



Dave Yost • Auditor of State



**CITY OF NORWOOD  
HAMILTON COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

City of Norwood  
Hamilton County  
4645 Montgomery Road  
Norwood, Ohio 45212

To the City Council:

### ***Report on the Financial Statements***

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

Because of the matters described in the *Basis for Disclaimer of Opinion* paragraph; however, we were not able to obtain sufficient appropriate audit evidence to support an audit opinion.

### ***Basis for Disclaimer of Opinion***

Auditing Standards Section AU-C 580 requires us to obtain written representations from management and, when appropriate, those charged with governance in an audit of financial statements. The Mayor and President of Council declined to provide written representations related to the financial statements; completeness of information; and recognition, measurement and disclosure of misstatements, fraud, unasserted claims, undisclosed liabilities and violations of laws and regulations.

***Disclaimer of Opinion***

Because of the significance of the matter discussed in the *Basis for Disclaimer of Opinion* paragraph, we were unable to obtain sufficient appropriate audit evidence to support an audit opinion. Accordingly, we do not express an opinion on these financial statements.

***Emphasis of Matter***

As discussed in Note 23 to the financial statements, the City's General fund has suffered recurring negative net changes in fund balance. The 2012 General fund experienced a net change in fund balance of (\$1,683,972), and a fund balance deficit at December 31, 2012 of (\$1,806,460); and the Refuse fund experienced a change in net assets of (\$277,216) and negative net positions at December 31, 2012 of (\$369,291). As noted in Note 23, management has no formal plan to address these losses and deficits. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

***Other Matters***

*Required Supplementary Information*

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

July 25, 2014

**CITY OF NORWOOD, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2012**  
Unaudited

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The discussion and analysis of the City of Norwood's 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 notes to the financial statements to enhance their understanding of the City's financial performance.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2012 are as follows:

- The City's total governmental activities' net positions decreased \$1,836,214 which represents an 1.72 percent decrease from 2011. Business-type activities net positions decreased \$665,817 which represents a 26 percent increase from 2011.
- For governmental activities, general receipts accounted for \$20,966,153 or 92 percent of all receipts. Program receipts in the form of charges for services accounted for \$1,727,978 or 8 percent of total revenues of \$22,694,131.
- The City had \$24,530,345 in expenses related to governmental activities; only \$1,727,978 of these expenses was offset by program specific charges for services. General revenues (primarily property and municipal income taxes) were \$20,966,153.
- Enterprise funds reflected a total operating loss of (\$665,817). The Water and Refuse funds reflected an operating loss of (\$388,601) and operating income of (\$277,216) respectively. The water and refuse operations, decreased in net positions by \$665,817.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

**Report Components**

The Statement of Net Positions and the Statement of Activities provide information about the activities of the City as a whole. Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the City as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

**CITY OF NORWOOD, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2012**  
Unaudited

The notes to the basic financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanations and details regarding the information reported in the statements.

**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; the proprietary funds and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**REPORTING THE CITY AS A WHOLE**

**Statement of Net Positions and the Statement of Activities**

The analysis of the City as a whole begins with the Statement of Net positions and the Statement of Activities. These statements provide information that will help the reader to determine if the City of Norwood is financially better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net positions and changes to those assets. These changes inform the reader whether the City's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the reader of these financial statements needs to take into account non-financial factors that also impact the City's financial well-being. Some of these factors include the City's tax base and the condition of capital assets.

In the Statement of Net Positions and the Statement of Activities, the City is divided into two kinds of activities.

- **Governmental Activities** – Most of the City's services are reported here including police, fire, street maintenance, parks and recreation, and general administration. Income taxes, property taxes, building permits and interest finance most of these activities
- **Business-Type Activities** – This activity includes the City's water fund and refuse fund. Service fees for these operations are charged based on the amount of usage or a usage fee. The intent is that the fees charged recoup operational costs.

**CITY OF NORWOOD, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2012**  
Unaudited

**REPORTING THE CITY'S MOST SIGNIFICANT FUNDS**

**Fund Financial Statements**

The analysis of the City's major funds is presented later in the Management's Discussion and Analysis section. Fund financial statements provide detailed information about the City's major funds – not the City as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the City Auditor, with approval of City Council, to help control, manage and report money received for a particular purpose or to show that the City is meeting legal responsibilities for use of grants. The City's major funds are the General Fund, the Debt Service Fund and the Linden Pointe Construction Fund.

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

**Proprietary Funds** – When the City charges citizens for the services it provides, with the intent of recapturing operating costs, these services are generally reported in the proprietary funds. Operations are accounted for in such a manner to show a profit or loss on the basis comparable with industries in the private sector.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. 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.

**CITY OF NORWOOD, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2012**  
Unaudited

**THE CITY AS A WHOLE**

Table 1 provides a summary of the City's net positions for 2012 compared to 2011:

	Governmental Activities		Business Type Activities		Total	
	2012	Restated 2011	2012	2011	2012	Restated 2011
<b>Assets:</b>						
Current & Other Assets	\$14,135,195	\$12,613,784	\$1,679,859	\$1,764,632	\$15,815,054	\$14,378,416
Nondepr. Capital Assets	6,376,146	6,376,146	0	0	6,376,146	6,376,146
Depr. Capital Assets, Net	12,898,845	13,297,451	2,029,726	2,090,215	14,928,571	15,387,666
<b>Total Assets</b>	<b>33,410,186</b>	<b>32,287,381</b>	<b>3,709,585</b>	<b>3,854,847</b>	<b>37,119,771</b>	<b>36,142,228</b>
<b>Liabilities:</b>						
Current & Other Liabilities	10,408,318	6,426,460	1,263,777	714,967	11,672,095	7,141,427
<b>Long-Term Liabilities</b>						
Due Within One Year	3,624,787	2,339,314	49,801	48,783	3,674,588	2,388,097
Due in More Than One Year	22,282,550	24,590,862	512,108	541,381	22,794,658	25,132,243
<b>Total Liabilities</b>	<b>36,315,655</b>	<b>33,356,636</b>	<b>1,825,686</b>	<b>1,305,131</b>	<b>38,141,341</b>	<b>34,661,767</b>
<b>Net Positions:</b>						
Net Invested in Capital Assets,	10,496,894	10,103,151	1,479,233	1,539,722	11,976,127	11,642,873
Restricted	3,251,189	3,982,444	0	0	3,251,189	3,982,444
Unrestricted	(16,653,552)	(15,154,850)	404,666	1,009,994	(16,248,886)	(14,144,856)
<b>Total Net Assets</b>	<b>(\$2,905,469)</b>	<b>(\$1,069,255)</b>	<b>\$1,883,899</b>	<b>\$2,549,716</b>	<b>(\$1,021,570)</b>	<b>\$1,480,461</b>

As mentioned previously, net positions of governmental activities decreased \$1,836,214 during 2012. Although there was an overall decrease in expenditures, there was not a major increase in revenue to offset the expenditures.

Table 2 shows the changes in net positions for the years ended December 31, 2012 and 2011.

**CITY OF NORWOOD, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2012**  
**Unaudited**

Table 2  
Changes in Net Assets

	Governmental		Business-Type		Total / Restated	
	Activities / Restated	Activities / Restated	Activities	Activities	Activities	Activities
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services and Sales	\$1,727,978	\$1,770,035	\$4,956,109	\$4,220,587	\$6,684,087	\$5,990,622
Operating Grants, Contributions and Interest	0	914,150	0	0	0	914,150
Capital Grants, Contributions and Interest	0	0	0	0	0	0
<b>Total Program Revenues</b>	<b>1,727,978</b>	<b>2,684,185</b>	<b>4,956,109</b>	<b>4,220,587</b>	<b>6,684,087</b>	<b>6,904,772</b>
General Revenues:						
Property Taxes	2,568,709	2,867,605	0	0	2,568,709	2,867,605
Income Taxes	13,602,820	13,170,293	0	0	13,602,820	13,170,293
Other Local Taxes	178,678	171,342	0	0	178,678	171,342
Payments in Lieu of Taxes	1,271,253	1,324,928	0	0	1,271,253	1,324,928
Grants and Entitlements Not Restricted to Specific Programs	2,989,084	2,244,448	0	0	2,989,084	2,244,448
Unrestricted Contributions	80,791	1,042	0	0	80,791	1,042
Interest	114,211	137,735	0	0	114,211	137,735
Other	160,607	94,195	0	0	160,607	94,195
<b>Total General Revenues</b>	<b>20,966,153</b>	<b>20,011,588</b>	<b>0</b>	<b>0</b>	<b>20,966,153</b>	<b>20,011,588</b>
<b>Total Revenues</b>	<b>22,694,131</b>	<b>22,695,773</b>	<b>4,956,109</b>	<b>4,220,587</b>	<b>27,650,240</b>	<b>26,916,360</b>
Program Expenses:						
General Government	3,774,457	4,188,013	0	0	3,774,457	4,188,013
Security of Persons and Property:						
Police	7,412,408	8,449,977	0	0	7,412,408	8,449,977
Fire	8,411,551	9,086,215	0	0	8,411,551	9,086,215
Public Services	11,841	38,082	0	0	11,841	38,082
Public Health Services	975,283	1,058,286	0	0	975,283	1,058,286
Leisure Time Services	570,531	1,048,018	0	0	570,531	1,048,018
Community and Economic Development	109,309	106,006	0	0	109,309	106,006
Transportation	1,221,315	984,105	0	0	1,221,315	984,105
Intergovernmental	491,962	337,724	0	0	491,962	337,724
Capital Outlay	402,158	0	0	0	402,158	0
Interest and Fiscal Charges	1,149,530	1,424,197	0	0	1,149,530	1,424,197
Water		0	4,030,668	3,165,929	4,030,668	3,165,929
Refuse		0	1,591,258	1,835,672	1,591,258	1,835,672
<b>Total Expenses</b>	<b>24,530,345</b>	<b>26,720,623</b>	<b>5,621,926</b>	<b>5,001,601</b>	<b>30,152,271</b>	<b>31,722,224</b>
Increase (Decrease) in Net Position	(1,836,214)	(4,024,850)	(665,817)	(781,014)	(2,502,031)	(4,805,864)
Net Position at Beginning of Year	(1,069,255)	2,955,595	2,549,716	3,330,729	1,480,461	6,286,324
Net Position at End of Year	(\$2,905,469)	(\$1,069,255)	\$1,883,899	\$2,549,716	(\$1,021,570)	\$1,480,460

Governmental program revenues represent only 8 percent of total revenues and are primarily comprised of restricted intergovernmental revenues such as motor vehicle license and gas tax money, building permits, and grants.

General revenues of governmental activities represent 92 percent of the City's governmental receipts, and 77 percent of general revenues are local taxes. Property

**CITY OF NORWOOD, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2012**  
Unaudited

taxes make up 12 percent of the City's general revenues. The City's municipal income taxes make up 65 percent of general revenue. Other revenues are very insignificant and somewhat unpredictable revenue sources.

General Government expense decreased \$413,556, due mainly to hourly wages being cut back. Security of Persons and Property: Fire expenses decreased \$674,664 due to employee benefits being deferred. Police expenses decreased \$1,037,569 due to employee benefits being deferred. Leisure Time Service expenses decreased \$477,487 due to expenditures that supported a clean up project from the CORF fund. Transportation expenses increased \$237,210 due to decreases in non-capitalized road resurfacing projects in 2011.

