

City of Twinsburg, Ohio

Basic Financial Statements

December 31, 2004



**Auditor of State
Betty Montgomery**

Honorable Mayor and Members of Council
City of Twinsburg
10075 Ravenna Road
Twinsburg, Ohio 44087

We have reviewed the *Independent Auditors' Report* of the City of Twinsburg, Summit County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

June 29, 2005

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City of Twinsburg, Ohio

For The Year Ended December 31, 2004

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Independent Auditors' Report

Members of the Finance Committee
Twinsburg, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Twinsburg, Ohio as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Twinsburg's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2005 on our consideration of the City of Twinsburg's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Members of the Finance Committee
Twinsburg, Ohio

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

Cini & Parichi, Inc.

Cleveland, Ohio
June 10, 2005

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2004

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- ◆ The assets of the City of Twinsburg exceeded its liabilities at the close of the most recent fiscal year by \$153,788,070. Of this amount, \$9,167,073 million may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets increased by \$9,446,685, which represents an increase of approximately 5.66 percent over 2003. The biggest changes were an increase in capital assets of \$6,702,004 and an increase in cash and cash equivalents of \$2,632,995.
- ◆ Total liabilities decreased by \$100,124, which represents a decrease of .44 percent over 2003. The main factors contributing to this decrease was a decrease of \$428,053 in accrued wages and benefits and a decrease in deferred revenue of \$222,803.
- ◆ In total, net assets in governmental activities increased by \$9,546,809 during 2004. This represents a 6.64 percent increase from 2003.

Using this Annual Financial Report

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

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

Statement of Net Assets and the Statement of Activities

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

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2004

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities: most of the City's basic services are reported here, including the police, fire, street maintenance, parks and recreation, and general administration. Income tax, state and county taxes, licenses, permits and charges for services finance most of these activities.
- Business-type activities: the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's sewer system, golf course and fitness center are reported here.

Fund Financial Statements - Reporting the City of Twinsburg's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

The City of Twinsburg maintains 27 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General fund, Park Debt Service fund, Capital Improvement Capital Projects fund and the Senior Center Capital Projects fund, all of which are considered to be major funds.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2004

Proprietary Funds

The City of Twinsburg maintains 3 different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer operations and fitness center and golf course activity.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found starting on page 26 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 30 of this report.

Government-wide Financial Analysis - City of Twinsburg as a Whole

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

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

- Assets
- Liabilities
- Net Assets (Assets minus Liabilities)
- Program Expenses and Revenues
- General Revenues
- Net Assets Beginning and End of Year

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2004

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

Table 1
Net Assets

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|---|--------------------------------|-----------------------|---------------------------------|----------------------|-----------------------|-----------------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Assets | | | | | | |
| Current and other Assets | \$ 21,708,703 | \$ 19,720,709 | \$ 3,270,410 | \$ 2,513,723 | \$ 24,979,113 | \$ 22,234,432 |
| Capital assets, net | <u>106,252,086</u> | <u>102,232,139</u> | <u>45,049,140</u> | <u>42,367,083</u> | <u>151,301,226</u> | <u>144,599,222</u> |
| Total assets | <u>127,960,789</u> | <u>121,952,848</u> | <u>48,319,550</u> | <u>44,880,806</u> | <u>176,280,339</u> | <u>166,833,654</u> |
| Liabilities: | | | | | | |
| Current and other Liabilities | 2,523,523 | 2,885,862 | 675,153 | 556,761 | 3,198,676 | 3,442,623 |
| Long-term liabilities | | | | | | |
| Due within one year | 1,206,553 | 1,004,733 | 135,112 | 208,204 | 1,341,665 | 1,212,937 |
| Due in more than one year | <u>16,149,308</u> | <u>15,975,960</u> | <u>2,171,110</u> | <u>2,329,363</u> | <u>18,320,418</u> | <u>18,305,323</u> |
| Total liabilities | <u>19,879,384</u> | <u>19,866,555</u> | <u>2,981,375</u> | <u>3,094,328</u> | <u>22,860,759</u> | <u>22,960,883</u> |
| Net assets: | | | | | | |
| Investment in capital assets, net of related debt | 90,469,940 | 86,829,939 | 42,814,140 | 40,031,083 | 133,284,080 | 126,861,022 |
| Restricted for: | | | | | | |
| Capital projects | 9,394,048 | 7,883,885 | - | - | 9,394,048 | 7,883,885 |
| Debt service | 367,581 | 145,260 | - | - | 367,581 | 145,260 |
| Other purposes | 1,206,798 | 798,663 | - | - | 1,206,798 | 798,663 |
| Unrestricted | <u>6,643,038</u> | <u>6,428,546</u> | <u>2,524,035</u> | <u>1,755,395</u> | <u>9,167,073</u> | <u>8,183,941</u> |
| Total net assets | <u>\$ 108,081,405</u> | <u>\$ 102,086,293</u> | <u>\$ 45,338,175</u> | <u>\$ 41,786,478</u> | <u>\$ 153,419,580</u> | <u>\$ 143,872,771</u> |

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2004

Total net assets of the City increased by \$9,546,809. The following factors were responsible for this increase:

- An increase in cash and cash equivalents of \$2,632,995.
- An increase in accounts receivable of \$309,165.
- An increase of \$6,702,004 in the capital assets.
- A decrease in deferred revenue of \$222,803.
- A decrease in accrued wages and benefits of \$428,053

The City has tried to make concerted efforts to maximize the return on investments of its cash and cash equivalents and use these funds to provide liquidity for planned future capital purchases. Due to the interest rates in the past year, the investments have shifted from short term CD's and government notes and bills to longer-term federal government agency issues. However, even though the State code allows for investments with maturities of five years or less, the City has not invested in any instrument with a maturity of more than two years.

Another tool used by the City to reduce its long-term liability is to pay off accumulated sick leave for employees who have a balance in excess of 240 hours of sick time remaining in their account at the end of each year. This excess is paid off at the rate of 1 hour for every two hours in excess of the 120 hours. This allows the City to buy back accumulated sick hours at the current hourly rate as opposed to paying for it at a higher rate in the future at the time of retirement of the employee. The employees benefit by having funds available to them currently with the opportunity to invest them and potentially gain a higher rate of return as opposed to a future date.

The City of Twinsburg is also part of Integrated Consulting Services for workers' compensation, which helped save approximately \$75,000 in premiums for the year as compared to being strictly a State funded employer. The various departments within the City have established safety committees to meet the Bureau guidelines and provide the employees with safety equipment to enable them to perform their tasks efficiently and, as much as possible; to help keep the City premises an injury free work place. Random drug testing policy for employees with CDL licenses also affords an added measure of achieving this goal.

The net assets of our business-type activities increased by 8 percent in 2004. The City generally can only use these net assets to finance the continuing operations of the sewer system, golf course, and fitness center operations.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year in comparison to 2003.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2004

Table 2
Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|---------------------|--------------------------|---------------------|---------------------|-----------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Program revenues: | | | | | | |
| Charges for services | \$ 2,692,219 | \$ 2,476,071 | \$ 5,319,637 | \$ 4,432,594 | \$ 8,011,856 | \$ 6,908,665 |
| Operating grants and contributions | 166,347 | 205,929 | - | - | 166,347 | 205,929 |
| Capital grants and contributions | <u>4,888,918</u> | <u>-</u> | <u>4,275,360</u> | <u>-</u> | <u>9,164,278</u> | <u>-</u> |
| Total program revenue | <u>7,747,484</u> | <u>2,682,000</u> | <u>9,594,997</u> | <u>4,432,594</u> | <u>17,342,481</u> | <u>7,114,594</u> |
| General revenues | | | | | | |
| Property taxes | 1,685,504 | 1,446,769 | 36,355 | 5,567 | 1,721,859 | 1,452,336 |
| Income taxes | 17,481,954 | 16,865,018 | - | - | 17,481,954 | 16,865,018 |
| Grants and entitlements not restricted to specific purposes | 1,833,964 | 1,468,350 | - | - | 1,833,964 | 1,468,350 |
| Investment earnings | 252,147 | 318,562 | 3,589 | 3,495 | 255,736 | 322,057 |
| Miscellaneous | 75,816 | 95,829 | - | - | 75,816 | 95,829 |
| Transfers | <u>-</u> | <u>-</u> | <u>400,000</u> | <u>550,000</u> | <u>400,000</u> | <u>550,000</u> |
| Total general revenues | <u>21,329,385</u> | <u>20,194,528</u> | <u>439,944</u> | <u>559,062</u> | <u>21,769,329</u> | <u>20,753,590</u> |
| Total revenues | <u>29,076,869</u> | <u>22,876,528</u> | <u>10,034,941</u> | <u>4,991,656</u> | <u>39,111,810</u> | <u>27,868,184</u> |
| Program expenses: | | | | | | |
| General government | 3,754,679 | 7,554,147 | - | - | 3,754,679 | 7,554,147 |
| Security of persons and property | 8,242,685 | 7,444,720 | - | - | 8,242,685 | 7,444,720 |
| Public health and welfare | 228,461 | 222,238 | - | - | 228,461 | 222,238 |
| Transportation | 6,687,651 | 2,116,512 | - | - | 6,687,651 | 2,116,512 |
| Leisure time activities | 1,689,490 | 1,766,758 | - | - | 1,689,490 | 1,766,758 |
| Community development | 1,308,204 | 3,091,946 | - | - | 1,308,204 | 3,091,946 |
| Basic utility services | 87,058 | 46,496 | - | - | 87,058 | 46,496 |
| Interest and fiscal charges | 683,529 | 722,754 | - | - | 683,529 | 722,754 |
| Sewer | - | - | 3,843,705 | 3,058,809 | 3,843,705 | 3,058,809 |
| Golf course | - | - | 1,259,330 | 1,248,522 | 1,259,330 | 1,248,522 |
| Fitness center | - | - | 1,380,209 | 1,427,138 | 1,380,209 | 1,427,138 |
| Transfers | <u>400,000</u> | <u>550,000</u> | <u>-</u> | <u>-</u> | <u>400,000</u> | <u>550,000</u> |
| Total program expenses | <u>23,081,757</u> | <u>23,515,571</u> | <u>6,483,244</u> | <u>5,734,469</u> | <u>29,565,001</u> | <u>29,250,040</u> |
| Change in net assets | \$ <u>5,995,112</u> | \$ <u>(639,043)</u> | \$ <u>3,551,697</u> | \$ <u>(742,813)</u> | \$ <u>9,546,809</u> | \$ <u>(1,381,856)</u> |

