



Mary Taylor, CPA
Auditor of State

**CITY OF NORWOOD
HAMILTON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets-Cash Basis as of December 31, 2005.....	3
Statement of Activities-Cash Basis - For the Year Ended December 31, 2005.....	4
Fund Financial Statements:	
Balance Sheet – Governmental Funds – Cash Basis as of December 31, 2005	5
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities Modified Cash Basis – as of December 31, 2005.....	6
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	7
Reconciliation of the Statement of Receipts, Disbursements and Changes In Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis – as of December 31, 2005.....	8
Statement of Fund Net Assets – Proprietary Funds – as of December 31, 2005.....	9
Statement of Revenues, Expenses, and Changes in Fund Net Assets, Proprietary Funds - as of December 31, 2005.....	10
Statement of Fiduciary Net Assets – Fiduciary Fund	11
Government-wide Financial Statements:	
Statement of Net Assets-Cash Basis as of December 31, 2004.....	12
Statement of Activities-Cash Basis - For the Year Ended December 31, 2004.....	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds – Cash Basis as of December 31, 2004	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities Modified Cash Basis – as of December 31, 2004.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	16

CITY OF NORWOOD
HAMILTON COUNTY

TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Reconciliation of the Statement of Receipts, Disbursements and Changes In Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis – as of December 31, 2004.....	17
Statement of Fund Net Assets – Proprietary Fund – as of December 31, 2004.....	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets, Proprietary Fund - as of December 31, 2004	19
Statement of Fiduciary Net Assets – Fiduciary Fund	20
Notes to the Basic Financial Statements	21
Independent Accountants’ Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	41
Schedule of Findings.....	43
Schedule of Prior Audit Findings.....	57



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To City Council:

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Norwood, Hamilton County, Ohio (the City), as of and for the years ended December 31, 2005 and 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management.

Ohio Administrative Code § 117-2-03 (B) requires the City to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

Auditing Standards Section 333 requires us to obtain written representations from the Mayor and City Auditor, and expressly states this requirement applies even if these officials were not present during all periods covered by the audit. The Mayor declined to provide written representations related to the financial statements; completeness of information; and recognition, measurement and disclosure of misstatements, fraud, unasserted claims, undisclosed liabilities and violations of laws and regulations.

Since the Mayor did not provide written representations related to the issues described in the preceding paragraph, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

As discussed in Note 15 to the financial statements, the Auditor of the State of Ohio placed the City in fiscal watch on October 7, 2004, and as of December 31, 2005, the City's general fund balance is \$1,003,545 and is estimated to have a deficit fund balance of \$2,053,414 due to unpaid employer contributions to the Ohio police and fire pension fund. Management has disclosed their plans in regard to these matters in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

For the years ended December 31, 2005 and 2004, the City revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

The City has not presented a Management's Discussion and Analysis or the respective budgetary comparison for the General fund and the major special revenue funds for the years ended December 31, 2005 and 2004, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of procedures performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our procedures.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 12, 2008

City of Norwood
Statement of Net Assets
 December 31, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 4,114,269	\$ 931,751	\$ 5,046,020
Noncurrent Assets:			
Land	4,077,513		4,077,513
Land and Land Improvements	1,488,519		1,488,519
Capital Assets:			
Building and Building Improvements	4,032,174	54,890	4,087,064
Equipment	1,451,046	65,387	1,516,433
Vehicles	2,973,529	163,198	3,136,727
Infrastructure	12,755,682	2,660,957	15,416,639
Accumulated Depreciation:			
Land Improvements	(604,157)		(604,157)
Buildings & Building Improvements	(2,032,631)	(54,890)	(2,087,521)
Equipments	(914,240)	(50,595)	(964,835)
Vehicles	(1,674,596)	(154,552)	(1,829,148)
Infrastructure	(7,359,773)	(1,088,550)	(8,448,323)
<i>Total Assets</i>	<u>18,307,335</u>	<u>2,527,596</u>	<u>20,834,931</u>
NET ASSETS:			
Invested in Capital Assets	14,193,066	1,595,845	15,788,911
Restricted for Debt Service	46,944		46,944
Restricted for Capital Outlay	425,817		425,817
Restricted for Other Purposes	2,637,963		2,637,963
Unrestricted	1,003,545	931,751	1,935,296
<i>Total Net Assets</i>	<u>\$ 18,307,335</u>	<u>\$ 2,527,596</u>	<u>\$ 20,834,931</u>

City of Norwood
Statement of Activities
For the Year Ended December 31, 2005

	Program Revenues			Net(Expense)Revenue and Changes in Net Assets			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government:							
Legislative and Executive	\$ 3,652,643	\$ 713,383	\$ 1,222		\$ (2,938,038)		\$ (2,938,038)
Judicial System	533,896	66,294			(467,602)		(467,602)
Security of Persons and Property:							
Police	5,122,028	793,490	313,386		(4,015,152)		(4,015,152)
Fire	5,717,519	390,025	122,694		(5,204,800)		(5,204,800)
Building & Service Directors Department	405,608				(405,608)		(405,608)
Dispatchers	623,008				(623,008)		(623,008)
Police and Fire Pension Repayment Fund	210,000				(210,000)		(210,000)
Public Health	550,666	76,208	101,020		(373,438)		(373,438)
Lesiure Time Services	1,161,937	266,554	75,748		(819,635)		(819,635)
Community and Economic Development	4,271,561	3,953		\$ 201,383	(4,066,225)		(4,066,225)
Public Works	361,707				(361,707)		(361,707)
Transportation	1,019,003	387,008	708,134		76,139		76,139
Capital Outlay	75,995				(75,995)		(75,995)
Debt Service:							
Interest and Fiscal Charges	759,333				(759,333)		(759,333)
Principal Retirements	6,119,863				(6,119,863)		(6,119,863)
<i>Total Governmental Activities</i>	<u>30,584,767</u>	<u>2,696,915</u>	<u>1,322,204</u>	<u>201,383</u>	<u>(26,364,265)</u>	<u>\$ -</u>	<u>(26,364,265)</u>
Business-Type Activities:							
Refuse Collections	1,027,413	866,099				(161,314)	(161,314)
Water	2,609,468	2,772,703				163,235	163,235
<i>Total Business-Type Activities</i>	<u>3,636,881</u>	<u>3,638,802</u>				<u>1,921</u>	<u>1,921</u>
<i>Totals</i>	<u>\$ 34,221,648</u>	<u>\$ 6,335,717</u>	<u>\$ 1,322,204</u>	<u>\$ 201,383</u>	<u>(26,364,265)</u>	<u>1,921</u>	<u>(26,362,344)</u>
General Revenues:							
Taxes:							
Property Taxes					2,730,215		2,730,215
Income Taxes					12,703,014		12,703,014
Municipal Motor Vehicle Taxes					122,075		122,075
Other Taxes					4,275		4,275
Grants and Entitlements not Restricted to Specific Programs					1,341,620		1,341,620
Unrestricted Contributions					792,371		792,371
Investment Earnings					83,953		83,953
Miscellaneous					38,767		38,767
Transfers							
Bond Anticipation Notes Issued					10,335,000	185,966	10,335,000
Other Financing Uses					(51,675)		(51,675)
OPERATING REVENUES:							
Utility Deposits Received						902	902
<i>Total General Revenues and Transfers</i>					<u>27,913,649</u>	<u>186,868</u>	<u>28,100,517</u>
<i>Change in Net Assets</i>					<u>1,549,384</u>	<u>188,789</u>	<u>1,738,173</u>
<i>Net Assets Beginning of Year</i>					<u>16,757,951</u>	<u>2,338,807</u>	<u>19,096,758</u>
<i>Net Assets End of Year</i>					<u>\$ 18,307,335</u>	<u>\$ 2,527,596</u>	<u>\$ 20,834,931</u>

City of Norwood
Balance Sheet
Governmental Funds
December 31, 2005

	<u>General Fund</u>	<u>Permissive Tax</u>	<u>Economic Development Fund</u>	<u>Development Impact Fund</u>	<u>Debt Service</u>	<u>Cornerstone Tax Incentitive Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:								
Equity in Pooled Cash and Cash Equivalents	\$ 1,003,545	\$ 637,294	\$ 513,794	\$ 700,000	\$ 10,631	\$ 36,313	\$ 1,212,692	\$ 4,114,269
<i>Total Assets</i>	<u>\$ 1,003,545</u>	<u>\$ 637,294</u>	<u>\$ 513,794</u>	<u>\$ 700,000</u>	<u>\$ 10,631</u>	<u>\$ 36,313</u>	<u>\$ 1,212,692</u>	<u>\$ 4,114,269</u>
FUND BALANCES:								
Unreserved, Undesignated, Reported in:								
General Fund	\$ 1,003,545							\$ 1,003,545
Special Revenue Funds		\$ 637,294	\$ 513,794	\$ 700,000			\$ 786,875	2,637,963
Debt Service Funds					\$ 10,631	\$ 36,313		46,944
Capital Projects Funds							425,817	425,817
<i>Total Fund Balances</i>	<u>1,003,545</u>	<u>637,294</u>	<u>513,794</u>	<u>700,000</u>	<u>10,631</u>	<u>36,313</u>	<u>1,212,692</u>	<u>4,114,269</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,003,545</u>	<u>\$ 637,294</u>	<u>\$ 513,794</u>	<u>\$ 700,000</u>	<u>\$ 10,631</u>	<u>\$ 36,313</u>	<u>\$ 1,212,692</u>	<u>\$ 4,114,269</u>

City of Norwood
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities - Modified Cash Basis
 December 31, 2005*

Total Governmental Fund Balances \$4,114,269

*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. These assets consist of:

Land	4,077,513	
Land Improvements	1,488,519	
Building and Improvements	4,032,174	
Equipment	2,973,529	
Vehicles	1,451,046	
Infrastructure	12,755,682	
Accumulated Depreciation	(12,585,397)	
Total Capital Assets	14,193,066	14,193,066