The City's business-type activities, Water and Refuse Funds, account for 18 percent of the City's total revenues in 2012. Charges for Services and Sales in the business-type activities increased \$735,522, due to increases in water charges for services. Program expenses for the Water Fund increased \$864,739 due to decreases in contractual services, while they decreased \$244,414 in the Refuse Fund, due to increase in contractual services.

**Governmental Activities**

The two percent earnings tax is the largest source of revenue for the City. Revenues generated by the earnings tax represent approximately 65 percent of the City's governmental activities revenue. The earnings tax is used to pay the cost of many city services including general government, security of persons and property, and public health services.

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the City. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for security of persons and property, which account for 65 percent of all governmental expenses. General government also represents a significant cost, about 15 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the City that must be used to provide a specific service. The Net (Expense) Revenue column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**CITY OF NORWOOD, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2012**  
 Unaudited

Table 3  
 Governmental Activities

	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2011
General Government	\$3,774,457	\$2,947,711	\$4,188,013	\$3,509,570
Security of Persons and Property				
Police	7,412,408	7,187,592	8,449,977	8,384,686
Fire	8,411,551	7,854,073	9,086,215	8,064,222
Public Services	11,841	11,841	38,082	38,082
Public Health	975,283	891,838	1,058,286	957,663
Leisure Time Activities	570,531	570,531	1,048,018	880,789
Community and Economic Development	109,309	109,309	106,006	106,000
Transportation	1,221,315	1,185,822	984,105	333,505
Intergovernmental	491,962	491,962	337,724	337,724
Capital Outlay	402,158	402,158	0	0
Interest & Fiscal Charges	1,149,530	1,149,530	1,424,197	1,424,197
Total Expenses	<u>\$24,530,345</u>	<u>\$22,802,367</u>	<u>\$26,720,623</u>	<u>\$24,036,438</u>

The dependence upon property and income tax receipts is apparent as 77 percent of governmental activities are supported through these general revenues.

**Business-Type Activities**

The City's business-type activities include the City's Water and Refuse Funds. The water utility provides public water service to businesses and residents.

The Refuse Fund is used to account for moneys collected from Norwood citizens, businesses and industries for refuse disposal service; and to account for the payment of refuse disposal bills. The Refuse Fund was established in 2005.

**CITY OF NORWOOD, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2012**  
Unaudited

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

Information about the City's major governmental funds is presented in the fund financial statements. These funds are reported using the modified accrual basis of accounting. In total, all governmental funds reported revenues of \$22,981,244 and expenditures of \$25,172,064.

Within the General Fund, there were revenues of \$18,397,315 and expenditures of \$19,961,468. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased \$1,683,972 as the result of increased expenses.

Within the Debt Service Fund, there were revenues of \$1,493,533 and expenditures of \$1,866,186. The fund balance of this fund decreased \$159,309 due to debt service expenditures and payments to Norwood City School District in accordance with tax increment financing agreements exceeding revenues

Within the Linden Pointe Construction Fund, there were revenues of \$619,795 and expenditures of \$280,281. The fund balance of this fund increased \$339,514 due to payments being deferred.

**Governmental Fund Budgeting Highlights**

The City's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2012, the City amended its General Fund budget several times to reflect changing circumstances. Final budgeted revenues were above original budgeted revenues by \$1,912,457 due to increases in estimated property taxes revenues. The difference between final budgeted revenues and actual revenues was \$1,935,379 which was due primarily to a decrease in income taxes and license and permits.

Final budgeted expenditures were above original budgeted expenditures by \$1,778,284 due to overall increases in estimated expenditures. Final expenditures were budgeted at \$19,320,589 for the General Fund. Actual expenditures were \$18,791,991 with a difference of \$528,598 due to expenditures being much lower than anticipated.

**CITY OF NORWOOD, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2012**  
Unaudited

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2012 amounts to \$21.3 million (net of accumulated depreciation).

Table 4  
Capital Assets

	Governmental Activities		Business Type Activity		Total	
	2012	2011	\$2,012	2011	2012	2011
Land	\$6,376,146	\$6,376,146	\$0	\$0	\$6,376,146	\$6,376,146
Buildings	\$2,265,669	\$2,330,389	\$0	\$0	\$2,265,669	\$2,330,389
Land Improvements	\$588,082	\$635,134	\$0	\$0	\$588,082	\$635,134
Vehicles	\$1,285,646	\$1,461,350	\$0	\$0	\$1,285,646	\$1,461,350
Furniture, Fixtures and Equipment	\$1,098,316	\$896,596	(\$12,786)	\$9,676	\$1,085,530	\$906,272
Infrastructure	\$7,661,132	\$7,973,982	\$2,042,513	\$2,098,164	\$9,703,645	\$10,072,146
<b>Totals</b>	<b>\$19,274,991</b>	<b>\$19,673,597</b>	<b>\$2,029,727</b>	<b>\$2,107,840</b>	<b>\$21,304,718</b>	<b>\$21,781,437</b>

The City had an decrease in capital assets for governmental activities due to budgetary short falls in spending while business-type activities had a slight decrease due to depreciation.

For more information on capital assets, refer to note 10 of the notes to the basic financial statements.

**Debt**

Table 5 summarizes debt outstanding at December 31, 2012 and 2011:

	Governmental Activities / Restated		Business-Type Activities		Total / Restated	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$3,870,962	\$3,870,962	\$0	\$0	\$3,870,962	\$3,870,962
Special Assessment Debt	944,601	1,211,474	0	0	\$944,601	\$1,211,474
OPWC Loans	516,033	559,551	513,206	550,492	\$1,029,239	\$1,110,043
Tax Increment Financing Bonds	14,905,265	15,132,910	0	0	\$14,905,265	\$15,132,910
Capital Leases	161,546	363,459	0	0	\$161,546	\$363,459
Police & Fire Pension	2,163,800	2,220,520	0	0	\$2,163,800	\$2,220,520
	<b>\$22,562,207</b>	<b>\$23,358,876</b>	<b>\$513,206</b>	<b>\$550,492</b>	<b>\$23,075,413</b>	<b>\$23,909,368</b>

**CITY OF NORWOOD, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2012**  
Unaudited

The City's overall unvoted legal debt margin was \$35,453,962 as of December 31, 2012. The more restrictive unvoted legal debt margin was \$16,726,463 as of the same date.

For more information regarding long-term obligations and capital leases, refer to notes 11 and 12 of the notes to the basic financial statements.

**ECONOMIC AND OTHER POTENTIALLY SIGNIFICANT MATTERS**

Based on the results of a fiscal analysis performed by the Auditor of State's Local Government Services section, the City was placed in fiscal watch on October 7, 2004 and remains in fiscal watch today.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Auditor's Office, City of Norwood, 4645 Montgomery Road, Norwood, Ohio 45212.

**CITY OF NORWOOD, OHIO  
STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS:</b>			
Equity in Pooled Cash and Cash Equivalents	\$3,647,637	\$480,859	\$4,128,496
Accounts Receivable	503,712	1,199,000	1,702,712
Interfund Receivable	81,103	0	81,103
Internal Balances	0	0	0
Intergovernmental Receivable	557,819	0	557,819
Income Taxes Receivable	2,392,607	0	2,392,607
Property Taxes Receivable	4,036,388	0	4,036,388
Payments in Lieu of Taxes Receivable	1,732,243	0	1,732,243
Special Assessments Receivable	944,601	0	944,601
Net Other Post Employment Benefits	131,098	0	131,098
Deferred Charges	107,987	0	107,987
Nondepreciable Capital Assets	6,376,146	0	6,376,146
Depreciable Capital Assets, Net	12,898,845	2,029,726	14,928,571
<b>Total Assets</b>	<b>33,410,186</b>	<b>3,709,585</b>	<b>37,119,771</b>
<b>LIABILITIES:</b>			
Accounts Payable	3,174,082	867,926	4,042,008
Accrued Wages Payable	387,518	17,645	405,163
Intergovernmental Payable	865,257	293,596	1,158,853
Contracts Payable	399,783	0	399,783
Deferred Revenue	5,373,092	0	5,373,092
Accrued Interest Payable	136,314	0	136,314
Interfund Payable	72,272	8,831	81,103
Refundable Deposits		75,779	75,779
Long-Term Liabilities:			
Due Within One Year	3,624,787	49,801	3,674,588
Due in More Than One Year	22,282,550	512,108	22,794,658
<b>Total Liabilities</b>	<b>36,315,655</b>	<b>1,825,686</b>	<b>38,141,341</b>
<b>NET POSITION:</b>			
Invested in Capital Assets	10,496,894	1,479,233	11,976,127
Restricted for:			
Debt Service	2,134,881	0	2,134,881
Capital Outlay	290,015	0	290,015
Security of Persons and Property	229,007	0	229,007
Leisure Time Services	183,187	0	183,187
Community and Economic Development	122,068	0	122,068
Transportation	267,048	0	267,048
Other Purposes	24,983	0	24,983
Unrestricted (Deficit)	(16,653,552)	404,666	(16,248,886)
<b>Total Net Position</b>	<b>(\$2,905,469)</b>	<b>\$1,883,899</b>	<b>(\$1,021,570)</b>

See accompanying notes to the basic financial statements

**CITY OF NORWOOD, OHIO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Expenses</u>	<u>Program Revenues</u> Charges for Services and Sales	<u>Net (Expense)</u> Governmental Activities
Governmental Activities:			
General Government	\$3,774,457	\$826,746	(\$2,947,711)
Security of Persons and Property			
Police	7,412,408	224,816	(7,187,592)
Fire	8,411,551	557,478	(7,854,073)
Public Services	11,841	0	(11,841)
Public Health Services	975,283	83,445	(891,838)
Leisure Time Services	570,531	0	(570,531)
Community and Economic Development	109,309	0	(109,309)
Transportation	1,221,315	35,493	(1,185,822)
Intergovernmental	491,962	0	(491,962)
Capital Outlay	402,158	0	(402,158)
Interest and Fiscal Charges	1,149,530	0	(1,149,530)
Total Governmental Activities	<u>24,530,345</u>	<u>1,727,978</u>	<u>(22,802,367)</u>
Business-Type Activities:			
Water	4,030,668	3,642,067	0
Refuse	1,591,258	1,314,042	0
Total Business-Type Activities	<u>5,621,926</u>	<u>4,956,109</u>	<u>0</u>
Total Activities	<u>\$30,152,271</u>	<u>\$6,684,087</u>	<u>(22,802,367)</u>
General Revenues:			
Taxes:			
Property Taxes Levied For General Purp		2,568,709	
Income Taxes		13,602,820	
Other Local Taxes		178,678	
Payments in Lieu of Taxes		1,271,253	
Grants and Entitlements not Restricted to S		2,989,084	
Unrestricted Contributions		80,791	
Interest		114,211	
Other		160,607	
Total General Revenues		<u>20,966,153</u>	
Change in Net Position			(1,836,214)
Net Position at Beginning of Year - Restated			<u>(1,069,255)</u>
Net Position at End of Year			<u>(\$2,905,469)</u>

