



**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

TABLE OF CONTENTS

| TITLE | PAGE |
|--|-------------|
| Independent Accountants' Report | 1 |
| Management's Discussion and Analysis | 3 |
| Statement of Net Assets – Governmental Activities | 11 |
| Statement of Activities – Governmental Activities - For the Year Ended December 31, 2004 | 13 |
| Balance Sheet - Governmental Funds | 14 |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities | 17 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds | 18 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 20 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Basis) - General Fund | 21 |
| Statement of Fiduciary Net Assets – Fiduciary Funds | 22 |
| Notes to the Basic Financial Statements | 23 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 53 |
| Schedule of Findings | 55 |
| Schedule of Prior Audit Findings | 57 |

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Olmsted Falls, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Olmsted Falls, Cuyahoga County, Ohio, as of December 31, 2004, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17, during the year ended December 31, 2004, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2005, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquires of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

November 28, 2005

City of Olmsted Falls Cuyahoga County

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

The discussion and analysis of the City of Olmsted Falls' financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2004 are as follows:

- ◆ City municipal income tax revenue totaled \$2,455,411.
- ◆ The assets of the City of Olmsted Falls exceeded its liabilities at the close of the most recent fiscal year by \$9,149,508. Of this amount, \$5,539,196 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ In total, net assets in governmental activities increased by \$2,401,326 during 2004. This represents a 35.58 percent increase from 2003.
- ◆ Total assets increased by \$1,578,245, which represents an increase of 8.23 percent from 2003. The biggest changes were an increase in capital assets of \$1,316,122.
- ◆ Total liabilities decreased by \$823,081, which represents a decrease of 6.62 percent.

Using this Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City of Olmsted Falls' basic financial statements. The City of Olmsted Falls' basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements – Reporting the City of Olmsted Falls as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets presents information on all the City of Olmsted Fall's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Olmsted Falls is improving or deteriorating. However, in evaluating the overall position of the City, non-financial factors such as the City's tax base, change in property and income tax laws, and the condition of the capital assets should also be considered. Both the Statement of Net Assets and the Statement of Activities use the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

City of Olmsted Falls Cuyahoga County

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

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

- Assets
- Liabilities
- Net assets (assets minus liabilities)
- Program revenues and expenses
- General revenues
- Net assets beginning of year and end of year

Fund Financial Statements - Reporting the City of Olmsted Falls' Most Significant Funds

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The City of Olmsted Falls, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Olmsted Falls can be divided into the category of governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all *other financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds.

The City of Olmsted Falls maintains 46 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General fund, Bond Retirement fund, and Capital Improvement Capital Projects fund, all of which are considered to be major funds.

**City of Olmsted Falls
Cuyahoga County**

Management’s Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 23 of this report.

Government-wide Financial Analysis - City of Olmsted Falls as a Whole

As noted earlier, the Statement of Net Assets looks at the City as a whole and can prove to be a useful indicator of the City’s financial position.

Table 1 provides a summary of the City’s net assets for 2004 as compared to 2003.

**Table 1
Net Assets**

| | Governmental Activities | |
|--|-------------------------|---------------------|
| | <u>2004</u> | <u>2003</u> |
| Current and other assets | \$ 13,309,162 | \$ 13,047,039 |
| Capital assets, net | <u>7,446,598</u> | <u>6,130,476</u> |
| <i>Total assets</i> | <u>20,755,760</u> | <u>19,177,515</u> |
| Current liabilities and other liabilities | 4,860,803 | 5,230,049 |
| Long-term liabilities | | |
| Due within one year | 2,661,397 | 712,450 |
| Due in more than one year | <u>4,084,052</u> | <u>6,486,834</u> |
| <i>Total liabilities</i> | <u>11,606,252</u> | <u>12,429,333</u> |
| Invested in capital assets, net of related debt | 1,251,595 | 810,637 |
| Restricted for: | | |
| Capital projects | 1,534,326 | 1,534,326 |
| Debt service | 824,391 | 736,093 |
| Unrestricted | <u>5,539,196</u> | <u>3,667,126</u> |
| <i>Total Net Assets</i> | <u>\$ 9,149,508</u> | <u>\$ 6,748,182</u> |

Total assets increased \$1,578,245 from 2004 to 2003 primarily because a net increase in construction in progress of \$1,196,310. Capital assets increased a total of \$1,316,122.

**City of Olmsted Falls
Cuyahoga County**

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year. However, since this is the first year the City has prepared financial statements following GASB 34, revenue and expense comparisons to 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**Table 2
Changes in Net Assets**

| | Governmental Activities 2004 |
|----------------------------------|------------------------------------|
| Program revenues: | |
| Charges for services | \$ 2,472,152 |
| Operating grants | 13,605 |
| Capital grants | <u>641,901</u> |
| <i>Total program revenues</i> | <u>3,127,658</u> |
| General revenues: | |
| Property and other local taxes | 1,584,417 |
| Municipal income taxes | 2,455,411 |
| Grants and entitlements | 1,229,845 |
| Investment income | 51,395 |
| Miscellaneous income | <u>23,794</u> |
| <i>Total general revenues</i> | <u>5,344,862</u> |
| <i>Total revenues</i> | <u>8,472,520</u> |
| Program expenses: | |
| General government | 1,665,659 |
| Security of persons and property | 2,593,475 |
| Physical environment | 212,772 |
| Transportation | 970,296 |
| Economic environment | 231,950 |
| Public health | 70,313 |
| Culture and recreation | 74,532 |
| Interest and fiscal charges | <u>252,197</u> |
| <i>Total program expenses</i> | <u>6,071,194</u> |
| <i>Change in net assets</i> | <u>\$ 2,401,326</u> |

City of Olmsted Falls Cuyahoga County

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

Governmental Activities

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. The City's income tax rate is one and one-half (1.5%) percent on gross income and has not changed since 1989. Residents of the City who work in another community and pay the withholding tax for that community receive a 50 percent tax credit on their City tax up to 1.50 percent. During 2004, the revenues generated from this tax amounted to \$2,455,411.

General property taxes are also a significant source of revenues. Although this is a much more stable tax, property taxes constitute only about a fourth of the general revenues for the City. In addition to the general property taxes, the City has one (1) separate levy, 1.8 mills to augment the general operations within the General Fund of the City. The City has three (3) separate levies, 1.30 mills, 2.00 mills, and 0.50 mills, for the fire department. The fire levies provide for a portion of the operating expenditures and equipment replacement in the fire department, the remainder of the funding comes from the General Fund. The City has one (1) separate levy, 1.40 mills, for the police department. The police levy provides for a portion of the operating expenditures and equipment replacement for the police department, the remainder of the funding comes from the General Fund. The City has one (1) separate levy, 1.50 mills, to augment for the service department for road operations, maintenance and repair of roads. The City has one (1) separate levy, 1.00 mills, to provide for the development and maintenance of the parks of the City. The City has one (1) separate levy, 1.00 mills, for hospitalization in the support of Southwest General Health Center, a general hospital.

Intergovernmental revenues, particularly local government subsidies have, in the past, provided a very stable predictable and significant contribution to the City's General Fund. In 2004, local government subsidies have become less stable with State Budget cuts and county distribution formulas being challenged in court. Estate taxes have also been a significant contributor to this City's budget, but much less stable and not at all predictable. Both of these forms of intergovernmental taxes are at risk due to budget concerns at the State level.