Net Assets of Governmental Activities \$18,307,335

See Accompanying Notes to the Basic Financial Statements

City of Norwood
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	<u>General Fund</u>	<u>Permissive Tax</u>	<u>Economic Development Fund</u>	<u>Development Impact Fund</u>	<u>Debt Service</u>	<u>Cornerstone Tax Incentive Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:								
Property Taxes	\$ 2,381,853				\$ 329,982	\$ 18,380		\$ 2,730,215
Income Taxes	12,703,014							12,703,014
Permissive Motor Vehicle License Taxes		122,075						122,075
Other Local Taxes	4,275							4,275
Special Assessments					380,943			380,943
Charges for Services	470,542		3,953				544,523	1,019,018
Licenses and Permits	341,281						80,453	421,734
Fines and Forfeitures	751,069						98,376	849,445
Intergovernmental	1,273,031						1,026,372	2,299,403
Interest	66,278		15,326		2,349		7,873	91,826
Rent	25,775							25,775
Contributions and Donations	1,091,518						57,401	1,148,919
Other	31,470		201,383				7,297	240,150
<i>Total Revenues</i>	<u>19,140,106</u>	<u>122,075</u>	<u>220,662</u>	<u>0</u>	<u>713,274</u>	<u>18,380</u>	<u>1,822,295</u>	<u>22,036,792</u>
EXPENDITURES:								
Current:								
General Government:								
Legislative and Executive	2,914,981				5,513		731,081	3,651,575
Judicial System	527,448						6,448	533,896
Security of Persons and Property:								
Police	5,036,158						126,180	5,162,338
Fire	5,502,468						133,828	5,636,296
Building & Service Directors Department	398,705							398,705
Dispatchers	604,638							604,638
Police and Fire Pension Repayment Fund							210,000	210,000
Public Health	460,114						83,129	543,243
Lesiure Time Services	376,432						396,474	772,906
Community and Economic Development			110,994			4,160,567		4,271,561
Public Works	354,255							354,255
Transportation	343,395	42,286					607,099	992,780
Capital Outlay							75,995	75,995
Debt Service:								
Principal Retirements		59,099			200,764	5,860,000		6,119,863
Interest and Fiscal Charges					496,366	262,967		759,333
<i>Total Expenditures</i>	<u>16,518,594</u>	<u>101,385</u>	<u>110,994</u>	<u>0</u>	<u>702,643</u>	<u>10,283,534</u>	<u>2,370,234</u>	<u>30,087,384</u>
<i>Excess of Revenues Over(Under) Expenditures</i>	<u>2,621,512</u>	<u>20,690</u>	<u>109,668</u>	<u>0</u>	<u>10,631</u>	<u>(10,265,154)</u>	<u>(547,939)</u>	<u>(8,050,592)</u>
OTHER FINANCING SOURCES AND USES:								
Transfers In				700,000			1,101,317	1,801,317
Bond Anticipation Notes Issued						10,283,325		10,283,325
Other Financing Sources						51,675		51,675
Transfers Out	(1,987,283)							(1,987,283)
Other Financing Uses						(51,675)		(51,675)
<i>Total Other Financing Sources and Uses</i>	<u>(1,987,283)</u>			<u>700,000</u>		<u>10,283,325</u>	<u>1,101,317</u>	<u>10,097,359</u>
<i>Net Change in Fund Balance</i>	634,229	20,690	109,668	700,000	10,631	18,171	553,378	2,046,767
<i>Fund Balance (Deficit) at Beginning of Year</i>	369,316	616,604	404,126	0	0	18,142	659,314	2,067,502
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 1,003,545</u>	<u>\$ 637,294</u>	<u>\$ 513,794</u>	<u>\$ 700,000</u>	<u>\$ 10,631</u>	<u>\$ 36,313</u>	<u>\$ 1,212,692</u>	<u>\$ 4,114,269</u>

City of Norwood

*Reconciliation of the Statement of Receipts, Disbursements and Changes
in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended December 31, 2005*

Net Change in Fund Balances - Total Governmental Funds \$2,046,767

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

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

Capital Outlay	134,985	
Depreciation Expense	(632,368)	
Excess of Capital Outlay over Depreciation Expense	<u> </u>	<u>(497,383)</u>

Change in Net Assets of Governmental Activities \$1,549,384

See Accompanying Notes to the Basic Financial Statements

City of Norwood
Statement of Fund Net Assets
Proprietary Funds
December 31, 2005

	<u>Water</u>	<u>Other Enterprise Fund</u>	<u>Totals</u>
ASSETS:			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 907,099	\$ 24,652	\$ 931,751
<i>Total Current Assets</i>	<u>907,099</u>	<u>24,652</u>	<u>931,751</u>
Noncurrent Assets:			
Capital Assets:			
Building and Building Improvements	54,890		54,890
Equipment	65,387		65,387
Vehicles	163,198		163,198
Infrastructure	2,660,957		2,660,957
Accumulated Depreciation:			
Buildings & Building Improvements	(54,890)		(54,890)
Equipments	(50,595)		(50,595)
Vehicles	(154,552)		(154,552)
Infrastructure	(1,088,550)		(1,088,550)
<i>Total Noncurrent Assets</i>	<u>1,595,845</u>	<u></u>	<u>1,595,845</u>
<i>Total Assets</i>	<u>2,502,944</u>	<u>24,652</u>	<u>2,527,596</u>
NET ASSETS:			
Invested in Capital Assets	1,595,845		1,595,845
Unrestricted	907,099	24,652	931,751
<i>Total Net Assets</i>	<u>\$ 2,502,944</u>	<u>\$ 24,652</u>	<u>\$ 2,527,596</u>

City of Norwood
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005

	<u>Water</u>	<u>Other Enterprise Fund</u>	<u>Totals</u>
OPERATING REVENUES:			
Charges for Services	\$ 2,772,703	\$ 866,099	\$ 3,638,802
Utility Deposits Received	902		902
<i>Total Operating Revenues</i>	<u>2,773,605</u>	<u>866,099</u>	<u>3,639,704</u>
OPERATING EXPENSES:			
Personal Services	574,067		574,067
Contractual Services	1,874,684	1,026,631	2,901,315
Materials and Supplies	58,387		58,387
Depreciation	60,224		60,224
Refunds	276	782	1,058
Other	1,026		1,026
<i>Total Operating Expenses</i>	<u>2,568,664</u>	<u>1,027,413</u>	<u>3,596,077</u>
<i>Operating Income (Loss)</i>	<u>204,941</u>	<u>(161,314)</u>	<u>43,627</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest and Fiscal Charges	(5,380)		(5,380)
Principal Retirement	(35,424)		(35,424)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(40,804)</u>		<u>(40,804)</u>
<i>Income (Loss) Before Contributions and Transfers</i>	164,137	(161,314)	2,823
Transfers In		185,966	185,966
<i>Change in Net Assets</i>	164,137	24,652	188,789
<i>Net Assets (Deficit) at Beginning of Year</i>	<u>2,338,807</u>		<u>2,338,807</u>
<i>Net Assets (Deficit) at End of Year</i>	<u>\$ 2,502,944</u>	<u>\$ 24,652</u>	<u>\$ 2,527,596</u>

City of Norwood
Statement of Fiduciary Net Assets
Fiduciary Fund
December 31, 2005

	<u>Agency Fund</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 485,842
<i>Total Current Assets</i>	<u>485,842</u>
<i>Total Assets</i>	<u>485,842</u>
LIABILITIES:	
Current Liabilities:	
Undistributed Monies	137,622
<i>Total Current Liabilities</i>	<u>137,622</u>
<i>Total Liabilities</i>	<u>137,622</u>
NET ASSETS:	
Unrestricted	<u>348,220</u>
<i>Total Net Assets</i>	<u>\$ 348,220</u>

City of Norwood
Statement of Net Assets
December 31, 2004

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 2,067,502	\$ 682,738	\$ 2,750,240
Noncurrent Assets:			
Land	4,077,513		4,077,513
Land and Land Improvements	1,488,519		1,488,519
Capital Assets:			
Building and Building Improvements	4,032,174	54,890	4,087,064
Equipment	1,316,061	65,387	1,381,448
Vehicles	2,973,529	163,198	3,136,727
Infrastructure	12,755,682	2,660,957	15,416,639
Accumulated Depreciation:			
Land Improvements	(544,857)		(544,857)
Buildings & Building Improvements	(1,973,701)	(54,890)	(2,028,591)
Equipments	(846,099)	(47,358)	(893,457)
Vehicles	(1,487,134)	(138,586)	(1,625,720)
Infrastructure	(7,101,238)	(1,047,529)	(8,148,767)
<i>Total Assets</i>	<u>16,757,951</u>	<u>2,338,807</u>	<u>19,096,758</u>
NET ASSETS:			
Invested in Capital Assets	14,690,449	1,656,069	16,346,518
Restricted for Debt Service	18,142		18,142
Restricted for Capital Outlay	126,812		126,812
Restricted for Other Purposes	1,553,232		1,553,232
Unrestricted	369,316	682,738	1,052,054
<i>Total Net Assets</i>	<u>\$ 16,757,951</u>	<u>\$ 2,338,807</u>	<u>\$ 19,096,758</u>