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2004

Governmental Activities

Several revenue sources fund our governmental activities with the City income tax being the largest contributor. The City's income tax rate is two percent on gross income and has not changed since 1997. Residents of the City who work in another community and pay the withholding tax for that community receive a 100 percent tax credit on their City tax for 100 percent, the credit limit being 2 percent. During 2004, the revenues generated from this tax amounted to \$17,481,954. The increase in income tax revenue from 2003 was 3.6 percent resulting from revenue received when deposited. The City continues to enforce the delinquent letter program and the subpoena program to ensure compliance with the local tax laws. As expected, investment earnings continued to drop as the Federal Reserve maintained its thrust on rate cuts.

Security of Persons and Property and General Government are the major activities of the City generating percent of the governmental expenses. Currently, there are 34 full-time sworn officers in the police department. During 2004, the department continued to place strong emphasis on the training of its employees to keep up with the rapidly changing laws, practices and technology. The court-sanctioned self-supporting juvenile diversion program which was put in effect in 1998 proved to be a success. The City also received \$23,749 for the Dare Grant and \$122,790 for the Cops Fast Grant from the Department of Justice.

The fire department consists of 33 full-time and 26 part-time fire fighters. All but one of these fire fighters is fully trained paramedics. Again, training plays a crucial role in the day-to-day operation of the fire department. Techniques such as driving rodeos, live practice burn-downs, continuing education classes, practice drills and watching training videos help keep the men and women updated to perform their jobs most efficiently. The department handled 2,194 calls for assistance of which approximately 1,662 were for EMS and the rest for fire and fire related incidents. This constituted an increase of .92 percent over 2003. The total amount spent on overtime expenses during 2004 was \$80,413 as compared to \$64,229 during 2003. The total cost of operating the Fire and EMS department during 2004 was \$3,517,529 within the General Fund. As a result of entering into a contract with Life Force Management, Inc. for the EMS billing services the City received \$424,927 in revenue. The Fire Department received two grants, one for Fire Safety Education in the amount of \$1,028 and \$2,124.83 for the Knox Box System.

The City's annual road program entailing major and minor resurfacing of the various streets in Twinsburg totaled \$839,709. The construction of an interconnect road between Ravenna Road and Darrow Road-Rt.91 is scheduled for completion late in 2006. The estimated cost of this project is \$5,000,000.00. The City entered into an agreement with the Ohio Department of Transportation for a State Infrastructure Bank Loan Agreement in the amount of \$3,510,000. In addition, the City has applied for a Federal House Bill earmarked project in the amount of \$1,900,000.00 from the office of Congressman Steven C. LaTourette.

In 2001, the City acquired 900 acres of parkland know as the Twinsburg Park and Nature Preserve. GPD Associates designed to improvement of the park. In 2003, Cavanaugh Building Corp. was awarded the construction contract for Phase 1 in the amount of \$1,174,003.50. The park improvements in this phase include baseball, soccer and multi-purpose fields. Grand opening of the park was July 24, 2004.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2004

Business-Type Activities

The Business-Type activities of the City, which include the City's sewer, golf course, and fitness center operations, increased the City's net assets by \$3,551,697.

Net program revenues exceeded program expenses in the amount of \$3,756,685 for the sewer operations for 2004. This is due to \$4,275,360 of infrastructure assets being dedicated to the City by various developers during the year.

Net program expenses exceeded program revenue in the amount of \$457,312 for the fitness center operations for 2004. Although memberships increased 5% over 2003, this is due to increased operating expenses. The City is planning on analyzing the operations of the fitness center to determine where it can be more efficient.

Net program expenses exceeded program revenue in the amount of \$187,620 for the golf course operations for 2004.

The City's Funds

Governmental Funds

Information about the City's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$26,461,116 and expenditures and other financing uses of \$23,749,079.

The net change in fund balance for the year was most significant in the Capital Improvement Capital Projects Fund showing an increase in fund balance of \$1,212,104 due to the fact the major capital projects were completed in 2003, and conserved capital improvements in 2004. The General Fund reflected an increase of \$908,325, which increases the restated beginning fund balance of \$5,782,051 to 6,690,376. Overall the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

General Fund Budgeting Highlights

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

For the General Fund, final budget basis revenue was \$402,174 over the original budget estimates of \$15,736,020. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenue areas. The original appropriations of \$19,540,691 were sufficient to meet the expenditures for the year, which ended up at \$17,370,280.

The City's ending unobligated budgetary fund balance was \$3,872,759 higher than the final budgeted amount.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2004

Business-Type Funds

The City's major Enterprise funds consist of the Sewer Fund, Golf Course Fund, and the Fitness Center Fund. The basic financial statements for the major funds are included in this report.

Proprietary Funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the Sewer, Fitness Center, and Golf Course Funds. The basic proprietary fund financial statements can be found on pages 26 through 29 of this report.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the City of Twinsburg had \$151,301,226 invested in land, buildings, equipment and infrastructure.

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

Table 3
Capital Assets at December 31

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|--------------------------------|--------------------------------|-----------------------|---------------------------------|----------------------|-----------------------|-----------------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Construction in process | \$ 1,913,101 | \$ 499,011 | \$ - | \$ - | \$ 1,913,101 | \$ 499,011 |
| Land and land improvements | 20,701,705 | 20,677,805 | 2,799,326 | 2,771,569 | 23,501,031 | 23,449,374 |
| Buildings | 7,819,445 | 7,772,213 | 23,968,777 | 23,946,044 | 31,788,222 | 31,718,257 |
| Machinery and equipment | 5,123,015 | 4,853,155 | 1,840,195 | 1,840,195 | 6,963,210 | 6,693,350 |
| Vehicles | 5,160,632 | 5,094,176 | 134,299 | 134,299 | 5,294,931 | 5,228,475 |
| Infrastructure: | | | | | | |
| Roads | 41,018,135 | 38,287,717 | - | - | 41,018,135 | 38,287,717 |
| Water mains | 28,705,806 | 27,268,005 | - | - | 28,705,806 | 27,268,005 |
| Storm sewers and culverts | 29,371,626 | 27,633,838 | - | - | 29,371,626 | 27,633,838 |
| Traffic signs and signals | 602,020 | 600,676 | - | - | 602,020 | 600,676 |
| Street lights | 1,415,376 | 1,370,598 | - | - | 1,415,376 | 1,370,598 |
| Sanitary sewer lines | - | - | 26,669,431 | 23,189,157 | 26,669,431 | 23,189,157 |
| Less: accumulated depreciation | <u>(35,578,775)</u> | <u>(31,825,055)</u> | <u>(10,362,888)</u> | <u>(9,514,181)</u> | <u>(45,941,663)</u> | <u>(41,339,236)</u> |
| Total capital assets | <u>\$106,252,086</u> | <u>\$ 102,232,139</u> | <u>\$ 45,049,140</u> | <u>\$ 42,367,083</u> | <u>\$ 151,301,226</u> | <u>\$ 144,599,222</u> |

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2004

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks and ambulances are planned for well in advance by the respective department heads and a scheduled maintenance and replacement time-table is followed to provide peak performance for the maximum time frame. Police cars are replaced every 12 months. The older vehicles are either traded in to the dealers or sold to the highest bidder at auction.

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the streets, bridges, culverts and sewer lines in the City. As part of the City's annual road maintenance program, the Engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack sealed and in the case of concrete roads, either replaced or repaired. After approval from council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the Capital Improvement Fund of the City. Capital assets for business-type activities increased by \$2,682,057 due to the increase in residential construction within the City.

The City is committed to a long-term goal of meeting the needs of its infrastructure and facilities. We have a five-year capital plan in place that provides for street improvements and adding additional facilities to complement our current structures.

Debt

At December 31, 2004, the City of Twinsburg had \$18,856,242 in outstanding debt and compensated absences, of which \$16,475,000 was in General Obligation Bonds. Table 4 summarizes the outstanding obligations of the City.