The City has also more aggressively pursued grants and donations to help fund particular projects that might have been funded through the General Fund. Grants have helped fund the construction of a park pavilion, fire equipment, police and paramedic training as well as sanitary sewer construction in several areas of the City.

Security of Persons and Property and General Government are the major activities of the City generating 70 percent of the governmental expenses. Currently, there are 11 full-time sworn officers in the police department. In 2002, the police department marked its first anniversary in a "new" law enforcement facility. The facility and related technological updates have proven to be a wise investment of police funds, which contributes favorably to law enforcement and prevention.

City of Olmsted Falls Cuyahoga County

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

The fire department consists of 7 full-time fire fighters. All of these fire fighters are fully trained paramedics. Again, training plays a crucial role in the day-to-day operation of the fire department. The department executes training activities in hazardous materials, airline accidents, high-rise building rescue and controlled burns. The department did relocate into a newly constructed fire station. The department also received a new pumper, which was partially funded by the Federal Emergency Management Agency.

With several large sanitary sewer construction projects planned or in process, the investment in streets was limited to those streets that experienced sanitary sewer construction or minor repairs.

The City's Funds

Information about the City's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$9,868,910 and expenditures and other financing uses of \$10,412,221. The net change in fund balance for the year was most significant in the Capital Improvement Fund showing a decrease in fund balance of \$490,011. The General Fund reflected a decrease of \$279,741, however, the beginning fund balance of \$1,330,648 is more than ample to meet these times of lower revenues. Overall the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. An annual appropriation budget is legally required to be prepared for all funds of the City other than agency funds. Council is provided with a detailed line item budget for all departments and after a discussion at a regularly held council meeting, which is open to the public; the budget is adopted by City council. Council must approve legislation for any revisions in the budget that alter totals or the total appropriations for any department or fund. The finance department watches all the departmental budgets closely to monitor compliance with allocated budgets and provides monthly reports to City Council depicting monthly and year-to-date activity.

For the General Fund, budget basis revenue was \$805,150 greater than the original budget estimates of \$3,267,648. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenue areas. The final appropriations of \$4,914,976 was sufficient to meet the expenditures for the year, which ended up at \$4,763,524 or \$151,452 less than anticipated due to conservative budgeting and spending controls.

**City of Olmsted Falls
Cuyahoga County**

Management’s Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

Capital Assets and Debt Administration

Capital Assets

Table 3 shows fiscal 2004 balances of Capital Assets as compared to 2003:

**Table 3
Capital Assets at December 31**

| | Governmental Activities | |
|-----------------------------------|----------------------------|---------------------|
| | 2004 | 2003 |
| Land | \$ 656,450 | \$ 883,474 |
| Construction in progress | 1,893,208 | 696,898 |
| Buildings | 3,528,245 | 3,363,551 |
| Improvements other than buildings | 51,275 | 51,275 |
| Machinery, equipment and vehicles | 2,234,451 | 1,907,779 |
| Infrastructure | 74,908 | 74,908 |
| Less: Accumulated Depreciation | <u>(991,939)</u> | <u>(847,409)</u> |
| Total Capital Assets | <u>\$ 7,446,598</u> | <u>\$ 6,130,476</u> |

The City’s plan is to maintain its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks and ambulances are planned for well in advance by the respective department heads and a scheduled maintenance and replacement timetable is followed to provide peak performance for the maximum time frame. The police car replacement plan is to replace three vehicles each year. The older vehicles are either traded in to the dealers or sold to the highest bidder at auction.

With regards to the infrastructure, the City’s engineering department maintains a comprehensive listing of all the roads, sewer lines and water lines in the City. As part of the City’s annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack-sealed and in the case of concrete roads, either replaced or repaired. After approval from council, the projects are competitively bid to get the best possible pricing from contractors. Related expenditures are paid for out of the Capital Improvements Fund of the City.

The City is committed to a long-tem goal of meeting the needs of its infrastructure and facilities.

**City of Olmsted Falls
Cuyahoga County**

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

Debt

At December 31, 2004, the City of Olmsted Falls had \$6,745,449 in outstanding debt and compensated absences, of which \$3,841,848 was in Ohio Water Development Authority Loans and \$2,020,000 of long-term notes payable. Table 4 summarizes the outstanding obligations of the City.

**Table 4
Outstanding Long-Term Debt at Year End**

| | Governmental Activities | |
|---|----------------------------|---------------------|
| | 2004 | 2003 |
| Notes payable | \$ 2,020,000 | \$ 2,135,000 |
| OWDA loans | 3,841,848 | 4,091,616 |
| Ohio Water and Sewer Rotary Commission loans | 396,075 | 396,075 |
| Capital leases | 63,872 | 135,250 |
| Compensated absences | 314,131 | 329,888 |
| Intergovernmental payable | <u>109,523</u> | <u>111,455</u> |
| Total | \$ <u>6,745,449</u> | \$ <u>7,199,284</u> |

At December 31, 2004, the City's overall legal debt margin was \$18,684,296. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

Current Related Financial Activities

The City of Olmsted Falls is strong financially. In addition, the City of Olmsted Falls' systems of budgeting and internal controls are well regarded and the City is well prepared to meet the challenges of the future. In conclusion, management has been committed to provide the residents of the City of Olmsted Falls with full disclosure of the financial position of the City.

Contacting the City of Olmsted Falls' Finance Department

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance, Dan Patrick II, City of Olmsted Falls, 26100 Bagley Road, Parma, Ohio 44135, telephone (440) 235-5551, or web site at www.olmstedfalls.org.

**City of Olmsted Falls
Cuyahoga County**

Statement of Net Assets

December 31, 2004

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets: | |
| Current assets: | |
| Equity in pooled cash and cash equivalents | \$ 5,075,657 |
| Income taxes receivable | 1,043,624 |
| Property taxes receivable | 1,684,119 |
| Accounts receivable | 354,542 |
| Intergovernmental receivable | 622,015 |
| Special assessments receivable | 4,440,842 |
| Materials and supplies inventory | 3,229 |
| Prepaid items | 85,134 |
| Noncurrent assets: | |
| Nondepreciable capital assets | 2,549,658 |
| Depreciable capital assets, net | <u>4,896,940</u> |
| Total assets | <u>20,755,760</u> |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable | 346,058 |
| Intergovernmental payable | 1,821 |
| Accrued interest payable | 20,067 |
| Deferred revenue | 1,542,857 |
| Notes payable | 2,950,000 |
| Long-term liabilities: | |
| Due within one year | 2,661,397 |
| Due in more than one year | <u>4,084,052</u> |
| Total liabilities | <u>11,606,252</u> |
| Net Assets: | |
| Investment in capital assets, net of related debt | 1,251,595 |
| Restricted for: | |
| Capital projects | 1,534,326 |
| Debt service | 824,391 |
| Unrestricted | <u>5,539,196</u> |
| Total net assets | <u>\$ 9,149,508</u> |