City of Norwood
Statement of Activities
For the Year Ended December 31, 2004

	Program Revenues			Net(Expense)Revenue and Changes in Net Assets			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government:							
Legislative and Executive	\$ 3,415,033	\$ 628,324	\$ 70,201		\$ (2,716,508)		\$ (2,716,508)
Judicial System	538,014	483,781			(54,233)		(54,233)
Security of Persons and Property:							
Police	5,127,460	360,017	30,702		(4,736,741)		(4,736,741)
Fire	5,556,471	433,926	229,050		(4,893,495)		(4,893,495)
Building & Service Directors Department	376,596				(376,596)		(376,596)
Dispatchers	591,687				(591,687)		(591,687)
Police and Fire Pension Repayment Fund	192,500				(192,500)		(192,500)
Public Services	459,465				(459,465)		(459,465)
Public Health	508,350	64,431	87,527		(356,392)		(356,392)
Lesiure Time Services	1,281,691	219,554	100,680		(961,457)		(961,457)
Community and Economic Development	390,907			470,327	79,420		79,420
Public Works	827,490	54,977	607,641		(164,872)		(164,872)
Basic Utily Services:							
Sanitation Services	250				(250)		(250)
Transportation							
Capital Outlay	1,016,303	381,068			(635,235)		(635,235)
Debt Service:							
Interest and Fiscal Charges	664,175				(664,175)		(664,175)
Principal Retirements	6,747,422				(6,747,422)		(6,747,422)
<i>Total Governmental Activities</i>	<u>33,443,814</u>	<u>2,626,078</u>	<u>1,125,801</u>	<u>528,327</u>	<u>(29,163,608)</u>		<u>(29,163,608)</u>
Business-Type Activities:							
Water	2,861,426	2,555,955				(305,471)	(305,471)
<i>Total Business-Type Activities</i>	<u>2,861,426</u>	<u>2,555,955</u>				<u>(305,471)</u>	<u>(305,471)</u>
<i>Totals</i>	<u>\$ 36,305,240</u>	<u>\$ 5,182,033</u>	<u>\$ 1,125,801</u>	<u>\$ 528,327</u>	<u>(29,163,608)</u>	<u>(305,471)</u>	<u>(29,469,079)</u>
General Revenues:							
Taxes:							
Property Taxes					2,761,959		2,761,959
Income Taxes					11,215,645		11,215,645
Municipal Motor Vehicle Taxes					132,615		132,615
Other Taxes					3,491		3,491
Grants and Entitlements not Restricted to Specific Programs					1,310,903		1,310,903
Unrestricted Contributions					15,474		15,474
Investment Earnings					31,613		31,613
Miscellaneous					34,760		34,760
Transfers							
Bonds Issued					451,465		451,465
Refunding Bonds Issued					6,545,752		6,545,752
Proceeds of Notes					5,860,000		5,860,000
Other Financing Uses					(110,000)		(110,000)
OPERATING REVENUES:							
Utility Deposits Received						1,110	1,110
<i>Total General Revenues and Transfers</i>					<u>28,253,677</u>	<u>1,110</u>	<u>28,254,787</u>
<i>Change in Net Assets</i>					(909,931)	(304,361)	(1,214,292)
<i>Net Assets Beginning of Year</i>					17,667,882	2,643,168	20,311,050
<i>Net Assets End of Year</i>					<u>\$ 16,757,951</u>	<u>\$ 2,338,807</u>	<u>\$ 19,096,758</u>

City of Norwood
Balance Sheet
Governmental Funds
December 31, 2004

	<u>General Fund</u>	<u>Permissive Tax</u>	<u>Economic Development Fund</u>	<u>Debt Service</u>	<u>Cornerstone Tax Incentitive Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:							
Equity in Pooled Cash and Cash Equivalents	\$ 369,316	\$ 616,604	\$ 404,126	\$ -	\$ 18,142	\$ 659,314	\$ 2,067,502
<i>Total Assets</i>	<u>\$ 369,316</u>	<u>\$ 616,604</u>	<u>\$ 404,126</u>	<u>\$ -</u>	<u>\$ 18,142</u>	<u>\$ 659,314</u>	<u>\$ 2,067,502</u>
FUND BALANCES:							
Unreserved, Undesignated, Reported in:							
General Fund	\$ 369,316						\$ 369,316
Special Revenue Funds		\$ 616,604	\$ 404,126			\$ 532,502	1,553,232
Debt Service Funds					\$ 18,142		18,142
Capital Projects Funds				\$ -		126,812	126,812
<i>Total Fund Balances</i>	<u>369,316</u>	<u>616,604</u>	<u>404,126</u>	<u>-</u>	<u>18,142</u>	<u>659,314</u>	<u>2,067,502</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 369,316</u>	<u>\$ 616,604</u>	<u>\$ 404,126</u>	<u>\$ -</u>	<u>\$ 18,142</u>	<u>\$ 659,314</u>	<u>\$ 2,067,502</u>

City of Norwood
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities - Modified Cash Basis
 December 31, 2004*

Total Governmental Fund Balances \$2,067,502

*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. These assets consist of:

Land	4,077,513	
Land Improvements	1,488,519	
Building and Improvements	4,032,174	
Equipment	2,973,529	
Vehicles	1,316,061	
Infrastructure	12,755,682	
Accumulated Depreciation	(11,953,029)	
Total Capital Assets		14,690,449

Net Assets of Governmental Activities \$16,757,951

See Accompanying Notes to the Basic Financial Statements

City of Norwood
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	<u>General Fund</u>	<u>Permissive Tax</u>	<u>Economic Development Fund</u>	<u>Debt Service</u>	<u>Cornerstone Tax Incentive Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:							
Property Taxes	\$ 2,743,817				\$ 18,142		\$ 2,761,959
Income Taxes	11,215,645						11,215,645
Permissive Motor Vehicle License Taxes		\$ 132,615					132,615
Other Local Taxes	3,491						3,491
Special Assessments				\$ 381,068			381,068
Charges for Services	547,921					\$ 435,819	983,740
Licenses and Permits	291,890					71,389	363,279
Fines and Forfeitures	761,536					68,378	829,914
Intergovernmental	1,310,683					1,055,750	2,366,433
Interest	23,000		\$ 5,114	3,499		5,241	36,854
Rent	19,847						19,847
Contributions and Donations	83,959					102,775	186,734
Other	30,007		470,327			4,753	505,087
<i>Total Revenues</i>	<u>17,031,796</u>	<u>132,615</u>	<u>475,441</u>	<u>384,567</u>	<u>18,142</u>	<u>1,744,105</u>	<u>19,786,666</u>
EXPENDITURES:							
Current:							
General Government:							
Legislative and Executive	2,750,589			11,095		652,281	3,413,965
Judicial System	515,453					22,561	538,014
Security of Persons and Property:							
Police	4,917,380					132,038	5,049,418
Fire	5,125,610					325,504	5,451,114
Building & Service Directors Department	369,693						369,693
Dispatchers	572,826						572,826
Police and Fire Pension Repayment Fund						192,500	192,500
Public Services						459,465	459,465
Public Health	427,376					78,466	505,842
Leisure Time Services	374,303					506,287	880,590
Community and Economic Development	1,771		389,136				390,907
Public Works	820,038						820,038
Basic Utility Services:							
Sanitation Services	250						250
Transportation	280,824	94,207				615,049	990,080
Capital Outlay					5,750,000		5,750,000
Debt Service:							
Principal Retirements		12,354		6,734,704		364	6,747,422
Interest and Fiscal Charges				664,175			664,175
<i>Total Expenditures</i>	<u>16,156,113</u>	<u>106,561</u>	<u>389,136</u>	<u>7,409,974</u>	<u>5,750,000</u>	<u>2,984,515</u>	<u>32,796,299</u>
<i>Excess of Revenues Over(Under) Expenditures</i>	<u>875,683</u>	<u>26,054</u>	<u>86,305</u>	<u>(7,025,407)</u>	<u>(5,731,858)</u>	<u>(1,240,410)</u>	<u>(13,009,633)</u>
OTHER FINANCING SOURCES AND USES:							
Transfers In				477,077		686,693	1,163,770
Bonds Issued						451,465	451,465
Refunding Bonds Issued				6,545,752			6,545,752
Other Financing Sources					5,860,000		5,860,000
Transfers Out	(1,163,770)						(1,163,770)
Other Financing Uses					(110,000)		(110,000)
<i>Total Other Financing Sources and Uses</i>	<u>(1,163,770)</u>			<u>7,022,829</u>	<u>5,750,000</u>	<u>1,138,158</u>	<u>12,747,217</u>
<i>Net Change in Fund Balance</i>	<u>(288,087)</u>	<u>26,054</u>	<u>86,305</u>	<u>(2,578)</u>	<u>18,142</u>	<u>(102,252)</u>	<u>(262,416)</u>
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>657,403</u>	<u>590,550</u>	<u>317,821</u>	<u>2,578</u>	<u>0</u>	<u>761,566</u>	<u>2,329,918</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 369,316</u>	<u>\$ 616,604</u>	<u>\$ 404,126</u>	<u>\$ -</u>	<u>\$ 18,142</u>	<u>\$ 659,314</u>	<u>\$ 2,067,502</u>

City of Norwood

*Reconciliation of the Statement of Receipts, Disbursements and Changes
in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended December 31, 2004*

Net Change in Fund Balances - Total Governmental Funds (\$262,416)

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

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

Capital Outlay	5,135	
Depreciation Expense	<u>(652,650)</u>	
Excess of Capital Outlay over Depreciation Expense		<u>(647,515)</u>

Change in Net Assets of Governmental Activities (\$909,931)

See Accompanying Notes to the Basic Financial Statements

City of Norwood
Statement of Fund Net Assets
Proprietary Fund
December 31, 2004

	<u>Water</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 682,738
<i>Total Current Assets</i>	<u>682,738</u>
Noncurrent Assets:	
Capital Assets:	
Building and Building Improvements	54,890
Equipment	65,387
Vehicles	163,198
Infrastructure	2,660,957
Accumulated Depreciation:	
Buildings & Building Improvements	(54,890)
Equipments	(47,358)
Vehicles	(138,586)
Infrastructure	(1,047,529)
<i>Total Noncurrent Assets</i>	<u>1,656,069</u>
<i>Total Assets</i>	<u>2,338,807</u>
NET ASSETS:	
Invested in Capital Assets	1,656,069
Unrestricted	<u>682,738</u>
<i>Total Net Assets</i>	<u>\$ 2,338,807</u>

City of Norwood
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended December 31, 2004

	Water
OPERATING REVENUES:	
Charges for Services	\$ 2,555,955
Utility Deposits Received	1,110
	<u>2,557,065</u>
<i>Total Operating Revenues</i>	<u>2,557,065</u>
OPERATING EXPENSES:	
Personal Services	575,262
Contractual Services	2,136,211
Materials and Supplies	46,708
Depreciation	61,415
Refunds	1,025
	<u>2,820,621</u>
<i>Total Operating Expenses</i>	<u>2,820,621</u>
<i>Operating Income (Loss)</i>	<u>(263,556)</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest and Fiscal Charges	(6,420)
Principal Retirement	(34,385)
	<u>(40,805)</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(40,805)</u>
<i>Change in Net Assets</i>	(304,361)
<i>Net Assets (Deficit) at Beginning of Year</i>	<u>2,643,168</u>
<i>Net Assets (Deficit) at End of Year</i>	<u>\$ 2,338,807</u>

City of Norwood
Statement of Fiduciary Net Assets
Fiduciary Fund
December 31, 2004

	<u>Agency Fund</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 419,380
<i>Total Current Assets</i>	<u>419,380</u>
<i>Total Assets</i>	<u>419,380</u>
LIABILITIES:	
Current Liabilities:	
Undistributed Monies	71,160
<i>Total Current Liabilities</i>	<u>71,160</u>
<i>Total Liabilities</i>	<u>71,160</u>
NET ASSETS:	
Unrestricted	<u>348,220</u>
<i>Total Net Assets</i>	<u>\$ 348,220</u>

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

1. DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Norwood, Hamilton County, Ohio (the City), was incorporated in 1888 as a political subdivision of the State of Ohio established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

Reporting Entity

The City operates under the Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture- recreation, public improvements, planning and zoning and general administrative services.