Table 4
 Outstanding Debt at Year End

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|--------------------------|--------------------------------|----------------------|---------------------------------|---------------------|----------------------|----------------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| General Obligation Bonds | \$ 14,310,000 | \$ 14,930,000 | \$ 2,165,000 | \$ 2,260,000 | \$ 16,475,000 | \$ 17,190,000 |
| Special Assessment Bonds | 428,000 | 472,200 | 70,000 | 83,800 | 498,000 | 556,000 |
| Compensated Absences | <u>1,573,715</u> | <u>1,578,493</u> | <u>309,527</u> | <u>322,368</u> | <u>1,883,242</u> | <u>1,900,861</u> |
| Total | \$ <u>16,311,715</u> | \$ <u>16,980,693</u> | \$ <u>2,544,527</u> | \$ <u>2,666,168</u> | \$ <u>18,856,242</u> | \$ <u>19,646,861</u> |

At December 31, 2004, the City's overall legal debt margin was \$56,344,742. At year-end, the outstanding general obligation debt was \$16,475,000 and the outstanding Special Assessment bonds were \$498,000. Compensated absences include accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in the notes to the basic financial statements.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2004

Current Related Financial Activities

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

The Administration and City Council developed a master plan for the acquisition or equipment, parkland development, building or upgrading of City facilities. As a result, we have seen a remarkable increase in our capital assets over that period of time and the expansion of all City services.

On behalf of the City of Twinsburg, we personally thank Ciuni & Panichi, Inc., for their involvement and support in putting together the basic financial statements. Ciuni & Panichi, Inc. has committed themselves toward leading the way and providing necessary guidance to enable us to reach a level of excellence.

Contacting the City of Twinsburg's Finance Department

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for all money it receives, spends, or invests. If you have any questions about this report or need additional financial information, contact Director of Finance, Jo Anne Terry, City of Twinsburg, 10075 Ravenna Road, Twinsburg, Ohio 44087, telephone (330) 425-7161, or web site at www.twinsburg.oh.us.

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City of Twinsburg, Ohio

Statement of Net Assets

December 31, 2004

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|-----------------------|
| Assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 16,134,268 | \$ 2,509,019 | \$ 18,643,287 |
| Materials and supplies inventory | 134,117 | 25,665 | 159,782 |
| Accrued interest receivable | 65,111 | 599 | 65,710 |
| Accounts receivable | 125,910 | 628,941 | 754,851 |
| Intergovernmental receivable | 842,759 | - | 842,759 |
| Income taxes receivable | 4,406,538 | - | 4,406,538 |
| Special assessments receivable | - | 106,186 | 106,186 |
| Nondepreciable capital assets | 19,228,447 | 2,681,150 | 21,909,597 |
| Depreciable capital assets, net | <u>87,023,639</u> | <u>42,367,990</u> | <u>129,391,629</u> |
| Total assets | <u>127,960,789</u> | <u>48,319,550</u> | <u>176,280,339</u> |
| Liabilities: | | | |
| Accounts payable | 638,259 | 116,245 | 754,504 |
| Accrued wages and benefits | 138,198 | 32,528 | 170,726 |
| Intergovernmental payable | 574,487 | 25,495 | 599,982 |
| Deferred revenue | 1,116,042 | 250,543 | 1,366,585 |
| Accrued interest payable | 56,537 | 12,037 | 68,574 |
| Long-term liabilities: | | | |
| Due within one year | 1,206,553 | 135,112 | 1,341,665 |
| Due in more than one year | <u>16,149,308</u> | <u>2,409,415</u> | <u>18,558,723</u> |
| Total liabilities | <u>19,879,384</u> | <u>2,981,375</u> | <u>22,860,759</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 90,469,940 | 42,814,140 | 133,284,080 |
| Restricted for: | | | |
| Capital projects | 9,394,048 | - | 9,394,048 |
| Debt service | 367,581 | - | 367,581 |
| Other purposes | 1,206,798 | - | 1,206,798 |
| Unrestricted | <u>6,643,038</u> | <u>2,524,035</u> | <u>9,167,073</u> |
| Total net assets | <u>\$ 108,081,405</u> | <u>\$ 45,338,175</u> | <u>\$ 153,419,580</u> |

The accompanying notes are an integral part of these financial statements

City of Twinsburg, Ohio

Statement of Activities

For The Year Ended December 31, 2004

| | Expenses | Program Revenues | | |
|----------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental activities: | | | | |
| General government | \$ 3,754,679 | \$ 501,615 | \$ - | \$ - |
| Security of persons and property | 8,242,685 | 920,932 | 146,539 | - |
| Public health and welfare | 228,461 | - | - | - |
| Transportation | 6,687,651 | 219,591 | - | 4,888,918 |
| Leisure time activities | 1,689,490 | 317,200 | - | - |
| Community development | 1,308,204 | 732,881 | 19,808 | - |
| Basic utility service | 87,058 | - | - | - |
| Interest and fiscal charges | 683,529 | - | - | - |
| Total governmental activities | <u>22,681,757</u> | <u>2,692,219</u> | <u>166,347</u> | <u>4,888,918</u> |
| Business-type activities: | | | | |
| Sewer | 3,843,705 | 3,325,030 | - | 4,275,360 |
| Golf | 1,259,330 | 1,071,710 | - | - |
| Fitness center | 1,380,209 | 922,897 | - | - |
| Total business-type activities | <u>6,483,244</u> | <u>5,319,637</u> | <u>-</u> | <u>4,275,360</u> |
| Total | \$ <u>29,165,001</u> | \$ <u>8,011,856</u> | \$ <u>166,347</u> | \$ <u>9,164,278</u> |

General revenues:
 Property and other local taxes levied for:
 General purposes
 Debt service
 Municipal income taxes levied for:
 General purposes
 Capital outlay
 Grants and entitlements not restricted to specific programs
 Investment income
 Miscellaneous
 Transfers

Total general revenues and transfers

Change in net assets

Net assets beginning of year, restated

Net assets end of year

The accompanying notes are an integral part of these financial statements

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------------|-----------------------|
| Governmental Activities | Business-Type Activities | Total |
| \$ (3,253,064) | \$ - | \$ (3,253,064) |
| (7,175,214) | - | (7,175,214) |
| (228,461) | - | (228,461) |
| (1,579,142) | - | (1,579,142) |
| (1,372,290) | - | (1,372,290) |
| (555,515) | - | (555,515) |
| (87,058) | - | (87,058) |
| (683,529) | - | (683,529) |
| <u>(14,934,273)</u> | <u>-</u> | <u>(14,934,273)</u> |
| - | 3,756,685 | 3,756,685 |
| - | (187,620) | (187,620) |
| - | (457,312) | (457,312) |
| <u>-</u> | <u>3,111,753</u> | <u>3,111,753</u> |
| <u>(14,934,273)</u> | <u>3,111,753</u> | <u>(11,822,520)</u> |
| 543,906 | - | 543,906 |
| 1,141,598 | 36,355 | 1,177,953 |
| 14,030,072 | - | 14,030,072 |
| 3,451,882 | - | 3,451,882 |
| 1,833,964 | - | 1,833,964 |
| 252,147 | 3,589 | 255,736 |
| 75,816 | - | 75,816 |
| <u>(400,000)</u> | <u>400,000</u> | <u>-</u> |
| <u>20,929,385</u> | <u>439,944</u> | <u>21,369,329</u> |
| 5,995,112 | 3,551,697 | 9,546,809 |
| <u>102,086,293</u> | <u>41,786,478</u> | <u>143,872,771</u> |
| \$ <u>108,081,405</u> | \$ <u>45,338,175</u> | \$ <u>153,419,580</u> |

City of Twinsburg, Ohio

Balance Sheet Governmental Funds

December 31, 2004

| | <u>General</u> | <u>Park Debt</u> |
|--|---------------------|---------------------|
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 4,966,010 | \$ 241,300 |
| Income taxes receivable | 2,569,269 | 801,012 |
| Accounts receivable | 125,910 | - |
| Accrued interest receivable | 65,111 | - |
| Intergovernmental receivable | 601,130 | - |
| Materials and supplies inventory | <u>134,117</u> | <u>-</u> |
| Total assets | <u>\$ 8,461,547</u> | <u>\$ 1,042,312</u> |
| Liabilities and fund balances: | | |
| Liabilities: | | |
| Accounts payable | \$ 429,775 | \$ - |
| Accrued wages | 138,198 | - |
| Intergovernmental payable | 323,387 | - |
| Deferred revenue | <u>879,811</u> | <u>801,012</u> |
| Total liabilities | <u>1,771,171</u> | <u>801,012</u> |
| Fund balances: | | |
| Reserve for encumbrances | 147,884 | - |
| Reserve for inventory | 134,117 | - |
| Unreserved: | | |
| Undesignated, reported in: | | |
| General fund | 6,408,375 | - |
| Special revenue funds | - | - |
| Debt service funds | - | 241,300 |
| Capital project funds | <u>-</u> | <u>-</u> |
| Total fund balances | <u>6,690,376</u> | <u>241,300</u> |
| Total liabilities and fund balances | <u>\$ 8,461,547</u> | <u>\$ 1,042,312</u> |