The accompanying notes are an integral part of the financial statements

This page intentionally left blank

**City of Olmsted Falls
Cuyahoga County**

Statement of Activities

For The Year Ended December 31, 2004

| | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expenses)</u> |
|----------------------------------|---------------------|----------------------------|---|---|---|
| | | <u>Charges for Service</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Revenues and Changes in Net Assets</u> |
| | | | | | <u>Total Governmental Funds</u> |
| Government activities: | | | | | |
| General government | \$ 1,665,659 | \$ 1,485,078 | \$ - | \$ - | \$ (180,581) |
| Security of persons and property | 2,593,475 | 259,845 | 13,605 | 245,701 | (2,074,324) |
| Physical environment | 212,772 | 311,339 | - | 2,678 | 101,245 |
| Transportation | 970,296 | 196,115 | - | 308,713 | (465,468) |
| Economic environment | 231,950 | 205,599 | - | - | (26,351) |
| Public health | 70,313 | 416 | - | - | (69,897) |
| Culture and recreation | 74,532 | 13,760 | - | 84,809 | 24,037 |
| Interest and fiscal charges | <u>252,197</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(252,197)</u> |
| Total governmental activities | \$ <u>6,071,194</u> | \$ <u>2,472,152</u> | \$ <u>13,605</u> | \$ <u>641,901</u> | <u>(2,943,536)</u> |

General revenues:

Property and other local taxes levied for:

| | |
|------------------|---------|
| General purposes | 609,091 |
| Special revenues | 772,972 |
| Debt service | 202,354 |

Municipal income tax levied for:

| | |
|----------------------|---------------|
| General purposes | 2,172,945 |
| Capital projects | 282,466 |
| Intergovernmental | 1,229,845 |
| Investment income | 51,395 |
| Miscellaneous income | <u>23,794</u> |

Total general revenues 5,344,862

Change in net assets 2,401,326

Net assets, beginning of year, restated 6,748,182

Net assets, end of year \$ 9,149,508

The accompanying notes are an integral part of the financial statements

**City of Olmsted Falls
Cuyahoga County**

**Balance Sheet
Governmental Funds**

December 31, 2004

| | <u>General</u> | <u>Bond Retirement</u> |
|--|---------------------|----------------------------|
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 711,523 | \$ 824,391 |
| Receivables: | | |
| Income tax | 918,389 | - |
| Property tax | 590,029 | 242,946 |
| Accounts | 23,472 | - |
| Intergovernmental receivable | 324,715 | 13,395 |
| Special assessments | - | 4,191,670 |
| Materials and supplies inventory | 323 | - |
| Prepaid assets | 85,134 | - |
| Total assets | <u>\$ 2,653,585</u> | <u>\$ 5,272,402</u> |
| Liabilities and Fund Balances: | | |
| Liabilities: | | |
| Accounts payable | \$ 255,727 | \$ - |
| Due to other governments | 1,821 | - |
| Deferred revenue | 1,345,130 | 4,448,011 |
| Notes payable | - | - |
| Total Liabilities | <u>1,602,678</u> | <u>4,448,011</u> |
| Fund Balances: | | |
| Reserve for encumbrances | 498,747 | 9,100 |
| Unreserved; undesignated (deficit), reported in: | | |
| General fund | 552,160 | - |
| Special revenue funds | - | - |
| Debt service funds | - | 815,291 |
| Capital project funds | - | - |
| Total fund balances (deficit) | <u>1,050,907</u> | <u>824,391</u> |
| Total liabilities and fund balances | <u>\$ 2,653,585</u> | <u>\$ 5,272,402</u> |

The accompanying notes are an integral part of the financial statements

| | <u>Capital Improvements</u> | <u>Other Governmental</u> | <u>Total</u> |
|----|---------------------------------|-------------------------------|--------------------|
| \$ | 1,564,778 | \$ | 1,974,965 |
| | 125,235 | | - |
| | - | | 851,144 |
| | 285,000 | | 46,070 |
| | 68,747 | | 215,158 |
| | - | | 249,172 |
| | - | | 2,906 |
| | - | | - |
| \$ | <u>2,043,760</u> | \$ | <u>3,339,415</u> |
| | | | 85,134 |
| \$ | 60,455 | \$ | 29,876 |
| | - | | - |
| | 87,947 | | 1,262,590 |
| | <u>2,950,000</u> | | <u>-</u> |
| | <u>3,098,402</u> | | <u>1,292,466</u> |
| | - | | 268,330 |
| | - | | - |
| | - | | 1,778,619 |
| | - | | - |
| | <u>(1,054,642)</u> | | <u>-</u> |
| | <u>(1,054,642)</u> | | <u>2,046,949</u> |
| \$ | <u>2,043,760</u> | \$ | <u>3,339,415</u> |
| | | | 776,177 |
| | | | 552,160 |
| | | | 1,778,619 |
| | | | 815,291 |
| | | | <u>(1,054,642)</u> |
| | | | <u>2,867,605</u> |
| \$ | <u>2,043,760</u> | \$ | <u>3,339,415</u> |
| | | | <u>13,309,162</u> |

This page intentionally left blank

**City of Olmsted Falls
Cuyahoga County**

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

December 31, 2004

Total Governmental Funds Balances \$ 2,867,605

Amounts Reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets Used in Governmental Activities are not Financial Resources and therefore are not reported in the Funds.

Other Long-Term Assets are not available to pay for current-period expenditures and therefore are deferred in the Funds.

| | | |
|--------------------------|----------------|-----------|
| Property and Other Taxes | \$ 152,469 | |
| Municipal Income Taxes | 732,892 | |
| Special Assessments | 4,440,842 | |
| Intergovernmental | <u>274,618</u> | |
| Total | | 5,600,821 |

In the Statement of Activities, Interest is accrued on outstanding bonds, whereas in Governmental Funds, an interest expenditure is reported when due. (20,067)

Long-Term Liabilities are not due and payable in the current period and are therefore not reported in the Funds.

| | | |
|---------------------------|------------------|--------------------|
| Notes payable | (2,020,000) | |
| OWDA loans payable | (3,841,848) | |
| Loans payable | (396,075) | |
| Capital leases | (63,872) | |
| Intergovernmental payable | (109,523) | |
| Compensated absences | <u>(314,131)</u> | |
| Total | | <u>(6,745,449)</u> |

Net Assets of Governmental Activities \$ 9,149,508

The accompanying notes are an integral part of the financial statements

**City of Olmsted Falls
Cuyahoga County**

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For The Year Ended December 31, 2004

| | <u>General</u> | <u>Bond Retirement</u> |
|--|---------------------|----------------------------|
| Revenues: | | |
| Municipal income tax | \$ 2,087,732 | \$ - |
| Property and other local taxes | 603,801 | 199,040 |
| Licenses and permits | 205,599 | - |
| Intergovernmental | 670,131 | 30,139 |
| Charges for services | 163,579 | - |
| Fines and forfeitures | 147,939 | - |
| Special assessments | - | 292,348 |
| Investment income | 51,395 | - |
| Miscellaneous income | <u>24,111</u> | <u>11,339</u> |
| Total revenues | <u>3,954,287</u> | <u>532,866</u> |
| Expenditures: | | |
| Current operations and maintenance: | | |
| General government | 1,595,850 | 4,430 |
| Security of persons and property | 2,090,718 | - |
| Physical environment | 35,940 | - |
| Transportation | 377,158 | - |
| Economic development | 214,879 | - |
| Public health | 24,682 | - |
| Cultural and recreation | 1,401 | - |
| Capital outlay | 5,299 | - |
| Debt Service: | | |
| Principal retirement | 71,378 | 2,318,134 |
| Interest and fiscal charges | <u>5,745</u> | <u>203,723</u> |
| Total expenditures | <u>4,423,050</u> | <u>2,526,287</u> |
| Excess of revenues over (under) expenditures | <u>(468,763)</u> | <u>(1,993,421)</u> |
| Other financing sources (uses): | | |
| OWDA loan proceeds | - | - |
| Proceeds from sale of debt | - | 2,020,000 |
| Proceeds from sale of capital assets | 198,206 | - |
| Transfers - in | - | 61,719 |
| Transfers - out | <u>(9,184)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>189,022</u> | <u>2,081,719</u> |
| Net change in fund balances | (279,741) | 88,298 |
| Fund balance (deficit) at beginning of year | <u>1,330,648</u> | <u>736,093</u> |
| Fund balance (deficit) at end of year | \$ <u>1,050,907</u> | \$ <u>824,391</u> |