See accompanying notes to the basic financial statements

/Revenue and Changes in Net Assets

<u>Business-Type Activities</u>	<u>Total</u>
\$0	(\$2,947,711)
0	(7,187,592)
0	(7,854,073)
0	(11,841)
0	(891,838)
0	(570,531)
0	(109,309)
0	(1,185,822)
0	(491,962)
<u>0</u>	<u>(1,149,530)</u>
<u>0</u>	<u>(22,802,367)</u>
(388,601)	(388,601)
<u>(277,216)</u>	<u>(277,216)</u>
<u>(665,817)</u>	<u>(665,817)</u>
<u>(665,817)</u>	<u>(23,468,184)</u>
0	2,568,709
0	13,602,820
0	178,678
0	1,271,253
0	2,989,084
0	80,791
0	114,211
0	160,607
<u>0</u>	<u>20,966,153</u>
(665,817)	(2,502,031)
<u>2,549,716</u>	<u>1,480,461</u>
<u>\$1,883,899</u>	<u>(\$1,021,570)</u>

**CITY OF NORWOOD, OHIO  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	General	Debt Service Fund	Linden Pointe Construction	All Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>					
Equity in Pooled Cash and Cash Equivalents	\$320,258	\$143,273	\$334,396	\$1,310,717	\$2,108,644
Cash and Cash Equivalents with Fiscal Agents	0	0	343,350	0	343,350
Accounts Receivable	503,712	0	0	0	503,712
Intergovernmental Receivable	242,324	0	0	315,495	557,819
Income Taxes Receivable	2,392,607	0	0	0	2,392,607
Property Taxes Receivable	4,027,728	0	0	8,660	4,036,388
Payments in Lieu of Taxes Receivable	0	1,316,503	415,740	0	1,732,243
Interfund Receivable	72,272	0	0	8,831	81,103
Special Assessments Receivable	0	944,601	0	0	944,601
Restricted Assets:					
Cash and Cash Equivalents with Fiscal Agents	0	1,195,643	0	0	1,195,643
<b>Total Assets</b>	<b><u>\$7,558,901</u></b>	<b><u>\$3,600,020</u></b>	<b><u>\$1,093,486</u></b>	<b><u>\$1,643,703</u></b>	<b><u>\$13,896,110</u></b>
<b>LIABILITIES:</b>					
Accounts Payable	\$2,492,875	\$12,323	\$0	\$668,884	\$3,174,082
Accrued Wages Payable	372,217	0	0	15,301	387,518
Contracts Payable	1,496	0	395,287	3,000	399,783
Intergovernmental Payable	852,547	0	0	12,710	865,257
Interfund Payable	0	0	0	72,272	72,272
Deferred Revenue	5,646,226	2,261,104	415,740	262,920	8,585,990
<b>Total Liabilities</b>	<b><u>9,365,361</u></b>	<b><u>2,273,427</u></b>	<b><u>811,027</u></b>	<b><u>1,035,087</u></b>	<b><u>13,484,902</u></b>
<b>FUND BALANCES:</b>					
Restricted	\$0	\$1,326,593	\$282,459	\$606,742	\$2,215,794
Committed	2,321	0	0	2,500	4,821
Assigned	992,648	0	0	0	992,648
Unassigned	<u>(2,801,429)</u>	<u>0</u>	<u>0</u>	<u>(626)</u>	<u>(2,802,055)</u>
<b>Total Fund Balances (Deficit)</b>	<b><u>(1,806,460)</u></b>	<b><u>1,326,593</u></b>	<b><u>282,459</u></b>	<b><u>608,616</u></b>	<b><u>411,208</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$7,558,901</u></b>	<b><u>\$3,600,020</u></b>	<b><u>\$1,093,486</u></b>	<b><u>\$1,643,703</u></b>	<b><u>\$13,896,110</u></b>

See accompanying notes to the basic financial statements

**CITY OF NORWOOD, OHIO  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

Total Governmental Fund Balances \$411,208

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. These assets consist of:

Land	6,376,146	
Depreciable capital assets	29,973,722	
Accumulated depreciation	<u>(17,074,877)</u>	
Total capital assets		19,274,991

Some of the City's revenues will be collected after year-end,  
but are not available soon enough to pay for the current period's expenditures  
and therefore are deferred in the funds:

Property taxes	386,878	
Special assessments	944,601	
Due from other governments:		
Charges for services	428,475	
Shared taxes and local government revenue assistance	476,539	
Income taxes	<u>976,405</u>	
		3,212,898

Bond issuance costs reported as an expenditure in governmental funds  
are allocated as an expense over the life of the debt on a full  
accrual basis.

107,987

Certain assets are reported in governmental activities are not financial  
resources, and are therefore, not reported in governmental funds.

Other Postemployment Benefits 131,098

In the Statement of Activities, interest is accrued on outstanding bonds, whereas  
in governmental funds, an interest expenditure is reported when due.

(136,314)

Long-term liabilities are not due and payable in the current period and therefore  
are not reported in the funds. Those liabilities consist of:

Discount on bonds	139,735	
Capital leases	(161,546)	
Bonds	(19,860,563)	
Loans	(516,033)	
Police & Fire Liability	(2,163,800)	
Compensated absences	<u>(3,345,130)</u>	
Total liabilities		<u>(25,907,337)</u>

Net Position of Governmental Activities (2,905,469)

See accompanying notes to the basic financial statements

**CITY OF NORWOOD, OHIO  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Debt Service Fund	Linden Pointe Construction	All Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
Property Taxes	\$2,603,759	\$0	\$0	\$0	\$2,603,759
Income Taxes	13,306,234	0	0	0	13,306,234
Other Local Taxes	8,045	0	0	170,633	178,678
Payments in Lieu of Taxes	0	1,112,589	158,664	0	1,271,253
Special Assessments	0	266,873	0	0	266,873
Charges for Services	765,179	0	0	19,347	784,526
Fines, Licenses and Permits	796,503	0	0	268,734	1,065,237
Intergovernmental	722,627	0	460,991	1,952,227	3,135,845
Interest	0	114,071	140	0	114,211
Rent	13,230	0	0	0	13,230
Contributions and Donations	21,131	0	0	59,660	80,791
Reimbursements	0	0	0	0	0
Other	160,607	0	0	0	160,607
<b>Total Revenues</b>	<b>18,397,315</b>	<b>1,493,533</b>	<b>619,795</b>	<b>2,470,601</b>	<b>22,981,244</b>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
General Government	3,657,013	0	0	24,827	3,681,840
Security of Persons and Property:					
Police	7,382,711	0	0	96,985	7,479,696
Fire	7,628,770	0	0	965,802	8,594,572
Public Services	7,482	0	0	0	7,482
Public Health Services	882,850	0	0	109,058	991,908
Leisure Time Services	141,894	12,323	0	411,947	566,164
Community and Economic Development	0	0	0	108,732	108,732
Transportation	0	0	0	887,628	887,628
Intergovernmental	0	329,535	158,664	0	488,199
Capital Outlay	0	0	0	402,158	402,158
Debt Service:					
Principal Retirement	245,985	501,873	0	56,166	804,024
Interest and Fiscal Charges	14,763	1,022,455	121,617	826	1,159,661
<b>Total Expenditures</b>	<b>19,961,468</b>	<b>1,866,186</b>	<b>280,281</b>	<b>3,064,129</b>	<b>25,172,064</b>
Excess of Revenues Under Expenditures	(1,564,153)	(372,653)	339,514	(593,528)	(2,190,820)
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers In	634,564	213,344	0	30,000	877,908
Transfers Out	(754,383)	0	0	(123,525)	(877,908)
<b>Total Other Financing Sources (Uses)</b>	<b>(119,819)</b>	<b>213,344</b>	<b>0</b>	<b>(93,525)</b>	<b>0</b>
Net Change in Fund Balances	(1,683,972)	(159,309)	339,514	(687,053)	(2,190,820)
Fund Balances at Beginning of Year	(122,488)	1,485,902	(57,055)	1,295,669	2,602,028
Fund Balances (Deficit) at End of Year	<u>(\$1,806,460)</u>	<u>\$1,326,593</u>	<u>\$282,459</u>	<u>\$608,616</u>	<u>\$411,208</u>

See accompanying notes to the basic financial statements

**CITY OF NORWOOD, 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 (\$2,190,820)

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

Capital outlays are reported as expenditures in governmental funds.  
However, in the Statement of Activities, the cost of those assets is allocated  
over their estimated useful lives as depreciation expense. In the current  
period, these amounts are:

Capital Assets Additions	346,429	
Current Year Depreciation	<u>(745,035)</u>	(398,606)

Because some revenues will not be collected for several months after the City's year-end,  
they are not considered "available" revenues and are deferred in the governmental funds.

Property Taxes	(35,050)	
Special Assessments	(266,873)	
Due From Other Governments:		
Charges for Services	(135,015)	
Shared Taxes and Local Government Revenue Assistance	(146,761)	
Income Taxes	<u>296,586</u>	(287,113)

Repayment of long-term obligations is an expenditure in the governmental funds,  
but the repayment reduces long-term liabilities in the Statement of  
Net Position.

General obligation bond principal retirement	235,000	
Special assessment debt principal retirement	266,873	
Police & Fire principal retirement	56,720	
Loan principal retirement	43,517	
Capital lease payments	<u>201,914</u>	
Total long-term obligation repayment		804,024

In the Statement of Activities, interest accrued on outstanding bonds and bond accretion, bond  
premiums, bond issuance costs and the gain/loss on refunding are amortized over the terms of the  
bonds, whereas in the governmental funds the expenditure is reported when the bonds are issued.

Amortization of bond issuance costs	(4,319)	
Amortization of bond discount	(7,355)	
Accrued Interest	<u>21,805</u>	10,131

Some expenses reported in the Statement of Activities, such as compensated absences,  
do not require the use of current financial resources and therefore are not  
reported as expenditures in governmental funds.

Increase in Compensated Absences	226,170	
Other Post Employment Benefits	<u>0</u>	
		<u>226,170</u>

Change in Net Position of Governmental Activities (\$1,836,214)

See accompanying notes to the basic financial statements

**CITY OF NORWOOD, OHIO  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
BUDGET BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original Budget	Final Budget		
<b>REVENUES:</b>				
Property Taxes	\$1,425,832	\$2,603,759	\$2,603,759	\$0
Income Taxes	12,450,773	13,000,000	13,097,612	97,612
Other Local Taxes	8,620	9,000	8,045	(955)
Charges for Services	597,937	624,314	629,865	5,551
Fines, Licenses and Permits	790,386	825,252	799,255	(25,997)
Intergovernmental	723,240	755,144	740,606	(14,538)
Interest	0	0	0	0
Rent	15,324	16,000	13,230	(2,770)
Contributions and Donations	1,341	1,400	1,400	0
Other	2,063,848	2,154,889	160,607	(1,994,282)
<b>Total Revenues</b>	<b>18,077,301</b>	<b>19,989,758</b>	<b>18,054,379</b>	<b>(1,935,379)</b>
<b>EXPENDITURES:</b>				
Current:				
General Government:				
Legislative and Executive	3,250,772	3,757,672	3,710,150	47,522
Judicial System	100,100	96,028	95,560	468
Security of Persons and Property:				
Police	6,526,252	6,936,947	6,661,222	275,725
Fire	6,679,013	7,482,681	7,279,040	203,641
Leisure Time Services	0	0	0	0
Public Services	11,430	12,282	12,132	150
Public Health Services	974,738	1,034,979	1,033,887	1,092
Capital Outlay	0	0	0	0
Debt Service:				
Interest and Fiscal Charges	0	0	0	0
Principle Retirement	0	0	0	0
<b>Total Expenditures</b>	<b>17,542,305</b>	<b>19,320,589</b>	<b>18,791,991</b>	<b>528,598</b>
<b>Excess of Revenues Under Expenditures</b>	<b>534,996</b>	<b>669,169</b>	<b>(737,612)</b>	<b>(1,406,781)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from Sale of Capital Assets	0	0	0	0
Transfers In	0	0	0	0
Advances Out	0	0	0	0
Transfers Out	(2,598,167)	(825,077)	(754,383)	70,694
<b>Total Other Financing Sources (Uses)</b>	<b>(2,598,167)</b>	<b>(825,077)</b>	<b>(754,383)</b>	<b>70,694</b>
<b>Net Change in Fund Balance</b>	<b>(2,063,171)</b>	<b>(155,908)</b>	<b>(1,491,995)</b>	<b>(1,336,087)</b>
<b>Fund Balance at Beginning of Year</b>	<b>(59,085)</b>	<b>(59,085)</b>	<b>(59,085)</b>	<b>0</b>
<b>Prior Year Encumbrances Appropriated</b>	<b>221,585</b>	<b>221,585</b>	<b>221,585</b>	<b>0</b>
<b>Fund Balance at End of Year</b>	<b>(\$1,900,671)</b>	<b>\$6,592</b>	<b>(\$1,329,495)</b>	<b>(\$1,336,087)</b>