The accompanying notes are an integral part of these financial statements

| <u>Capital Improvement</u> | <u>Senior Center</u> | <u>Other Governmental</u> | <u>Total Governmental</u> |
|--------------------------------|--------------------------|-------------------------------|-------------------------------|
| \$ 8,329,234 | \$ 216,440 | \$ 2,381,284 | \$ 16,134,268 |
| 642,317 | - | 393,940 | 4,406,538 |
| - | - | - | 125,910 |
| - | - | - | 65,111 |
| - | - | 241,629 | 842,759 |
| - | - | - | 134,117 |
| <u>\$ 8,971,551</u> | <u>\$ 216,440</u> | <u>\$ 3,016,853</u> | <u>\$ 21,708,703</u> |

| | | | |
|----------------|----------|----------------|------------------|
| \$ 150,080 | \$ - | \$ 58,404 | \$ 638,259 |
| - | - | - | 138,198 |
| - | - | 251,100 | 574,487 |
| <u>149,447</u> | <u>-</u> | <u>542,072</u> | <u>2,372,342</u> |
| <u>299,527</u> | <u>-</u> | <u>851,576</u> | <u>3,723,286</u> |

| | | | |
|---------------------|-------------------|---------------------|----------------------|
| 1,756,915 | - | - | 1,904,799 |
| - | - | - | 134,117 |
| - | - | - | 6,408,375 |
| - | - | 1,533,412 | 1,533,412 |
| - | - | 126,281 | 367,581 |
| <u>6,915,109</u> | <u>216,440</u> | <u>505,584</u> | <u>7,637,133</u> |
| <u>8,672,024</u> | <u>216,440</u> | <u>2,165,277</u> | <u>17,985,417</u> |
| <u>\$ 8,971,551</u> | <u>\$ 216,440</u> | <u>\$ 3,016,853</u> | <u>\$ 21,708,703</u> |

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City of Twinsburg, Ohio

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

December 31, 2004

Total Governmental Fund Balances \$ 17,985,417

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 106,252,086

Other long term assets are not available to pay for current period expenditures and therefore are deferred in the funds:

| | |
|--------------------------|----------------|
| Property and other taxes | \$ 78,910 |
| Municipal income taxes | 747,236 |
| Intergovernmental | <u>430,154</u> |

Total 1,256,300

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (56,537)

Long term liabilities are not due and payable in the current period and are therefore not reported in the funds

| | |
|--------------------------|--------------------|
| General obligation bonds | (14,310,000) |
| Special assessment bonds | (428,000) |
| ODOT loan payable | (1,044,146) |
| Compensated absences | <u>(1,573,715)</u> |

Total (17,355,861)

Net assets of governmental activities \$ 108,081,405

The accompanying notes are an integral part of these financial statements

City of Twinsburg, Ohio

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

For The Year Ended December 31, 2004

| | General | Park Debt |
|--|----------------------------|--------------------------|
| Revenues: | | |
| Property and other taxes | \$ - | \$ 1,072,608 |
| Municipal income tax | 14,368,068 | - |
| Other local taxes | 159,792 | - |
| Intergovernmental | 877,531 | - |
| Charges for services | 932,035 | - |
| License and permits | 817,109 | - |
| Fines and forfeitures | 105,171 | - |
| Special assessments | - | - |
| Investment income | 252,147 | - |
| Reimbursements received | 290,964 | - |
| Miscellaneous income | 245,529 | - |
| Total revenues | <u>18,048,346</u> | <u>1,072,608</u> |
| Expenditures: | | |
| Current operations and maintenance: | | |
| Security of persons and property | 6,917,059 | - |
| Public health | 228,461 | - |
| Leisure time activities | 1,625,647 | - |
| Community development | 1,254,738 | - |
| Basic utility service | - | - |
| Transportation | 3,204,812 | - |
| General government | 3,064,187 | - |
| Capital outlay | - | - |
| Debt service: | | |
| Principal retirement | - | 410,000 |
| Interest and fiscal charges | - | 440,287 |
| Total expenditures | <u>16,294,904</u> | <u>850,287</u> |
| Excess of revenues over (under) expenditures | <u>1,753,442</u> | <u>222,321</u> |
| Other financing sources (uses) | | |
| Transfers - in | - | - |
| Transfers - out | (845,117) | - |
| Total other financing sources (uses) | <u>(845,117)</u> | <u>-</u> |
| Net change in fund balances | 908,325 | 222,321 |
| Fund balance beginning of year, restated | <u>5,782,051</u> | <u>18,979</u> |
| Fund balance end of year | \$ <u><u>6,690,376</u></u> | \$ <u><u>241,300</u></u> |

The accompanying notes are an integral part of these financial statements

| <u>Capital Improvement</u> | <u>Senior Center</u> | <u>Other Governmental</u> | <u>Total Governmental</u> |
|--------------------------------|--------------------------|-------------------------------|-------------------------------|
| \$ - | \$ - | \$ 399,258 | \$ 1,471,866 |
| 3,451,882 | - | - | 17,819,950 |
| - | - | - | 159,792 |
| 1,435,980 | - | 736,383 | 3,049,894 |
| - | - | 64,872 | 996,907 |
| - | - | 219,007 | 1,036,116 |
| - | - | 769 | 105,940 |
| - | - | 68,990 | 68,990 |
| - | - | - | 252,147 |
| - | - | 11,378 | 302,342 |
| - | - | 81,201 | 326,730 |
| <u>4,887,862</u> | <u>-</u> | <u>1,581,858</u> | <u>25,590,674</u> |
| - | - | 1,052,279 | 7,969,338 |
| - | - | - | 228,461 |
| - | - | 41,655 | 1,667,302 |
| - | 8,141 | 16,559 | 1,279,438 |
| 83,059 | - | 3,999 | 87,058 |
| - | - | 466,065 | 3,670,877 |
| 159,890 | - | - | 3,224,077 |
| 3,007,484 | - | - | 3,007,484 |
| - | - | 254,200 | 664,200 |
| - | - | 240,115 | 680,402 |
| <u>3,250,433</u> | <u>8,141</u> | <u>2,074,872</u> | <u>22,478,637</u> |
| <u>1,637,429</u> | <u>(8,141)</u> | <u>(493,014)</u> | <u>3,112,037</u> |
| - | - | 870,442 | 870,442 |
| <u>(425,325)</u> | <u>-</u> | <u>-</u> | <u>(1,270,442)</u> |
| <u>(425,325)</u> | <u>-</u> | <u>870,442</u> | <u>(400,000)</u> |
| 1,212,104 | (8,141) | 377,428 | 2,712,037 |
| <u>7,459,920</u> | <u>224,581</u> | <u>1,787,849</u> | <u>15,273,380</u> |
| \$ <u>8,672,024</u> | \$ <u>216,440</u> | \$ <u>2,165,277</u> | \$ <u>17,985,417</u> |

City of Twinsburg, 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, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 2,712,037

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

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

| | | |
|----------------|--------------------|-----------|
| Capital outlay | \$ 7,818,532 | |
| Depreciation | <u>(3,761,198)</u> | |
| Total | | 4,057,334 |

In the Statement of Activities, only the loss on the disposal of property and equipment are reported, whereas, in the Governmental Funds, the proceeds from the disposal increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the property and equipment. (37,387)

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

| | | |
|--------------------------|----------------|-----------|
| Property and other taxes | (15,144) | |
| Municipal income taxes | (337,996) | |
| Intergovernmental | <u>(5,437)</u> | |
| Total | | (358,577) |

Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 664,200

Loan payable increases long-term liabilities in the statement of net assets. (1,044,146)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds.

| | | |
|---------------------------|----------------|--------------|
| Compensated absences | 4,778 | |
| Accrued interest on bonds | <u>(3,127)</u> | |
| Total | | <u>1,651</u> |

Change in Net Assets of Governmental Activities \$ 5,995,112

The accompanying notes are an integral part of these financial statements

City of Twinsburg, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual

General Fund

For The Year Ended December 31, 2004

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---|-------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Municipal income taxes | 13,333,000 | 13,735,174 | 14,078,206 | 343,032 |
| Other local taxes | 118,351 | 118,351 | 159,562 | 41,211 |
| Intergovernmental | 553,290 | 553,290 | 745,952 | 192,662 |
| Charges for services | 658,293 | 658,293 | 887,517 | 229,224 |
| License and permits | 504,768 | 504,768 | 817,109 | 312,341 |
| Fines and forfeitures | 64,215 | 64,215 | 86,576 | 22,361 |
| Investment income | 178,237 | 178,237 | 240,301 | 62,064 |
| Reimbursement received | 143,751 | 143,751 | 306,412 | 162,661 |
| Other | 182,115 | 182,115 | 245,529 | 63,414 |
| Total revenue | <u>15,736,021</u> | <u>16,138,194</u> | <u>17,567,164</u> | <u>1,428,970</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Security of property and persons | 7,982,990 | 7,797,288 | 7,035,884 | 761,404 |
| Public health | 258,893 | 262,604 | 228,461 | 34,143 |
| Leisure time activities | 1,869,709 | 1,896,512 | 1,649,932 | 246,580 |
| Community development | 1,393,470 | 1,413,446 | 1,229,673 | 183,773 |
| Transportation | 3,617,488 | 3,669,306 | 3,192,231 | 477,075 |
| General government | <u>3,848,256</u> | <u>3,896,858</u> | <u>3,188,982</u> | <u>707,876</u> |
| Total expenditures | <u>18,970,806</u> | <u>18,936,014</u> | <u>16,525,163</u> | <u>2,410,851</u> |
| Excess of revenues over (under) expenditures | (3,234,786) | (2,797,820) | 1,042,001 | 3,839,821 |
| Other financing sources (uses): | | | | |
| Transfers – out | <u>(569,885)</u> | <u>(878,055)</u> | <u>(845,117)</u> | <u>32,938</u> |
| Net change in fund balance | (3,804,671) | (3,675,875) | 196,884 | 3,872,759 |
| Fund balance beginning of the year | 4,515,368 | 4,515,368 | 4,515,368 | - |
| Outstanding encumbrances at year end | <u>237,850</u> | <u>237,850</u> | <u>237,850</u> | <u>-</u> |
| Fund balance end of the year | \$ <u>948,547</u> | \$ <u>1,077,343</u> | \$ <u>4,950,102</u> | \$ <u>3,872,759</u> |

