

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY, OHIO**

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2012**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

City Council
City of Olmsted Falls
26100 Bagley Rd
Olmsted Falls, Ohio 44138-1897

We have reviewed the *Independent Auditor's Report* of the City of Olmsted Falls, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2012 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Olmsted Falls is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 13, 2014

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**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012**

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JAMES G. ZUPKA, C.P.A., INC.

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To Members of City Council
City of Olmsted Falls, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

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, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, Ohio, as of December 31, 2012, and the respective changes in financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the financial statements, during 2012, the City restated its December 31, 2011 net position of governmental activities to include a capital lease and capital assets not recorded in prior years, to record loans receivable on the governmental fund financial statements, and to report prior year encumbrances that were excluded from the General Fund budgetary statement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2014, on our consideration of the City of Olmsted Falls, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Olmsted Falls, Ohio's internal control over financial reporting and compliance.

James G. Zupka,
CPA, President

Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President,
o=James G. Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2014.06.27 17:13:26 -04'00'

James G. Zupka, CPA, Inc.
Certified Public Accountants

June 19, 2014

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City of Olmsted Falls, Ohio

Management's Discussion and Analysis For the Year Ended December 31, 2012

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

Financial Highlights

Key financial highlights for 2012 are as follows:

- The total net position of the City increased \$1,377,571 or 4.76% compared to 2011.
- General revenues account for \$6,087,396 or 76.61% of total governmental activities revenue. Program specific revenues accounted for \$1,858,585 or 23.39% of total governmental activities revenue.
- The City had \$6,568,410 in expenses related to governmental activities; these expenses were partially offset by program specific charges for services, grants or contributions.
- The City's major governmental funds are the general fund, sewer debt project 2 fund, sewer debt project 4 fund, and capital improvement fund. The general fund had revenues and other financing sources of \$4,361,007 in 2012. The general fund had expenditures of \$3,891,567. The net increase in fund balance for the general fund was \$469,440 or 23.40%.
- The sewer debt project 2 fund had revenues of \$134,033 in 2012. The expenditures of the sewer debt project 2 fund, totaled \$172,634 in 2012. The net decrease in fund balance for the sewer debt project 2 fund was \$38,601 or 17.34%.
- The sewer debt project 4 fund had revenues of \$55,036 in 2012. The expenditures of the sewer debt project 4 fund, totaled \$75,558 in 2012. The net decrease in fund balance for the sewer debt project 4 fund was \$20,522 or 9.45%.
- The capital improvement fund had revenues and other financing sources of \$1,929,530 in 2012. The expenditures of the capital improvement fund, totaled \$1,713,271 in 2012. The net increase in fund balance for the capital improvement fund was \$216,259 or 354.64%.
- In the general fund, the actual revenues came in \$18,145 more than they were in the final budget and actual expenditures were \$324,792 less than the amount in the final budget.

Using this Annual Financial Report

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

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

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2012

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The statement of net position and statement of activities answer this question. These statements include all non-fiduciary assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net position and changes in that position. This change in net position is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenues growth, facility conditions, required community programs and other factors.

In the statement of net position and statement of activities, the governmental activities include the City's programs and services, including police, fire and rescue, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the City's 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 objectives. The City, 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 can be divided into two categories: governmental funds and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The analysis of the City's major governmental funds, which includes the general fund, begins on page 10.

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2012

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 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.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, sewer debt project 2 fund, sewer debt project 4 fund, and capital improvement fund. Information for major funds is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 17-21 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statements can be found on page 22 of this report.

Notes to the Basic financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-51 of this report.

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2012

Government-Wide Financial Analysis

The statement of net position provides the perspective of the City as a whole. The table below provides a summary of the City's net position for 2012 compared to 2011.

	Governmental Activities	
	2012	2011
<u>Assets</u>		
Current and Other Assets	\$ 11,876,013	\$ 11,777,700
Capital Assets	26,551,852	26,545,700
Total Assets	38,427,865	38,323,400
<u>Liabilities</u>		
Long-term Liabilities	6,030,600	6,671,920
Other Liabilities	233,920	432,736
Total Liabilities	6,264,520	7,104,656
<u>Deferred Inflows of Resources</u>		
Property Taxes	1,828,737	2,261,709
<u>Net Position</u>		
Net Investment in Capital Assets	22,660,154	22,636,548
Restricted	4,789,127	4,726,343
Unrestricted	2,885,327	1,594,144
Total Net Position	\$ 30,334,608	\$ 28,957,035

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the City's assets exceeded liabilities and deferred inflows of resources by \$30,334,608.

Capital assets reported on the government —wide statements represent the largest portion of the City's net position. At year-end, capital assets represented 69.10% of total assets. Capital assets include land, construction in progress, buildings, improvements other than building, machinery, equipment & vehicles and infrastructure. Net investment in capital assets at December 31, 2012, was \$22,660,154 in the governmental activities. These capital assets are used to provide services to citizens and are not available for future spending.

Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

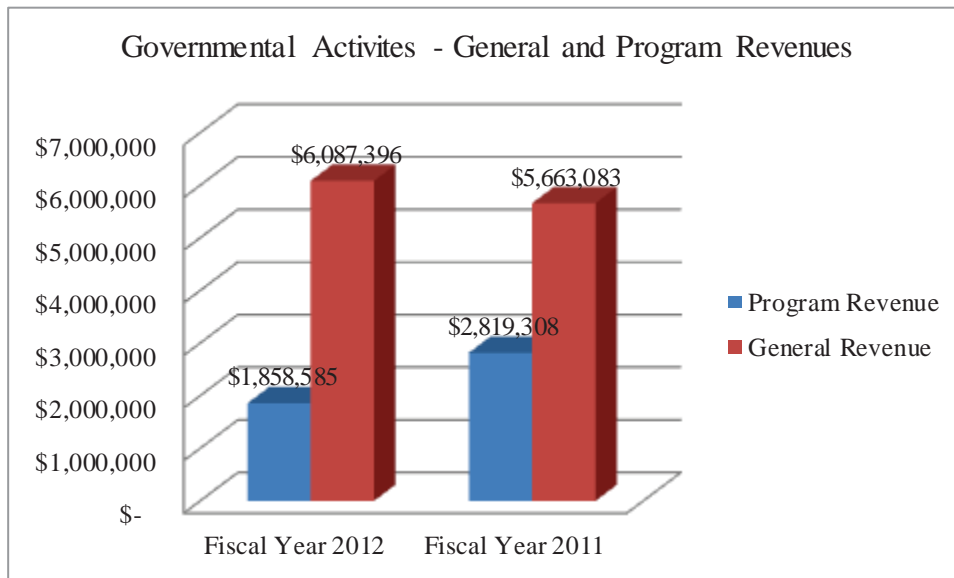
A portion of the City's net position, \$4,789,127, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position of \$2,885,327 may be used to meet the City's ongoing obligations to citizens and creditors.

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2012

The table below shows the changes in net position for the fiscal years 2012 and 2011.