The accompanying general purpose financial statements comply with the provisions of the Governmental Accounting Standards Board (the GASB) Statement No. 14, "The Financial Reporting Entity," in that the financial statements include all of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's governing body and either (1) the City's ability to impose its will over the component unit, or (2) the potential that the component unit will provide a financial benefit to or impose a financial burden on the City. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. Based on the foregoing, the City as a reporting entity does not have any component units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Basis of Accounting in Note 2, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. For governmental activities, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The more significant of the City's accounting policies are described below.

Basis of Presentation

The City's basic financial statements consist of government-wide financial 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.

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 government-wide statements usually distinguish between those activities that are governmental in nature and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for good or services.

The Statement of Net Assets presents the cash balance of the governmental and business-type activities of the City at fiscal year-end. The Statement of Activities compares disbursements with program receipts for each function of the City's governmental activities and for the business-type activities of the City. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the City's general receipts.

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. The internal service fund is presented in a single column on the face of the proprietary fund financial statements. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

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.

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

General Fund – This is the chief operating fund for the City and it is used to account for all revenues and expenditures which are not accounted for in other funds. The primary sources of revenue for this fund are earnings taxes, property taxes and local government funds.

Permissive Tax Fund – This fund is used to account for revenues derived from state collected, locally distributed motor vehicle license fees; and to account for all expenditures relating to specific road improvements approved by the County Engineer.

Economic Development Fund – This fund is used to account for revenues derived from the repayment of Urban Development Action Grants to the city; and to account for all expenditures relating to economic development.

Development Impact Fund – This fund is used to account for revenue received from development impact fees.

Debt Service Fund – This fund is used to account for debt service principal and interest payments.

Cornerstone Tax Incentive Fund – This fund is used to account for property taxes collected for the payment of tax increment financing bonded debt with governmental commitment.

The other governmental funds of the City account for grants and other resources that are generally restricted to use for a particular purpose.

Proprietary Fund

Proprietary fund reporting is focused on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. In FY 2004, the City has only one proprietary fund, which is an enterprise fund. In FY 2005, the following fund is reported as the City's major proprietary fund:

Water Fund - This fund accounts for the acquisitions, operations and maintenance of City facilities and services designated to be entirely, or predominately, self-supported from user charges for water.

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

These funds are used to account for assets held by the City in a fiduciary capacity. Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature and do not involve measurement of results of operations. The City had the following significant agency fund.

Sewage Fund – This fund is used to account for moneys collected from Norwood citizens, business and industries for sewer service; and to account for the payment of sewer bills.

Basis of Accounting

The City's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the City's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the City are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Budgetary Data

Operating budgets are legally adopted each fiscal year for all funds except the C-9 Trust special revenue fund, Trust and Agency funds. The budgetary process begins at least six months prior to the calendar year for which the budget is to be adopted, with the City certifying the proposed budget to the County Auditor by July 20 or as extended by the County Auditor. By January 1, City Council may adopt annual or temporary appropriation measures using, in part, the official certificate of estimated resources approved by the County Budget Commission and tax rates certified by the County Auditor. By April 1, City Council must adopt annual appropriation ordinances. All annual appropriations lapse at year end.

The levels of appropriation control for the General Fund, and certain other Special Revenue Funds, including the Street Maintenance and Repair Fund, State Highway Fund, Economic Development Fund, and Paramedic Fund, for each budgeted expenditure classification that may not be exceeded are: personal services, contractual, materials & supplies, and other. The levels of appropriation control for the budgeted expenditures that may not be exceeded in the Debt Service Fund are principal retirement and interest. All other city funds are appropriated in total by fund. Any revisions that alter the budgeted expenditure classification of any division within a City department must be approved by City Council. During the year, several supplementary appropriations were necessary. Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

To improve cash management, cash received by the City is pooled and invested. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

The City had no investments in 2004 and 2005.

Interest earnings are allocated to the City funds according to State statutes, Codified Ordinances of the City, grant requirements, or related debt restrictions. Interest receipts credited to the General Fund during 2004 was \$23,000 which includes \$20,647 assigned from other City funds. Interest receipts credited to the General Fund during 2005 was 66,278 which includes \$52,660 assigned from other City funds.

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 statements of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary fund are reported in both in the business-type activities column of the government-wide statement of net assets and in the proprietary funds. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date of donation.

The City's infrastructure consists of right-of-ways, water mains, storm system, manholes, roadway systems, sidewalks, and curbing. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Infrastructure for the proprietary fund is the water system. The City of Norwood is committed to adequately maintain and preserve its water system and it should continue to function indefinitely.

All reported capital assets are depreciated except land. Improvements are depreciated over the remaining useful life of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records or a known average installed cost for a like unit at the estimated acquisition date. The depreciation begins six months after acquisitions. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	45-100
Machinery and Equipment	3-20
Licensed Vehicles	6-15
Infrastructure	40-100

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Reserves

The City reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for police and fire protection, C-9 Trust and federal and State grants restricted to cash disbursement for specified purposes. The City's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Inter-Fund Transactions

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

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without the requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Monies held by the City are classified by State statute into three categories.

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

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

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

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

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

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At 12/31/05 and 12/31/04, \$6,153,578 and \$3,849,380 of the City's bank balance of \$6,253,578 and \$3,949,380 respectively was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

4. INCOME TAXES

City Earnings Tax

The locally levied 2.0% earnings tax applies to gross salaries, wages and other personal service compensation earned by residents both in and out of the City and to earnings of nonresidents (except certain transients) earned in the City. It also applies to net income of business organizations for business conducted in the City. The tax is the largest single source of General Fund revenue. Actual collections in 2004 and 2005 were \$11,215,645 and \$12,703,014.

5. PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax receipts received in 2004 represent the collection of 2003 taxes. Real property taxes received in 2004 were levied after October 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2004 represent the collection of 2003 taxes. Public utility real and tangible personal property taxes received in 2003 became a lien on December 31, 2002, were levied after October 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2004 (other than public utility property) represent the collection of 2004 taxes. Tangible personal property taxes received in 2004 were levied after October 1, 2003, on the true value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2004, was \$11.40 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property	
Residential/Agriculture	\$179,855,000
Commercial/Industrial/Mineral	115,395,000
Public Utility Property	20,090,000
Tangible Personal Property	58,068,480
Total Assessed Value	<u>\$373,408,480</u>

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

5. PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable

annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2003 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2005, was \$11.40 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	
Residential/Agriculture	\$179,992,000
Commercial/Industrial/Mineral	116,874,000
Public Utility Property	17,696,000
Tangible Personal Property	57,675,130
Total Assessed Value	<u>\$372,237,130</u>

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 and 2005 was as follows:

Governmental Activities

	Balance at 12/31/03	Additions	Deletions	Balance at 12/31/04
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$4,077,513	\$0	\$0	\$4,077,513
Depreciable Capital Assets:				
Land Improvements	1,488,519	0	0	1,488,519
Buildings	4,032,174	0	0	4,032,174
Vehicles	2,973,529	0	0	2,973,529
Equipment	1,310,926	5,135	0	1,316,061
Infrastructure	12,755,682	0	0	12,755,682
Total Depreciable Capital Assets	22,560,830	5,135	0	22,565,965
Less Accumulated Depreciation:				
Land Improvements	485,557	59,300	0	544,857
Buildings	1,914,771	58,930	0	1,973,701
Vehicles	1,294,352	192,782	0	1,487,134
Equipment	774,171	71,928	0	846,099
Infrastructure	6,831,528	269,710	0	7,101,238
Total Accumulated Depreciation	11,300,379	652,650	0	11,953,029
Depreciable Capital Assets, Net	11,260,451	(647,515)	0	10,612,936
Governmental Activities Capital Assets, Net	\$15,337,964	(\$647,515)	\$0	\$14,690,449

	Balance at 12/31/03	Additions	Deletions	Balance at 12/31/04
Business-Type Activity				
Depreciable Capital Assets:				
Buildings	\$54,890	\$0	\$0	\$54,890
Equipments	65,387	0	0	65,387
Vehicles	163,198	0	0	163,198
Infrastructure	2,660,957	0	0	2,660,957
Total Depreciable Capital Assets	2,944,432	0	0	2,944,432
Less Accumulated Depreciation:				
Buildings	54,890	0	0	54,890
Equipments	44,122	3,236	0	47,358
Vehicles	121,428	17,158	0	138,586
Infrastructure	1,006,508	41,021	0	1,047,529
Total Accumulated Depreciation	1,226,948	61,415	0	1,288,363
Business-Type Activity Capital Assets, Net	\$1,717,484	(\$61,415)	\$0	\$1,656,069