The accompanying notes are an integral part of the financial statements

| | <u>Capital Improvements</u> | <u>Other Governmental</u> | <u>Total</u> |
|----|---------------------------------|-------------------------------|---------------------|
| \$ | 270,846 | \$ - | \$ 2,358,578 |
| | - | 763,045 | 1,565,886 |
| | - | - | 205,599 |
| | 433,337 | 746,366 | 1,879,973 |
| | 196,115 | 318,317 | 678,011 |
| | - | 800 | 148,739 |
| | - | 98,654 | 391,002 |
| | - | - | 51,395 |
| | <u>10,315</u> | <u>20,289</u> | <u>66,054</u> |
| | <u>910,613</u> | <u>1,947,471</u> | <u>7,345,237</u> |
| | 8,200 | 2,552 | 1,611,032 |
| | - | 477,736 | 2,568,454 |
| | - | 176,612 | 212,552 |
| | - | 555,774 | 932,932 |
| | - | 2,066 | 216,945 |
| | - | 45,631 | 70,313 |
| | - | 72,979 | 74,380 |
| | 1,357,554 | 347,596 | 1,710,449 |
| | 182,000 | - | 2,571,512 |
| | <u>44,083</u> | <u>-</u> | <u>253,551</u> |
| | <u>1,591,837</u> | <u>1,680,946</u> | <u>10,222,120</u> |
| | <u>(681,224)</u> | <u>266,525</u> | <u>(2,876,883)</u> |
| | 115,366 | - | 115,366 |
| | - | - | 2,020,000 |
| | - | - | 198,206 |
| | 128,382 | - | 190,101 |
| | <u>(52,535)</u> | <u>(128,382)</u> | <u>(190,101)</u> |
| | <u>191,213</u> | <u>(128,382)</u> | <u>2,333,572</u> |
| | (490,011) | 138,143 | (543,311) |
| | <u>(564,631)</u> | <u>1,908,806</u> | <u>3,410,916</u> |
| \$ | <u>(1,054,642)</u> | \$ <u>2,046,949</u> | \$ <u>2,867,605</u> |

**City of Olmsted Falls
Cuyahoga County**

**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, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (543,311)

*Amounts Reported for Governmental Activities in the Statement of
Activities are different because:*

Governmental Funds report Capital Outlay 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 depreciation exceeded capital outlays in the current period.

| | | |
|----------------|------------------|-----------|
| Capital Outlay | \$ 1,726,136 | |
| Depreciation | <u>(165,765)</u> | |
| Total | | 1,560,371 |

In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the Governmental Funds, the proceeds from the disposal increases financial resources. Thus, the change in Net Assets differs from the change in Fund Balance by the cost of the capital assets. (244,249)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Funds.

| | | |
|--------------------------|--------------|-----------|
| Property and Other Taxes | 18,531 | |
| Municipal Income Taxes | 96,833 | |
| Special Assessments | 1,052,584 | |
| Intergovernmental | <u>5,378</u> | |
| Total | | 1,173,326 |

Other Financing Sources in the Governmental Funds that increase Long-Term Liabilities in the Statement of Net Assets. These sources were attributed to proceeds of bonds and OWDA proceeds. (2,135,366)

Repayment of Bond Principal is an expenditure in the Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. 2,571,512

Some expenses 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.

| | | |
|---------------------------|--------------|---------------|
| Compensated Absences | 15,757 | |
| Intergovernmental payable | 1,932 | |
| Accrued Interest on Bonds | <u>1,354</u> | |
| Total | | <u>19,043</u> |

Change in Net Assets of Governmental Activities \$ 2,401,326

The accompanying notes are an integral part of the financial statements

**City of Olmsted Falls
Cuyahoga County**

**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget
Budget and Actual (Non-GAAP Basis) - General Fund**

For The Year Ended December 31, 2004

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---|-------------------|------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Local taxes | \$ 2,429,438 | \$ 2,779,994 | \$ 2,775,033 | \$ (4,961) |
| Licenses and permits | 174,000 | 203,450 | 205,599 | 2,149 |
| Intergovernmental | 305,210 | 508,676 | 514,882 | 6,206 |
| Charges for services | 32,000 | 163,790 | 172,309 | 8,519 |
| Fines and forfeitures | 181,000 | 148,239 | 147,939 | (300) |
| Miscellaneous | <u>146,000</u> | <u>70,383</u> | <u>74,346</u> | <u>3,963</u> |
| Total revenues | <u>3,267,648</u> | <u>3,874,532</u> | <u>3,890,108</u> | <u>15,576</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,199,396 | 1,540,503 | 1,478,639 | 61,864 |
| Security of persons and property | 1,863,097 | 2,429,108 | 2,376,464 | 52,644 |
| Physical environment | 78,891 | 49,294 | 48,914 | 380 |
| Transportation | 403,472 | 528,525 | 498,007 | 30,518 |
| Economic environment | 183,207 | 237,076 | 231,435 | 5,641 |
| Public health | 24,685 | 24,685 | 24,682 | 3 |
| Cultural and recreation | 2,122 | 2,842 | 2,840 | 2 |
| Debt service: | | | | |
| Principal | 71,378 | 71,378 | 71,378 | - |
| Interest and fiscal charges | 5,744 | 5,744 | 5,744 | - |
| Capital outlay | <u>400</u> | <u>5,699</u> | <u>5,299</u> | <u>400</u> |
| Total expenditures | <u>3,832,392</u> | <u>4,894,854</u> | <u>4,743,402</u> | <u>151,452</u> |
| Excess of revenues over/(under) expenditures | (564,744) | (1,020,322) | (853,294) | 167,028 |
| Other Financing Sources (Uses): | | | | |
| Sale of fixed assets | - | 197,107 | 198,207 | 1,100 |
| Transfer in | - | 1,159 | 1,159 | - |
| Transfers out | <u>(9,184)</u> | <u>(20,122)</u> | <u>(20,122)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>(9,184)</u> | <u>178,144</u> | <u>179,244</u> | <u>1,100</u> |
| Net change in fund balance | (573,928) | (842,178) | (674,050) | 168,128 |
| Fund balance at beginning of year | 268,227 | 268,227 | 268,227 | - |
| Prior year encumbrances appropriated | <u>573,976</u> | <u>573,976</u> | <u>573,976</u> | <u>-</u> |
| Fund balance at end of year | \$ <u>268,275</u> | \$ <u>25</u> | \$ <u>168,153</u> | \$ <u>168,128</u> |

The accompanying notes are an integral part of the financial statements

**City of Olmsted Falls
Cuyahoga County**

**Statement of Fiduciary Net Assets
Fiduciary Funds**

December 31, 2004

| | <u>Agency</u> |
|--|-------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ <u>382,802</u> |
| Liabilities: | |
| Deposits held and due to others | \$ 380,911 |
| Due to other governments | <u>1,891</u> |
| Total liabilities | \$ <u>382,802</u> |

The accompanying notes are an integral part of the financial statements

City of Olmsted Falls Cuyahoga County

Notes to the Basic Financial Statements

For The Year Ended December 31, 2004

Note 1: The Reporting Entity

The City of Olmsted Falls, Cuyahoga County, (the City) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

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

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

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

The City is associated with five jointly governed organizations, the Northeast Ohio Public Energy Council, Chestnut Grove Union Cemetery, Joint Economic Development District, Southwest Council of Governments, and the Southwest General Health Center. A jointly governed organization is managed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility on the part of the participating governments. These organizations are presented in Note 15.