	Governmental Activities	
	2012	2011
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 1,127,741	\$ 782,049
Operating Grants and Contributions	443,970	406,791
Capital Grants and Contributions	286,874	1,630,468
Total Program Revenues	1,858,585	2,819,308
General Revenues		
Property Taxes	2,148,919	1,984,039
Income Taxes	3,269,448	2,857,429
Investment Earnings	2,722	2,599
Grants and Entitlements not Restricted to Specific Programs	596,077	785,113
Other	70,230	33,903
Total General Revenues	6,087,396	5,663,083
Total Revenues	7,945,981	8,482,391



City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2012

<u>Program Expenses</u>		
Security of Persons and Property	3,018,381	3,089,934
Public Health Services	97,996	89,527
Basic Utility Services	299,152	372,749
Community Environment	449,096	356,804
Leisure Time Activities	150,248	166,064
Transportation	1,243,225	1,123,500
General Government	1,150,173	1,293,126
Interest and Fiscal Charges	160,139	129,069
Total Program Expenses	6,568,410	6,620,773
Increase in Net Position	1,377,571	1,861,618
Net Position, Beginning of Year	28,957,037	27,095,417
Net Position, End of Year	\$ 30,334,608	\$ 28,957,035

Governmental Activities

Governmental activities net position increased \$1,377,571 in 2012. This increase is a result of the spending level being set below the sources of total revenue.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$3,018,381 of the total expenses of the City. These expenses were partially funded by \$323,023 in direct charges to users of the services, \$42,515 in operating grants and \$2,500 in capital grants. Transportation expenses totaled \$1,243,225. Transportation expenses were funded by \$1,861 in direct charges to users of these services, \$401,455 in operating grants and contributions and \$161,265 in capital grants and contributions.

The county, state and federal government contributed to the City a total of \$443,970 in operating grants and contributions and \$286,874 in capital grant and contributions. These revenues are restricted to a particular program or purpose.

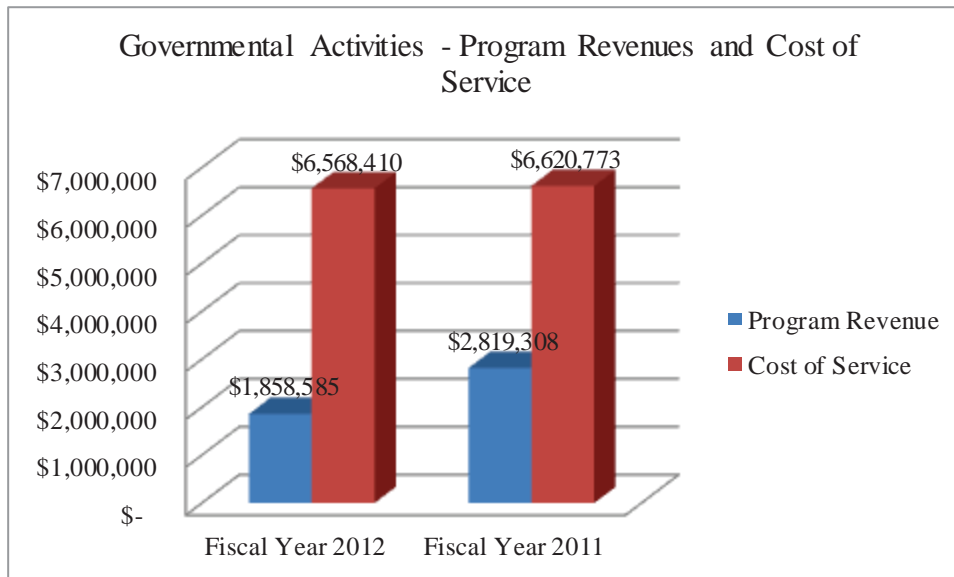
General revenues totaled \$6,087,396, and amounted to 76.61% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$5,418,367. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$596,077.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the following graph, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2012

	<u>2012</u>		<u>2011</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
<i>Governmental Activities:</i>				
Security of Persons and Pr	\$ 3,018,381	\$ 2,650,343	\$ 3,089,934	\$ 2,695,628
Public Health Services	97,996	97,996	89,527	74,594
Basic Utility Services	299,152	(175,312)	372,749	44,022
Community Enviroment	449,096	203,050	356,804	250,108
Leisure Time Activities	150,248	136,726	166,064	166,064
Transportation	1,243,225	678,644	1,123,500	(686,883)
General Government	1,150,173	958,239	1,293,126	1,128,503
Interest and Fiscal Charge:	160,139	160,139	129,069	129,069
Total Expenses	<u><u>\$ 6,568,410</u></u>	<u><u>\$ 4,709,825</u></u>	<u><u>\$ 6,620,773</u></u>	<u><u>\$ 3,801,105</u></u>



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unassigned fund balances may serve as a useful measure of the City's net resources available for spending at year end.

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2012

The City's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$5,416,055 which is \$512,920 higher than last year's total of \$4,903,135. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2012 for all major and nonmajor governmental funds.

	Fund Balance		Increase (Decrease)
	December 31, <u>2012</u>	December 31, <u>2011</u>	
General	\$ 2,475,254	\$ 2,393,884	\$ 81,370
Sewer debt project 2	184,008	222,609	(38,601)
Sewer debt project 4	(237,709)	(217,187)	(20,522)
Capital improvements	277,239	60,980	216,259
Other Governmental Funds	<u>2,717,263</u>	<u>2,830,919</u>	<u>(113,656)</u>
	<u>\$ 5,416,055</u>	<u>\$ 5,291,205</u>	<u>\$ 124,850</u>

The City's general fund balance increased by \$1,370. The table that follows assists in illustrating the revenues of the general fund.

	<u>2012</u>	<u>2011</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Income Taxes	\$ 2,577,618	\$ 2,468,743	4%
Property Taxes	638,119	636,599	0%
Licenses and permits	216,063	106,696	103%
Intergovernmental	463,376	623,120	-26%
Charges for services	286,114	354,918	-19%
Fines and forfeitures	146,028	145,447	0%
Investment Income	2,400	2,262	6%
Other	<u>30,457</u>	<u>12,828</u>	137%
Total Revenues	<u>\$ 4,360,175</u>	<u>\$ 4,350,613</u>	0%

The table that follows assists in illustrating the expenditures of the general fund.

	<u>2012</u>	<u>2011</u>	<u>Percentage Change</u>
<u>Expenditures</u>			
Security of Persons and Property	\$ 1,890,388	\$ 2,010,151	-6%
Public Health Services	47,289	42,721	11%
Basic Utility Services	3,796	4,221	-10%
Community Environment	343,047	331,739	3%
Leisure Time Activities	24,666	23,933	3%
Transportation	407,231	418,087	-3%
General Government	1,095,338	1,210,802	-10%
Capital Outlay	60,408	-	
Principal Retirement	<u>19,404</u>	<u>-</u>	
Total Expenditures	<u>\$ 3,891,567</u>	<u>\$ 4,041,654</u>	-4%

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2012

Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated resources certified by the Budget Commission in accordance with the ORC. If budgeted revenues are adjusted due to activity then appropriations can be adjusted accordingly.

In the general fund, the actual revenues came in \$18,145 more than they were in the final budget and actual expenditures were \$324,792 less than the amount in the final budget.

Sewer Debt Project 2 Fund

The sewer debt project 2 fund has revenues of \$134,033 in 2012. The expenditures of the sewer debt project 2 fund, totaled \$172,634 in 2012. The net decrease in fund balance for the sewer debt project 2 fund was \$38,601 or 17.34%. The decrease is due to the special assessment revenue received in 2012 being less than the debt payment made in 2012.

Sewer Debt Project 4 Fund

The sewer debt project 4 fund has revenues of \$55,036 in 2012. The expenditures of the sewer debt project 4 fund, totaled \$75,558 in 2012.