The accompanying notes are an integral part of these financial statements

City of Twinsburg, Ohio

Statement of Fund Net Assets Proprietary Funds

December 31, 2004

| | Business-Type Activities | | | Total |
|--|--------------------------|-------------------|----------------------|----------------------|
| | Sewer | Golf Course | Fitness Center | |
| Assets: | | | | |
| Current assets: | | | | |
| Equity in pooled cash and cash equivalents | \$ 2,189,279 | \$ 174,653 | \$ 145,087 | \$ 2,509,019 |
| Receivables: | | | | |
| Accounts receivable | 628,941 | - | - | 628,941 |
| Special assessments receivable | 106,186 | - | - | 106,186 |
| Accrued interest receivable | 599 | - | - | 599 |
| Materials and supplies inventory | <u>25,665</u> | <u>-</u> | <u>-</u> | <u>25,665</u> |
| Total current assets | <u>2,950,670</u> | <u>174,653</u> | <u>145,087</u> | <u>3,270,410</u> |
| Non-current assets: | | | | |
| Nondepreciable capital assets | 31,150 | 2,650,000 | - | 2,681,150 |
| Depreciable capital assets, net | <u>31,637,554</u> | <u>244,257</u> | <u>10,486,179</u> | <u>42,367,990</u> |
| Total non-current assets | <u>31,668,704</u> | <u>2,894,257</u> | <u>10,486,179</u> | <u>45,049,140</u> |
| Total assets | <u>34,619,374</u> | <u>3,068,910</u> | <u>10,631,266</u> | <u>48,319,550</u> |
| Liabilities: | | | | |
| Current liabilities: | | | | |
| Accounts payable | 14,085 | 3,187 | 98,973 | 116,245 |
| Accrued wages | 32,528 | - | - | 32,528 |
| Intergovernmental payable | 25,495 | - | - | 25,495 |
| Accrued interest payable | 362 | 11,675 | - | 12,037 |
| Deferred revenue | - | - | 250,543 | 250,543 |
| Due within one year | <u>63,575</u> | <u>64,519</u> | <u>7,018</u> | <u>135,112</u> |
| Total current liabilities | <u>136,045</u> | <u>79,381</u> | <u>356,534</u> | <u>571,960</u> |
| Long-term liabilities (net of current portion): | | | | |
| Special assessment bonds payable | 60,000 | - | - | 60,000 |
| General obligation bonds payable | - | 2,111,110 | - | 2,111,110 |
| Compensated absences | <u>185,022</u> | <u>32,610</u> | <u>20,673</u> | <u>238,305</u> |
| Total long-term liabilities | <u>245,022</u> | <u>2,143,720</u> | <u>20,673</u> | <u>2,409,415</u> |
| Total liabilities | <u>381,067</u> | <u>2,223,101</u> | <u>377,207</u> | <u>2,981,375</u> |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | 31,598,703 | 729,258 | 10,486,179 | 42,814,140 |
| Unrestricted | <u>2,639,604</u> | <u>116,551</u> | <u>(232,120)</u> | <u>2,524,035</u> |
| Total net assets | \$ <u>34,238,307</u> | \$ <u>845,809</u> | \$ <u>10,254,059</u> | \$ <u>45,338,175</u> |

The accompanying notes are an integral part of these financial statements

City of Twinsburg, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Fund

For The Year Ended December 31, 2004

| | Business-Type Activities | | | |
|--|--------------------------|-------------------|----------------------|----------------------|
| | Sewer | Golf Course | Fitness Center | Total |
| Operating revenues: | | | | |
| Charges for services | \$ 2,613,630 | \$ 1,070,075 | \$ 922,695 | \$ 4,606,400 |
| Other | <u>572,189</u> | <u>-</u> | <u>202</u> | <u>572,391</u> |
| Total operating revenues | <u>3,185,819</u> | <u>1,070,075</u> | <u>922,897</u> | <u>5,178,791</u> |
| Operating expenses: | | | | |
| Personal services | 1,476,996 | 608,485 | 803,367 | 2,888,848 |
| Materials and supplies | 212,426 | 180,923 | 57,981 | 451,330 |
| Contractual services | 815,770 | 332,692 | 240,491 | 1,388,953 |
| Depreciation | <u>650,782</u> | <u>35,024</u> | <u>278,370</u> | <u>964,176</u> |
| Total operating expenses | <u>3,155,974</u> | <u>1,157,124</u> | <u>1,380,209</u> | <u>5,693,307</u> |
| Operating income (loss) | <u>29,845</u> | <u>(87,049)</u> | <u>(457,312)</u> | <u>(514,516)</u> |
| Non-operating revenue (expenses): | | | | |
| Investment income | 3,589 | - | - | 3,589 |
| Interest and fiscal charges | (8,114) | (102,206) | - | (110,320) |
| Loss on sale on sale of capital assets | (679,617) | - | - | (679,617) |
| Special assessments | 36,355 | - | - | 36,355 |
| Reimbursements received | <u>139,211</u> | <u>1,635</u> | <u>-</u> | <u>140,846</u> |
| Total non-operating revenues (expenses) | <u>(508,576)</u> | <u>(100,571)</u> | <u>-</u> | <u>(609,147)</u> |
| Income (loss) before capital contributions and transfers | (478,731) | (187,620) | (457,312) | (1,123,663) |
| Capital contributions | 4,275,360 | - | - | 4,275,360 |
| Transfers-in | <u>-</u> | <u>300,000</u> | <u>100,000</u> | <u>400,000</u> |
| Change in net assets | 3,796,629 | 112,380 | (357,312) | 3,551,697 |
| Net assets beginning of year, restated | <u>30,441,678</u> | <u>733,429</u> | <u>10,611,371</u> | <u>41,786,478</u> |
| Net assets end of year | \$ <u>34,238,307</u> | \$ <u>845,809</u> | \$ <u>10,254,059</u> | \$ <u>45,338,175</u> |

The accompanying notes are an integral part of these financial statements

City of Twinsburg, Ohio

Statement of Cash Flows Proprietary Fund

For The Year Ended December 31, 2004

| | Business-Type Activities | | | Total |
|--|--------------------------|-------------------|-------------------|---------------------|
| | Sewer | Golf Course | Fitness Center | |
| Increase (decrease) in cash and cash equivalents: | | | | |
| Cash flows from operating activities: | | | | |
| Cash received from customers | \$ 2,924,481 | \$ 1,070,075 | \$ 947,086 | \$ 4,941,642 |
| Cash payments for personal services | (1,549,469) | (606,461) | (798,287) | (2,954,217) |
| Cash payments for travel and education | (442) | (3,417) | (553) | (4,412) |
| Cash payments for contractual services | (881,663) | (331,555) | (145,682) | (1,358,900) |
| Cash payments for vendors for supplies and materials | (203,437) | (180,204) | (50,038) | (433,679) |
| Cash received for other operating activities | 69 | - | 202 | 271 |
| Net cash provided by (used in) operating activities | <u>289,539</u> | <u>(51,562)</u> | <u>(47,272)</u> | <u>190,705</u> |
| Cash flows from capital and related financing activities: | | | | |
| Principal paid on debt maturities | (13,800) | (95,000) | - | (108,800) |
| Interest paid on debt | (8,166) | (98,638) | - | (106,804) |
| Payments for capital acquisitions | - | (27,757) | (22,733) | (50,490) |
| Net cash provided by capital and related financing activities | <u>(21,966)</u> | <u>(221,395)</u> | <u>(22,733)</u> | <u>(266,094)</u> |
| Cash flows from noncapital financing activities: | | | | |
| Transfers in | - | 300,000 | 100,000 | 400,000 |
| Special assessments | 2,588 | - | - | 2,588 |
| Reimbursements received | 139,211 | 1,635 | - | 140,846 |
| Net cash provided by noncapital financing activities | <u>141,799</u> | <u>301,635</u> | <u>100,000</u> | <u>543,434</u> |
| Cash flows from investing activities: | | | | |
| Interest received | 3,335 | - | - | 3,335 |
| Net increase in cash and cash equivalents | 412,707 | 28,678 | 29,995 | 471,380 |
| Cash and cash equivalents, beginning of year | <u>1,776,572</u> | <u>145,975</u> | <u>115,092</u> | <u>2,037,639</u> |
| Cash and cash equivalents, end of year | <u>\$ 2,189,279</u> | <u>\$ 174,653</u> | <u>\$ 145,087</u> | <u>\$ 2,509,019</u> |

(Continued)

The accompanying notes are an integral part of these financial statements

City of Twinsburg, Ohio

Statement of Cash Flows (Continued) Proprietary Fund Types

For The Year Ended December 31, 2004

| | Business-Type Activities | | | Total |
|---|--------------------------|---------------------------|---------------------------|--------------------------|
| | Sewer | Golf Course | Fitness Center | |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Operating income (loss) | \$ <u>29,845</u> | \$ <u>(87,049)</u> | \$ <u>(457,312)</u> | \$ <u>(514,516)</u> |
| Adjustments: | | | | |
| Depreciation | 650,782 | 35,024 | 278,370 | 964,176 |
| (Increase) decrease in assets: | | | | |
| Accounts receivable | (261,269) | - | - | (261,269) |
| Materials and supplies inventory | 6,083 | - | 3,900 | 9,983 |
| Prepaid items | - | - | - | - |
| Increase (decrease) in liabilities: | | | | |
| Accounts payable | (62,986) | 1,202 | 98,852 | 37,068 |
| Accrued wages and benefits | (58,071) | - | - | (58,071) |
| Compensated absences payable | (16,628) | (739) | 4,527 | (12,840) |
| Accrued pension | - | - | - | - |
| Intergovernmental payable | 1,783 | - | - | 1,783 |
| Deferred revenue | - | - | 24,391 | 24,391 |
| Total adjustments: | <u>259,694</u> | <u>35,487</u> | <u>410,040</u> | <u>705,221</u> |
| Net cash provided by (used in) operating activities: | \$ <u><u>289,539</u></u> | \$ <u><u>(51,562)</u></u> | \$ <u><u>(47,272)</u></u> | \$ <u><u>190,705</u></u> |

Noncash Investing, Capital and Financing Activities

During the year the Sewer Fund acquired capital assets in the amount of \$4,275,360 via capital contributions.