See accompanying notes to the basic financial statements

**CITY OF NORWOOD, OHIO  
STATEMENT OF FUND NET POSITION  
ENTERPRISE FUNDS  
DECEMBER 31, 2012**

	<u>Water</u>	<u>Refuse</u>	<u>Totals</u>
<b>ASSETS:</b>			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$306,384	\$98,696	\$405,080
Accounts Receivable	813,762	385,238	1,199,000
Total Current Assets	<u>1,120,146</u>	<u>483,934</u>	<u>1,604,080</u>
Noncurrent Assets:			
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	75,779	0	75,779
Depreciable Capital Assets, Net	2,029,726	0	2,029,726
Total Noncurrent Assets	<u>2,105,505</u>	<u>0</u>	<u>2,105,505</u>
Total Assets	<u>3,225,651</u>	<u>483,934</u>	<u>3,709,585</u>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts Payable	14,701	853,225	867,926
Accrued Wages Payable	17,645	0	17,645
Intergovernmental Payable	293,596	0	293,596
Interfund Payable	8,831	0	8,831
Compensated Absences Payable	22,327	0	22,327
OPWC Loans Payable	27,474	0	27,474
Total Current Liabilities	<u>384,574</u>	<u>853,225</u>	<u>1,237,799</u>
Noncurrent Liabilities:			
Refundable Deposits	75,779	0	75,779
Compensated Absences Payable	26,375	0	26,375
OPWC Loans Payable	485,733	0	485,733
Total Noncurrent Liabilities	<u>587,887</u>	<u>0</u>	<u>587,887</u>
Total Liabilities	<u>972,461</u>	<u>853,225</u>	<u>1,825,686</u>
<b>NET POSITIONS:</b>			
Invested in Capital Assets	1,479,233	0	1,479,233
Unrestricted	773,957	(369,291)	404,666
Total Net Position	<u>\$2,253,190</u>	<u>(\$369,291)</u>	<u>\$1,883,899</u>

See accompanying notes to the basic financial statements

**CITY OF NORWOOD, OHIO**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITIONS**  
**ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Water</u>	<u>Refuse</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Charges for Services	<u>\$3,642,067</u>	<u>\$1,314,042</u>	<u>\$4,956,109</u>
<b>OPERATING EXPENSES:</b>			
Personal Services	693,560	0	693,560
Contractual Services	3,222,528	1,590,487	4,813,015
Supplies and Materials	51,764	0	51,764
Depreciation	60,489	0	60,489
Refunds	676	0	676
Other	<u>1,651</u>	<u>771</u>	<u>2,422</u>
Total Operating Expenses	<u>4,030,668</u>	<u>1,591,258</u>	<u>5,621,926</u>
Operating Income (Loss)	<u>(388,601)</u>	<u>(277,216)</u>	<u>(665,817)</u>
Change in Net Position	(388,601)	(277,216)	(665,817)
Net Position at Beginning of Year	<u>2,641,791</u>	<u>(92,075)</u>	<u>2,549,716</u>
Net Position at End of Year	<u><u>\$2,253,190</u></u>	<u><u>(\$369,291)</u></u>	<u><u>\$1,883,899</u></u>

See accompanying notes to the basic financial statements

**CITY OF NORWOOD, OHIO  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Water</u>	<u>Refuse</u>	<u>Total</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>			
Cash Flows from Operating Activities:			
Cash Received from Customers	\$3,563,332	\$1,292,343	\$4,855,675
Cash Payments for Employee Services and Benefits	(680,955)	0	(680,955)
Cash Payments to Suppliers for Goods and Services	(2,987,169)	(1,347,774)	(4,334,943)
Utility Deposits Received	22,200	0	22,200
Utility Deposits Returned	(18,730)	0	(18,730)
Net Cash Provided by (Used for) Operating Activities	<u>(101,322)</u>	<u>(55,431)</u>	<u>(156,753)</u>
Cash Flows from Noncapital Financing Activities:			
Short-Term Loan from Another Fund	<u>0</u>	<u>0</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities:			
Principal Paid on OPWC Loans	<u>(37,285)</u>	<u>0</u>	<u>(37,285)</u>
Net Cash Provided By Capital and Related Financing Activities	<u>(37,285)</u>	<u>0</u>	<u>(37,285)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(138,607)	(55,431)	(194,038)
Cash and Cash Equivalents at Beginning of Year	<u>520,770</u>	<u>154,127</u>	<u>674,897</u>
Cash and Cash Equivalents at End of Year	<u><u>\$382,163</u></u>	<u><u>\$98,696</u></u>	<u><u>\$480,859</u></u>
Reconciliation of Operating Income (Loss) to Net Cash <u>Provided by (Used for) Operating Activities:</u>			
Operating Income (Loss)	(\$388,601)	\$454,089	\$65,488
Adjustments to Reconcile Operating Income (Loss) to Net Cash <u>Provided by (Used for) Operating Activities:</u>			
Depreciation	60,489	0	60,489
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	(78,735)	(21,699)	(100,434)
Increase (Decrease) in Accounts Payable	11,326	(487,821)	(476,495)
Increase (Decrease) in Accrued Wages Payable	1,953	0	1,953
Increase (Decrease) in Intergovernmental Payable	279,746	0	279,746
Increase (Decrease) Payable from Restricted Assets	3,470	0	3,470
Increase (Decrease) in Compensated Absences Payable	<u>9,030</u>	<u>0</u>	<u>9,030</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>(\$101,322)</u></u>	<u><u>(\$55,431)</u></u>	<u><u>(\$156,753)</u></u>

See accompanying notes to the basic financial statements

**CITY OF NORWOOD, OHIO  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2012**

	Pension Trust	Agency	Mayor's Court
<b>ASSETS:</b>			
Equity in Pooled Cash and Cash Equivalents	\$18	\$1,842,109	\$22,510
Accounts Receivable	0	1,446,268	
	<hr/>		
Total Assets	<u>18</u>	<u>\$3,288,377</u>	<u>\$22,510</u>
<b>LIABILITIES:</b>			
Accounts Payable	0	\$0	\$22,023
Intergovernmental Payable	0	3,251,346	
Undistributed Monies	0	37,031	
	<hr/>		
Total Liabilities	<u>0</u>	<u>\$3,288,377</u>	<u>\$22,023</u>
<b>NET POSITION:</b>			
Held in Trust for OPEB	<u>18</u>		
	<hr/>		
Total Net Position	<u>\$18</u>	<u>\$0</u>	<u>\$487</u>

See accompanying notes to the basic financial statements

**CITY OF NORWOOD, OHIO  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Pension Trust</u>	<u>Mayor's Court</u>
ADDITIONS:		
Fees	\$0	\$382,069
Employer Contributions	<u>219,324</u>	<u>0</u>
Total Additions	219,324	382,069
DEDUCTIONS:		
Distributions to other Governments		383,166
Distributions to Participants	<u>219,324</u>	
Change in Net Position	0	(1,097)
Net Position at Beginning of Year	<u>18</u>	<u>1,584</u>
Net Position at End of Year	<u><u>\$18</u></u>	<u><u>\$487</u></u>

See accompanying notes to the basic financial statements

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**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 1 - DESCRIPTION OF THE CITY AND REPORTING ENTITY**

The City of Norwood, Ohio (the City) is a statutory municipal corporation, established in 1888 as a political subdivision of the State of Ohio, for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The City operates under a mayor-council form of government. Legislative power is vested in a seven member council and a council president, each elected to four-year terms. The Mayor is elected to a four-year term and is the chief executive officer of the City. All City officials, with the exception of the Service Safety Director, are elected positions. The Service Safety Director is appointed by the Mayor.

**Reporting Entity**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds and departments, which comprise the legal entity of the City. The City provides the following services: public safety (police and fire), highways and streets, water, sanitation, health and social services, culture and recreation, public improvements, community development, planning and zoning and general administrative services.

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 the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves their budget, the issuance of their debt or the levying of their taxes. The City has no component units.

The City is associated with one organization, the Public Entities Pool of Ohio (PEP), which is defined as a shared risk pool. This organization is presented in Note 21 of the Basic Financial Statements.

**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The City's basic financial statements consist of government-wide financial 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 the City's fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities.

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

Fund Financial Statements

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

**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 utilized by the City: governmental, proprietary, and fiduciary.

Governmental Funds

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

*General Fund* – This is the chief operating fund for the City and it is used to account for all revenues and expenditures which are not accounted for in other funds. The primary sources of revenue for this fund are earnings taxes, property taxes and local government funds. The General Fund Balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

*Debt Service Fund* – This fund is used to account for the accumulation of resources for, and the payment of, general obligation bond principal and interest and certain other long-term obligations when the City is obligated for the payment. The City has only one Debt Service Fund.

*Linden Pointe Construction Fund* – This fund is used to account for debt proceeds used for the construction of the Linden Pointe development area.

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

Proprietary Fund

Proprietary funds focus on the determination of operating income, changes in net assets, financial position, and cash flows. The City's only proprietary funds are enterprise funds.

Enterprise Funds

Enterprise funds may be used to account for any activity for which a fee is

**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

charged to external users for goods or services. The following are the City's major enterprise funds:

*Water Fund* – This fund is used to account for the provision of water treatment and distribution to residential and commercial users within the City.

*Refuse Fund* – This fund is used to account for refuse services provided to residents, businesses and industries located within the City.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to report resources held and administered by the City under a trust agreement for individuals, private organizations, or other governments, and are, therefore, not available to support City programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are a pension trust fund and agency funds. The pension trust fund is used to account for post-employment healthcare benefits. The City's three agency funds are used to account for fines and fees held for distribution to other governments, and for the collection of sewer billings that are collected on behalf of the Metropolitan Sewer District of Greater Cincinnati, and then disbursed to them monthly.

**Measurement Focus**

**Government-wide Financial Statements**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the

**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 governmental fund financial statements.

Like the government-wide statements, all proprietary funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Fund Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

**Basis of Accounting**

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

**Revenues - Exchange and Non-exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. "Measurable" means that the amount of the transaction can be determined and "available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, payments in lieu of taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes/payments in lieu of taxes is recognized in the year for which the taxes are levied or would have been levied (See Notes 7 and 8). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied.

**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 taxes, intergovernmental revenues (including motor vehicle license taxes, gasoline taxes, and local government assistance), grants, and charges for services.