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

City of Olmsted Falls Cuyahoga County

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 1: The Reporting Entity (continued)

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

Each year, the residents of Olmsted Falls are assessed, through a tax levy, for a portion of the general operating expenses of the Chestnut Grove Union Cemeteries. For 2004, the amount paid to the Chestnut Grove Union Cemetery amounted to \$35,751. The residents are also assessed, through a tax levy, for a portion of the operating expenses of Southwest General Hospital. The amount paid in 2004 to the Southwest General Hospital amounted to \$45,631. Both of these organizations exercise their own budgetary and financial management authority. Therefore they are not considered part of the City and their operations are not reflected in the City's financial statements.

Note 2: Summary of Significant Accounting Policies

The financial statements of the City of Olmsted Falls have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board Statements and Interpretations issued before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the 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 activities.

City of Olmsted Falls Cuyahoga County

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

The statement of net assets presents the financial condition of the governmental 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 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 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 governmental function or business activity 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 financial statements is on major funds. Each major fund is presented in a separate column. Non-Major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. 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. There are three categories of funds: Governmental, Proprietary and Fiduciary. The City does not have proprietary funds.

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 financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. The current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

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

City of Olmsted Falls Cuyahoga County

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Bond Retirement Fund – To account for taxes, intergovernmental revenue, special assessments, miscellaneous income and transfers that are utilized for the repayment of general obligation bonds of the City.

Capital Improvements Fund – This fund is used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

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

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

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 current liabilities 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.

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

D. 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; fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions

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, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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. Available period for the City is sixty days after 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 5).

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), fines and forfeitures, licenses and permits, interest, grants and fees.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

City of Olmsted Falls Cuyahoga County

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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.

E. Budgetary Process

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

Tax Budget

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

Estimated Resources

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

City of Olmsted Falls Cuyahoga County

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Appropriations

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

Encumbrances

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

Lapsing of Appropriations

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

F. Cash and Cash Equivalents

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

During 2004, the City's investments were limited to non-negotiable certificates of deposits and STAROhio. Investments are reported at fair value, except for non-negotiable certificates of deposits, which are reported at cost. Fair value is based on quoted market prices or for investments in STAROhio are valued at STAROhio's share price, which is the price, the investments could be sold for on December 31, 2004.

The provisions of the Ohio Revised Code restrict investment procedures. Interest revenue credited to the general fund during 2004 amounted to \$ 51,395 which includes \$42,756 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.

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure in the year in which the services are consumed.

H. Inventory

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

I. 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 assets but are not reported in the fund financial statements.

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's infrastructure consists of streets, storm sewers, drains and signs. Traffic signals acquired prior to January 1, 2002 are not reported. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets are depreciated except for land and construction in progress. 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:

| <u>Description</u> | <u>Estimated Lives</u> |
|-----------------------------------|------------------------|
| Buildings | 40 - 110 |
| Improvements other than buildings | 50 |
| Machinery, equipment and vehicles | 10 - 75 |
| Infrastructure | 50 |

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivables/payables”. Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets. The City has no short-term interfund loans outstanding as of December 31, 2004.

K. Compensated Absences

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

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

The entire compensated absence liability is reported on the government-wide financial statement.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide 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, compensated absences, and contractually required pension contributions 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 long-term loans are recognized as a liability on the fund financial statements when due.

M. Fund Reserves and Designations

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

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

O. Interfund Activity

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 nonoperating 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.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

Q. Estimates

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

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 3: Budgetary Basis of Accounting

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

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements:

| | <u>General</u> |
|--|----------------------------|
| GAAP Basis | \$ (279,741) |
| Net Adjustments for Revenue Accounts | (63,019) |
| Net Adjustments for Expenditure Accruals | <u>(331,290)</u> |
| Budget Basis | \$ <u><u>(674,050)</u></u> |

Note 4: Deposits and Investments

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are public deposits that Council has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts. Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

City of Olmsted Falls Cuyahoga County

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 4: Deposits and Investments (continued)

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
7. The State Treasurer's investment pool (STAROhio).

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

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 4: Deposits and Investments (continued)

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

A. Deposits

At year-end, the carrying amount of the City's deposits was \$2,404,817 and the bank balance was \$2,582,596. Of the bank balance:

1. \$200,000 was covered by federal depository insurance.
2. \$2,382,596 was uncollateralized and uninsured. Although the securities were held by the pledging financial institution's trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

B. Investments

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

| Investment Type | Carrying Amount | Fair Value |
|-----------------|---------------------|---------------------|
| STAROhio | \$ <u>3,053,642</u> | \$ <u>3,053,642</u> |

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

| | Cash and Cash Equivalents | Investments |
|----------------------|------------------------------|---------------------|
| GASB Statement No. 9 | \$ 5,458,459 | \$ - |
| STAROhio | <u>(3,053,642)</u> | <u>3,053,642</u> |
| GASB Statement No. 3 | \$ <u>2,404,817</u> | \$ <u>3,053,642</u> |

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 5: Receivables

Receivables at December 31, 2004, consisted of municipal income taxes, property taxes, accounts, due from other funds, due from other governments, and special assessments. All receivables are considered fully collectible.

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utility property taxes represents collections of the 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) and for 2004 taxes.

The 2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

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. 2004 public utility property taxes which became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

The 2004 tangible personal property taxes are levied after October 1, 2003, on the values as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventory.

The full tax rate applied to real property for the fiscal year ended December 31, 2004 was \$15.10 for \$1,000 of assessed valuation. The assessed values of real and tangible personal property, upon which 2004 property tax receipts were based, are as follows:

| <u>Category</u> | <u>Assessed Value</u> |
|-------------------------|-----------------------|
| Real Property | \$ 180,816,090 |
| Public Utility Tangible | 4,576,990 |
| Tangible Personal | <u>3,939,353</u> |
| Total | \$ <u>189,332,433</u> |

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, Ohio Revised Code permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 5: Receivables (continued)

A. Property Taxes (continued)

The Cuyahoga County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since current taxes were not levied to finance 2004 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and a revenue while on the modified accrual basis the revenue is deferred.