The accompanying notes are an integral part of these financial statements

City of Twinsburg, Ohio

Notes to the Basic Financial Statements

For The Year Ended December 31, 2004

Note 1: The Reporting Entity

The City of Twinsburg is a home rule municipal corporation established under the laws of the State of Ohio, which operates under its own Charter. The current Charter, which provides for a mayor-council form of government, was adopted November 3, 1981.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Twinsburg, this includes police and fire protection, parks and recreation, planning, zoning, street maintenance and repair, refuse collection, a wastewater treatment plant and general administrative services. The City's departments include a public safety department, a public service department, a street maintenance department, a sanitation system, a parks and recreation department, a planning and zoning department, and a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation of each of these activities and entities is directly controlled by the City Council through the budgetary process.

The City of Twinsburg is divided into various departments and financial management and control systems. The City departments include a public safety department, a public service department, a street maintenance department, a sanitation system, a parks and recreation department, a planning and zoning department, a waste water treatment system, and a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation of each of these activities and entities is directly controlled by the City Council through the budgetary process and therefore is included as a part of the reportable entity.

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

Jointly Governed Organizations

Northeast Ohio Public Energy Council – The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 92 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 1: The Reporting Entity (continued)

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Twinsburg did not contribute to NOPEC during 2003. Financial information can be obtained by contacting Dan DiLiberto, Treasurer, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

Note 2: Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid doubling up revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets 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 not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business activity is self-financing or draws from the general revenues of the City.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

Fund Financial Statements

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

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used.

Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

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

Park Debt Fund - The park debt fund accounts for that portion of municipal income tax designated by Council for the purpose of improving parks and paying off debt associated with maintenance of the parks.

Capital Improvement Fund - The capital improvement fund accounts for that portion of municipal income tax designated by Council for the purpose of improving, constructing, maintaining, and purchasing those items necessary to enhance the operation of the City.

Senior Center Fund - The senior center fund accounts for expenditures to support the senior center.

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

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Golf Course Fund - The golf course fund accounts for the operations of the golf course.

Fitness Center Fund - The fitness center fund accounts for the operations of the fitness center.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of 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.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary 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. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Available period for the City is thirty-one days after year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned.

Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, licenses and permits, interest, grants and rentals.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Expenses/Expenditures

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

E. Budgetary Process

An annual appropriated budget is legally required to be prepared for all funds of the City other than agency funds. Council passes appropriations at the fund level. Line item appropriations may be transferred between the accounts with the approval of the City Manager, Finance Director and respective department head. Council must approve any revisions in the budget that alter total fund appropriations. The following are the procedures used by the City in establishing the budgetary data reported in the basic financial statements:

Tax Budget

A tax budget of estimated revenue and expenditures for all funds other than agency funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews revenue estimates. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure.

On or about January 1 the certificate of estimated resources is amended to include unencumbered fund balances at December 31. Further amendments may be made during the year if the Finance Director determines that revenue to be collected will be greater than or less than the prior estimates and the budget commission finds the revised estimates to be reasonable. The amounts reported in the budgetary statements as original represent the amounts in the first official certificate of estimated resources issued during 2004. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2004

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Annual Estimate

The Mayor, with the assistance of the Finance Director, is required by Charter to submit to Council, on or before December 1 of each fiscal year, an estimate of the revenues and expenditures of each fund of the City for the next succeeding fiscal year. The annual estimate serves as the basis for appropriations (the appropriated budget) in each fund.

Appropriations

An appropriation ordinance (the appropriated budget) to control the level of expenditures for all funds must be legally enacted on or about January 1. Appropriations may not exceed estimated resources as established in the Official Amended Certificate of Estimated Resources. Supplemental appropriations may be adopted by Council action. During the year, several supplemental appropriation measures were necessary. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriated budget for each fund that covered the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried over for the subsequent year's expenditures and is reappropriated.

Budgeted Level of Expenditure

Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, except capital projects funds, Council appropriations are made to personal services, travel and education, contractual services, supplies and materials, capital outlay, other expenditures, debt principal and interest payments, and transfer accounts for each department. Capital projects funds are appropriated by department or project. The appropriations set by Council must remain fixed unless amended by Council ordinance. More detailed appropriation allocations may be made by the Finance Director as long as the allocations are within Council's appropriated amount.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Encumbrances

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, except the investment trust fund, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

Investments are reported at fair value, which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's share price.

During the year, the City invested in STAROhio, an investment pool managed by the State Treasurer's Office. STAROhio which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2004.

Interest allocation is determined by the Ohio Constitution, state statutes, and local ordinances adopted under City Charter. Under these provisions, City funds required to receive interest allocations are: 1) those which receive proceeds from the sale of notes and/or bonds and 2) those which receive distributions of state gasoline tax and motor vehicle licenses fees (street maintenance and state highway special revenue funds). All remaining interest is allocated to the general fund. Legally, proprietary funds generally do not receive interest.

G. Inventory

Inventories are stated at cost, on the first-in, first-out basis. The cost of inventory items is recorded as expenditures in the governmental fund types and expenses in the proprietary fund types when used.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

H. Prepaid Items

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five hundred dollars. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings and improvements | 45 years |
| Machinery and equipment | 10 to 15 years |
| Vehicles | 6 years |
| Infrastructure | 65 to 100 years |

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

K. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for 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 employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at fiscal year end taking into consideration any limits specified in the City's termination policy. Additionally, certain salary related payments associated with the payment of compensated absences have been accrued.

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

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Accrued Liabilities and Long-Term Obligations

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

M. Fund Balance Reserves

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

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

N. Net Assets

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

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

O. 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 sewer, golf course, and fitness center programs. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

P. Interfund Activity

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

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

R. Estimates

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

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 3: Change in Accounting Principle

For 2004, the City has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units".

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

The implementation of GASB Statement No. 39 did not affect the presentation of the financial statements of the City.

Note 4: 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 and disbursements. The Statements of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual – All Governmental Fund Types and the Statement of Revenues, Expenses, and Changes in Fund Balance – Budget and Actual – All Proprietary Fund Types 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 identified as follows:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/Expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for Governmental Funds, and note disclosure for Proprietary Funds (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

| <u>Net Change in Fund Balance</u> | <u>General</u> |
|-----------------------------------|-------------------|
| GAAP basis | \$ 908,325 |
| Increase (decrease) due to: | |
| Revenue accruals | (481,179) |
| Expenditure accruals | (468,112) |
| Outstanding encumbrances | <u>237,850</u> |
| Budget basis | \$ <u>196,884</u> |

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 5: Deposits and Investments

The City's Charter specifies that investments of the City will adhere to State statutes. Under these statutes, the Finance Director is responsible for selecting depositories and investing funds. The City, by statute, is to limit deposits and investments of City funds to insured demand deposit accounts, certificates of deposit, United States treasury bills, or obligations of other United States governmental agencies for which the principal and interest is guaranteed by the United States government, and repurchase agreements.

Protection of City cash and investments is provided by the various federal deposit insurance corporations as well as qualified securities pledged by the institutions holding the assets. By law, financial institutions may establish a collateral pool to cover all public deposits. The face value of the pooled collateral must equal at least 110% of public funds deposited. At least quarterly the City determines that the collateral has a market value adequate to cover the deposits. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year-end, the carrying amount of the City's deposits was \$755,304 and the bank balance was \$974,510. Of the bank balance:

1. \$200,000 was covered by the federal depository insurance, by collateral held by the City or by collateral held by a qualified third party trustee in the name of the City.
2. \$774,510 was uninsured and uncollateralized as defined by the GASB because the collateral pledged by the financial institutions or their trust departments or agents is not in the City's name.

The City's investments are detailed below and are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are categorized as either (1) insured or registered for which the securities are held by the government or its agent in the government's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the government's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the City's name.

| <u>Description</u> | <u>Risk Category 3</u> | <u>Fair Value</u> |
|---|----------------------------|-----------------------|
| Federal Securities Notes/Bonds | \$ 16,340,897 | \$ 16,340,897 |
| State treasurer's investment Pool (STAROhio) * | <u>-</u> | <u>1,547,086</u> |
| | \$ <u>-</u> | \$ <u>17,887,983</u> |

* Noncategorized

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 5: Deposits and Investments (continued)

STAROhio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2004.

| | <u>Cash and</u> <u>Cash Equivalents</u> | <u>Investments</u> |
|--------------------------------|--|----------------------|
| GASB Statement No. 9 | \$ 18,643,287 | \$ - |
| Investments: | | |
| Repurchase agreements | - | - |
| STAROhio | (1,547,086) | 1,547,086 |
| Federal Securities Notes/Bonds | <u>(16,340,897)</u> | <u>16,340,897</u> |
| GASB Statement No. 3 | \$ <u>755,304</u> | \$ <u>17,887,983</u> |

Note 6: Receivables

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the state statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1997. Real property taxes are payable annually or semiannually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30; with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 6: Receivables (continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Twinsburg. The County Auditor periodically remits to the City its portion of the taxes collected.