Capital Improvement Fund

The capital improvement fund had revenues and other financing sources of \$1,929,530 in 2012. The expenditures of the capital improvement fund, totaled \$1,713,271 in 2012. The net increase in fund balance for the capital improvement fund was \$216,259 or 354.64%.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the City had \$26,551,852 (net of accumulated depreciation) invested in land, construction in progress, buildings, improvements other than buildings, machinery, equipment, vehicles and infrastructure. The following table shows fiscal 2012 balances compared to 2011:

	Governmental Activities	
	2012	2011
Land	\$ 1,439,268	\$ 1,439,268
Construction-in-progress	364,829	11,383,314
Buildings	4,795,491	5,096,807
Improvements other than buildings	533,587	227,485
Machinery, equipment, and vehicles	2,401,713	2,461,235
Infrastructures	17,016,964	5,937,591
Total Capital Assets	\$ 26,551,852	\$ 26,545,700

Refer to Note 9 for additional information on the City's capital assets.

City of Olmsted Falls, Ohio

Management's Discussion and Analysis (Continued) For the Year Ended December 31, 2012

Long-Term Obligations

The City had the following long-term obligations outstanding at December 31, 2012 and 2011:

	Governmental Activities	
	2012	2011
W&SRC Loan	\$ 396,075	\$ 396,075
OWDA Loans	2,522,865	2,793,608
OPWC Loans	349,262	368,666
Capital Leases	382,657	524,381
Notes Payable	1,990,000	2,201,000
Notes Premium	4,016	1,079
Compensated Absences	385,725	387,111
Total Outstanding Debt	\$ 6,030,600	\$ 6,671,920

Refer to Note 10 for additional information on the City's long-term obligations.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives, spends, or invests. If you have any questions about this report or need additional financial information contact Ms. Kimberly Sperling, Director of Finance, City of Olmsted Falls, 26100 Bagley Rd., Olmsted Falls, Ohio 44138-1897.

City of Olmsted Falls, Ohio

Statement of Net Position December 31, 2012

	<u>Governmental Activities</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 4,395,831
Materials and Supplies Inventory	15,316
Accounts Receivable	295,695
Intergovernmental Receivable	538,645
Loans Receivable	349,262
Prepaid Items	90,757
Income Taxes Receivable	1,593,697
Property Taxes Receivable	1,960,913
Special Assessments Receivable	2,635,897
Nondepreciable Capital Assets	1,804,097
Depreciable Capital Assets	24,747,755
Total Assets	<u>38,427,865</u>
LIABILITIES	
Accounts Payable	78,733
Accrued Wages and Benefits	40,376
Intergovernmental Payable	82,116
Matured Compensated Absences Payable	25,253
Accrued Interest Payable	7,442
Long-term Liabilities:	
Due within one year	2,411,707
Due in more than one year	3,618,893
Total Liabilities	<u>6,264,520</u>
DEFERRED INFLOWS OF RESOURCES	
Property Taxes	1,828,737
Total Deferred Inflows of Resources	<u>1,828,737</u>
NET POSITION	
Net Investment in Capital Assets	22,660,154
Restricted for:	
Debt Service	1,263,226
Capital Projects	668,022
Other Purposes	2,857,879
Unrestricted	2,885,327
Total Net Position	<u>\$ 30,334,608</u>

The notes to the financial statements are an integral part of this statement.

City of Olmsted Falls, Ohio

Statement of Activities For the Year Ended December 31, 2012

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary Government:					
Governmental Activities:					
Security of Persons and Property	\$ 3,018,381	\$ 323,023	\$ 42,515	\$ 2,500	\$ (2,650,343)
Public Health Services	97,996	-	-	-	(97,996)
Leisure Time Activities	150,248	13,522	-	-	(136,726)
Community Environment	449,096	246,046	-	-	(203,050)
Basic Utility Services	299,152	395,135	-	79,329	175,312
Transportation	1,243,225	1,861	401,455	161,265	(678,644)
General Government	1,150,173	148,154	-	43,780	(958,239)
Interest and Fiscal Charges	160,139	-	-	-	(160,139)
Total Governmental Activities	<u>\$ 6,568,410</u>	<u>\$ 1,127,741</u>	<u>\$ 443,970</u>	<u>\$ 286,874</u>	<u>(4,709,825)</u>
General Revenues:					
Property Taxes levied for:					
General Purposes					679,711
Debt Service Purpose					147,625
Other Purposes					1,321,583
Income Taxes levied for:					
General Purposes					2,893,237
Capital Outlay					376,211
Grants & Entitlements not restricted to specific programs					596,077
Investment Income					2,722
All Other Revenues					<u>70,230</u>
Total General Revenues					<u>6,087,396</u>
Change in Net Position					1,377,571
Net Position - Beginning of Year					<u>28,957,037</u>
Net Position - End of Year					<u><u>\$ 30,334,608</u></u>

The notes to the financial statements are an integral part of this statement.

City of Olmsted Falls, Ohio

Balance Sheet Governmental Funds For the Year Ended December 31, 2012

	General	Sewer Debt Project 2	Sewer Debt Project 4	Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Equity in Pooled Cash and Cash Equivalents	\$ 1,333,416	\$ 184,008	\$ -	\$ 239,456	\$ 2,638,951	\$ 4,395,831
Materials and Supplies Inventory	766	-	-	-	14,550	15,316
Accounts Receivable	183,354	-	-	-	112,341	295,695
Interfund Receivable	280,403	-	-	-	-	280,403
Intergovernmental Receivable	220,326	-	-	-	318,319	538,645
Prepaid Items	90,757	-	-	-	-	90,757
Income Taxes Receivable	1,402,454	-	-	159,370	31,873	1,593,697
Property and Other Taxes Receivable	615,812	-	-	-	1,345,101	1,960,913
Special Assessments Receivable	-	775,452	934,220	-	926,225	2,635,897
Loans Receivable	349,262	-	-	-	-	349,262
Total Assets	\$ 4,476,550	\$ 959,460	\$ 934,220	\$ 398,826	\$ 5,387,360	\$ 12,156,416
LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES						
Liabilities:						
Accounts Payable	\$ 33,989	\$ -	\$ -	\$ 9,055	\$ 35,689	\$ 78,733
Accrued Wages and Benefits	37,732	-	-	-	2,644	40,376
Intergovernmental Payable	75,484	-	-	-	6,632	82,116
Matured Compensated Absences Payable	25,253	-	-	-	-	25,253
Interfund Payable	-	-	237,709	-	42,694	280,403
Total Liabilities	172,458	-	237,709	9,055	87,659	506,881
Deferred Inflows of Resources:						
Property Taxes	574,220	-	-	-	1,254,517	1,828,737
Unavailable Revenue - Delinq. Prop. Taxes	41,592	-	-	-	90,584	132,176
Unavailable Revenue - Income Taxes	973,858	-	-	112,532	22,506	1,108,896
Unavailable Revenue - Other	239,168	775,452	934,220	-	1,214,831	3,163,671
Total Deferred Inflows of Resources	1,828,838	775,452	934,220	112,532	2,582,438	6,233,480
Fund Balances:						
Nonspendable	440,785	-	-	-	14,550	455,335
Restricted	-	184,008	-	277,239	2,730,977	3,192,224
Committed	50,000	-	-	-	-	50,000
Assigned	36,027	-	-	-	5,923	41,950
Unassigned	1,948,442	-	(237,709)	-	(34,187)	1,676,546
Total Fund Balances	2,475,254	184,008	(237,709)	277,239	2,717,263	5,416,055
Total Liabilities, Deferred Inflows of Resources & Fund Balances	\$ 4,476,550	\$ 959,460	\$ 934,220	\$ 398,826	\$ 5,387,360	\$ 12,156,416