B. Income Tax

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

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

C. Intergovernmental Receivable

A summary of intergovernmental receivables as of December 31, 2004, follows:

| Governmental Activities: | <u>Amount</u> |
|--|-------------------|
| Local Government and Local Government Revenue Assistance | \$ 99,203 |
| Homestead and Rollback | 96,366 |
| State Local Government | 18,021 |
| Estate Tax | 170,000 |
| Liquor and Beer | 2,921 |
| Gasoline and Excise Tax | 118,397 |
| Auto Registration Tax | 25,589 |
| Permissive Motor Vehicle License Tax | 22,771 |
| Ohio Department of Transportation | <u>68,747</u> |
| Total | \$ <u>622,015</u> |

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 6: Capital Assets

Capital asset activity for Governmental Activities for the year ended December 31, 2004, was as follows:

| | <u>Balance 12/31/03</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 12/31/04</u> |
|---|-----------------------------|---------------------|---------------------|-----------------------------|
| Governmental Activities | | | | |
| Nondepreciable assets | | | | |
| Land | \$ 883,474 | \$ - | \$ (227,024) | \$ 656,450 |
| Construction in progress | <u>696,898</u> | <u>1,361,004</u> | <u>(164,694)</u> | <u>1,893,208</u> |
| Total nondepreciable assets | <u>1,580,372</u> | <u>1,361,004</u> | <u>(391,718)</u> | <u>2,549,658</u> |
| Depreciable assets | | | | |
| Buildings | 3,363,551 | 164,694 | - | 3,528,245 |
| Improvements other than buildings | 51,275 | - | - | 51,275 |
| Machinery, equipment and vehicles | 1,907,779 | 365,132 | (38,460) | 2,234,451 |
| Infrastructure | | | | |
| Traffic signals | <u>74,908</u> | <u>-</u> | <u>-</u> | <u>74,908</u> |
| Total depreciable assets | <u>5,397,513</u> | <u>529,826</u> | <u>(38,460)</u> | <u>5,888,879</u> |
| Less accumulated depreciation | | | | |
| Buildings | (148,074) | (44,870) | - | (192,944) |
| Improvements other than buildings | (4,380) | (1,282) | - | (5,662) |
| Machinery, equipment and vehicles | (693,360) | (117,608) | 21,235 | (789,733) |
| Infrastructure | | | | |
| Traffic signals | <u>(1,595)</u> | <u>(2,005)</u> | <u>-</u> | <u>(3,600)</u> |
| Total accumulated depreciation | <u>(847,409)</u> | <u>(165,765)</u> | <u>21,235</u> | <u>(991,939)</u> |
| Total depreciable assets, net | <u>4,550,104</u> | <u>364,061</u> | <u>(17,225)</u> | <u>4,896,940</u> |
| Governmental activities capital assets, net | \$ <u>6,130,476</u> | \$ <u>1,725,065</u> | \$ <u>(408,943)</u> | \$ <u>7,446,598</u> |

*Depreciation expense was charged to governmental activities as follows:

| | |
|----------------------------------|-------------------|
| General government | \$ 50,573 |
| Security of persons and property | 65,327 |
| Transportation | 34,708 |
| Economic environment | 15,005 |
| Culture and recreation | <u>152</u> |
| Total | \$ <u>165,765</u> |

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 7: Interfund Balances

Interfund transfers during fiscal year 2004 were as follows:

| | <u>Transfer In:</u> | | |
|---------------------------|----------------------------|---------------------------------|-------------------|
| | <u>Bond Retirement</u> | <u>Capital Improvements</u> | <u>Total</u> |
| Transfer out: | | | |
| General Fund | \$ 9,184 | \$ - | \$ 9,184 |
| Capital Improvements Fund | 52,535 | - | 52,535 |
| Other Governmental Funds | - | <u>128,382</u> | <u>128,382</u> |
| | <u>\$ 61,719</u> | <u>\$ 128,382</u> | <u>\$ 190,101</u> |

The City transferred \$1,159 from an agency fund to the general fund.

Note 8: Risk Management

The City of Olmsted Falls is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. During 2004, the City contracted through the Municipal Insurance Alliance Agency of Ohio for various types of insurance as follows:

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

The City carries commercial insurance coverage for all risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years and there were no significant reductions in coverage from the prior year. Workers' Compensation coverage is provided by the State. The City pays the Ohio Bureau of Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

City of Olmsted Falls Cuyahoga County

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 9: Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

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

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The contribution rate of the City for pension benefits for 2004 was 9.55 percent except for those plan members in law enforcement or public safety. For those classifications the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$124,290, \$106,818, and 100,026, respectively. The full amount has been contributed for 2002 and 2003. Contributions during 2004 are 75.16% for the required amount and the remainder is reported as a liability in the governmental-wide Statement of Net Assets.

B. Ohio Police and Pension Fund

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

City of Olmsted Falls Cuyahoga County

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 9: Defined Benefit Pension Plans (continued)

B. Ohio Police and Pension Fund (continued)

Police and firefighter plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's required contributions to the OP&F for police and firefighters were \$78,125 and \$75,950 for the year ended December 31, 2004, \$79,486 and \$76,718 for the year ended December 31, 2003, \$74,879 and \$72,849 for the year ended December 31, 2002, equal to the required contributions for each year. The full amount has been contributed for 2003 and 2002. Contributions during 2004 are 72.52 percent and 73.17 percent of the required amount respectively, with the remainder being reported as a liability in the governmental-wide Statement of Net Assets.

Note 10: Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either traditional or combined plans. Health care coverage for disability recipients and qualified survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.70 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent. An annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) is the base portion of the individual pay increase assumption. Additionally, annual pay increases, over and above 4.0 base increase, were assumed to increase at a projected wage inflation rate plus an additional factor ranging from and an additional increase in total payroll of between 0.5 percent and 6.3 percent for the next eight years. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next eight years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 10: Postemployment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund post employment benefits were \$52,058. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the option selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

B. Ohio Police and Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the post employment health care program during 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 10: Postemployment Benefits (continued)

B. Ohio Police and Pension Fund (continued)

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$51,473 for police and \$36,232 for fire. The OP&F's total health care expenses for the year ended December 31, 2003, (the latest information available) were \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

Note 11: Long-Term Obligations

Changes in long-term obligations of the City during 2004 are as follows:

| | Balance 12/31/03 | Additions | Reductions | Balance 12/31/04 | Due Within One Year |
|--|---------------------|---------------------|-----------------------|---------------------|------------------------|
| 1998 Ohio Water and Sewer Rotary Commission Loan (W&SRC) 0.00% \$433,158 | \$ 396,075 | \$ - | \$ - | \$ 396,075 | \$ - |
| Ohio Water Development Authority Loans (OWDA): | | | | | |
| 1989 Sanitary Sewer 7.51% \$817,068 | 447,155 | - | (46,628) | 400,527 | 50,129 |
| 1991 Water Mains 7.45% \$401,949 | 260,655 | - | (19,859) | 240,796 | 21,339 |
| 1995 Water Mains 6.56% \$714,860 | 610,583 | - | (25,133) | 585,450 | 26,782 |
| 1995 Sanitary Sewers 4.35% \$2,290,378 | 1,887,482 | - | (91,514) | 1,795,968 | 95,538 |
| 2002 Sanitary Sewers | 767,142 | 97,541 | (130,000) | 734,683 | 226,673 |
| 2002 Storm Sewers | 118,599 | 17,825 | (52,000) | 84,424 | 2,350 |
| Subtotal OWDA: | <u>4,091,616</u> | <u>115,366</u> | <u>(365,134)</u> | <u>3,841,848</u> | <u>422,811</u> |
| Fire Station Improvement Notes | | | | | |
| Series 02 2.10% | 2,135,000 | 2,020,000 | (2,135,000) | 2,020,000 | 2,020,000 |
| Due to Other Governments | 111,455 | 109,523 | (111,455) | 109,523 | 109,523 |
| Compensated Absences | 329,888 | - | (15,757) | 314,131 | 47,120 |
| Capital Leases | <u>135,250</u> | <u>-</u> | <u>(71,378)</u> | <u>63,872</u> | <u>61,943</u> |
| Total Governmental Activities Long-Term Liabilities | \$ <u>7,199,284</u> | \$ <u>2,244,889</u> | \$ <u>(2,698,724)</u> | \$ <u>6,745,449</u> | \$ <u>2,661,397</u> |

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 11: Long-Term Obligations (continued)

Ohio Water and Sewer Rotary Commission (W&SRC)

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

The amount of filing and unbilled special assessments for the improvements within the Agricultural District was \$396,075. There was no change in the status of the parcels for the fiscal year ended December 31, 2004.