A. Property Taxes (continued)

The full tax rate for all City operations for the year ended December 31, 2004, was \$2.22 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

| Category | <u>Assessed Value</u> |
|-------------------|------------------------------|
| Real estate | \$ 515,602,270 |
| Public utility | 9,490,020 |
| Tangible personal | <u>147,810,012</u> |
| | \$ <u><u>672,902,302</u></u> |

B. Income Taxes

The City levies and collects an income tax of 2.0% on all income earned within the City as well as on income of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

The City, by ordinance, allocates income tax revenues and expenditures for collecting, administering, and enforcing the tax to the general and capital projects funds. The actual cash collected in 2004 was \$17,597,757.

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Governmental activities:

| | |
|---------------------------------------|--------------------------|
| Local government and local government | |
| Revenue assistance | \$ 416,113 |
| Estate tax | 185,016 |
| Gasoline and excise tax | 220,529 |
| Motor vehicle license fees | 17,881 |
| Permissive motor vehicle license tax | <u>3,220</u> |
| | \$ <u><u>842,759</u></u> |

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 7: Capital Assets

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

| | Balance 12/31/2003 | Adjustments | Restated Balance 12/31/2003 | Additions | Disposals | Balance 12/31/2004 |
|---|-----------------------|--------------|-----------------------------------|--------------|-------------|-----------------------|
| Governmental Activities: | | | | | | |
| Capital assets not being depreciated: | | | | | | |
| Construction in process | \$ - | \$ 499,011 | \$ 499,011 | \$ 1,414,090 | \$ - | \$ 1,913,101 |
| Land | 17,309,346 | - | 17,309,346 | 6,000 | - | 17,315,346 |
| Total capital assets not being depreciated | 17,309,346 | 499,011 | 17,808,357 | 1,420,090 | - | 19,228,447 |
| Capital assets being depreciated: | | | | | | |
| Land improvements | 3,368,459 | - | 3,368,459 | 17,900 | - | 3,386,359 |
| Buildings | 7,772,213 | - | 7,772,213 | 47,232 | - | 7,819,445 |
| Machinery and equipment | 4,853,155 | - | 4,853,155 | 269,860 | - | 5,123,015 |
| Vehicles | 5,094,176 | - | 5,094,176 | 66,456 | - | 5,160,632 |
| Infrastructure: | | | | | | |
| Roads | 38,221,236 | 66,481 | 38,287,717 | 2,730,418 | - | 41,018,135 |
| Water mains | 27,268,005 | - | 27,268,005 | 1,437,801 | - | 28,705,806 |
| Storm sewers and culverts | 27,157,718 | 476,120 | 27,633,838 | 1,782,653 | (44,865) | 29,371,626 |
| Traffic signs and signals | 599,116 | 1,560 | 600,676 | 1,344 | - | 602,020 |
| Street lights | 1,314,212 | 56,386 | 1,370,598 | 44,778 | - | 1,415,376 |
| Total capital assets being depreciated | 115,648,290 | 600,547 | 116,248,837 | 6,398,442 | (44,865) | 122,602,414 |
| Less accumulated depreciation: | | | | | | |
| Land improvements | (693,461) | - | (693,461) | (81,315) | - | (774,776) |
| Buildings | (1,915,418) | - | (1,915,418) | (155,718) | - | (2,071,136) |
| Machinery and equipment | (2,032,206) | - | (2,032,206) | (295,729) | - | (2,327,935) |
| Vehicles | (1,651,987) | - | (1,651,987) | (329,779) | - | (1,981,766) |
| Infrastructure: | | | | | | |
| Roads | (17,116,893) | (3,324) | (17,120,217) | (2,050,907) | - | (19,171,124) |
| Water mains | (2,990,261) | - | (2,990,261) | (287,058) | - | (3,277,319) |
| Storm sewers and culverts | (4,554,197) | (27,468) | (4,581,665) | (487,790) | 7,478 | (5,061,977) |
| Traffic signs and signals | (281,810) | (125) | (281,935) | (16,287) | - | (298,222) |
| Street lights | (555,650) | (2,255) | (557,905) | (56,615) | - | (614,520) |
| Total accumulated depreciation | (31,791,883) | (33,172) | (31,825,055) | (3,761,198) | 7,478 | (35,578,775) |
| Net capital assets being depreciated | 83,856,407 | 567,375 | 84,423,782 | 2,637,244 | (37,387) | 87,023,639 |
| Governmental activities capital assets, net | \$ 101,165,753 | \$ 1,066,386 | \$ 102,232,139 | \$ 4,057,334 | \$ (37,387) | \$ 106,252,086 |

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 7: Capital Assets (continued)

| | Balance 12/31/2003 | Adjustments | Restated Balance 12/31/2003 | Additions | Disposals | Balance 12/31/2004 |
|---|-----------------------|-------------|-----------------------------------|--------------|--------------|-----------------------|
| Business-Type Activities: | | | | | | |
| Capital assets not being depreciated: | | | | | | |
| Land | \$ 2,681,150 | \$ - | \$ 2,681,150 | \$ - | \$ - | \$ 2,681,150 |
| Capital assets being depreciated: | | | | | | |
| Land improvements | 90,419 | - | 90,419 | 27,757 | - | 118,176 |
| Buildings and improvements | 23,946,044 | - | 23,946,044 | 22,733 | - | 23,968,777 |
| Machinery and equipment | 1,840,195 | - | 1,840,195 | - | - | 1,840,195 |
| Vehicles | 134,299 | - | 134,299 | - | - | 134,299 |
| Infrastructure: | | | | | | |
| Sewer lines | 23,437,735 | (248,578) | 23,189,157 | 4,275,360 | (795,086) | 26,669,431 |
| Total capital assets being depreciated | 49,448,692 | (248,578) | 49,200,114 | 4,325,850 | (795,086) | 52,730,878 |
| Less: accumulated depreciation | (9,844,965) | 330,784 | (9,514,181) | (964,176) | 115,469 | (10,362,888) |
| Net capital assets being depreciated | 39,603,727 | 82,206 | 39,685,933 | 3,361,674 | (679,617) | 42,367,990 |
| Total business-type activities capital assets, net | \$ 42,284,877 | \$ 82,206 | \$ 42,367,083 | \$ 3,361,674 | \$ (679,617) | \$ 45,049,140 |

Depreciation expense was charged to governmental activities as follows:

| | |
|----------------------------------|---------------------|
| Community development | \$ 50,249 |
| General government | 127,573 |
| Leisure time activities | 144,882 |
| Security of persons and property | 365,851 |
| Transportation | 3,072,643 |
| | <u>\$ 3,761,198</u> |

Note 8: Long-Term Obligations

A. Original Issues

The original issue date, interest rates and original issuance amount for each of the City's bonds follows:

| | Original Issue Date | Original Interest Rate | Issue Amount |
|--------------------------------------|---------------------------|------------------------------|-----------------|
| General obligation bonds: | | | |
| Park land and conservation | 2002 | 3.30% - 7.04% | \$ 10,500,000 |
| Senior citizens center | 2002 | 2.85% - 16.21% | 2,399,997 |
| Darrow Road improvement | 2003 | 2.00% - 4.80% | 3,065,000 |
| Special Assessment Bonds: | | | |
| Case Parkway South | 1992 | 4.75% | 715,000 |
| Creekside/Glenwood Improvement | 1993 | 5.00% | 462,000 |
| Darrow/Chamberlain | 1995 | 6.00% | 191,875 |
| Liberty/Cannon/Chamberlain/Ravenna | 2003 | 2.75 - 5.10% | 310,000 |
| Enterprise Fund Bonds: | | | |
| Golf Course Refunding Bonds | 1996 | 2.85% - 16.21% | 2,800,000 |
| Cannon/Case North/Darrow Water Impr. | 1991 | 5.40% - 10.00% | 1,150,000 |

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 8: Long-Term Obligations (continued)

B. Bonded Debt and Other Long-Term Obligations

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2004 was as follows:

| | <u>Restated Balance 12/31/03</u> | <u>Issued (Retired)</u> | <u>Balance 12/31/04</u> | <u>Due in One Year</u> |
|---|--|-----------------------------|-----------------------------|----------------------------|
| Governmental Activities: | | | | |
| General obligation bonds: | | | | |
| Park land and conservation, due through 2021 | \$ 9,725,000 | \$ (410,000) | \$ 9,315,000 | \$ 425,000 |
| Senior citizens center, due through 2021 | 2,215,000 | (95,000) | 2,120,000 | 53,890 |
| Darrow Road improvement, due through 2022 | <u>2,990,000</u> | <u>(115,000)</u> | <u>2,875,000</u> | <u>115,000</u> |
| Total general obligation bonds | <u>14,930,000</u> | <u>(620,000)</u> | <u>14,310,000</u> | <u>593,890</u> |
| Special assessment bonds: | | | | |
| Liberty/Cannon/Case/Darrow due through 2023 | 306,200 | (16,200) | 290,000 | 20,000 |
| Creekside/Glenwood improvement, due through 2013 | 100,000 | (10,000) | 90,000 | 10,000 |
| Darrow/Chamberlin, due through 2015 | <u>66,000</u> | <u>(18,000)</u> | <u>48,000</u> | <u>18,000</u> |
| Total special assessment bonds | <u>472,200</u> | <u>(44,200)</u> | <u>428,000</u> | <u>48,000</u> |
| ODOT loan payable | - | 1,044,146 | 1,044,146 | - |
| Accrued compensated absences, restated | <u>1,578,493</u> | <u>(4,778)</u> | <u>1,573,715</u> | <u>564,663</u> |
| Total governmental activities | <u>\$ 16,980,693</u> | <u>\$ 375,168</u> | <u>\$ 17,355,861</u> | <u>\$ 1,206,553</u> |
| Business-Type Activities: | | | | |
| General obligation bonds: | | | | |
| Golf course refunding bonds | <u>\$ 2,260,000</u> | <u>\$ (95,000)</u> | <u>\$ 2,165,000</u> | <u>\$ 53,890</u> |
| Special assessment bonds: | | | | |
| Cannon/Case North/Darrow Water improvement, due through 2011 | <u>83,800</u> | <u>(13,800)</u> | <u>70,000</u> | <u>10,000</u> |
| Accrued compensated absences, restated | <u>322,368</u> | <u>(12,841)</u> | <u>309,527</u> | <u>71,222</u> |
| Total business-type activities | <u>\$ 2,666,168</u> | <u>\$ (121,641)</u> | <u>\$ 2,544,527</u> | <u>\$ 135,112</u> |

