 2012, 97.68 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care 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 to post-retirement health care coverage for 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 No. 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 is 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

Funding Policy – 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 by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24 percent of covered payroll for police and fire employers, respectively. 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 administered 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.

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, 2012, the employer contribution allocated to the health care plan was 6.75 percent 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 City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$23,568 and \$8,684 for the year ended December 31, 2012, \$26,491 and \$9,462 for the year ended December 31, 2011, and \$30,753 and \$9,385 for the year ended December 31, 2010. For 2012, 92.49 percent has been contributed for police and 91.94 percent has been contributed for firefighters with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 11 – Other Employee Benefits

Compensated Absences

Vacation leave is earned at rates which vary depending upon length of service. Current policy credits vacation leave on the hiring date anniversary of each year for all full time employees. Unused vacation is cumulative and may not exceed 200 hours carryover per year for full time patrol officers and sergeants and 120 hours for full time employees. In the event of a termination of employment, death, or retirement, employees (or their estates) are paid for unused vacation leave.

Sick leave is earned for all full time employees at the rate of one and one-quarter days each month. Unused sick leave may be accumulated up to 2,080 hours. Upon retirement, the first 960 hours accumulated is compensated at 50 percent and the remaining hours at 25 percent.

Full time patrol officers and sergeants earn sick leave at a rate of ten hours for each completed month of service. Full time patrol officers and sergeants may accumulate an unlimited amount of sick leave. Upon retirement, the first 2,000 hours are compensated at 50 percent and all hours over 2,000 are compensated at 25 percent.

Insurance

The City provides health and life insurance to its employees through Summacare. Employees covered under union contracts may have different terms. All employees currently contribute 15 percent towards their health premium.

Note 12 – Long-Term Obligations

Original issue amounts and interest rates of the City’s debt issues are as follows:

Debt Issue	Interest Rate	Original Issue	Date of Maturity
<i>Governmental Activities:</i>			
2001 Various Purpose Refunded General Obligation Bonds			
Series B General Obligation Bonds	3% - 4.25%	\$250,525	December 1, 2014
Capital Appreciation Bonds	13.43	130,000	December 1, 2014
2008 Capital Asset Acquisition Bonds	4 - 5.5	450,000	December 1, 2013
2011 Capital Asset Acquisition Bonds	2 - 4	170,000	December 1, 2018
<i>Business-Type Activity:</i>			
2001 Various Purpose Refunded General Obligation Bonds			
Series B General Obligation Bonds	3 - 4.25	999,475	December 1, 2014
2011 Capital Asset Acquisition Bonds	2 - 4.5	440,000	December 1, 2026

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

The changes in long-term obligations during the year were as follows:

	Balance 12/31/2011	Issued	Retired	Balance 12/31/2012	Amounts Due In One Year
Governmental Activities:					
Refunding Bond - Series A					
Capital Appreciation Bond	\$130,000	\$0	(\$49,808)	\$80,192	\$42,697
Accretion on Capital Appreciation Bond	351,303	66,794	(160,192)	257,905	162,303
Refunding Bond - Series B					
General Obligation Bond	44,955	0	(15,750)	29,205	15,000
Capital Asset Acquisition Bonds - 2008					
General Obligation Bond	195,000	0	(95,000)	100,000	100,000
Premium on Bonds	4,996	0	(2,498)	2,498	0
Capital Asset Acquisition Bonds - 2011					
General Obligation Bond	170,000	0	(20,000)	150,000	25,000
Premium on Bonds	10,526	0	(1,504)	9,022	0
Capital Leases	120,695	0	(22,195)	98,500	23,127
Compensated Absences	127,054	14,917	(31,052)	110,919	41,190
Total Governmental Activities	\$1,154,529	\$81,711	(\$397,999)	\$838,241	\$409,317
Business-Type Activity:					
Refunding Bond - Series B					
General Obligation Bond	\$275,045	\$0	(\$89,250)	\$185,795	\$90,000
Capital Asset Acquisition Bonds - 2011					
General Obligation Bond	440,000	0	(20,000)	420,000	25,000
Premium on Bonds	22,476	0	(1,498)	20,978	0
Total Business-Type Activity	\$737,521	\$0	(\$110,748)	\$626,773	\$115,000

On November 1, 2001 the City issued \$1,820,000 Series A and \$1,250,000 Series B (which includes a governmental activities portion and a business-type activity portion) General Obligation Bonds and \$130,000 Series A Capital Appreciation Bonds to advance refund \$1,950,000 of 1994 Series A bonds and \$1,105,000 of 1994 Series B bonds.

For the Capital Appreciation Bond, the additions for 2012 were \$66,794, which represents the annual accretion of discounted interest. \$210,000 of the Capital Appreciation Bond was retired during 2012, with an outstanding amount at year-end of \$338,097.

Payment of the principal and interest on the refunding bonds is insured by a municipal bond insurance policy issued by Financial Guaranty Insurance Company. Payments are made from the bond retirement fund for the governmental portion which includes all of the Series A and part of Series B. The remaining part of Series B, which is the business-type activity portion, is paid from the water fund.

On October 15, 2008, the City issued \$450,000 of General Obligation Bonds for the purpose of acquiring capital assets. These bonds were issued at a premium of \$12,490, which will be amortized over the life of the bonds. Payments are made from the bond retirement debt service fund.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

On September 1, 2011, the City issued \$610,000 of General Obligation Bonds for the purpose of acquiring capital assets. These bonds were issued at a premium of \$33,002, which will be amortized over the life of the bonds. Payments are made from the bond retirement debt service fund and the water fund. These bonds are part of a larger issuance of \$6.5 million in fractionalized interest bonds relating to the Ohio Capital Asset Financing Program with six other political subdivisions. These bonds are several and not joint obligations. None of the political subdivisions has any obligation to pay the principal of or interest on the bonds of any other political subdivision. Payment by a political subdivision of principal and interest on its portion of the bonds will fully discharge that subdivision of its obligations.