Ohio Water Development Authority (OWDA)

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

During fiscal year 2002, the City obtained two loans from OWDA. One loan is for the construction of storm sewer lines. The second loan is for the construction of sanitary sewer lines, the dismantling of a primary treatment plant and conversion to a pump station. These loans have been finalized, and as a result a repayment schedule is included in the schedule of debt service requirements and the outstanding loan amounts. These loans are paid for from the Capital Improvements Fund.

Principal and interest requirements to retire long-term obligations finalized as of December 31, 2004 are as follows:

| | <u>Governmental Obligations</u> | |
|-----------|---------------------------------|---------------------|
| | <u>OWDA</u> | |
| | <u>Principal</u> | <u>Interest</u> |
| 2005 | \$ 422,811 | \$ 185,766 |
| 2006 | 225,965 | 173,964 |
| 2007 | 238,855 | 161,452 |
| 2008 | 252,530 | 148,183 |
| 2009 | 267,040 | 134,110 |
| 2010-2014 | 1,216,685 | 455,197 |
| 2015-2019 | 1,015,239 | 163,020 |
| 2020-2024 | <u>202,723</u> | <u>24,246</u> |
| Total | \$ <u>3,841,848</u> | \$ <u>1,445,938</u> |

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 11: Long-Term Obligations (continued)

Fire Station Improvement Notes Series 04

The bond anticipation notes that were rolled over prior to the issuance of the financial statements and have a new maturity less than one year of fiscal year end. The notes payable have been reported on the Statement of Net Assets for the governmental activities. The notes are backed by the full faith and credit of the City and paid for from the Bond Retirement Debt Service Fund.

Due to Other Governments, Compensated Absences and Capital Leases

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

Note 12: Short-Term Note Debt

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

| | <u>Balance</u> <u>12/31/2003</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>12/31/2004</u> |
|---|-------------------------------------|---------------------|-----------------------|-------------------------------------|
| 2003 Building Improvement Notes at 1.45% | \$ 2,140,000 | \$ - | \$ (2,140,000) | \$ - |
| 2004 Building Improvement Notes at 2.50% | - | 2,000,000 | - | 2,000,000 |
| 2003 Various Purpose Notes at 1.40% | 950,000 | - | (950,000) | - |
| 2004 Various Purpose Notes at 2.00% | <u>-</u> | <u>950,000</u> | <u>-</u> | <u>950,000</u> |
| Total: | \$ <u>3,090,000</u> | \$ <u>2,950,000</u> | \$ <u>(3,090,000)</u> | \$ <u>2,950,000</u> |

Principal and interest requirements to retire the short-term Notes as of December 31, 2004 are as follows:

| | <u>Principal</u> | <u>Interest</u> |
|------|---------------------|------------------|
| 2005 | \$ <u>2,950,000</u> | \$ <u>69,000</u> |

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

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

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 13: Capital Leases

In 2000, the City entered into a master capital lease-purchase agreement to acquire new phone equipment and parking lot lighting for all departments within City Hall. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. General capital assets acquired by lease have been capitalized in the governmental activities in the amount of \$333,293, which represents the present value of the lease payments at the time of acquisition. A corresponding liability was recorded in the governmental activities. Principal payments in fiscal year 2004 totaled \$71,378.

| | <u>Governmental Activities</u> |
|-----------------------------------|------------------------------------|
| Assets: | |
| Machinery, equipment and vehicles | \$ 282,018 |
| Less: Accumulated Depreciation | <u>(43,190)</u> |
| Total | <u>\$ 238,828</u> |
| Assets: | |
| Improvements other than buildings | \$ 51,275 |
| Less: Accumulated Depreciation | <u>(5,662)</u> |
| Total | <u>\$ 45,613</u> |

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2004:

| | <u>Amount</u> |
|---|------------------|
| 2005 | \$ 63,658 |
| 2006 | <u>1,939</u> |
| Total Minimum Lease Payments | 65,597 |
| Less: Amount Representing Interest | <u>(1,725)</u> |
| Present Value of Minimum Lease Payments | <u>\$ 63,872</u> |

City of Olmsted Falls Cuyahoga County

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 14: Contingencies

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and may be subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2004.

B. Litigation

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

Note 15: Jointly Governed Organizations

A. Northeast Ohio Public Energy Council (Nopec)

The City is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Olmsted Falls did not contribute to NOPEC during 2004. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 1615 Clark Avenue, Cleveland, Ohio, 44109.

B. Chestnut Grove Union Cemetery

The Chestnut Grove Union Cemeteries (The Cemetery) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Cemetery provides burial grounds and burial services to the public. The Cemetery is a jointly governed organization between the City of Olmsted Falls and Olmsted Township.

City of Olmsted Falls Cuyahoga County

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 15: Jointly Governed Organizations (continued)

B. Chestnut Grove Union Cemetery (continued)

A joint council consisting of the council members of Olmsted Falls and the Trustees of Olmsted Township governs the Cemetery. The joint council elects and appoints the members of the Board of Trustees. The members of the Board of Trustees consist of the following: one elected member of the legislative body from each of the political subdivisions and one appointed resident from either of the political subdivisions who is not a member of the legislative body. The joint council exercises control over the operation of the Cemetery through budgeting, appropriating and contracting. The Board of Trustees control daily operations of the Cemetery. During 2004, the City contributed \$35,751 to the Chestnut Grove Union Cemetery.

C. Joint Economic Development District

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

A Board of Directors governs the JEDD. The Board is composed of the following members: (a) one member representing the City, appointed by the Mayor and approval of the City Council; (b) one member representing the Township, appointed by the Township Trustees; and (c) one member selected by the two members listed. The Board exercises control over the operation of JEDD through budgeting, appropriations, contracting and designating management. The control by the city and township is limited to the representation on the board. During 2004, the City contributed \$0 to JEDD.

D. Southwest Council Of Governments

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

The Council has established two subsidiary organizations, the Hazardous Material Response Team ("HAZMAT"), which provides hazardous material protection and assistance, and the Southwest Enforcement Bureau, which provides extra assistance to cities in the form of a SWAT team. During 2004, the City contributed \$0 to the Council. The Council's financial reports may be obtained by contacting Terrence B. Hickey, Secretary-Treasurer, 6281 Pearl Road, Parma Heights, Ohio 44130-3084.

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 15: Jointly Governed Organizations (continued)

E. Southwest General Health Center

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

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

The Board exercises total control over the operations of the Health Center, including budgeting, appropriating, contracting and designating management. Each City's control is limited to its representation on the Board. During 2004, the City contributed \$45,631 to the Health Center.

Note 16: Subsequent Events

On February 9, 2005 the City issued fire station improvement notes in the amount of \$1,950,000, at a rate of 2.70%, with a maturity date of October 20, 2005, and retired fire station improvement notes in the amount of \$2,020,000.