**Deferred Revenue**

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

Property taxes for which there is an enforceable legal claim as of December 31, 2012, but were levied to finance year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**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 the governmental funds.

**Budgetary Process**

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

**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

amount Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each department and fund. Budgetary modifications may only be made by ordinance of Council.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as final budgeted amounts represent estimates from the amended certificate in force at the time final appropriations were passed by Council.

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

**Cash and Cash Equivalents**

Cash balances of the City's funds, except cash held by fiscal agents, are pooled and invested in order to provide improved cash management. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

Certain trust accounts that are held by the City, which include bond accounts and reserve accounts, are used to accumulate future principal and interest payments on bonds. These amounts are represented by "Restricted Assets: Cash and Cash Equivalents with Fiscal Agents". The City also utilizes a financial institution to service proceeds of debt. The balance in this account is presented as "Cash and Cash Equivalents with Fiscal Agents".

During 2012, investments were limited to money market mutual funds. For investments in money market mutual funds, the fair value is determined by the fund's current share price.

Investments with original maturities of three months or less and investments of the cash management pool are reported as cash equivalents on the financial statements.

**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Assets and Depreciation**

General capital assets are capital assets that are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide Statement of Net Position and in the respective funds.

All purchased capital assets are valued at cost when historical records are available and estimated historical cost where no historical records exist. For certain assets, estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated capital assets are recorded at their fair market values on the date donated. The City maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset, or do not materially extend the useful life of the asset, are expensed.

All capital assets, except for land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacements.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	45-100
Land Improvements	10-60
Vehicles	6-15
Furniture, Fixtures and Equipment	3-20
Infrastructure	40-100

The City's infrastructure consists of roads, bridges, curbs, gutters, sidewalks, water lines and storm water drainage systems.

**Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "Interfund Receivable" and "Interfund Payable". These amounts are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for any net residual amounts due between governmental and business-type activities, which are presented as "Internal Balances".

**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Compensated Absences**

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

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary funds are reported on the proprietary fund 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, compensated absences that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Bonds, loans, and capital leases are recognized as liabilities on the governmental fund financial statements when due.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislations. Restricted Assets in the governmental funds represent Cash and Cash Equivalents with Fiscal Agents set aside to satisfy bond indenture requirements for future debt payments.

In the enterprise funds, water customer deposits are presented as Restricted Assets: Equity in Pooled Cash and Cash Equivalents.

**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and refuse. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses that do not meet these definitions are reported as non-operating.

**Internal Activity**

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**Bond Discounts/Issuance Costs**

On the government-wide financial statements bond discounts are deferred and amortized over the term of the bonds using the straight-line (bonds outstanding) method, which approximates the effective interest method. Bond discounts are presented as reductions to the face amount of bonds payable. Issuance costs are amortized on a straight-line basis over the term of the bonds and are reported as deferred charges.

On the governmental fund financial statements, issuance costs and discounts are recognized in the period when the debt is issued.

As permitted by State statute, the City paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Net Positions**

Net positions represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include funds for court programs, telecommunications and public health programs.

The long-term liability for the 2006 Tax Increment Financing Bonds is not related to governmental activities because the proceeds were not used to construct a capital asset reported by the City. This liability is included in the calculation of unrestricted net assets.

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

**Estimates**

The preparation of 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.

**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 are 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. The nonspendable fund balances for the City include the long-term amount of interfund loans, prepaid items, and inventory.

**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resources 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, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. 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.

**Unassigned** Unassigned fund balance is the residual classification for the General fund and includes all 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.

**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES / ACCOUNTING CHANGE / RESTATEMENT OF FUND BALANCE/NET POSITIONS**

**Change in Accounting Principles**

For 2012 the City implemented GASB Statement No. 62, *“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,”*.

Statement No. 62 incorporated into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements.

The implementation of GASB Statements No. 62 had no impact on beginning of year fund balance/net position.

**NOTE 4 - FUND BALANCES**

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

**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 4 - FUND BALANCES (Continued)**

Fund Balances	General Fund	Debt Service	Linden Pointe TIF	All Other Governmental Funds	Total
<b>Restricted for</b>					
Community Programs	\$0	\$0	\$0	\$57,037	\$57,037
Court Program	0	0	0	59,308	59,308
Park & Recreation	0	0	0	188,242	188,242
Capital Improvements	0	0	0	0	0
Road Improvements	0	0	0	239,075	239,075
Fire	0	0	0	(407,549)	63,348
Police	0	0	0	166,424	166,424
Economic Development	0	0	0	122,068	122,068
Health Programs	0	0	0	182,137	182,137
Debt Service	0	1,326,593	282,459	0	1,609,052
<i>Total Restricted</i>	<u>0</u>	<u>1,326,593</u>	<u>282,459</u>	<u>606,742</u>	<u>2,215,794</u>
<b>Committed to</b>					
Other Purposes	<u>2,321</u>	<u>0</u>	<u>0</u>	<u>2,500</u>	<u>4,821</u>
<b>Assigned to</b>					
Other Purposes	<u>992,648</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>992,648</u>
Unassigned (deficits):	<u>(2,801,429)</u>	<u>0</u>	<u>0</u>	<u>(626)</u>	<u>(2,802,055)</u>
<i>Total Fund Balances</i>	<u><u>(\$1,806,460)</u></u>	<u><u>\$1,326,593</u></u>	<u><u>\$282,459</u></u>	<u><u>\$608,616</u></u>	<u><u>\$411,208</u></u>

**NOTE 5 – BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual for the General Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

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**NOTE 5 – BUDGETARY BASIS OF ACCOUNTING (Continued)**

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 restricted, committed, or assigned fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis are as follows:

*Net Changes in Fund Balance*

	<u>General</u>
GAAP Basis	(\$402,658)
Revenue Accruals	(1,624,250)
Expenditure Accruals	2,633,731
Encumbrances	(1,464,254)
Transfers In	<u>(634,564)</u>
Budget Basis	<u><u>(\$1,491,995)</u></u>

**NOTE 6 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

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

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

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

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

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**NOTE 6 – DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**  
**(Continued)**

by savings or deposit accounts including passbook accounts.

Interim monies can 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;
4. Commercial paper and bankers acceptances if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2); and
7. The State Treasurer's investment pool (STAROhio).

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

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

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**NOTE 6 - DEPOSITS WITH FINANCIAL INSTITUTIONS 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. Investments may only be made through specified dealers and institutions.

Investments

As of December 31, 2012, the City's only investment was the First American Treasury Obligation Money Market Mutual Fund, which had a fair value of \$1,195,643 and an average maturity of 90 days at December 31, 2012. US Bank also had a market fair value of \$343,350.

Interest Rate Risk

The City has no investment policy that addresses interest rate risk beyond State statute requirements. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk

The First American Treasury Obligation Money Market Mutual Fund carries a rating of Aaa by Moody's. Ohio law requires that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The City has no investment policy that addresses credit risk.

**NOTE 7 – MUNICIPAL INCOME TAX**

The City levies a municipal income tax of 2.0 percent on all salaries, wages, commissions, other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. However, the City allows a credit for income taxes paid to another municipality up to 100 percent of the City's current tax rate.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are distributed to the General Fund.

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**NOTE 8 – PROPERTY TAXES**

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of 2011 taxes. Property tax payments received during 2012 for tangible personal property (other than public utility property) are for 2012 taxes.

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

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

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 2013 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2012, was \$11.40 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2012 property tax receipts were based are as follows:

Real Property	\$211,641,880
Public Utility Personal Property	<u>\$15,711,570</u>
Total	<u><u>\$227,353,450</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents tangible personal property, real, and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2012, and for which there was an enforceable legal claim. In the governmental funds, the entire receivable has been deferred 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 the accrual basis, collectible delinquent property taxes have been recorded as revenue while on the modified accrual basis the revenue has been deferred.

**CITY OF NORWOOD**  
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**NOTE 9 – RECEIVABLES**

Receivables at December 31, 2012, consisted of property taxes, other local taxes, municipal income taxes, payments in lieu of taxes, accounts, special assessments, and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible and will be received within one year with the exception of property taxes, income taxes, and special assessments. Property and income taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year. Special assessments expected to be collected in more than one year for the City amounts to \$655,044. The City had no delinquent special assessments at December 31, 2012.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	
Homestead and Rollback	\$97,461
State Local Government	144,863
Gasoline Excise Tax	172,505
Motor Vehicle License Tax	53,489
Cents per Gallon	<u>89,501</u>
Total Intergovernmental Receivable	<u><u>\$557,819</u></u>

**Revenue in Lieu of Taxes**

In 2002, the City entered into the Cornerstone Tax Increment Financing Agreement between the City and Cornerstone at Norwood LLC, for the purpose of constructing the Cornerstone commercial facility and parking garage. In 2007, the City entered into an Urban Renewal Plan with Linden Pointe LLC, as the Redeveloper, for the purpose of constructing the Linden Pointe commercial and retail facility. To encourage improvements, Cornerstone at Norwood LLC and Linden Pointe LLC were granted a 100 percent exemption from paying any property taxes on the new construction. For Cornerstone at Norwood LLC, the exemption was granted for 30 years. For Linden Pointe LLC, the exemption is in effect for the earliest of the duration that the bonds issued in connection with this project are outstanding, or 30 years. Payments in lieu of taxes are made to the City in an amount equal to the real property taxes that otherwise would have been due in that current year. These payments are being used to finance public infrastructure improvements. Additional payments are made to the Norwood City School District since they are impacted by the exemption.

A receivable for the amount of the payments estimated to be received in the following year has been recorded in the respective Debt Service and Linden Pointe Construction Funds, with a corresponding credit to deferred revenue.

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**NOTE 10 - CAPITAL ASSETS**

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

	Balance 12/31/2011	Additions	Deletions	Balance at 12/31/2012
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$6,376,146	\$0	\$0	\$6,376,146
Construction in Progress	0	0	0	0
Total Capital Assets, Not Being Depreciated	<u>6,376,146</u>	<u>0</u>	<u>0</u>	<u>6,376,146</u>
Capital Assets Being Depreciated				
Buildings	4,713,229			4,713,229
Land Improvements	1,482,809	0	0	1,482,809
Vehicles	4,352,762	0	0	4,352,762
Furniture, Fixtures and Equipment	2,343,890	346,429	0	2,690,319
Infrastructure	16,717,309	0		16,717,309
Total Capital Assets Being Depreciated	<u>29,609,999</u>	<u>346,429</u>	<u>0</u>	<u>29,956,428</u>
Less Accumulated Depreciation				
Buildings	(2,382,840)	(64,720)		(2,447,560)
Land Improvements	(847,675)	(47,052)	0	(894,727)
Vehicles	(2,891,412)	(175,704)	0	(3,067,116)
Furniture, Fixtures and Equipment	(1,447,294)	(144,709)	0	(1,592,003)
Infrastructure	(8,743,327)	(312,850)	0	(9,056,177)
Total Accumulated Depreciation	<u>(16,312,548)</u>	<u>(745,035)</u>	<u>0</u>	<u>(17,057,583)</u>
Total Capital Assets Being Depreciated, Net	<u>13,297,451</u>	<u>(398,606)</u>	<u>0</u>	<u>12,898,845</u>
Governmental Activities Capital Assets, Net	<u>\$19,673,597</u>	<u>(\$398,606)</u>	<u>\$0</u>	<u>\$19,274,991</u>

Depreciation expense was charged to governmental programs as follows:

<u>Governmental Activities</u>	
General Government	\$139,543
Security of Persons and Property:	
Police	102,926
Fire	145,296
Public Services	4,359
Public Health Services	5,514
Leisure Time Services	17,391
Intergovernmental	3,763
Capital Outlay	0
Community and Economic Development	577
Transportation	325,666
Total Depreciation Expense	<u>\$745,035</u>

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**NOTE 10 - CAPITAL ASSETS (Continued)**

	Balance 12/31/11	Additions	Deletions	Balance at 12/31/12
<u>Business-Type Activities</u>				
Capital Assets Being Depreciated				
Buildings	\$54,890	0	0	\$54,890
Vehicles	163,198	0	0	163,198
Furniture, Fixtures and Equipment	111,326	0	0	111,326
Infrastructure	3,560,384	0	0	3,560,384
Total Capital Assets Being Depreciated	<u>3,889,798</u>	<u>0</u>	<u>0</u>	<u>3,889,798</u>
Less Accumulated Depreciation				
Buildings	(54,890)	0	0	(54,890)
Vehicles	(163,198)	0	0	(163,198)
Furniture, Fixtures and Equipment	(119,275)	(4,837)	0	(124,112)
Infrastructure	(1,462,220)	(55,651)	0	(1,517,871)
Total Accumulated Depreciation	<u>(1,799,583)</u>	<u>(60,488)</u>	<u>0</u>	<u>(1,860,071)</u>
Business-Type Activities, Net	<u>\$2,090,215</u>	<u>(\$60,488)</u>	<u>\$0</u>	<u>\$2,029,727</u>

**NOTE 11 - LONG-TERM DEBT**

A schedule of changes in bonds and other long-term obligations of the governmental activities of the City during 2012 follows:

<u>Governmental Activities</u>	Balance 1/1/12	Increases	Decreases	Balance 12/31/12	Due Within One Year
<u>Types/Issues</u>					
General Obligation Refunding Bonds					
2006 - 4.48% - \$6,545,752	\$3,870,962	\$0	\$0	\$3,870,962	\$1,335,800
Special Assesment Debt 2003 - 8.5%					
\$3,500,000	1,211,474	0	266,873	944,601	289,557
OPWC Loan- Resurface					
Williams Ave 2003 - 0% - \$247,090	154,433	0	12,355	142,078	12,354
OPWC Loan - Montgomery Rd					
Phase II 2003 - 0% - \$623,255	405,116	0	31,161	373,955	31,163
Tax Increment Financing					
Bonds 2006 - 4%-5.75% - \$12,500,000	11,715,000	0	235,000	11,480,000	250,000
Discount on Debt Issue	(147,090)	0	(7,355)	(139,735)	0
Linden Pointe Tax Increment Financing					
Bonds 2010 - 5.00% - 7.00% - \$3,595,000	3,565,000	0	0	3,565,000	60,000
Capital Leases	363,459	0	201,913	161,546	72,435
2.12% Police & Fire Pension	2,220,520	0	56,720	2,163,800	59,156
Compensated Absences	3,571,300	740,205	966,375	3,345,130	1,484,325
Total	<u>\$26,930,174</u>	<u>\$740,205</u>	<u>\$1,763,042</u>	<u>\$25,907,337</u>	<u>\$3,594,790</u>

The general obligation debt is supported through transfers from the General Fund to the Debt Service Fund.

The special assessment debt is serviced by revenues received from special

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**NOTE 11 - LONG-TERM DEBT (Continued)**

assessments and is also backed by the full faith and credit of the City as additional security.

During 2003, the City entered into a loan agreement with the Ohio Public Works Commission to help resurface Williams Avenue. This is an interest free, 20 year loan and the maturity date is January 1, 2024.

During 2003, the City entered into a loan agreement with the Ohio Public Works Commission for the Montgomery Road Phase II project. This is an interest free, 20 year loan and the maturity date is July 1, 2024.

In 2006, the Tax Increment Financing Bonds were refinanced. TIF revenues from all incremental property taxes are paid from parcels within the TIF district as defined by the City encompassing the project known as the "Cornerstone at Norwood". These incremental taxes on the TIF district will be collected by the Hamilton County Auditor and disbursed to the City of Norwood for the payment of the bonds.

In 2010, the City issued \$3,595,000 in Tax Increment Financing Bonds. A portion of the proceeds was used to retire the 2007 Linden Pointe Tax Increment Financing Bonds.

In 2007, the Linden Pointe Tax Increment Financing Bonds were issued in the amount of \$3,550,000. TIF Revenues from all incremental property taxes are paid from parcels within the TIF district as defined by the City encompassing the project known as "Linden Pointe". These incremental taxes on the TIF district will be collected by the Hamilton County Auditor and disbursed to the City of Norwood for the payment of the bonds. The bonds matured in 2010.

Compensated absences will be paid from the General, Transportation, Economic Development and Parks Funds. The capital lease liability will be paid from the General, Transportation and Fire Funds.

**Police and Fire Past Service Liability**

The City's accrued past service liability to the Ohio Police and Fire Pension Fund (OP&F) was determined and became a legal obligation to the State at the date the City became a participant in OP&F. The principal and interest payments are recorded in the security of persons and property expenditures in the general fund on the governmental fund statements.

The Police and Fire Pension Liability is paid from special revenue fund taxes, and is recorded as an expenditure of Debt Service: Principal Retirement.

Changes in the long-term obligations reported in business-type activities of the City during 2010 were as follows:

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**NOTE 11 - LONG-TERM DEBT (Continued)**

During 2007, the City entered into a loan agreement with the Ohio Public Works Commission to help fund improvements of the water distribution system. This is an interest free loan and the maturity date is January 1, 2013.

Business-Type Activities

Types/Issues	Balance 1/1/12	Increases	Decreases	Balance 12/31/12	Due Within One Year
2007 OPWC Water Distribution - 0%					
\$98,110	29,433	0	19,622	9,811	9,811
2009 OPWC Smith Road Waterline - 0%					
\$529,890	521,059	0	17,663	503,396	17,663
Compensated Absences	39,672	34,873	25,841	48,704	22,327
Total	<u>\$590,164</u>	<u>\$34,873</u>	<u>\$63,126</u>	<u>\$561,911</u>	<u>\$49,801</u>

As of December 31, 2012, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$35,453,962 and the unvoted debt margin was \$16,726,463.

**Annual Long-Term Debt Requirements**

Principal and interest requirements to retire the City's long-term obligations outstanding at year-end are as follows:

Year	Governmental Activities				
	Special Assessment Bonds		OPWC Loans	Tax Increment Financing Bonds	
	Principal	Interest	Principal	Principal	Interest
2013	289,557	80,291	43,516	310,000	1,168,735
2014	314,170	55,679	43,516	295,000	916,498
2015	340,874	28,974	43,516	355,000	901,085
2016	0	0	43,516	375,000	882,448
2017-2021	0	0	217,580	2,470,000	4,049,138
2022-2026	0	0	124,391	3,770,000	3,154,865
2027-2031	0	0	0	5,665,000	1,754,038
2032-2036	0	0	0	1,180,000	480,550
2037	0	0	0	625,000	43,750
Totals	<u>\$944,601</u>	<u>\$164,944</u>	<u>\$516,035</u>	<u>\$15,045,000</u>	<u>\$13,351,105</u>

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**NOTE 11 - LONG-TERM DEBT (Continued)**

<u>Year</u>	Governmental Activities			
	Various Purpose Refinancing Bonds		Pension Liability - Police and Fire Pension	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$651,565	\$157,922	\$59,156	\$91,340
2014	684,235	128,263	61,697	88,799
2015	486,014	103,663	64,347	86,149
2016	292,735	87,138	67,111	83,385
2017-2021	292,735	73,379	381,350	371,129
2022-2026	1,463,677	160,517	470,592	281,888
2027-2031	0	0	580,718	171,762
2032-2036	0	0	478,829	41,136
Totals	\$3,870,962	\$710,882	\$2,163,800	\$1,215,587

Business Type Activities	
OPWC Loans	
<u>Year</u>	<u>Principal</u>
2013	27,473
2014	17,662
2015	17,662
2016	17,662
2017-2021	88,310
2022-2026	88,310
2027-2031	88,310
2032-2036	88,310
2037-2041	79,479
	\$513,208

**NOTE 12 - CAPITAL LEASES – LESSEE DISCLOSURE**

In prior years, the City entered into capital leases for vehicles. By the terms of the agreements, ownership of the equipment is transferred to the City by the end of the four year lease term. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 “Accounting for Leases,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets acquired by leases have been capitalized in the Statement of Net Position for governmental activities in the amount of \$1,520,385. A corresponding

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**NOTE 12 - CAPITAL LEASES – LESSEE DISCLOSURE (Continued)**

liability was recorded on the Statement of Net Position for governmental activities. Principal payments in fiscal year 2012 totaled \$201,914.

The assets acquired through capital leases are as follows:

Asset	Asset Value	Accum. Depr.	Net Book Value Dec. 31, 2012
Vehicles	\$1,294,583	\$531,847	\$762,736
Furniture, Fixtures, and Equipment	225,802	56,451	169,351
Total	<u>\$1,520,385</u>	<u>\$588,298</u>	<u>\$932,087</u>

The following is a schedule of future minimum payments on capital leases and the present value of the minimum lease payments at December 31, 2012.

Year	Governmental Activities
2013	77,950
2014	47,017
2015	47,017
Total Minimum Lease Payments	\$171,984
Less: Amount Representing Interest	(10,438)
Present Value of Minimum Lease Payments	<u>\$161,546</u>

**NOTE 13 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City maintains comprehensive insurance coverage with private carriers for real property, building contents, vehicles, general liability and police professional liability. Settlements have not exceeded coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year. The City pays the State Worker's Compensation system a premium based on a rate per \$100 of salaries. This rate is calculated on accident history and administrative costs.

**NOTE 14 - DEFINED BENEFIT PENSION PLANS**

Ohio Public Employees Retirement System

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional

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**NOTE 14 - DEFINED BENEFIT PENSION PLANS (Continued)**

pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the traditional pension plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the member-directed plan.

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.10 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 13 percent for law enforcement and public safety members. For the year ended December 31, 2012, members in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.5 percent and 12.1 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 4.00 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and

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

**NOTE 14 - DEFINED BENEFIT PENSION PLANS (Continued)**

Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$1,198,753 \$1,206,953, and \$1,094,655 respectively. For 2012, 96.96 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Contributions to the Member-Directed Plan for 2012 were \$18,883 made by the City and \$13,488 made by plan members.

Ohio Police and Fire Pension Fund

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

Funding Policy – The Ohio Revised Code requires plan members to contribute 10.0 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 contributions to OP&F for police and firefighters pension were \$533,029 and \$764,195 for the year ended December 31, 2012, \$576,806 and \$781,566 for the year ended December 31, 2011, and \$593,750 and \$786,168 for the year ended December 31, 2010, respectively. For 2012, 74.26 percent for police and 78.87 percent for firefighters has been contributed with the balance for both police and firefighters being report as an intergovernmental payable. An apportion amount has been contributed for 2011 and 2010.

**NOTE 15 - POST-EMPLOYMENT BENEFITS**

Ohio Public Employees Retirement System

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

**CITY OF NORWOOD**  
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**NOTE 15 - POST-EMPLOYMENT BENEFITS (Continued)**

contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution 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 4.0 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012.