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

6. CAPITAL ASSETS (Continued)

	Balance at 12/31/04	Additions	Deletions	Balance at 12/31/05
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$4,077,513	\$0	\$0	\$4,077,513
Depreciable Capital Assets:				
Land Improvements	1,488,519	0	0	1,488,519
Buildings	4,032,174	0	0	4,032,174
Vehicles	2,973,529	0	0	2,973,529
Equipment	1,316,061	134,985	0	1,451,046
Infrastructure	12,755,682	0	0	12,755,682
Total Depreciable Capital Assets	22,565,965	134,985	0	22,700,950
Less Accumulated Depreciation:				
Land Improvements	544,857	59,300	0	604,157
Buildings	1,973,701	58,930	0	2,032,631
Vehicles	1,487,134	187,462	0	1,674,596
Equipment	846,099	68,141	0	914,240
Infrastructure	7,101,238	258,535	0	7,359,773
Total Accumulated Depreciation	11,953,029	632,368	0	12,585,397
Depreciable Capital Assets, Net	10,612,936	(497,383)	0	10,115,553
Governmental Activities Capital Assets, Net	\$14,690,449	(\$497,383)	\$0	\$14,193,066
	Balance at 12/31/04	Additions	Deletions	Balance at 12/31/05
Business-Type Activity				
Depreciable Capital Assets:				
Buildings	\$54,890	\$0	\$0	\$54,890
Equipments	65,387	0	0	65,387
Vehicles	163,198	0	0	163,198
Infrastructure	2,660,957	0	0	2,660,957
Total Depreciable Capital Assets	2,944,432	0	0	2,944,432
Less Accumulated Depreciation:				
Buildings	54,890	0	0	54,890
Equipments	47,358	3,237	0	50,595
Vehicles	138,586	15,966	0	154,552
Infrastructure	1,047,529	41,021	0	1,088,550
Total Accumulated Depreciation	1,288,363	60,224	0	1,348,587
Business-Type Activity Capital Assets, Net	\$1,656,069	(\$60,224)	\$0	\$1,595,845

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

7. LONG-TERM DEBT

The City's long-term debt activity for the year ended December 31, 2004 and 2005, was as follows

	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004	Due Within One Year
<u>Governmental Activities:</u>					
2003 OPWC - Williams Avenue Resurfacing Loan, 0%	\$247,089	\$0	\$12,354	\$234,735	\$12,354
2003 OPWC - Montgomery Road Phase II Loan, 0%	171,790	451,465	0	623,255	31,163
2003 Central Parke Project Special Assessment	2,716,422	0	138,953	2,577,469	150,764
2003 Various Purpose Refunding Obligation Bonds, 3.38%	6,595,752	0	6,595,752	0	0
2004 Various Purpose Refunding Obligation Bonds, 4.48%	0	6,545,752	0	6,545,752	50,000
2004 Tax Incremental Financing Revenue Anticipation Notes, 4.5%	0	5,860,000	0	5,860,000	5,860,000
Total Governmental Activities	<u>\$9,731,053</u>	<u>\$12,857,217</u>	<u>\$6,747,059</u>	<u>\$15,841,211</u>	<u>\$6,104,281</u>
<u>Business-Type Activity:</u>					
1994 OPWC - Improvement Water Loan, 3%	\$222,538	\$0	\$34,384	\$188,154	35,424
	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
<u>Governmental Activities:</u>					
2003 OPWC - Williams Avenue Resurfacing Loan, 0%	\$234,735	\$0	\$12,354	\$222,381	\$12,354
2003 OPWC - Montgomery Road Phase II Loan, 0%	623,255	0	46,744	576,511	31,163
2003 Central Parke Project Special Assessment	2,577,469	0	150,764	2,426,705	163,579
2004 Various Purpose Refunding Obligation Bonds, 4.48%	6,545,752	0	50,000	6,495,752	150,000
2004 Tax Incremental Financing Revenue Anticipation Notes, 4.5%	5,860,000	0	5,860,000	0	0
2005 Tax Incremental Financing Revenue Anticipation Notes, 4.5%	0	10,335,000	0	10,335,000	10,335,000
Total Governmental Activities	<u>\$15,841,211</u>	<u>\$10,335,000</u>	<u>\$6,119,862</u>	<u>\$20,056,349</u>	<u>\$10,692,096</u>
<u>Business-Type Activity:</u>					
1994 OPWC - Improvement Water Loan, 3%	\$188,154	\$0	\$35,424	\$152,730	36,494

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

7. LONG-TERM DEBT(Continued)

During 2003, the City entered into a loan agreement with the Ohio Public Works Commission to help resurface Williams Avenue and the second phase of work on Montgomery Road. These are interest free, twenty year loans and the maturity date is January 1, 2024.

During 2003, the City entered into a loan agreement with the Ohio Public Works Commission for the Montgomery Road project. These are interest free, twenty year loans and the maturity date is July 1, 2024.

The special assessment debt is serviced by revenues received from special assessments and is also backed by the full faith and credit of the government as additional security.

The general obligation debt is tax-supported. Annually, City Council authorizes a transfer from the General Fund to the Debt Service Fund to service the tax-supported debt. During 2004, the City's general obligation bonds were refunded.

In 2005, the Tax Increment Financing Revenue Anticipation Notes were refinanced. TIF Revenues from all incremental property taxes paid from parcels within the TIF district as defined by the City encompassing the project known as the "Cornerstone at Norwood". These incremental taxes on the TIF district will be collected by the Hamilton County Auditor and disbursed to the City of Norwood for the payment of the notes.

During 1994, the City entered into a loan agreement with the Ohio Public Works Commission to help fund improvement of the water distribution system. The interest rate on the loan is 3% and the maturity date is January 1, 2010.

Revenues from all sources have been sufficient to meet all of the City's debt service requirements through December 31, 2004 and 2005.

The following is a summary of the City's future annual debt service requirements for governmental and business-type activities:

Year	Special Assessment Bonds		Various Purpose Bond		Tax Increment	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$163,579	\$206,270	\$150,000	\$274,499	\$10,335,000	\$465,075
2007	177,483	192,366	150,000	267,449	0	0
2008	192,569	177,280	549,152	252,684	0	0
2009	208,937	160,911	563,642	232,548	0	0
2010	226,697	143,152	591,359	210,303	0	0
2011-2015	1,457,440	391,802	2,735,197	662,978	0	0
2016-2020	0	0	1,463,667	229,309	0	0
2021	0	0	292,735	4,586	0	0
	<u>2,426,705</u>	<u>1,271,781</u>	<u>6,495,752</u>	<u>2,134,356</u>	<u>10,335,000</u>	<u>465,075</u>

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

7. LONG-TERM DEBT(Continued)

Year	OPWC Williams	OPWC	OPWC Water Loan	
	Avenue	Montgomery Road	Principal	Interest
	Principal	Principal		
2006	\$12,354	\$31,163	\$36,494	\$4,310
2007	12,354	31,163	37,597	3,207
2008	12,354	31,163	38,734	2,071
2009	12,354	31,163	39,905	900
2010	12,354	31,163	0	0
2011-2015	61,772	155,814	0	0
2016-2020	61,772	155,814	0	0
2021-2024	37,067	109,068	0	0
	<u>222,381</u>	<u>\$576,511</u>	<u>\$152,730</u>	<u>\$10,488</u>

The Ohio Revised Code provides that the net debt of a municipal corporation, when approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxable value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuations and expressed in terms of a percentage. At December 31, 2005 and 2004, the City had \$17,629,644 of "total net debt." Special assessment bonds are excluded in calculating the total net indebtedness of the City.

The Ohio Revised Code specifies that all special assessment debt is general obligation debt. All special assessment bond issues are, therefore, backed by the full faith and credit of the City.

The primary responsibility for the annual payments to special assessment bond holders is with the property owners on whose behalf the City has issued special assessment debt. The special assessments which cover both principal and interest due are collected by the Hamilton County Auditor each year with the property owners' tax payments. The collections are then sent to the City which pays the principal and interest due.

In the event of a default, a lien is put on the property and it is eventually sold by the county at a tax sale. The City is then reimbursed for any special assessment bond payments it makes.

8. CONTINGENCIES

There is pending litigation against the City, for various claims and lawsuits arising in the normal course of operations. Management is of the opinion that any resulting liability from these claims and lawsuits will not have a material adverse effect upon the City's financial condition.

The City has received state grants for specific purposes that are subject to review by the grantor agencies. Such reviews could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. City management believes such disallowances, if any, will be minor.

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2004 and 2005, the City contracted with the Ohio Municipal League for various types of insurance as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Coverage</u>
Commercial Property	\$ 5,000	\$5,000,000
Emergency Medical Services	5,000	5,000,000
Personal and Advertising Inquiry	5,000	5,000,000
Auto Liability	5,000	
General Liability	5,000	1,000,000
Municipal Attorney and Law		
Director Liability	50,000	1,000,000
Public Officials Liability	50,000	2,000,000
Law Enforcement Liability	5,000	5,000,000
Stop Gap	5,000	1,000,000

There has been no material change in this coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three years.

10. DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by OPERS 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 publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended December 31, 2004 and 2005, members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. Members participating in the traditional plan, who were in law enforcement, contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 and 2005 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$440,444, \$448,833, and \$460,762, respectively. The full amount has been contributed for 2003 and 2004. Eighty-eight percent has been contributed for 2005.

Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$1,635,979 for the year ended December 31, 2005; \$1,506,054 for the year ended December 31, 2004; and \$1,604,317 for the year ended December 31, 2003. The full amount has been contributed for 2003. Twenty-eight percent has been contributed for 2004 and nothing has been contributed for 2005, which leaves an unpaid employer contribution totaling \$3,056,959 at 12/31/05.

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

11. POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 and 2005 employer contribution rate was 13.55 percent of covered payroll (16.7 percent for law enforcement and public safety); 4.00 percent was the portion 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, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

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.

The number of active contributing participants in the traditional and combined plans was 369,214. Actual employer contributions for 2004 and 2005 which were used to fund postemployment benefits were \$977,835 and \$959,560. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2005, were \$11.1 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2004, with no prior service credit accumulated toward health care coverage. The Choices Plan will incorporate a cafeteria approach offering a broader range of health care options. The Choices Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Choices Plan will also offer a spending account feature enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a medical spending account.

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

11. POST-EMPLOYMENT BENEFITS (continued)

Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis.

The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter 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 and 2003. In addition, since July 1, 1992, most retirees and survivors 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.

The City's actual contributions for 2005 and 2004 that were used to fund postemployment benefits were \$2,970,318 for police and \$2,740,410 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 was \$150,853,148, which was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

12. C-9 TRUST

In 1990, the City established a voluntary employee benefit association under I.R.C. §501(c)(9) (C-9 Trust) to provide certain welfare benefits to eligible employees of the City of Norwood and their beneficiaries. Employees become eligible to participate upon the effective date of their retirement, provided they are eligible for benefits under the ordinances of the City and are eligible for benefits under the City's Health Benefits Program. Benefits provided under the plan are funded on a pay-as-you go basis and consist of health care benefits not covered by other insurance carriers and are limited to \$2,000 per Plan Year for each Plan Participant. The plan is wholly funded by the City. There are approximately 312 participants currently eligible to receive benefits under this plan. The amount contributed by the City in 2003 was \$132,000. The City does not have fiduciary responsibility for this trust.

13. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, the City prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other administrative remedies may be taken against the City.

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

13. COMPLIANCE (Continued)

Ohio Revised Code, Section 733.43, states that the treasurer of a municipal corporation shall keep an accurate account of all monies received and disbursed by him. In addition, Ohio Administration Code Section 117-2-02 states, in part that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions. The City Treasurer did not prepare accurate cash reconciliations of the general account during 2004 and 2005.

Oho Revised Code, Section 733.11, requires that the city auditor shall keep the books of the city and exhibit accurate statements of all moneys received and expended. In addition, Ohio Administration Code Section 117-2-02 states, in part that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions. In FY 2004 and 2005, there were several instances where receipts and disbursements were not properly classified.

Ohio Revised Code, Section 5705.39, states that the total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission. The City had one fund at September 30, 2004 and three funds at April 30, 2005 where appropriations exceeded the estimated revenue.

Ohio Revised Code, Section 5705.10, provides, in part, that money that is paid into a fund must be used only for the purposes for which such fund has been established. The City had negative fund balances for two funds at June 30, 2005 and four funds at June 30, 2004.

Ohio Revised Code, Section 5705.36(A)(4), requires a subdivision to obtain an amended certificate when revenue to be collected will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations. At December 31, 2004 and 2005, the City had estimated receipts that exceeded actual receipts and the deficiency reduced available resources below the current level of appropriations in thirteen and ten funds respectively.

Ohio Revised Code, Section 5705.41(D)(1), prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. During FY 2004, twenty percent (20%) and during FY 2005, fifteen percent (15%) of the general non-payroll disbursements tested did not have certification prior to the obligation date and none of the three exceptions provided above were utilized. During FY 2004, fourteen percent (14%) and during FY 2005, forty percent (40%) of the unrecorded non-payroll liabilities tested did not have certification prior to the obligation date and none of the three exceptions provided above were utilized.

Ohio Revised Code, Section 5705.09(F), requires the City to establish a special fund for each class of revenues derived from a source other than a general property tax, which the law requires to be used for a particular purpose. The City did not establish a separate fund for the Tax Increment Revenue Anticipation Notes received in FY 2004 and 2005.

Ohio Administration Code, Section 117-2-02, states, in part that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions. The Mayor's Court clerk did not prepare accurate cash reconciliations for Mayor's Court during 2004 and 2005.

**CITY OF NORWOOD
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

14. TAX INCREMENT FINANCING (TIF) AGREEMENT

In November 2001, the City adopted a ordinance creating a tax incentive district. In December 2001, the City entered into a Tax Incentive agreement with Norwood City School District and Cornerstone at Norwood, LLC. The City agreed to act as a participant in these agreements, wherein they are required to establish a fund to collect all payments in lieu of taxes and make annual payments to Norwood City School District.

15. SUBSEQUENT EVENTS

During 2004 the Mayor of the City of Norwood requested that a fiscal analysis be performed by the Auditor of State's office (AOS). This analysis indicated that conditions meeting the criteria for fiscal watch existed and on October 7, 2004 the AOS placed the City of Norwood in fiscal watch.

In January 2006, the City issued Tax Increment Revenue Bonds, Series 2006 in the amount of \$12,500,000. A portion of the proceeds will be used to refinance and retire the 2005 Tax Increment Revenue Anticipation Notes of \$10,406,053 previously issued to finance the acquisition of certain improvements; to fund the Debt Service Account; to fund capitalized interest; and to pay certain expenses incurred in connection with the obligations.

In September 2006, it was determined that the developer of the Rookwood Commons project wished to make a lump sum payment of approximately \$3,500,000 rather than continuing to make monthly payments on the 1988 Urban Development Action Grant/Loan (UDAG) that was given for the original Rookwood Development. The City contacted the United States Department of Housing and Urban Development (HUD) to determine if there were any restrictions on the reuse of these funds. In October 2006, it was determined by HUD, that the repayment made by the developer of Rookwood Commons, constituted miscellaneous revenue under the UDAG program and that there was no longer any restrictions on the reuse of these funds. In addition, the City passed Ordinance 48-2006 clarifying that the repayment of funds by the developer of the Rookwood Commons project shall not be deposited into the Economic Development fund created by Ordinance 53-1985, but rather shall be received by the City and appropriated as determined by Council.

On November 17, 2006, the City paid the Ohio Police and Fire Pension Fund \$1.8 million. This payment closed all past due employer contribution balances (including the old payment plan from the 1990s), applicable penalties and interest owed Ohio Police and Fire Pension.



Mary Taylor, CPA

Auditor of State

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

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

To City Council:

We were engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Norwood, Hamilton County, Ohio (the City), as of and for the years ended December 31, 2005 and 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 12, 2008, wherein, we noted the City uses a comprehensive basis of accounting other than generally accepted accounting principles, and described the City's viability as a going concern. Our report also indicated that because we did not obtain written representations from the Mayor, we did not express an opinion on the financial statements.

Internal Control Over Financial Reporting

As part of our procedures, we considered the City's internal control over financial reporting to determine our procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as items 2005-002 through 2005-005 and 2005-008 through 2005-012.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2005-002, 2005-003, 2005-008 and 2005-011 described above to be material weaknesses. In a separate letter to the City's management dated March 12, 2008, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our procedures and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001 through 2005-012. In a separate letter to the City's management dated March 12, 2008, we reported another matter related to noncompliance we deemed immaterial.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 12, 2008

CITY OF NORWOOD
HAMILTON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004 and 2005

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

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code, Section 117.38, provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both for such reports. If the Auditor of State has not prescribed a rule regarding the form of the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. The City prepares its financial statements in accordance with the modified cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis-for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonable determined at this time. The City can be fined and various other administrative remedies may be taken against the City.

We recommend the City take the necessary steps to ensure that the financial report is prepared in accordance with generally accepted accounting principles.

Officials’ Response:

We received an official response from the City of Norwood Auditor’s office which follows:

The Auditors office is taking steps to comply with the Generally Accepted Accounting Principles under the GASB 34 reporting format.

FINDING NUMBER 2005-002

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 733.4,3 states that the treasurer of a municipal corporation shall keep an accurate account of:

(A) All moneys received by him, showing the amount thereof, the time received, from whom, and on what account received;

(B) All disbursements made by him, showing the amount thereof, the time made, to whom, and on what account paid.

In addition, **Ohio Administration Code, Section 117-2-02**, states, in part that

(A) All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

FINDING NUMBER 2005-002
(Continued)

- (B) The management of each local public office is responsible for the assertions underlying the information in the public office's financial statements. The accounting system should assure that the following five assertions are achieved for all transaction types and account balances applicable to the local public office's operations, considering the basis of accounting applicable to it:
- (1) Existence/occurrence: That recorded assets (and liabilities, if generally accepted accounting principles apply) Exist as of fiscal year end, recorded transactions have occurred and are not fictitious.
 - (2) Completeness: That all account balances and transactions that should be included in the financial records are included.
 - (3) Rights and obligations: That recorded assets are rights of the public office and recorded liabilities (if generally accepted accounting principles apply), are obligations of the public office at the fiscal year end.
 - (4) Valuation/allocation: That generally accepted accounting measurement and recognition principles are properly selected and applied. This includes accounting measurement and recognition principles prescribed by the auditor of state for public offices that are not required to follow generally accepted accounting principles.
 - (5) Presentation and disclosure: That financial statement elements are properly classified and described and appropriate disclosures are made as required by generally accepted accounting principles, or as prescribed by the auditor of state for entities that do not follow generally accepted accounting principles.

The City Treasurer did not prepare accurate cash reconciliations of the general account during 2004 and 2005. The following issues were noted from review of the City's financial records and bank statements:

- At December 31, 2004 a \$2,572 reconciling item was used to balance the book to the bank that had no supporting documentation and the City could provide no explanation. Without this unsupported reconciling item the bank's balance is greater than the reconciled book balance.
- At December 31, 2004 the City reported \$9,084 in returned checks dating from June 2002 through December 2004 that had been recorded as revenue on the City's books. This amount was needed to reduce the book amount in reconciling with the bank. Upon further review it was determined that the City actually had \$9,824 in returned checks. At December 31, 2005 the City reported \$18,026 in returned checks dating from June 2002 through December 2005 that had been recorded as revenue on the City's books. This amount was needed to reduce the book amount in reconciling with the bank.
- At December 31, 2005 the City reported \$408,175 in outstanding checks for their general checking account on their reconciliation, however, upon review it was determined that the City had \$409,175 in outstanding checks. When using the correct outstanding checks on the reconciliation the City's book balances is greater than the bank balance.
- The City had two accounts in 2004 and three accounts in 2005, the Rockwood Exchange account (Balance at 12/31/2004 - \$39,822 and 12/31/2005 - \$40,204), the Retiree's Health Care account (Balance at 12/31/2004 - \$5,115 and 12/31/2005 - \$10,643), and the 5143 Montgomery Road account (Balance at 12/31/2005 - \$18,017) that were not included in the financial statements, the books, or the monthly reconciliations.

**FINDING NUMBER 2005-002
(Continued)**

Also, the City had an account in 2004 and 2005, the Cornerstone Escrow account (Balance at 12/31/2004 and 12/31/2005 - \$18,068) that were not included in the City's monthly reconciliations.

The Auditor of State re-performed year end reconciliations for both 2004 and 2005 including the bank accounts identified above and the correct amounts for returned checks and outstanding checks as identified above and determined that the City's bank balance is greater than the book balance by \$21,455 and \$17,142 respectively.

- There is no evidence that the monthly reconciliations are reviewed upon completion.

Reconciliations are an effective tool to help management determine the completeness of recorded transactions and verify that all recorded transactions have been deposited with the financial institution. We recommend the Treasurer properly reconcile their accounts on a monthly basis and provide the auditor with any bank fees, interest revenue and expenses, or other items that did not originate in the daily receipt and disbursements activity of the City that is recorded by the auditor. Any variances should be immediately investigated and justified. We also recommend that Council or an appointee of Council, review and sign off on the reconciliation thereby indicating approval and promoting timeliness of reconciliations.