The notes to the basic financial statements are an integral part of this statement

City of Olmsted Falls, Ohio

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities For the Year Ended December 31, 2012

Total Governmental Fund Balances	\$	5,416,055
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Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds.		26,551,852
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenues in the funds:

Property taxes	132,176	
Municipal income taxes	1,108,896	
Special assessments	2,635,897	
Intergovernmental	330,746	
Charges for services	197,028	
Total		4,404,743

In the Statement of Activities, interest is accrued on outstanding debt, whereas in Governmental funds, an interest expenditure is reported when due.		(7,442)
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

OPWC loans	(349,262)	
Bond anticipation notes	(1,990,000)	
Manuscript bonds	(2,522,865)	
Capital leases	(382,657)	
Claims and judgment payable	(396,075)	
Compensated absences	(385,725)	
Not Premium	(4,016)	
Total		(6,030,600)

Net Position of Governmental Activities	<u>\$</u>	<u>30,334,608</u>
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The notes to the financial statements are an integral part of this statement.

City of Olmsted Falls, Ohio

Statements of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2012

	General Fund	Sewer Debt Project 2	Sewer Debt Project 4	Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property Taxes	\$ 638,119	\$ -	\$ -	\$ -	\$ 1,378,624	\$ 2,016,743
Income Taxes	2,577,618	-	-	281,650	56,330	2,915,598
Intergovernmental	463,376	-	-	43,780	783,644	1,290,800
Investment Income	2,400	-	-	-	322	2,722
Licenses and Permits	216,063	-	-	-	-	216,063
Fines and Forfeitures	146,028	-	-	-	8,533	154,561
Charges for Services	286,114	-	-	-	222,380	508,494
Special Assessments	-	134,033	55,036	-	260,014	449,083
All Other Revenues	30,457	-	-	-	3,100	33,557
Total Revenues	4,360,175	134,033	55,036	325,430	2,712,947	7,587,621
EXPENDITURES						
Security of Persons and Property	1,890,388	-	-	-	873,333	2,763,721
Public Health Services	47,289	-	-	-	46,985	94,274
Leisure Time Activities	24,666	-	-	-	125,582	150,248
Community Environment	343,047	-	-	-	72,861	415,908
Basic Utility Services	3,796	-	-	-	295,356	299,152
Transportation	407,231	-	-	-	343,013	750,244
General Government	1,095,338	-	-	38,036	13,091	1,146,465
Capital Outlay	60,408	-	-	130,980	574,391	765,779
Debt Service:						
Principal Retirement	19,404	126,373	43,678	1,520,743	922,673	2,632,871
Interest and Fiscal Charges	-	46,261	31,880	23,512	80,755	182,408
Total Expenditures	3,891,567	172,634	75,558	1,713,271	3,348,040	9,201,070
Excess of Revenues Over (Under) Expenditures	468,608	(38,601)	(20,522)	(1,387,841)	(635,093)	(1,613,449)
<u>OTHER FINANCING SOURCES</u>						
Sale of Capital Assets	832	-	-	125,000	3,652	129,484
Notes Issued	-	-	-	1,474,000	516,000	1,990,000
Premium on Debt Issuance	-	-	-	5,100	1,785	6,885
Total Other Financing Sources	832	-	-	1,604,100	521,437	2,126,369
Net Change in Fund Balances	469,440	(38,601)	(20,522)	216,259	(113,656)	512,920
Fund Balances - Beginning of Year - Restate	2,005,814	222,609	(217,187)	60,980	2,830,919	4,903,135
Fund Balances - End of Year	\$ 2,475,254	\$ 184,008	\$ (237,709)	\$ 277,239	\$ 2,717,263	\$ 5,416,055

The notes to the basic financial statements are an integral part of this statement

City of Olmsted Falls, Ohio

Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2012

Net Change in Fund Balances - Total Governmental Funds \$ 512,920

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Outlay	753,298	
Depreciation	(509,093)	
Total		244,205

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (238,053)

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

Property taxes	(1,192)	
Municipal income taxes	303,134	
Special assessments	(89,843)	
Intergovernmental	(10,461)	
Charges for services	12,666	
Total		214,304

Other financing sources in the Governmental funds that increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of bond anticipation notes. (1,996,885)

Repayment of bond and note principal are expenditures in the Governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 2,636,819

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	1,386	
Accrued interest	2,875	
Total		4,261

Change in Net Position of Governmental Activities \$ 1,377,571

The notes to the financial statements are an integral part of this statement.

City of Olmsted Falls, Ohio

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$ 638,000	\$ 2,580,000	\$ 2,590,483	\$ 10,483
Income Taxes	2,412,500	638,000	638,118	118
Charges for Services	340,000	198,000	199,197	1,197
Licenses and Permits	190,000	427,399	432,586	5,187
Fines and Forfeitures	135,000	344,000	344,776	776
Intergovernmental	361,281	146,000	146,028	28
Investment Income	2,500	2,500	2,400	(100)
All Other Revenues	30,000	30,000	30,456	456
Total Revenues	<u>4,109,281</u>	<u>4,365,899</u>	<u>4,384,044</u>	<u>18,145</u>
Expenditures:				
Current:				
Security of Persons and Property	2,129,644	2,126,439	1,869,838	256,601
Public Health Services	47,000	62,000	50,514	11,486
Leisure Time Activities	29,457	28,043	24,731	3,312
Basic Utility Services	20,801	20,801	16,711	4,090
Community Environment	344,190	346,666	343,162	3,504
Transportation	464,407	471,539	410,931	60,608
General Government	1,207,543	1,128,248	1,143,057	(14,809)
Capital Outlay	60,000	60,408	60,408	-
Debt Service:				
Principal	19,404	19,404	19,404	-
Total Expenditures	<u>4,322,446</u>	<u>4,263,548</u>	<u>3,938,756</u>	<u>324,792</u>
Excess of Revenues Over (Under) Expenditures	<u>(213,165)</u>	<u>102,351</u>	<u>445,288</u>	<u>342,937</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	-	-	832	832
Advances In	-	514	514	-
Advances Out	-	(40,522)	(40,522)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(40,008)</u>	<u>(39,176)</u>	<u>832</u>
Net Change in Fund Balance	(213,165)	62,343	406,112	343,769
Fund Balance - Beginning of Year - Restated	813,531	813,531	813,531	-
Prior Year Encumbrances Appropriated	62,321	62,321	62,321	-
Fund Balance - End of Year	<u>\$ 662,687</u>	<u>\$ 938,195</u>	<u>\$ 1,281,964</u>	<u>\$ 343,769</u>

See accompanying notes to the basic financial statements.

City of Olmsted Falls, Ohio

Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
For the Year Ended December 31, 2012

	<u>Agency Funds</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 88,371
Total Assets	<u>\$ 88,371</u>
LIABILITIES	
Deposits Held and Due to Others	\$ 88,371
Total Liabilities	<u>\$ 88,371</u>

See accompanying notes to the basic financial statements

City of Olmsted Falls, Ohio

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

Note 1 – DESCRIPTION OF CITY AND 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 Economic Development Director are appointed by the Mayor and confirmed by Council.

Reporting Entity

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

The 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 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 13.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 1: The Reporting Entity (continued)

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 their operations are not included within the accompanying financial statements.