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-

**CITY OF NORWOOD**  
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**NOTE 15 - POST-EMPLOYMENT BENEFITS (Continued)**

employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$479,501 \$482,781 and \$708,306 respectively. For 2012, 96.96 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

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

**Ohio Police and Fire Pension Fund**

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

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

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

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,

**CITY OF NORWOOD**  
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**NOTE 15 - POST-EMPLOYMENT BENEFITS (Continued)**

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 \$282,192 and \$299,033 for the year ended December 31, 2012, \$305,368 and \$305,830 for the year ended December 31, 2011, and \$314,338 and \$307,631 for the year ended December 31, 2010. For 2012, 74.26 percent has been contributed for police and 78.87 percent has been contributed for firefighters with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1968. As of December 31, 2012, the unfunded liability of the City was \$2,163,800, payable in semiannual installments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported on the government-wide financial statements.

**CITY OF NORWOOD**  
Hamilton County, Ohio  
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For the Year Ended December 31, 2012

**NOTE 16 - OTHER EMPLOYEE BENEFITS**

**Deferred Compensation**

City employees may participate in the Ohio Public Employees Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. The Deferred pay and income earned on it is not subject to federal and state income until actually received by the employee. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

**Insurance**

Medical/surgical benefits are provided to full-time City employees. The provider of these benefits is Anthem BC/BS Health Care. The City pays between 80 and 100 percent of the single monthly premiums depending on which plan and coverage is selected. The cost of the premium varies with each employee depending on the plan and coverage selected.

**NOTE 17 – CITY ADMINISTERED OTHER POST-EMPLOYMENT BENEFITS**

**Plan Description**

The City administers a single-employer defined benefit other post-employment benefit (OPEB) healthcare plan, the C-9 Trust. Although the assets of the plan are commingled for investment purposes, the plan's assets may only be used for payment of benefits to the members in accordance with the terms of the plan. The benefits of the plan conform to City ordinances, which are the legal authority for the plan. The provisions of the plan may be amended by City ordinance. The plan has minimal assets and does not issue separate financial statements.

Membership of the plan consisted of the following at December 31, 2011:

Retirees and beneficiaries receiving benefits	213
Active employee plan members	2
Total	215
 Number of participating employers	 1

The C-9 Trust is a single-employer defined benefit post-employment healthcare plan. The plan covers retired employees of the City and their spouses. The plan provides for allowable insurance premiums plus reimbursement for uninsured expenses (deductibles, co-pays, etc.) up to \$2,250 per individual per year. The City's postemployment benefit coverage was established under, and is administrated in

**CITY OF NORWOOD**  
 Hamilton County, Ohio  
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 For the Year Ended December 31, 2012

**NOTE 17 – CITY ADMINISTERED OTHER POST-EMPLOYMENT BENEFITS**  
**(Continued)**

accordance with, Internal Revenue Code 501 (c) 9.

**Summary of Significant Accounting Policies**

Basis of Accounting – The financial statements for the C-9 Trust are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Method Used to Value Investments – Investments are reported at fair value.

**Funding Policy and Annual OPEB Cost**

Retirees do not contribute to the plan. The plan is wholly funded by the City. City ordinance provides the authority for establishing and amending the funding policy. Rather than making advance funding contributions to the plan, the City pays allowable insurance premiums or reimbursements for uninsured expenses when due. For 2011, the City’s total contribution to the plan was \$364,180, which exceeded the actuarially determined annual contribution.

**Schedule of Employer Contributions**

Year Ended Dec. 31	Annual Required Contribution	Percentage Contributed
2011	\$289,880	125.63%
2010	\$289,497	112.28%
2009	\$311,754	107.74%

The following table shows the components of the City’s annual OPEB cost, the amount actually contributed to the plan, and the changes in the City’s net OPEB asset.

**CITY OF NORWOOD**  
Hamilton County, Ohio  
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**NOTE 17 – CITY ADMINISTERED OTHER POST-EMPLOYMENT BENEFITS**  
**(Continued)**

Valuation Date	ARC	Interest on Net OPEB Obligation	ARC Adjustment	Annual OPEB Cost	Contribution	Change in Net OPEB Obligation (Asset)	Net OPEB Obligation (Asset) Balance
December 31, 2009	\$311,754	\$0	\$0	\$311,754	\$335,871	(\$24,117)	(\$24,117)
December 31, 2010	289,660	(1,688)	2,475	290,447	325,043	(34,596)	(58,713)
December 31, 2011	289,880	(4,110)	6,025	291,795	364,180	(72,385)	(131,098)

**Funded Status and Funded Progress**

**Schedule of Funding Process**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unit Credit	Unfunded Actuarial Accrued Liability	Funded Ratio
12/31/2011	\$18	\$3,207,762		\$3,207,744	0.00%
12/31/2010	\$16	\$2,821,286		\$2,821,270	0.00%
12/31/2009	\$3	\$3,036,485		\$3,036,482	0.00%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions present trend information about the amounts contributed to the plan by the employer in comparison to the annual required contributions, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 43. The annual required contributions represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost for

**CITY OF NORWOOD**  
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**NOTE 17 – CITY ADMINISTERED OTHER POST-EMPLOYMENT BENEFITS**  
**(Continued)**

each year and amortize an unfunded actuarial liability (or funding excess) over a period not to exceed 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of the benefit cost born by the employer at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/2011
Actuarial Cost Method	Unprojected Unit Credit
Asset Valuation Method	Market Value / No pre-funding
Amoritization Method	15 year amortization payment unfunded - level dollar open
Remaining Amoritization Period	15 years
Actuarial Assumptions:	
Mortality Table	RP-2000 Combined Mortality Table projected to 2012
Discount Rate (Interest Rate)	4.50% per annum compounded annually
Healthcare Cost Trend Rate	0% for uninsured reimbursement: thus we assume average annual claims will continue to remain level

**NOTE 18 - INTERFUND ACTIVITY**

Interfund balances at December 31, 2012, consisted of the following amounts and result from moving unrestricted balances to support the programs and projects accounted for in other funds.

	Receivable		Total
	General Fund	All Other Governmental Funds	
Payable			
All Other Governmental Funds	\$72,272	\$0	\$72,272
Water Fund	0	8,831	8,831
Total	<u>\$ 72,272</u>	<u>\$ 8,831</u>	<u>\$ 81,103</u>

**CITY OF NORWOOD**  
 Hamilton County, Ohio  
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 For the Year Ended December 31, 2012

**NOTE 18 - INTERFUND ACTIVITY (Continued)**

Transfers made during the year ended December 31, 2012, were as follows:

		Transfers From General Fund
Transfers To	Debt Service	\$634,564
	All Other Governmental Funds	213,344
		\$847,908

Transfers from the General Fund were made to move unrestricted balances to support programs and projects.

**NOTE 19 - COMPLIANCE AND ACCOUNTABILITY**

**Compliance**

The City Auditor shall keep the books of the City and exhibit accurate statements. The City did not accurately record estimated receipts and appropriations in the accounting system.

**Accountability**

The General fund, 21st Century Grant, Linden Pointe TIF, and Refuse fund had deficit balances of \$122,488, \$678, \$57,055, and \$92,075 respectively. The deficit in the General fund is due to expenditures exceeding the amount of revenue that was generated. The deficit in the 21<sup>st</sup> Century Grant is due to adjustments for accrued liabilities which generate expenditures that are greater than those recognized on a cash basis. The deficit in the Linden Pointe TIF fund and Refuse fund are due to expenditures exceeding the amount of revenue that was generated.

**NOTE 20 - CONTINGENCIES**

**Litigation**

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

**Federal and State Grants**

For the period January 1, 2012 to December 31, 2012, the City received state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency

**CITY OF NORWOOD**  
Hamilton County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**NOTE 20 - CONTINGENCIES (Continued)**

for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

**NOTE 21 – SHARED RISK POOL**

The Public Entities Pool of Ohio (the Pool) is a public entity shared risk pool which provides various risk management services to its members. The Pool is governed by a seven member board of directors; six are member representatives or elected officials and one is a representative of the pool administrator, American Risk Pooling Consultants, Inc. Each member has one vote on all issues addressed by the Board of Directors.

Participation in the Pool is by written application subject to the terms of the pool agreement. Members must continue membership for a full year and may withdraw from the Pool by giving a 60 day written notice prior to the annual anniversary. Financial information can be obtained from the Public Entities Pool of Ohio, 6797 North High Street, Suite 131, Worthington, Ohio 43085.

**NOTE 22 - FISCAL WATCH**

On October 7, 2004, the Auditor of State placed the City in fiscal watch, under Section 118.022 (A)(4) of the Ohio Revised Code, based on the examination of a financial forecast for the year ended December 31, 2004 in which the Auditor of State certified a deficit in the General Fund of \$1,546,000 for the year ended December 31, 2004. Since that time, the Auditor of State has continued to monitor the City and to provide technical services to the City.

**NOTE 23 – FISCAL DISTRESS/SUBSEQUENT EVENT**

As of December 31, 2012, the City experienced deficits in the following major funds: General fund deficit - (\$1,806,460); and Refuse fund deficit - (\$369,291). In 2011, the General fund (\$1,946,301). The Refuse fund experienced a negative change in net assets of (\$608,503).

During 2014 the City experienced budgetary basis unaudited deficits in certain funds.

As of May 31, 2014, the following funds experienced significant budgetary basis deficits in the following funds:

**CITY OF NORWOOD**  
 Hamilton County, Ohio  
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 For the Year Ended December 31, 2012

**NOTE 23 – FISCAL DISTRESS/SUBSEQUENT EVENT (Continued)**

Fund	Unaudited cash Balance at May 31, 2014	Unaudited encumbrances at May 31, 2014	Unaudited budget- Basis (deficit) at May 31, 2014
General Fund	\$220,012	(\$1,590,854)	(\$1,370,842)
C-9	18	(333,993)	(333,975)
Water	96,676	(387,570)	(290,894)
Refuse	20,996	(224,129)	(203,133)

As of July 25, 2014, management has not adopted a plan to address these conditions nor determined when the situation will be resolved.

**NOTE 24 – RESTATEMENT FOR PRIOR YEAR POLICE AND FIRE DEBT**

The City's police and fire pension debt at December 2011 has been restated to account for previous amounts not recorded properly.

<b>Governmental Activities</b>			
	December 31, 2011 (As Originally Issued)	Adjustment	December 31, 2011 (Restated)
Net Positions	\$1,151,265	-\$2,220,520	-\$1,069,255
Due within 1 year Police & Fire Pension	\$0	\$56,720	\$56,720
Due within more than 1 year Police and Fire Pension	\$0	\$2,163,800	\$2,163,800
Total	\$1,151,265	\$0	\$1,151,265

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# Dave Yost • Auditor of State

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

City of Norwood  
Hamilton County  
4645 Montgomery Road  
Norwood, Ohio 45212

To the City Council:

We were engaged to audit, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Norwood, Hamilton County, (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 25, 2014, wherein we noted the City is experiencing financial difficulties. The Mayor declined to provide written representations related to the financial statements; completeness of information; and recognition, measurement and disclosure of misstatements, fraud, unasserted claims, undisclosed liabilities and violations of laws and regulations. Therefore, the scope of our auditing procedures was not sufficient to enable us to express an opinion on these financial statements.

### ***Internal Control Over Financial Reporting***

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

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 we identified a certain deficiency in internal control over financial reporting, that we consider 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 timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-003 described in the accompanying schedule of findings to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-001 through 2012-006.