Officials' Response:

We received an official response from the City of Norwood Treasurer's office which follows:

The method of and components used in completing the bank reconciliations are no different than those used in previous years and approved by the State of Ohio and outside audit firms.

Small unreconciled balances are often still outstanding when the Auditor closes the accounting system for the year and opens the next fiscal period. In 2004 the difference of \$2,572.17 is just over 7/1000th of a percent (.000726%). In the opinion of the Auditor and my office this was not a material enough item to shut the purchasing and disbursement systems down for the city.

There were no small unreconciled balances at the end of 2005.

It is the City's practice to show returned checks as a reconciling item instead of reducing the revenue. In most cases when someone bounces a check it is cleared up (with a \$20.00 fee) in the next 60 days. The Norwood Police department shows these as bad checks written to the City and has procedures in place to collect the outstanding debt. These procedures include letter writing, phone calls, and even arrest warrants issued. The police department keeps their files open for two years and likewise we keep our records for the same two years. Uncollected accounts are adjusted at the end of the time period.

From time to time the City has a need to hold monies in escrow as directed by City council or the building department. Typically these accounts are opened with one deposit and closed and one check written. These accounts have not been included in any city fund and not included in the bank reconciliations.

Due to the severe financial difficulty the city faced the last several years, the deputy auditor position and several clerical positions were not filled. During this time the Treasurer completed and approved the bank reconciliations. I hope to rectify this situation in the future.

**FINDING NUMBER 2005-002
(Continued)**

Auditor of State Conclusion:

The Auditor of State does not “approve” methods and components used in completing reconciliations. Rather, we audit the reconciliations prepared by the entity to verify that the differences between the book and bank balances are verifiable and accurate.

In our management letter related to the City’s 2003 audit, we noted weaknesses and inaccuracies in the City’s reconciliations. During the 2005 – 2004 financial audit, we noted that certain items presented in the reconciliations prepared by the Treasurer’s office were inaccurate or unverifiable. As noted in the finding above, the City could not account for differences between their book and bank balances in the amounts of \$21,455 and \$17,142 at December 31, 2004 and December 31, 2005 respectively.

Any monies obtained by the City to be held in escrow from the direction of City council or the building department should be posted to an Agency fund and included in the Treasurer’s cash reconciliations.

FINDING NUMBER 2005-003

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 733.11, requires that the city auditor shall keep the books of the city and exhibit accurate statements of all moneys received and expended.

In addition, **Ohio Administration Code, Section 117-2-02**, states, in part that

- (A) All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

There were several instances where receipts and disbursements were not properly classified:

- In FY 2004 and 2005, homestead & rollback revenue was posted to taxes rather than Intergovernmental in the General fund totaling \$251,639 and \$251,526 respectively.
- In FY 2004 and 2005, personal property exemption was recorded as taxes instead of intergovernmental in the General Fund totaling \$24,335 and \$21,453 respectively.
- In FY 2004 and 2005, special assessment revenue was posted at net in the Bond Retirement Fund totaling \$11,095 and \$5,513 respectively. In FY 2005, special assessment revenue was posted to the General Fund rather than the Bond Retirement Fund and was posted at net totaling \$5,582.
- In FY 2004, the City posted a portion of the motor vehicle registration revenue to the general fund that should have been posted to the Street Maintenance and Repair Fund and the State Highway Fund totaling \$9,909 and \$803 respectively.
- In FY 2004, the City posted OPWC loan proceeds to intergovernmental revenue rather than loan proceeds totaling \$451,465.
- In FY 2005, the City posted property tax revenue to the Bond Retirement Fund that should have been posted to the General Fund totaling \$70,000.

**FINDING NUMBER 2005-003
(Continued)**

- In FY 2004, the City received revenue as a result of a court settlement and posted it as a contribution and donation rather than miscellaneous revenue totaling \$238,516.
- In FY 2004, the City issued TIF revenue notes and had matching expenses that were not recorded on the books totaling \$5,860,000.
- In FY 2005, the City posted TIF revenue note proceeds at net of the underwriter's discount totaling \$51,675.
- In FY 2004, the City posted interest payments to principle retirement rather than interest and fiscal charges for the Various Purpose Refunding Bonds and the Central Clark Project in the Debt Services Funds totaling \$621,471.
- In FY 2004 and 2005, the City posted cable franchise fees to charges for services rather than Licenses and Permits totaling \$66,596 and \$74,894 respectively.
- In FY 2004 and 2005, the City posted revenue received for a development incentive fee and UDAG loan agreement to charges for services rather than other revenue totaling \$125,345 and \$60,000 respectively.
- In FY 2004 and 2005, the City posted revenue received for a UDAG loan agreement to intergovernmental revenue rather than other revenue totaling \$106,037 per year.
- In FY 2004 and 2005, the City posted interest earned on their Economic Development bank account to intergovernmental revenue rather than interest revenue totaling \$5,113 and \$15,325 respectively.

As a result of these errors, receipts and disbursements for certain line items and funds were incorrectly reported on the City's financial statements. All reclassifications and adjustments were made to individual line items and funds on the financial statements. We recommend due care be exercised when posting entries to the cash journal to prevent errors and assist in properly reflecting the City's financial activity in the financial statements.

Officials' Response:

We received an official response from the City of Norwood Auditor's office which follows:

Posting errors made in Web GAAP system will be reviewed and future posting double checked for accuracy.

FINDING NUMBER 2005-004

Noncompliance Citation/Reportable Condition

Ohio Revised Code, Section 5705.39, states, in part, that the total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission.

**FINDING NUMBER 2005-004
 (Continued)**

The following variances were noted where appropriations exceeded the estimated revenue at September 30, 2004:

Fund	Estimated Resources	Appropriations	Appropriations in excess of Estimated Resources
Recreation Commission (020)	\$239,060	\$278,561	\$39,501

The following variances were noted where appropriations exceeded the estimated revenue at April 30, 2005:

Fund	Estimated Resources	Appropriations	Appropriations in excess of Estimated Resources
DAG (011)	\$55,275	\$105,275	\$50,000
21 st Century Grant (016)	67,828	121,900	54,072
Refuse Collections (051)	560,000	743,864	183,864

Appropriating more resources than the City is expecting for the year could result in negative fund balances and possibly lead to fiscal distress due to overspending. We recommend that the City monitor budgetary activity monthly and make the necessary amendments to their official budgetary documents and system so that they reflect the actual budgetary situation. All amendments should be reviewed and approved by Council.

Officials' Response:

We received an official response from the City of Norwood Auditor's office which follows:

As a corrective action to this finding the Auditors office will monitor and adjust the estimated revenues on a regular basis throughout the year. We will amend these figures with Hamilton County as needed throughout the year.

FINDING NUMBER 2005-005

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.10(H), provides that money that is paid into a fund must be used only for the purposes for which such fund has been established.

The following negative fund balances were noted at June 30, 2005:

Fund	Amount
Police and Fire Pension Fund (035)	\$17,500
Separation Pay Fund (077)	40,539

**FINDING NUMBER 2005-005
(Continued)**

The following negative fund balances were noted at June 30, 2004:

Fund	Amount
General Fund (001)	\$415,039
Home Land Security Fund (025)	2,293
Debt Service Fund (034)	45,721
Police and Fire Pension Fund (035)	17,500

Allowing expenditures to exceed appropriations could result in negative fund balances and the use of City resources required for other services. We recommend the Fiscal Officer deny any payments until the Council has passed the necessary changes to the appropriation measure.

Officials' Response:

We received an official response from the City of Norwood Auditor's office which follows:

These funds were corrected at the end of the year but in the future the Auditors office will monitor them more closely to avoid expenditures exceeding appropriations.

FINDING NUMBER 2005-006

Noncompliance Citation

Ohio Rev. Code, Section 5705.36(A)(4), requires a subdivision to obtain an amended certificate when revenue to be collected will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations.

At December 31, 2004 the City had estimated receipts that exceeded actual receipts and the deficiency reduced available resources below the current level of appropriations in several funds.

Fund	Available Resources plus Beginning Fund Cash Balances	Current Year Appropriations plus Prior Year Carryover Appropriations	Excess
General	\$17,282,909	\$17,291,726	\$8,817
Street Maint. & Repair	658,851	664,781	5,930
State Highway	70,787	72,841	2,054
C.W.N.P	16,736	18,281	1,545
Permissive Tax	723,164	752,153	28,989
C-9 Trust	384,556	408,965	24,409
Drug Law Enforcement	13,134	14,175	1,041
Economic Development	793,261	798,092	4,831
Recreation Commission	291,870	299,167	7,297
Lindner Park Flower	121,790	148,755	26,965
EMS	146,326	151,417	5,091
Water	3,437,718	3,698,580	260,862
Fixed Assets	7,000	10,050	3,050

**FINDING NUMBER 2005-006
(Continued)**

At December 31, 2005 the City had estimated receipts that exceeded actual receipts and the deficiency reduced available resources below the current level of appropriations in the following funds.

Fund	Available Resources plus Beginning Fund Cash Balances	Current Year Appropriations plus Prior Year Carryover Appropriations	Excess
C.W.N.P	\$46,586	\$48,461	\$1,875
Permissive Tax	738,678	798,203	59,525
Mayor's Court Computer	41,937	45,877	3,940
Senior Dental	12,809	13,686	877
DAG	112,200	114,345	2,145
FEMA	122,241	138,401	16,160
JAG	9,456	16,000	6,544
Cornerstone TIF	10,319,847	10,582,577	262,730
Refuse Collections	1,052,065	1,209,215	157,150
BCCS	13,191	13,799	608

Failure to monitor budgetary activity could result in overspending and negative fund balances. We recommend that the City comply with the above Ohio Revised Code Section and obtain an amended certificate when necessary.

Officials' Response:

We received an official response from the City of Norwood Auditor's office which follows:

In the future the Auditors office will work closely with the Finance Committee to monitor expenditures from each department and fund and assure that they do not exceed the appropriations passed by City Council. Department and fund balances will be checked on a regular basis. Budgetary activity will be monitored regularly.