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

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 Cemetery. For 2012, the amount paid to the Chestnut Grove Union Cemetery amounted to \$40,263. The residents are also assessed, through a tax levy, for a portion of the operating expenses of Southwest General Hospital. The amount paid in 2012 to Southwest General Hospital amounted to \$46,985. 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 position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

The statement of net position 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. 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 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.

Sewer Debt Project 2 Fund - This fund is used to account for special assessments and transfers that are utilized for the repayment of OWDA loans for a sewer project.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Sewer Debt Project 4 Fund – This fund is used to account for special assessments and transfers that are utilized for the repayment of OWDA loans for a sewer project.

Capital Improvement Fund – This fund is used to account for income tax revenue to be used for capital projects.

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

Fiduciary Funds -Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. 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, and other governments. 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 deferred outflows of resources along with all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and 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, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 2: Summary of Significant Accounting Policies (continued)

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 inflows of resources 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 8). 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 Outflows/Inflows of Resources – In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunded debt.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

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 and personal services 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.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process

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 budgeted amounts reported on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect when the original and final appropriations were passed by Council.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 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 original and 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 constrain 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 a component 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.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 2: Summary of Significant Accounting Policies (continued)

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 2012, the City's investments were limited to STAR Ohio. Investments are reported at fair value. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2012.

The provisions of the Ohio Revised Code restrict investment procedures. Interest revenue credited to the general fund during 2012 amounted to \$2,400 which includes \$1,523 assigned from other 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.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of 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 generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of streets, sanitary sewers, bridges and traffic signals. 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. Retro to December 31, 2004, the City has implemented a bridge infrastructure accounting of all bridges greater than a ten foot span.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 2: Summary of Significant Accounting Policies (continued)

I. Capital Assets (continued)

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	25 - 110 years
Improvements other than Buildings	20 - 50 years
Machinery, equipment and vehicles	5 - 75 years
Infrastructure	20 - 100 years

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Loans resulting from negative cash balances are reported as "due to /from other funds." Interfund balance amounts are eliminated in the statement of net position.

K. Compensated Absences

Holiday, personal, vacations and other leave balances 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.

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.

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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 2: Summary of Significant Accounting Policies (continued)

M. Fund Balance

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

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

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

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 2: Summary of Significant Accounting Policies (continued)

M. Fund Balance (continued)

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

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

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

N. Net Position

Net Position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.. Net position restricted for other purposes include resources restricted for computerization of the mayor's court.

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

O. Interfund Activity

Transfers between governmental activities on the government-wide statements are reported in the same manner as general revenues.

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 2: Summary of Significant Accounting Policies (continued)

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. The City had neither type of transaction during 2012.

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.

Note 3: Change in Accounting Principles and Prior Period Adjustments

Changes in Accounting Principals

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

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

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

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

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 3: Change in Accounting Principles and Prior Period Adjustments (continued)

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

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

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

Prior Period Adjustments

Prior period adjustments were necessary to report capital assets purchased in prior years but not recorded as additions, report capital leases entered into in prior years but not included as long-term liabilities, report long-term loans receivable on the fund financial statements, and report prior year encumbrances that were excluded from the budgetary statements

	Governmental Activities	General Fund
<i><u>Full/Modified Accrual Basis Adjustment:</u></i>		
Net Position/Fund Balances, December 31, 2012	\$ 27,491,620	\$ 1,617,744
Prior Period Adjustment:		
Capital Assets	1,517,259	-
Capital Leases	(51,842)	-
Loans Receivable	-	388,070
Restated Net Position/Fund Balances, December 31, 2012	\$ 28,957,037	\$ 2,005,814
 <i><u>Budgetary Basis Adjustment:</u></i>		
Cash Fund Balances, December 31, 2012		\$ 926,034
Prior Period Adjustment:		
Prior Year Encumbrances		(112,503)
Restated Cash Fund Balances, December 31, 2012		\$ 813,531

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

Note 4: Accountability

Deficit GAAP Fund Balances

The following funds had a deficit fund balance at December 31, 2012:

	<u>Deficit</u>
<u>Major governmental Funds</u>	
Sewer Debt Project 4 Fund	\$ 237,709
<u>Nonmajor governmental funds</u>	
Community Development Block Grant Fund	19,571
OWDA Sewer Fund	3,123
Railroad Improvement Fund	11,493

These deficits resulted from the recognition of accrued liabilities. The general fund is responsible to cover deficit fund balances by means of a transfer. However, this is done when cash is needed rather than accruals occur.

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City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 5: Fund Balances

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

	General	Sewer Debt Project 2	Sewer Debt Project 4	Capital Improvement	Other Governmental Funds	Total
<i>Nonspendable</i>						
Prepaid Items	\$ 90,757	\$ -	\$ -	\$ -	\$ -	\$ 90,757
Inventories	766	-	-	-	14,550	15,316
Loan Receivable	349,262	-	-	-	-	349,262
<i>Total Nonspendable</i>	<u>440,785</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,550</u>	<u>455,335</u>
<i>Restricted</i>						
Road Improvements	-	-	-	-	961,857	961,857
Police and Fire Departments	-	-	-	-	139,099	139,099
Drug and Alcohol Enforcement	-	-	-	-	1,069	1,069
Juvenile Diversion	-	-	-	-	10,430	10,430
Law Enforcement	-	-	-	-	45,804	45,804
Sanitary Sewer Improvements	-	-	-	-	902,122	902,122
Shade Trees	-	-	-	-	28,434	28,434
Storm Sewer Improvements	-	-	-	-	81,925	81,925
Street Lights	-	-	-	-	6,498	6,498
Capital Improvements	-	-	-	277,239	219,467	496,706
Equipment	-	-	-	-	43,721	43,721
Park	-	-	-	-	150,786	150,786
Covered Bridge	-	-	-	-	10,953	10,953
Debt Service Payments	-	184,008	-	-	128,812	312,820
<i>Total Restricted</i>	<u>-</u>	<u>184,008</u>	<u>-</u>	<u>277,239</u>	<u>2,730,977</u>	<u>3,192,224</u>
<i>Committed</i>						
Compensated Absences	50,000	-	-	-	-	50,000
<i>Total Committed</i>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
<i>Assigned</i>						
Fiscal Year 2014 Appropriations	-	-	-	-	-	-
Purchases on Order	36,027	-	-	-	-	36,027
Park Operations	-	-	-	-	5,923	5,923
<i>Total Assigned</i>	<u>36,027</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,923</u>	<u>41,950</u>
<i>Unassigned</i>	<u>1,948,442</u>	<u>-</u>	<u>(237,709)</u>	<u>-</u>	<u>(34,187)</u>	<u>1,676,546</u>
Total Fund Balance	<u><u>\$ 2,475,254</u></u>	<u><u>\$ 184,008</u></u>	<u><u>\$ (237,709)</u></u>	<u><u>\$ 277,239</u></u>	<u><u>\$ 2,717,263</u></u>	<u><u>\$ 5,416,055</u></u>

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 6: 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 monies identified as not required for use within the current five year period of designation of depositories.

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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 must exceed the principal value of the agreement by at least two percent and be marked to market daily;
- 4 Investment grade obligations of state and local governments, and public authorities;
- 5 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,
- 6 The State Treasurer's investment pool (STAR Ohio).

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 6: Deposits and Investments (continued)

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.

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 City 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.