On June 8, 2005 the City issued various purpose improvement notes in the amount of \$500,000, at a rate of 3.5%, with a maturity date of October 20, 2005.

On October 19, 2005 the City issued various purpose improvement notes in the amount of \$2,295,000 and \$1,900,000 fire station improvement notes for a total issue of \$4,195,000, at a rate of 3.35%, with a maturity date of October 19, 2006.

Note 17: Change in Accounting Principle and Restatement of Prior Year Fund Balances

A. Changes in Accounting Principles

For 2004, the City has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", GASB Technical Bulletin No. 2004-2, "Recognition of Pension

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 17: Change in Accounting Principle and Restatement of Prior Year Fund Balances (continued)

A. Changes in Accounting Principles (continued)

and Other Postemployment Benefit Expenditures/Expense and Liability by Cost-Sharing Employers.” and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

GASB 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-Major funds are presented in total in one column.

The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2003, caused by conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management’s Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Statement No. 46 clarifies when net assets should be considered restricted based upon enabling legislation.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The implementation of GASB Statement No. 39, GASB Statement No. 46, and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements of the City.

The implementation of GASB Statement No. 34, GASB No. 37 and GASB Interpretation No.6 had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 17: Change in Accounting Principle and Restatement of Prior Year Fund Balances (continued)

B. Restatement of Fund Balance

| | <u>General Fund</u> | <u>Bond Retirement Fund</u> | <u>Capital Improvements Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Activities</u> |
|--|-------------------------|-------------------------------------|--|---|--|
| Fund Balance, December 31, 2003 | \$ <u>1,330,648</u> | \$ <u>736,093</u> | \$ <u>(564,631)</u> | \$ <u>1,908,806</u> | \$ 3,410,916 |
| GASB 34 Adjustments: | | | | | |
| Capital assets | | | | | 6,130,476 |
| Long-term liabilities | | | | | (7,199,284) |
| Long-term (deferred) assets | | | | | 4,427,495 |
| Accrued interest payable | | | | | <u>(21,421)</u> |
| Governmental Activities Net Assets, December 31, 2003 | | | | | \$ <u>6,748,182</u> |

Note 18: Accountability and Compliance

A. Deficit Fund Balances

The following fund had a deficit fund balance at December 31, 2004:

| <u>Fund</u> | <u>Deficit</u> |
|---------------------------|----------------|
| Capital Improvements Fund | \$ 1,054,642 |

The deficit in the Capital Improvements Fund arises from the issuance of short-term bond anticipation notes which are used to finance capital expenses until bonds are issued. Once bonds are issued and the liability is reported in the Statement of Net Assets rather than in the individual fund financial statements, the deficits will be eliminated.

B. Compliance

The City was in violation of Ohio Revised Code Section 9.38 for depositing.

Contrary to Ohio Revised Code Section 5705.41, the following funds had expenditures plus encumbrances exceeding appropriations as of July 31, 2004:

**City of Olmsted Falls
Cuyahoga County**

Notes to the Basic Financial Statements (Continued)

For The Year Ended December 31, 2004

Note 18: Accountability and Compliance (continued)

B. Compliance (continued)

| <u>Fund</u> | <u>Appropriation Plus Prior Year Encumbrances</u> | <u>Expenditures Plus Encumbrances</u> | <u>Variance</u> |
|--|---|---|-----------------|
| Street Construction, Maintenance and Repair | \$ 311,077 | \$ 396,375 | \$ 85,298 |
| Parks & Recreation Operating | 28,627 | 54,893 | 26,266 |
| Storm Sewer | 50,500 | 71,959 | 21,459 |
| Shade Tree | 15,700 | 21,058 | 5,358 |
| Recreation | 516 | 2,027 | 1,511 |
| Capital Improvement | 2,468,079 | 3,087,183 | 619,104 |
| Project 3 Sewer | 73,279 | 110,619 | 37,340 |



**Auditor of State
Betty Montgomery**

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

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

To City Council:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Olmsted Falls, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 28, 2005, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis- for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated November 28, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the 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, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 and 2004-002. In a separate letter to the City's management dated November 28, 2005, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

November 28, 2005

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

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

| | |
|-----------------------|-----------------|
| Finding Number | 2004-001 |
|-----------------------|-----------------|

Expenditures Plus Encumbrances Exceeding Appropriations

Ohio Revised Code Sections 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated. The following funds had expenditures plus encumbrances exceeding appropriations at the legal level of control as of July 31, 2004:

| <u>Fund</u> | <u>Appropriation Plus Prior Year Encumbrances</u> | <u>Expenditures Plus Encumbrances</u> | <u>Variance</u> |
|---|---|---|-----------------|
| July 31, 2004: | | | |
| Street Construction, Maintenance and Repair | \$311,077 | \$396,375 | \$85,298 |
| Parks & Recreation Operating | \$28,627 | \$54,893 | \$26,266 |
| Storm Sewer | \$50,500 | \$71,959 | \$21,459 |
| Shade Tree | \$15,700 | \$21,058 | \$5,358 |
| Recreation | \$516 | \$2,027 | \$1,511 |
| Capital Improvement | \$2,468,079 | \$3,087,183 | \$619,104 |
| Project 3 Sewer | \$73,279 | \$110,619 | \$37,340 |

These variances were corrected by December 31, 2004.

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

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

| | |
|-----------------------|-----------------|
| Finding Number | 2004-002 |
|-----------------------|-----------------|

Timely Deposit of Public Monies

Ohio Revised Code Section 9.38 provided that any public official and/or employee who receive public monies shall deposit said monies with the Treasurer or with a properly designated depository on the next business day following the day of receipt, if the total received exceeds one thousand dollars. If the total amount of the public money received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next, following the day of the receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next, following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited.

CITY OF OLMSTED FALLS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)

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

| | |
|----------------|----------|
| Finding Number | 2004-002 |
|----------------|----------|

Timely Deposit of Public Monies (Continued)

The following were not received by the Finance Department on the next business day following the day of the receipt:

- \$1,098 out of \$5,920 (19%) receipts tested in the Mayors Court;
- \$825 out of \$1,475 (56%) bail bonds tested;
- \$18,374 out of \$114,107 (16%) license and permit receipts tested; and
- \$9,100 out of \$46,294 (20%) developer deposit receipts tested.

We recommend the City take the necessary steps to comply with the aforementioned Ohio Revised Code section, specifically, that all deposits be made in a timely manner. We recommend all City departments either deposit monies collected with the Finance Director or its local depository on the next business day following the day of receipt or the City adopt a policy requiring all monies collected to be deposited with the Finance Director or properly designated depository within three business days following the day of receipt, if the total amount of such monies is less than \$1,000. Additionally, such a policy must include procedures to safeguard the monies until the time of deposit.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

| FINDING NUMBER | FINDING SUMMARY | FULLY CORRECTED ? | NOT CORRECTED, PARTIALLY CORRECTED; SIGNIFICANTLY DIFFERENT CORRECTIVE ACTION TAKEN; OR FINDING NO LONGER VALID; EXPLAIN: |
|---------------------------|---|----------------------------------|--|
| 2003-001 | Expenditures plus encumbrances exceeding appropriations at the legal level of control | No | Not corrected, re-issued as 2004-001 |



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF OLMSTED FALLS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 30, 2005**