FINDING NUMBER 2005-007

Noncompliance Citation

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

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

**FINDING NUMBER 2005-007
(Continued)**

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

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

2. **Blanket Certificate** – Fiscal officers may prepare “blanket” certifications for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificates** – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

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

General Non-payroll Disbursements

During FY 2004, twenty percent (20%) and during FY 2005, fifteen percent (15%) of the transactions tested did not have certification prior to the obligation date and none of the three exceptions provided above were utilized.

Unrecorded Non-payroll Liabilities

During FY 2004, fourteen percent (14%) and during FY 2005, forty percent (40%) of the transactions tested did not have certification prior to the obligation date and none of the three exceptions provided above were utilized.

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

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

**FINDING NUMBER 2005-007
(Continued)**

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

Officials' Response:

We received an official response from the City of Norwood Auditor's office which follows:

The Auditors office will monitor balances and appropriations. We will work to establish a Blanket Certificate and a "Then and Now Certificate" to avoid these problems in the future.

FINDING NUMBER 2005-008

Noncompliance Citation/Material Weakness

Ohio Administration Code, 117-2-02, states, in part that

(C) Internal control consists of the following five interrelated components:

- (1) Control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- (2) Risk assessment, which is the entity's identification and analysis of relevant risks to the achievement of its objectives, forming a basis for determining how the risks should be managed.
- (3) Control activities, which are policies and procedures that help ensure management directives are carried out.
- (4) Information and communication, which are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- (5) Monitoring, which is a process that assesses the quality of internal control performance over time.

For seventeen of the thirty-nine funds in FY 2004 and for thirty-five of the thirty-nine funds in FY 2005, the City's financial accounting computer system did not include the updated amounts for the budgetary estimated revenues on the official budgetary documents approved by Council and certified to the County Budget Commission as follows for the financial statement opinion units:

**FINDING NUMBER 2005-008
(Continued)**

Opinion Units	Estimated Resources Per Computer System	Estimated Resources Per Budgetary Documents	Variance of Estimated Resources Between the System and Documents
FY 2004			
General (001)	\$16,608,939	\$16,764,588	(\$155,649)
Permissive Tax (005)	122,697	597,948	(475,251)
Economic Development (013)	474,721	775,350	(300,629)
Debt Service (034)	850,549	853,127	(2,578)
Cornerstone TIF (036)	18,142	18,142	-0-
All Other Funds	8,777,745	10,605,242	(1,827,497)

Opinion Units	Estimated Resources Per Computer System	Estimated Resources Per Budgetary Documents	Variance of Estimated Resources Between the System and Documents
FY 2005			
General (001)	16,913,073	18,568,290	(1,655,217)
Permissive Tax (005)	132,600	716,871	(584,271)
Economic Development (013)	236,396	535,578	(299,182)
Debt Service (034)	703,330	752,162	(48,833)
Cornerstone TIF (036)	18,142	10,582,577	(10,564,435)
All Other Funds	9,714,833	12,263,110	(2,548,277)

To promote the timely monitoring of the City's budget we recommend that as updates in the budgetary estimated revenues are approved by the County Budget Commission they be input in the financial accounting computer system to assist.

City Council did not denote approval of budget to actual information on a monthly basis. We recommend that City Council be provided monthly financial reports that include: a revenue report that would detail year to date budgeted estimated revenues compared to actual revenues; an expenditure report that details year to date budgeted appropriations compared to encumbrances and actual expenditures; and a cash position report that details unencumbered cash fund balances.

Officials' Response:

We received an official response from the City of Norwood Auditor's office which follows:

The Auditors office has taken steps to update the computer system as soon as possible after the Estimated Resources have been updated with Hamilton County. These new figures will be entered upon receipt of the approved amended certificate, not at the end of the year.

FINDING NUMBER 2005-009

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.09(F), requires the City to establish a special fund for each class of revenues derived from a source other than a general property tax, which the law requires to be used for a particular purpose. Upon establishing a fund, estimated receipts should be certified to the County Auditor as available for expenditure, and anticipated expenditures should be included in the City's appropriations. During FY 2004, the City issued \$5,860,000 in Tax Increment Revenue Anticipation Notes. The City did not establish a separate fund for the Tax Increment Revenue Anticipation Notes and did not record the proceeds and related expenses into the City's financial records. During FY 2005, the City retired the 2004 Tax Increment Revenue Anticipation Note proceeds of \$5,860,000 and re-issued \$10,335,000 in Tax Increment Revenue Anticipation Notes. The City did not establish a separate fund for the Tax Increment Revenue Anticipation Notes and recorded the revenues and related expenses into their Cornerstone Tax Increment Equivalent fund. However, the Cornerstone Tax Increment Equivalent fund was established by the City pursuant to 5709.43 of the Ohio Revised Code in accordance with their Tax Incentive Agreement made and entered into with Norwood City School District. The City should familiarize themselves and comply with the debt covenant requirements and applicable Ohio Revised Code Sections related to their Tax Increment Revenue Anticipation Notes.

Officials' Response:

We received an official response from the City of Norwood Auditor's office which follows:

The Auditors office will investigate the need for an additional TIF fund.

FINDING NUMBER 2005-010

Noncompliance Citation/Material Weakness

Ohio Administration Code, 117-2-02, states, in part that

- (A) All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

The Mayor's Court clerk did not perform an accurate detailed monthly reconciliation during the period under audit. Monthly reconciliations should show a detail of how the bank balance goes back to the book balance. Without detailed reconciliations it may be difficult to determine whether the amount remaining in the bank ties to the book balance. Detailed reconciliations also help the clerk track both positive and negative balances as well as bonds still on hand. The Mayor should be doing reconciliation monthly as a means of verifying that book balances are totaling open items and that the book reconciles with the bank. During testing it was noted that the current bank balance at 12/31/05 and 12/31/04 was \$721.72 and \$1,926.75 respectively. Per Mayor's Court records \$6,676 and \$4,816 in open bonds remained at December 31, 2005 and 2004 respectively.

Without accurate documentation as to what the excess bank balance consists of, i.e. who these excess funds are owed to, the City is not meeting any of the five aforementioned assertions in regards to the Agency Fund. The Mayor's Court account is intended to be zeroed out each month once all funds owed to the State, the City, and/or violators are disbursed, therefore having a bank balance with no source documentation for support prohibits the assurance of completeness. With no documentation regarding who the excess funds are due the City Mayor's Court is unable to determine which party has the rights to these funds. Valuation and/or allocation is unable to be determined since there is no assurance as to the rights of these funds. The financial statements presentation and disclosure of the Agency Fund includes a balance that is unable to be identified, which could lead to potential misstatements.

**FINDING NUMBER 2005-010
(Continued)**

Officials' Response:

We received an official response from the City of Norwood Mayor's office which follows:

Steps have been taken to address this issue and future reconciliation will be reviewed for accuracy.

FINDING NUMBER 2005-011

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 742.33(A), provides that each employer shall pay quarterly, on such dates as the board of trustees of the Ohio police and fire pension fund requires, from its general fund, or from a levy imposed pursuant to division (J) or (W) of section 5705.19 of the Revised Code, to the fund an amount known as the "police officer employers' contribution," which shall be nineteen and one-half per cent of the salaries as defined in division (L) of section 742.01 of the Revised Code of the members of the police department of the employer.

Ohio Rev. Code, Section 742.34(A), provides that each employer shall pay quarterly, on such dates as the board of trustees of the Ohio police and fire pension fund requires, from its general fund, or from a levy imposed pursuant to division (I) or (W) of section 5705.19 of the Revised Code, to the fund an amount known as the "firefighter employers' contribution," which shall be twenty-four per cent of the salaries as defined in division (L) of section 742.01 of the Revised Code of the members of the fire department of the employer.

During 2004 and 2005, the City was not contributing the full police officer employers' contribution or the firefighter employers' contribution quarterly as required by the board of trustees of the Ohio police and fire pension fund. As of 12/31/05, the City had an unpaid employer contribution obligation to the Ohio police and fire pension fund totaling \$3,056,959 (Police - \$1,119,076 and Fire - \$1,937,883). We recommend that the City pay the unpaid employer contribution obligation owed to the Ohio police and fire pension fund and to make the quarterly payments on the dates required by the board of trustees of the Ohio police and fire pension fund.

Officials' Response:

We received an official response from the City of Norwood Auditor's office which follows:

This debt has been settled.

FINDING NUMBER 2005-012

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.36(A)(1), requires a subdivision to certify to the county auditor the total amount from all sources available for expenditures from each fund set up in the tax budget. The amount certified shall include any unencumbered balances that existed at the end of the preceding year.

**FINDING NUMBER 2005-012
 (Continued)**

The City did not report to the county auditor the correct encumbrances at December 31, 2004 as followed:

Opinion Unit	Total Amount Available plus Balances	Encumbrances overstated	Total Amount Available Plus Overstated Encumbrances
General Fund	\$18,568,290	\$195,046	\$18,763,336
Permissive Tax Fund	716,871	15,581	732,452
All Other Governmental Funds	4,111,312	4,322	4,115,634

The City did not report to the county auditor the correct encumbrances at December 31, 2005 as followed:

Opinion Unit	Total Amount Available plus Balances	Encumbrances overstated	Total Amount Available Plus Overstated Encumbrances
General Fund	\$18,064,916	\$19,521	\$18,084,437
All Other Governmental Funds	3,917,326	59,357	3,976,683

The City's outstanding encumbrance listing generated by the auditor's office did not agree to what was certified to the county auditor due to incorrect date parameters used by the auditor's office for the report generated from the general ledger system. The City should maintain accurate records of their encumbrances to allow them to determine the amount of appropriations available for expenditures. We recommend that the City use the proper date parameters when generating their outstanding encumbrance report to ensure the proper amount of outstanding encumbrances is certified with the County auditor.

Officials' Response:

We received an official response from the City of Norwood Auditor's office which follows:

Certificates will be maintained and amended with Hamilton County with all dates and balances monitored regularly.

**CITY OF NORWOOD
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	ORC Section 117.38 and OAC Section 117-2-03, requires the City to prepare its annual financial report in accordance with GAAP.	No.	Not corrected; reissued as finding number 2005-001.



Mary Taylor, CPA
Auditor of State

CITY OF NORWOOD

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 17, 2008**