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

A. Deposits with Financial Institutions

At December 31, 2012, the carrying amount of the City's deposits was \$946,568 (including \$800 of petty cash) and the bank balance was \$1,179,962. Of the bank balance \$1,634,962 was exposed to custodial risk as discussed below and \$500,000 was covered by the Federal Deposit Insurance Corporation. Although the securities were held by the pledging institution's trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

Custodial credit risk is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside entity. As permitted by Ohio Revised Code, the City's deposits are collateralized by a pool of eligible securities deposited with Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the depository bank and pledged as a pool of collateral against all public deposits held by the depository whose market value at all times shall be at least one hundred five percent of all deposits being secured.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 6: Deposits and Investments (continued)

B. Investments

Investments are reported at fair value. As of December 31, 2012, the City had the following investments:

	Fair Value	Credit Rating (*)	Investment Maturities (in Years) <1
<u>Investment Type:</u>			
StarOhio	\$ 2,582,634	AAAm	\$ 2,582,634
Repurchase Agreement	955,000	N/A	955,000
Total Investments	3,537,634		\$ 3,537,634
Carrying Amount of Deposits	945,768		
Petty Cash	800		
Total	\$ 4,484,202		

Interest Rate Risk – Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City’s investment policy addresses interest rate risk requiring that the City’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City investment policy also limits security purchases to those that mature five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than two years.

Credit Risk -The City’s investment policy addresses credit risk by requiring that all investments are authorized by Ohio Revised Code and that portfolio be diversified both by types of investment and issuer.

The credit ratings of the City’s investments are provided in the table above and are rated by Standard & Poor’s.

Concentration of Credit Risk- The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2012:

	Fair Value	Percent of Total
<u>Investment Type:</u>		
StarOhio	\$ 2,582,634	73%
Repurchase Agreement	955,000	27%
Total Investments	\$ 3,537,634	

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

Note 6: Deposits and Investments (continued)

Reconciliation of Cash and Investment to the Statement of Net Position – The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2012.

<u>Cash and Investments</u>	
Carrying amount of dposits	\$ 946,568
Investments	3,537,634
Total	<u>\$ 4,484,202</u>
Cash and Investments per Statement of Net Position	
Governmental Activities	\$ 4,395,831
Fiduciary Funds	88,371
Total	<u>\$ 4,484,202</u>

Note 7: Interfund Transfers and Balances

Interfund loans consisted of the following amounts “due to/from other funds” at December 31, 2012, as reported on the fund financial statements.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Sewer Debt Project 4 Fund	\$ 237,709
General Fund	Other Governmental Funds	42,694
Total		<u>\$ 280,403</u>

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at December 31, 2012 are reported on the statement of net position.

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City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 8: Receivables

Receivables at December 31, 2012, consisted of municipal income taxes, property taxes, accounts, 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 2012 for real and public utility property taxes represents collections of the 2011 taxes. Property tax payments received during 2012 for tangible personal property (other than public utility property) are for 2012 taxes.

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

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes which became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2012 with real property taxes.

The full tax rate applied to real property for the fiscal year ended December 31, 2012 was \$14.45 for \$1,000 of assessed valuation. The assessed values of real and tangible personal property, upon which 2012 property tax receipts were based, are as follows:

<u>Property Category</u>	<u>Assessed Value</u>	<u>Percent</u>
<u>Real Property</u>		
Residential and agricultural	\$165,608,380	87.88
Commercial and industrial	18,793,940	9.97
<u>Tangible Personal Property</u>		
Public utilities	<u>4,055,630</u>	<u>2.15</u>
Total	<u>\$188,457,950</u>	<u>100.00</u>

Tangible personal property tax revenue received during 2012 (other than public utility property) represents the collection of 2012 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. 2012 is the last year for the collection of tangible personal property taxes from telephone companies; however, the City received no tangible personal property tax revenue from telephone company property. 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 by September 20

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 8: 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 Fiscal Officer 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, 2012 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred inflow of resources since current taxes were not levied to finance 2012 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 revenue while on the modified accrual basis the revenue is deferred.

B. Income Taxes

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 .75% 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 collections shall be deposited annually in the Capital Improvement Fund and the Capital Improvement Service Equipment Fund, respectively.

C. Intergovernmental Receivable

A summary of intergovernmental receivables as of December 31, 2012, follows:

<u>Revenue Description</u>	<u>Amount</u>
Cents Per Gallon and Excise Tax	\$ 135,084
Homestead and Rollback	148,365
Local Government	8,193
Motor Vehicle Tax	26,554
Permissive Tax	4,266
Estate Tax	163,453
Grants	29,846
Miscellaneous	22,884
Total Intergovernmental Receivable	<u>\$ 538,645</u>

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

Note 8: Receivables (continued)

D. Loan Receivable

The City is reporting a long-term loan receivable related to the Westlawn/Lindbergh Sewer project. During 2006, the Cities of Olmsted Falls and Berea entered into an agreement that involves the construction of sanitary and storm sewers in the Westlawn/Lindbergh area. As part of this agreement, the City has entered into a loan agreement with the Ohio Public Works Commission (OPWC) in the amount of \$388,070 to help fund some of the construction costs. Although the City of Olmsted Falls is obligated for the entire loan amount, the agreement between the Cities obligates the City of Berea to make annual debt service payments to the City of Olmsted Falls and the City of Olmsted Falls makes the payment to the OPWC.

As of December 31, 2012, the full amount of the loan has been “drawn down”, thus creating a long-term OPWC loan payable by the City (See Note 10). A corresponding long-term loan receivable has been reported in the City’s financial statements in the amount of \$349,262, which represents the amount owed by the City of Berea to the City. This loan is classified as a loan receivable on the statement of net position, considered collectible in full, and is expected to be collected in more than one year.

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City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 9: Capital Assets

Capital asset activity for Governmental Activities for the year ended December 31, 2012:

	Restated Balance 1/1/2012	Additions	Reductions	Balance 12/31/2012
<u>Governmental Activities</u>				
Capital Assets, not being depreciated:				
Land	\$ 1,439,268	\$ -	\$ -	\$ 1,439,268
Construction in Progress	11,383,314	58,380	(11,076,865)	364,829
Total Capital Assets Not Being Depreciated	<u>12,822,582</u>	<u>58,380</u>	<u>(11,076,865)</u>	<u>1,804,097</u>
Capital Assets, being depreciated:				
Buildings	5,752,228	-	(230,000)	5,522,228
Improvements other than buildings	255,587	321,601	-	577,188
Machinery, equipment, and vehicles	3,704,761	200,037	(46,259)	3,858,539
Infrastructure				
Traffic Signals	419,817	-	-	419,817
Bridges	536,406	11,250,145	-	11,786,551
Roads	1,349,952	-	-	1,349,952
Sanitary Sewers	4,234,365	-	-	4,234,365
Total Capital Assets, being Depreciated	<u>16,253,116</u>	<u>11,771,783</u>	<u>(276,259)</u>	<u>27,748,640</u>
Less Accumulated Depreciation:				
Buildings	(655,421)	(75,916)	4,600	(726,737)
Improvements other than buildings	(28,102)	(15,499)	-	(43,601)
Machinery, equipment, and vehicles	(1,243,526)	(246,906)	33,606	(1,456,826)
Infrastructure				
Traffic Signals	(30,417)	(8,396)	-	(38,813)
Bridges	(98,498)	(61,236)	-	(159,734)
Roads	(222,394)	(67,498)	-	(289,892)
Sanitary Sewers	(251,640)	(33,642)	-	(285,282)
Total Accumulated Depreciation	<u>(2,529,998)</u>	<u>(509,093) *</u>	<u>38,206</u>	<u>(3,000,885)</u>
Total Capital Assets, being Depreciated, Net	<u>13,723,118</u>	<u>11,262,690</u>	<u>(238,053)</u>	<u>24,747,755</u>
Governmental Activities Capital Assets, Net	<u>\$26,545,700</u>	<u>\$11,321,070</u>	<u>\$(11,314,918)</u>	<u>\$26,551,852</u>