***Entity's Response to Findings***

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State

Columbus, Ohio

July 25, 2014

CITY OF NORWOOD  
HAMILTON COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2012

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

FINDING NUMBER 2012-001

**Noncompliance**

**Ohio Rev. Code, § 5705.41(D)(1)**, prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

**FINDING NUMBER 2012-001  
 (Continued)**

The City did not properly encumber, 27 of 36 (75%) transactions tested. These transactions did not have a certification prior to the obligation date and none of the exceptions provided above were utilized. We also noted that the City failed to properly encumber overdue trash collection bills in the amount of \$609,385 in the Refuse fund.

Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash balances.

Unless the City uses the exceptions noted above, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

We recommend the City officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

**Officials' Response:**

The City has increased its use of Blanket Certificates and is enforcing the practice of issuing certification prior to obligations being made. Department heads are being held accountable for any obligation made prior to certification.

**FINDING NUMBER 2012-002**

**Noncompliance**

**Ohio Rev. Code, § 5705.10(H)**, states that money paid into any fund shall be used only for the purposes for which such fund is established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund.

Contrary to Ohio law, the City had the following negative cash fund balances at December 31, 2012:

<b>Fund</b>	<b>Cash Fund Balance</b>
General Fund(001)	(\$1,329,496)
Maintenance & Repair Fund (002)	(\$28,994)
Recreation Commission Fund (020)	(\$1,243)
EMS Fund (027)	(\$8,874)

We recommend that the City monitor its available fund balance and use revenues for the purposes for which each fund is established.

**Officials' Response:**

The City of Norwood Auditor's office has made the necessary adjustments and closely monitors each funds expenditures and appropriations.

**FINDING NUMBER 2012-003**

**Noncompliance/Material Weakness**

**Ohio Rev. Code, § 733.11**, states, in part, that the city auditor shall keep the books of the city and exhibit accurate statements of all moneys received and expended, of all property owned by the city and the income derived therefrom, and of all taxes and assessments.

**Ohio Admin. Code § 117-02-01(A) and (B)** indicates that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories.

"Internal control" means a process effected by an entity's governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) reliability of financial reporting; (2) effectiveness and efficiency of operations; (3) compliance with applicable laws and regulations; and (4) safeguarding of assets.

We noted the following conditions related to the City's financial statements and financial operations: statements:

- The City failed to record 2012 Payments in Lieu of Taxes Receivables of \$1,316,503 to the Debt Service Fund and \$415,740 to the Linden Pointe Construction Fund.
- The City failed to record a \$2,220,520 obligation (as of January 1, 2011) to the Ohio Police and Fire Pension Fund. This obligation existed in prior years, and the City failed to identify and record this long-term liability.
- The City understated the December 31, 2012 accounts payable by \$1,246,460.
- The City failed to update financial statement footnotes related to City Administrated Other Post-Employment Benefits and the Fiscal Distress of the City.
- The City failed to make two 2012 principal debt payments on a timely basis. A \$651,565 2006 General Obligation Refunding Bond payment due on April 1, 2012 on was not made until April 30, 2013. Also, the City failed to make a Linden Pointe Tax Increment Financing \$30,000 principal payment by the required date.

The City has posted audit adjustments to the financial statements and ledgers where appropriate. The City has corrected the related notes to the financial statements.

Lack of internal controls over accounting and financial reporting increases the risk that errors, theft or fraud could occur and not be detected in a timely manner. Untimely debt payments can result in debt covenant violations.

We recommend that the City exercise due care when posting entries to the financial records and financial statements to ensure financial statements and related disclosure. We also recommend that the City monitor debt service payments to ensure timely payment.

**Officials' Response:**

The Police & Fire Pension was neither caught nor audited in previous years by the State Auditor's and the City. Both entities overlooked the issue. The debt is now recorded.

The accounts payable is now recorded. Accounts payables were identified via pulling vouchers. We now pull vouchers, check registers, and purchase order registers to try to verify all possible payables.

**FINDING NUMBER 2012-003  
(Continued)**

The General Bond was not paid until April 2013 because the City was going through refinancing. The Linden Pointe debt payment was billed to us late (Jan 2013). Neither of these issues caused any penalties nor caused any problems between the City and the lenders. Again, this is an unfair citing that we have no control over.

**Auditor of State Conclusion:**

As explained in the engagement letter and audit opinion, City management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error. As described in the finding 2012-003 the internal control system, for which the City is responsible, lacked in the following areas:

*Police & Fire Pension liability:* The City's system of internal controls lacked the means to identify and present for audit the Police and Fire Pension Fund liability.

*General Bond Late Payments:* The City presented no documentation that the due date for the General Bond payment was extended or that a refinancing occurred. City's internal control system was not sufficient to ensure that a \$651.6 thousand bond payment was paid by the required date; the bond payment was over 1 year late.

**FINDING NUMBER 2012-004**

**Noncompliance**

**Ohio Admin. Code § 117-02-02(C)(1)** requires all local public offices to integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The City did not accurately record 2012 estimated receipts and appropriations in the financial accounting system. Estimated receipts as certified by the County Budget Commission did not agree with the estimated receipts posted to the accounting systems in 55 of the 68 funds; variances ranged from \$18 in the C-9 Trust Fund to \$1,861,613 in the Sewer Fund. Also, appropriations approved by Council did not agree to the appropriations posted to the accounting system for 20 of the 68 City Funds; variances ranged from \$30 in the Cornerstone TIF School fund to \$1,861,613 in the Sewer Fund.

Failure to properly record estimated receipts and appropriations in the accounting system may result in an inability of management and City Council to properly monitor the financial activity and budgetary status of City funds, and could result in overspending. We recommend that management periodically review amounts recorded in the budgetary system to ensure that they agree with official budgetary documents.

**Officials' Response:**

The City of Norwood Auditor's office has been in regular contact with officials from Hamilton County and continues to share documentation for amended certificates. Financial reports are supplied to members of the Administration and the Finance Committee on a monthly basis to monitor and disclose expenditures from each department so as not to exceed appropriations as established by City Council.

**FINDING NUMBER 2012-005**

**Finding for Recovery**

The Labor Agreement by and Between The City of Norwood, Ohio And Local Union #445, International Association of Fire Fighters” provide the amount of eligible compensation to be received upon the retirement of one of its members.

Article 24 of the Contract relating to Compensatory time states: “Employees have the option of receiving money or compensatory time at the appropriate conversion rate for all overtime worked. Employees may accrue a maximum of two hundred forty (240) hours of compensatory time”.

Appendix “F” of the Contract relates to the max possible for Vacation, Holiday and Kelly days state the following: All Fire personnel may accumulate twelve hundred (1200) hours of vacation, holidays, and previously accumulated Kelly Days.

The Deputy Auditor prepared the Retirement Calculation upon the retirement of Rickie Paul.

Per review of available time bank records and the Union Contract a total of 355.68 hours of benefit hours were overpaid.

<b>Description</b>		<b>Rate</b>		<b>Total</b>
Compensation Time paid – 57 hrs	X	\$34.7805 per hr	=	\$1,982
Less Actual Comp Time per time bank - 9 hrs	X	34.7805 per hr	=	313
Overpayment of Comp Time - 48 hrs	X	34.7805 per hr	=	\$1,669

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* Vacation, Holiday and HRD leave overpaid - 1,200 hrs	X	\$34.7805 per	=	\$41,736
Less: Actual Vacation, Holiday and HRD leave per time bank - 892.32 hrs	X	\$34.7805 per	=	31,035
HRD overpayment 307.68 hrs	X	\$34.7805 per	=	10,701

**Total Overpayment**

**\$12,370**

\*Note: The employee was paid the max hours allowed of 1,200 in error, instead of the actual Vacation, Holiday and HRD [Hourly Reduction/Kelly] Days leave balance of 892.32

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money is hereby issued against Rickie Paul, in the amount of \$12,370.

**FINDING NUMBER 2012-005  
 (Continued)**

In addition, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of such expenditure. Steward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att’y Gen. No. 80-074.

The City’s Deputy Auditor incorrectly recalculated the amount of the sick leave due to Rickie Paul. Payments are processed by The City Auditor and submitted to the City Treasurer for payment. The City Treasurer, Timothy Molony, signed the warrants resulting in the improper payment. Therefore, the City Treasurer, Timothy Molony, and his bonding company, Ohio Farmers Insurance will be jointly and severally liable in the amount of \$12,370 and in favor of the General Fund.

**Officials’ Response:**

Employees who are due separation time will be calculated and reviewed by 3 parties: The Deputy Auditor, the payroll clerk, and treasury clerk to ensure time was accurately calculated and posted.

**FINDING NUMBER 2012-006**

**Finding for Recovery**

The Agreement by And Between The City of Norwood, Ohio And Robert Ward, Chief Of Police Of The Norwood, Ohio Police Division” provide the amount of eligible compensation to be received upon the retirement of one of its members.

Section 23 Terminal Benefits of the agreement state: “For all unused sick leave accumulated after January 1, 1997 in the sick leave bank, the employee shall be paid in a lump sum at separation an amount equal to two-thirds (2/3rds) of the employee's unused sick leave at the employee's then current rate of pay at the time of separation or the average of the five (5) highest years of salary or compensation paid the employee during his service, whichever is higher”.

The Deputy Auditor prepared the Retirement Calculation upon the retirement of Robert Ward.

Contrary to the above requirements, the total unused sick leave balance was paid.

Per review of available time bank records and the Union Contract a total of 258.41 hours of benefit hours were overpaid.

<u>Description</u>			<u>Rate</u>		<u>Total</u>
*Amount paid	775.25 hrs	x	\$32.5437 per hr	=	\$25,229
Less correct amt	516.86 hrs	x	32.5437 per hr	=	(16,820)
<b>Overpayment</b>	<b>258.39 hrs</b>	<b>x</b>	<b>32.5437 per hr</b>	<b>=</b>	<b>\$8,409</b>

\*Note: The employee was paid the total unused sick hours available of 775.25 in error, per the Contract the employees are only allowed 2/3<sup>rd</sup> (.6667) of the total available. Total hours paid should have been 516.86, resulting in an overpayment of 258.39 hours.

**FINDING NUMBER 2012-006**  
**(Continued)**

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money is hereby issued against Robert Ward, in the amount of \$8,409.

In addition, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of such expenditure. *Steward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. *Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

The City's Deputy Auditor incorrectly recalculated the amount of the sick leave due to Mr. Ward. Payments are processed by the City Auditor's office and submitted to the City Treasurer for payment. The City Treasurer, Timothy Molony, signed the warrants resulting in the improper payment. Therefore, the City Treasurer, Timothy Molony, and his bonding company, Ohio Farmers Insurance will be jointly and severally liable in the amount of \$8,409 and in favor of the General Fund.

**Officials' Response:**

Employees who are due separation time will be calculated and reviewed by 3 parties: The Deputy Auditor, the payroll clerk, and treasury clerk to ensure time was accurately calculated and posted.

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**CITY OF NORWOOD  
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2011-001	ORC 733.43 Treasurer shall keep an accurate account of all monies	No	Partially Corrected, repeated in Management Letter.
2011-002	ORC 733.11 Auditor shall accurately post the financial activity of the City.	No	Re-issued 2012-003
2011-003	ORC 5705.36(A)(4) Available Resources below Appropriations	No	Finding No Longer Valid
2011-004	ORC 5705.41(D) (1) No money spent unless properly encumbered.	No	Re-issued 2012-001

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# Dave Yost • Auditor of State

**CITY OF NORWOOD**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 30, 2014**