In June 2004, the City entered into a capital lease to purchase a fire truck through the Ohio Department of Administrative Services Ohio Cooperative Purchasing Program. The cost of the fire truck and the amount of the lease is \$252,931, with an interest rate of 4.12 percent. Annual payments of principal and interest are to be made through June 2016. Payments are to be paid out of the City's capital improvement fund.

The compensated absences liability will be paid out of the City's general fund, street construction, maintenance and repair fund, EMS special levy fund, and the fire department special levy fund.

As of December 31, 2012, the City's overall legal debt margin was \$10,975,260 and the unvoted legal debt margin was \$5,191,064. Principal and interest requirements to retire the outstanding debt at December 31, 2012, are as follows:

	Governmental Activities				Business-Type Activity	
	General Obligation		Capital Appreciation		General Obligation	
	Bonds		Bond		Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$140,000	\$11,990	\$42,697	\$162,303	\$115,000	\$24,796
2014	39,205	5,354	37,495	167,505	120,795	20,472
2015	25,000	4,000	0	0	25,000	15,650
2016	25,000	3,000	0	0	25,000	14,650
2017	25,000	2,000	0	0	25,000	13,650
2018-2022	25,000	1,000	0	0	150,000	50,500
2023-2026	0	0	0	0	145,000	16,475
Totals	<u>\$279,205</u>	<u>\$27,344</u>	<u>\$80,192</u>	<u>\$329,808</u>	<u>\$605,795</u>	<u>\$156,193</u>

Note 13 – Contingencies

Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experiences, management believes such refunds, if any, would not be material.

Litigation

The City is not currently a party to any legal proceedings which would have a material impact on the financial statements.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 14 – Significant Commitments

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

<i>Governmental Activities:</i>	
General	\$41,285
Fire Department Special Levy	1,349
EMS Special Levy	13,086
Capital Improvement	8,903
Other Governmental Funds	<u>5,922</u>
	70,545
<i>Business-Type Activity:</i>	
Water	<u>85,057</u>
Total	<u><u>\$155,602</u></u>

Note 15 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2012, the City contracted with Select Insurance Group for its property and liability insurance. Wichert Insurance Services, Incorporated serves as the City's agent.

The City carries commercial property insurance in the amount of \$9,782,903 with a \$500 deductible. The City carries insurance for general liability, auto liability and law enforcement liability with limits of \$5,000,000 per occurrence. The City also carries \$1,000,000 of public officials' liability coverage. Public officials have a deductible of \$10,000. The law enforcement deductible is \$10,000, the equipment and crime deductibles are \$500, and the inland marine deduction is \$500. Auto liability has a \$1,000,000 combined single limit of liability with a \$500 collision deductible. There has not been a significant reduction in coverage from the prior year. Claims have not exceeded this commercial coverage in any of the past three years.

The City pays the State 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 16 – Interfund Transfers

During 2012, the capital improvement capital projects fund transferred \$17,624 to the general obligation bond retirement debt service fund to provide additional resources for debt service. Also, during 2012, the street construction, maintenance and repair, fire department special levy, and EMS special levy special revenue funds and the water fund made transfers to general fund in the amounts of \$1,327, \$2,231, \$2,231, and \$1,531, respectively, for their share of compensated absences related costs.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 17 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City 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	General	Fire Department Special Levy	EMS Special Levy	General Obligation Bond Retirement	Capital Improvement	Other Governmental Funds	Total
<u>Nonspendable:</u>							
Inventory	\$33,600	\$0	\$0	\$0	\$0	\$22,738	\$56,338
Prepays	15,801	118	297	0	418	1,335	17,969
<i>Total Nonspendable</i>	<u>49,401</u>	<u>118</u>	<u>297</u>	<u>0</u>	<u>418</u>	<u>24,073</u>	<u>74,307</u>
<u>Restricted to:</u>							
Transportation	0	0	0	0	0	286,377	286,377
Public Safety	0	263,379	323,391	0	0	12,389	599,159
Debt Service	0	0	0	8,515	0	0	8,515
Capital Improvements	0	0	0	0	285,953	119,231	405,184
<i>Total Restricted</i>	<u>0</u>	<u>263,379</u>	<u>323,391</u>	<u>8,515</u>	<u>285,953</u>	<u>417,997</u>	<u>1,299,235</u>
<u>Committed to:</u>							
Compensated Absences	99,682	0	0	0	0	0	99,682
Public Safety	0	0	0	0	0	41,993	41,993
<i>Total Committed</i>	<u>99,682</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>41,993</u>	<u>141,675</u>
<u>Assigned to:</u>							
Purchases On Order	41,283	0	0	0	0	0	41,283
Unassigned	1,723,526	0	0	0	0	0	1,723,526
Total Fund Balances	<u><u>\$1,913,892</u></u>	<u><u>\$263,497</u></u>	<u><u>\$323,688</u></u>	<u><u>\$8,515</u></u>	<u><u>\$286,371</u></u>	<u><u>\$484,063</u></u>	<u><u>\$3,280,026</u></u>



Dave Yost • Auditor of State

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

City of Munroe Falls
Summit County
43 Munroe Falls Avenue
Munroe Falls, Ohio 44262

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Munroe Falls, Summit County, Ohio, (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 16, 2013.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

August 16, 2013



Dave Yost • Auditor of State

CITY OF MUNROE FALLS

SUMMIT COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 10, 2013**