*Depreciation expense was charged to governmental activities as follows:

Security of Persons and Property	\$ 195,423
Basic Utility Services	33,642
Cummunity Enviroment	2,431
Leisure Time Activities	10,109
Transportation	218,089
General Government	49,399
Total Deprecation Expense	<u>\$ 509,093</u>

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 10: Long-Term Obligations

The City had the following activity in long-term obligations during 2012:

	Restated			Amount	
	Balance 1/1/2012	Increase	Decrease	Balance 12/31/2012	Due In a Year
1998 Ohio Water and Sewer Rotary Commission Loan	\$ 396,075	\$ -	\$ -	\$ 396,075	\$ -
Ohio Water Development Authority Loans (OWDA):					
1991 Water Mains 7.45%	70,581	-	(34,019)	36,562	36,562
1995 Water Mains 6.56%	376,377	-	(40,497)	335,880	43,154
1995 Sanitary Sewers 4.35%	1,094,730	-	(126,373)	968,357	131,930
2002 Sanitary Sewers 3.95%	397,722	-	(22,790)	374,932	23,699
2002 Storm Sewers 5.70%	66,502	-	(3,386)	63,116	3,581
2009 Sanitary Sewers 3.25	787,696	-	(43,678)	744,018	-
Subtotal OWDA Loans	<u>2,793,608</u>	<u>-</u>	<u>(270,743)</u>	<u>2,522,865</u>	<u>238,926</u>
2011 Ohio Public Works Commission 0.00%	368,666	-	(19,404)	349,262	19,404
Long-Term Notes					
2012 Fire Station Improvement Notes 1.25%	631,000	516,000	(631,000)	516,000	516,000
2012 Building Improvement Notes 1.00%	1,050,000	970,000	(1,050,000)	970,000	970,000
2012 Various Purpose Notes 1.00%	240,000	224,000	(240,000)	224,000	224,000
2012 Real Estate Notes 1.00%	280,000	280,000	(280,000)	280,000	280,000
Note Premium	1,079	6,885	(3,948)	4,016	-
<i>Total Long-Term Notes</i>	<u>2,202,079</u>	<u>1,996,885</u>	<u>(2,204,948)</u>	<u>1,994,016</u>	<u>1,990,000</u>
Other Long-Term Liabilities:					
Capital Leases	524,381	-	(141,724)	382,657	123,972
Compensated Absences	387,111	23,867	(25,253)	385,725	39,405
<i>Total Other Long-Term Liabilities</i>	<u>911,492</u>	<u>23,867</u>	<u>(166,977)</u>	<u>768,382</u>	<u>163,377</u>
<i>Total Long-Term Obligations</i>	<u>\$ 6,671,920</u>	<u>\$ 2,020,752</u>	<u>\$ (2,662,072)</u>	<u>\$ 6,030,600</u>	<u>\$ 2,411,707</u>

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

The amount of filing and unbilled special assessments for the improvements within the Agricultural District was \$396,075. There was no change in the status of the parcels for the fiscal year ended December 31, 2012.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 10: Long-Term Obligations (continued)

Ohio Water Development Authority (OWDA) - The City has obtained loans from OWDA for water and sewer line extension in fiscal years 1991, 1995 and 2011. 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 various debt service funds.

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 are paid for from the Capital Improvements Fund.

During fiscal year 2009, the City obtained a loan from OWDA. This loan is for the construction of sanitary sewer lines. This loan has not been finalized, and as a result a repayment schedule is not included in the schedule of debt service requirements. This loan is paid from the Sewer Debt Project 4 Fund.

Ohio Public Works Commission (OPWC) - During 2006, the Cities of Olmsted Falls and Berea entered into an agreement that involves the construction of sanitary and storm sewers in the Westlawn/Lindbergh area. As part of this agreement, the City has entered into a loan agreement with the Ohio Public Works Commission (OPWC) in the amount of \$388,070 to help fund some of the construction costs. Although the City of Olmsted Falls is obligated for the entire loan amount, the agreement between the Cities obligates the City of Berea to make annual debt service payments to the City of Olmsted Falls and the City of Olmsted Falls makes the payment to the OPWC.

Notes Payable - The notes payable have been reported on the governmental activities statement of net position. The notes are backed by the full faith and credit of the City. The building improvement notes, various purpose notes, and real estate notes are paid from the capital improvement fund. The liability for the fire station improvement notes are paid from the general bond retirement fund.

Compensated Absences - Compensated absences will be paid from the fund from which the employee's salary is paid.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 10: Long-Term Obligations (continued)

The City's overall legal debt margin was \$19,848,386 and an unvoted debt margin of \$10,365,187 at December 31, 2012. Principal and interest requirement to retire long-term obligations outstanding at December 31, 2012, are as follows:

Year	OWDA Loans		OPWC	Total
	Principal	Interest	Loans Principal	
2013	\$ 238,926	\$ 83,568	\$ 19,404	\$ 341,898
2014	212,449	71,067	19,403	302,919
2015	222,424	60,791	19,404	302,619
2016	233,216	50,002	19,403	302,621
2017	244,551	38,667	19,404	302,622
2018-2022	520,641	63,065	97,017	680,723
2023-2027	106,640	6,845	97,018	210,503
2028-2030	-	-	58,209	58,209
	<u>\$ 1,778,847</u>	<u>\$ 374,005</u>	<u>\$ 349,262</u>	<u>\$ 2,502,114</u>

Note 11: Capital Leases

In 2009, the City entered into lease agreements for a fire truck and service truck. In 2012, the City entered into a lease agreement for a service truck. The City's lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases".

The capital assets acquired by the leases has been capitalized and depreciated as follows as of December 31, 2012:

	Governmental Activities
Capital Leases, being depreciated	
Vehicles	<u>\$ 927,682</u>
Total Capital Leases, being depreciated	<u>927,682</u>
Less Accumulated Depreciation	
Vehicles	<u>(132,980)</u>
Total Accumulated Depreciation	<u>(132,980)</u>
Capital Leases, Net	<u><u>794,702</u></u>

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 11: Capital Leases (continued)

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, 2012.

<u>Year</u>	<u>Payment</u>
2013	\$ 140,525
2014	140,525
2015	135,177
	<u>416,227</u>
Less Interest	(33,570)
Future Minimum Lease	<u>\$ 382,657</u>

Note 12: 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 2012, 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>
U.S. Specialty Insurance Company	Building and Property	\$ 7,548,460
	Inland Marine	383,246
	Flood	500,000
	Earthquake	500,000
	General Liability	3,000,000
	Public Officials Liability	1,000,000
	Law Enforcement Liability	1,000,000
	Electronic Data Processing	317,050
	Theft, Disappearance & Destruction	25,000
	Employee Dishonesty	50,000
	Forgery and Alteration	50,000
	Computer Fraud	50,000
	Fire Damage Liability	100,000
	Medical Payments	10,000
	Ohio Stop Gap Liability	1,000,000
	Employee Benefits Liability	3,000,000
	Automobile Liability	1,000,000
	Automobile Medical Payments	5,000
	Uninsured Motorist Liability	100,000
	Umbrella Liability	10,000,000
	Boiler/Machinery	7,548,460

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, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 13: 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 2012. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 31320 Solon Road, Suite 20, Solon, Ohio 44139.