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 8: Long-Term Obligations (continued)

C. Other Long-Term Obligations (continued)

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2004 were as follows:

| <u>Year</u> | <u>General Obligation Bonds</u> | | <u>Special Assessment Bonds</u> | | <u>Total</u> |
|-------------|---------------------------------|---------------------|---------------------------------|-------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| 2005 | \$ 647,780 | \$ 809,679 | \$ 58,000 | \$ 24,640 | \$ 1,540,099 |
| 2006 | 652,220 | 808,620 | 38,000 | 21,880 | 1,520,720 |
| 2007 | 619,840 | 842,600 | 38,000 | 20,158 | 1,520,598 |
| 2008 | 610,160 | 851,052 | 38,000 | 18,435 | 1,517,647 |
| 2009-2013 | 4,340,000 | 2,854,118 | 170,000 | 63,594 | 7,427,712 |
| 2014-2018 | 5,430,000 | 1,882,620 | 81,000 | 31,130 | 7,424,750 |
| 2019-2023 | <u>4,175,000</u> | <u>441,450</u> | <u>75,000</u> | <u>11,483</u> | <u>4,702,933</u> |
| | \$ <u>16,475,000</u> | \$ <u>8,490,139</u> | \$ <u>498,000</u> | \$ <u>191,320</u> | \$ <u>25,654,459</u> |

Special assessment bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefited from the project. Special assessment monies will be received in, and the debt will be retired through, the Special Assessment Bond Retirement Debt Service Fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

During the year, the City obtained \$1,044,146 in partial proceeds from an Ohio Department of Transportation loan to be repaid in monthly principal and interest payments beginning in 2006. The City has not yet collected the total proceeds to be received on this loan and as a result, the debt maturity schedule above does not reflect any amounts for principal or interest. When the loan is finalized, the principal and interest will be included above.

Note 9: Compensated Absences

Accumulated unpaid vacation is accrued when earned and is normally paid in the first three months of the subsequent calendar year. In accordance with the Codified Ordinances of the City, unused vacation pay cannot be carried over from year to year. Accordingly, all accrued vacation pay is considered to be a current liability. City employees are paid for earned, unused vacation leave at the time of the termination of their employment.

Sick leave is earned at the rate of ten hours per month for full-time employees and 4.6 hours per eighty hours worked by part-time employees. Each employee with the City is paid for up to 180 days or a maximum of 1,440 hours, upon retirement from the City, and 30 years of service for PERS employees and 20 years of service for retiring police employees. Individuals leaving the employment of the City prior to retirement lose their accumulated sick leave.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 10: Pension Plans

A. *Ohio Public Employees Retirement System*

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2004, the members of all three plans were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The City contributed 13.55 percent of covered payroll, of which 4.0 percent was used to fund health care coverage for retirees. The contribution rate is determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City of Twinsburg's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$565,927, \$560,557, and \$547,165, respectively, equal to the required contributions for each year. The full amount has been contributed for all 2003 and 2002. 93 percent has been contributed for 2004 with the remainder being reported as a liability. Contributions to the member-directed plan for 2003 were \$9,933 made by the City of Twinsburg and \$6,231 made by the plan members.

B. *Ohio Police and Fire Pension Fund*

The City of Twinsburg 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.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 10: Pension Plans (continued)

B. Ohio Police and Fire Pension Fund (continued)

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by state statute. The City of Twinsburg's contributions to the Fund for police and firefighters were \$410,537 and \$459,011 for the year ended December 31, 2004, \$386,235 and \$398,589 for the year ended December 31, 2003, and \$356,075 and \$400,200 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 73 percent for police and 71 percent for firefighters has been contributed for 2004 with the remainder being reported as a liability.

Note 11: Postemployment Benefits

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement 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 recipients and qualified survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. The 2004 employer contribution rate was 13.55 percent of covered payroll; 4.0 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.0 percent. An annual increase of 4.0 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increase, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next eight years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 11: Postemployment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

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

At December 31, 2004, the number of active contributing participants in the Traditional and Combined Plans totaled 369,885. The City's actual contributions for 2004, which were used to fund postemployment benefits, were \$266,316. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarially accrued liability were \$26.9 billion and \$16.4 billion, respectively.

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

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

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit ("OPEB") as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The Ohio Revised Code provides the statutory authority allowing the OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 11: Postemployment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

The number of participants eligible to receive health care benefits as of December 31, 2003, the date of the last actuarial valuation available, was 13,662 for police and 10,474 for firefighters. The City's actual contributions for 2004 that were used to fund post-employment benefits were \$163,162 for police and \$148,222 for firefighters. OP&F's total health care expenses for the year ending December 31, 2003, the date of the last actuarial valuation available, was \$150,853,148, which was net of member contributions of \$17,207,506.

Note 12: Risk Management

The City maintains comprehensive insurance coverage with private insurance carriers for real property, building contents, vehicle and general liability insurance, and police professional liability insurance.

The City continues to carry health insurance through Medical Mutual of Ohio. The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

There were no reductions in insurance coverage from the previous year, nor have settlements exceeded insurance coverage in any of the prior three fiscal years.

Note 13: Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

| <u>Transfer to</u> | <u>Transfer From</u> | | <u>Total</u> |
|-----------------------------|----------------------|----------------------------|---------------------|
| | <u>General Fund</u> | <u>Capital Improvement</u> | |
| Nonmajor governmental funds | \$ 445,117 | \$ 425,325 | \$ 870,442 |
| Golf course fund | 300,000 | - | 300,000 |
| Fitness center fund | <u>100,000</u> | <u>-</u> | <u>100,000</u> |
| | \$ <u>845,117</u> | \$ <u>425,325</u> | \$ <u>1,270,442</u> |

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 13: Interfund Transfers (continued)

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

The City had no transfers that either do not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer.

Note 14: Contingencies/Pending Litigation

The City is a party to various legal proceedings. The City's management is of the opinion that the ultimate outcome of such litigation will not have a material adverse effect on the City's financial position.

Note 15: Restatement of Prior Year Fund Balances

A. Restatement of Fund Balance

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|---|------------------------------------|-------------------------------------|
| Net assets, December 31, 2003 | \$ 101,822,826 | \$ 41,867,288 |
| Restatement of capital assets | 1,066,386 | 82,206 |
| Restatement of compensated absences | <u>(802,919)</u> | <u>(163,016)</u> |
| Fund balance, December 31, 2003, restated | \$ <u>102,086,293</u> | \$ <u>41,786,478</u> |

The December 31, 2003 governmental activities and business-type activities net assets have been restated due to adjustments made to capital assets and accrued compensated absences. The balances for the Sewer Fund, Golf Course Fund and Fitness Center Fund have also been changed from \$30,459,382 to \$30,441,678, \$777,407 to \$733,429, and \$10,630,499 to \$10,611,371, respectively, for the same changes.

Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Members of the City Council
Twinsburg, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Twinsburg (the “City”), as of and for the year ended December 31, 2004, which collectively comprise the City’s basic financial statements and have issued our report thereon dated June 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of the City in a separate letter dated June 10, 2005.

Members of the City Council
Twinsburg, Ohio

This report is intended solely for the information and use of the City Council, Finance Committee, Management, and the Auditor of State's Office and is not intended to be and should not be used by anyone other than these specified parties.

Cini & Parichi, Inc.

Cleveland, Ohio
June 10, 2005

City of Twinsburg, Ohio

Schedule of Findings

December 31, 2004

1. Summary of Auditor's Results

| | |
|--|-------------|
| Type of Financial Statement Opinion | Unqualified |
| Was there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| Was there any material reported noncompliance at the financial statement level (GAGAS)? | No |

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

None.

3. Other Findings

None.

City of Twinsburg, Ohio

Schedule of Prior Audit Findings

December 31, 2004

There were no prior year audit findings.

City of Twinsburg, Ohio

**10075 Ravenna Road
Twinsburg, Ohio 44087
(330) 425-7161**

**Response to Findings Associated with
Audit Conducted in Accordance with *Government Auditing Standards*
For The Year Ended December 31, 2004**

| Finding Number | Planned Corrective Action | Anticipated Completion Date | Responsible Contact Person |
|---------------------------|--|--|---|
|---------------------------|--|--|---|

Not Applicable.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

CITY OF TWINSBURG

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 14, 2005**