B. Chestnut Grove Union Cemetery

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

A joint council consisting of the council members of Olmsted Falls and the Trustees of Olmsted Township governs the Cemetery. The joint council elects and appoints the members of the Board of Trustees. The members of the Board of Trustees consist of the following: one elected member of the legislative body from each of the political subdivisions and one appointed resident from either of the political subdivisions who is not a member of the legislative body. The joint council exercises control over the operation of the Cemetery through budgeting, appropriating and contracting. The Board of Trustees control daily operations of the Cemetery. During 2012, the City contributed \$40,263 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.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 13: Jointly Governed Organizations (continued)

C. Joint Economic Development District (continued)

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 approved by 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 2012, the City contributed \$5,000 to the 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 2012, the City contributed \$15,000 to the Council. The Council's financial reports may be obtained by contacting Dana Kavender, Secretary-Treasurer, 11 Berea Commons, Berea, Ohio 44017.

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 2012, the City contributed \$46,985 to the Health Center.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 14: Pension Plans

A. Ohio Public Employees Retirement System

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional 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. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2012, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.5 percent and 12.1 percent, respectively. Effective January 1, 2013, the member contribution rates for public safety and law enforcement increased to 12 percent and 12.6 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2012, member and employer contribution rates were consistent across all three plans.

The City's 2012 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.10 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4 percent during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for calendar year 2012. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2012, 2011, and 2010 were \$134,337, \$144,991, and \$128,817, respectively; 99% has been contributed for 2012 and 100% for 2011 and 2010.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 14: Pension Plans (continued)

B. Ohio Police and Fire Pension Fund

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

Funding Policy – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's required contributions to the OP&F for police and firefighters were \$87,677 and \$90,261 for the year ended December 31, 2012, \$86,708 and \$87,372 for the year ended December 31, 2011, and \$91,523 and \$89,438 for the year ended December 31, 2010.. 99.9% for the police department and 99.9% for the fire department has been contributed for 2012. The full amount has been contributed for 2011 and 2010.

Note 15: Postemployment Benefit Plans

A. Ohio Public Employees Retirement System

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

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

In order to qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 15: Postemployment Benefit Plans (continued)

A. Ohio Public Employees Retirement System (continued)

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

Funding Policy - The post-employment health care plan was established under, and is administered in accordance with, Internal Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local government employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed 18.10 percent. These are the maximum employer contributions rates permitted by the Ohio Revised Code.

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

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the year ended December 31, 2012, 2011, and 2010 were \$46,417, \$57,997, and \$73,362, respectively; 99% has been contributed for 2012 and 100% for 2011 and 2010.

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

B. Ohio Police and Pension Fund

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

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 15: Postemployment Benefit Plans (continued)

B Ohio Police and Pension Fund (continued)

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$46,417 and \$35,320 for the year ended December 31, 2012, \$45,904 and \$34,189 for the year ended December 31, 2011, and \$48,454 and \$34,998 for the year ended December 31, 2010. 99% has been contributed for police and 99% has been contributed for firefighters for 2012. The full amount has been contributed for 2011 and 2010.

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2012 (Continued)

Note 16: 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, 2012.

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 17: Budgetary Basis of Accounting

While the City is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP 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 basis) as opposed to when susceptible to accrual (GAAP basis).
- 2 Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- 3 Encumbrances are treated as expenditures (budget basis) rather than as a part of restricted, committed, or assigned fund balance (GAAP basis).

City of Olmsted Falls, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

Note 17: Budgetary Basis of Accounting (continued)

The following tables summarize the adjustments necessary to reconcile the budget basis statement to the GAAP basis statement for the general fund.

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$ 469,440
Increase (Decrease) Due to:	
Revenue Accruals	23,869
Advances In	514
Expenditure Accruals	4,258
Advances Out	(40,522)
Net Impact of Encumbrances	<u>(51,447)</u>
Budgetary Basis	<u>\$ 406,112</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Members of City Council
City of Olmsted Falls, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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 as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Olmsted Falls, Ohio's basic financial statements and have issued our report thereon dated June 19, 2014, wherein we noted that the City restated its December 31, 2011 net position of governmental activities to include a capital lease and capital assets not recorded in prior years, to record loans receivable on the governmental fund financial statements, and to report prior year encumbrances that were excluded from the General Fund budgetary statement.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Olmsted Falls, Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Olmsted Falls, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Olmsted Falls, Ohio's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as **Finding 2012-001** to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Olmsted Falls, Ohio's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Olmsted Falls, Ohio's Response to Finding

The City of Olmsted Falls, Ohio's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The City of Olmsted Falls, Ohio's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Olmsted Falls, Ohio's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Olmsted Falls, Ohio's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James G. Zupka,
CPA, President
James G. Zupka, CPA, Inc.
Certified Public Accountants

Digitally signed by James G. Zupka, CPA,
President
DN: cn=James G. Zupka, CPA, President,
o=James G. Zupka, CPA, Inc., ou=Accounting,
email=jgzcpa@sbcglobal.net, c=US
Date: 2014.06.27 17:13:47 -04'00'

June 19, 2014

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012**

Finding 2012-001 - Material Weakness - Internal Controls over Financial Reporting

Condition/Criteria

Financial reporting is the responsibility of the City's Finance Department and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

During the annual financial statement preparation process, management identified the following errors to the financial statements:

1. Restatement of fund balance at December 31, 2011, for loans receivable of \$388,070 not recorded on the governmental fund financial statements.
2. Restatement of net position at December 31, 2011, for the Sanitary Sewer Phase III Project of \$1,517,259 not properly recorded as infrastructure.
3. Understatement of restatement of net position at December 31, 2011, to record a capital lease entered into in 2011, which was not on the City's books.
4. Property taxes receivable of \$178,814 due to an error in calculating property taxes receivable.
5. Intergovernmental receivable of \$132,178 due to an error in posting to the trial balances.
6. Understatement of accounts receivable of \$73,985 for water and sewer collections.
7. Reclassification of \$1,990,000 from long-term liabilities due greater than one year to long-term liabilities due in less than one year to properly reflect ending balances.
8. Reclassification of \$141,334 in program revenue to properly record special assessment revenue.
9. Numerous other reclassifications and adjusting entries to various funds to correct balances at year-end.
10. Trial balances did not agree with the amounts per some accounts within the General Fund.
11. Overstatement of intergovernmental receivables that could not be supported.

As a result, audit adjustments have been prepared and made to correct the financial activity for 2012.

Cause/Effect

The changes in financial presentation resulted in a prior period adjustment to the various funds as noted above. Also, lack of controls over financial reporting can result in errors and irregularities that may go undetected and decrease the reliability of financial data at year-end.

Recommendation

We recommend that the City implement controls and procedures related to financial reporting that enables management to identify, prevent, detect, and correct potential mis-statements in the financial statements and footnotes.

Client Response

Starting in 2013, the City has contracted with an outside firm to complete the compilation of its year-end financial statements.

**CITY OF OLMSTED FALLS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF PRIOR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012**

The prior audit report, as of December 31, 2011, included no citations or instances of noncompliance. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



Dave Yost • Auditor of State

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
AUGUST 26, 2014**