



Dave Yost • Auditor of State



**CITY OF OLMSTED FALLS  
CUYAHOGA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Olmsted Falls, Cuyahoga County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Olmsted Falls, Cuyahoga County, Ohio, as of December 31, 2011, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The federal awards expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

September 19, 2012

## CITY OF OLMSTED FALLS, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 (UNAUDITED)

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The management's discussion and analysis of the City of Olmsted Falls (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

#### **Financial Highlights**

Key financial highlights for 2011 are as follows:

- The total net assets of the City increased \$1,861,618 or 7.26% compared to 2010.
- General revenues account for \$5,663,083 or 66.76% of total governmental activities revenue. Program specific revenues accounted for \$2,819,308 or 33.24% of total governmental activities revenue.
- The City had \$6,620,773 in expenses related to governmental activities; these expenses were offset by program specific charges for services, grants or contributions.
- The City's major governmental funds are the general fund, sewer debt project 2 fund, sewer debt project 4 fund, capital improvement fund and grade separation fund. The general fund had revenues of \$4,350,613 in 2011. The general fund had expenditures of \$4,041,654. The net increase in fund balance for the general fund was \$308,959 or 23.61%.
- The sewer debt project 2 fund had revenues of \$132,010 in 2011. The expenditures of the sewer debt project 2 fund, totaled \$86,317 in 2011. The net increase in fund balance for the sewer debt project 2 fund was \$45,693 or 25.83%.
- The sewer debt project 4 fund had revenues of \$56,514 in 2011. The expenditures of the sewer debt project 4 fund, totaled \$56,514 in 2011.
- The capital improvement fund had revenues and other financing sources of \$1,863,924 in 2011. The expenditures of the capital improvement fund, totaled \$1,979,863 in 2011. The net decrease in fund balance for the capital improvement fund was \$115,939 or 65.53%.
- The grade separation fund had revenues of \$1,416,820 in 2011. The expenditures of the grade separation fund, totaled \$1,594,685 in 2011. The net decrease in fund balance for the grade separation fund was \$177,865 or 41.06%.
- In the general fund, the actual revenues came in \$61,987 more than they were in the final budget and actual expenditures were \$222,419 less than the amount in the final budget.

#### **Using this Annual Financial Report**

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

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

## CITY OF OLMSTED FALLS, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 (UNAUDITED)

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#### **Reporting the City as a Whole**

##### *Statement of Net Assets and the Statement of Activities*

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and statement of activities answer this question. These statements include all non-fiduciary assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

#### **Reporting the City's Most Significant Funds**

##### *Fund Financial Statements*

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

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

##### *Governmental Funds*

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.



## CITY OF OLMSTED FALLS, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 (UNAUDITED)

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

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

#### *Fiduciary Funds*

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

#### *Notes to the Basic financial Statements*

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

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**CITY OF OLMSTED FALLS, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)

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**Government-Wide Financial Analysis**

The statement of net assets provides the perspective of the City as a whole. The table below provides a summary of the City's net assets for 2011 compared to 2010.

	<b>Net Assets</b>	
	Governmental Activities 2011	Governmental Activities 2010
	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current and other assets	\$ 11,777,700	\$ 11,819,868
Capital assets, net	<u>25,028,443</u>	<u>23,272,203</u>
Total assets	<u>36,806,143</u>	<u>35,092,071</u>
<u>Liabilities</u>		
Long-term liabilities outstanding	6,620,078	6,962,507
Other liabilities	<u>2,694,445</u>	<u>2,499,562</u>
Total liabilities	<u>9,314,523</u>	<u>9,462,069</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	21,171,133	19,211,071
Restricted	4,726,343	4,518,810
Unrestricted	<u>1,594,144</u>	<u>1,900,121</u>
Total net assets	<u>\$ 27,491,620</u>	<u>\$ 25,630,002</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the City's assets exceeded liabilities by \$27,491,620.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 68% of total assets. Capital assets include land, construction in progress, buildings, improvements other than building, machinery, equipment & vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2011, were \$21,171,133 in the governmental activities. These capital assets are used to provide services to citizens and are not available for future spending.

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

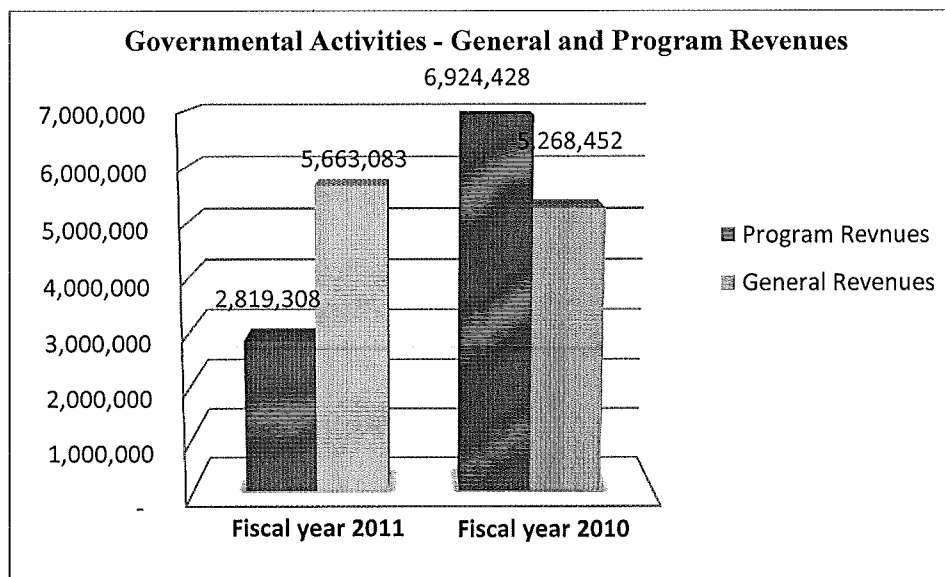
A portion of the City's net assets, \$4,726,343, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$1,594,144 may be used to meet the City's ongoing obligations to citizens and creditors.

**CITY OF OLMSTED FALLS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

The table below shows the changes in net assets for the fiscal years 2011 and 2010.

	<b>Change in Net Assets</b>	
	Governmental Activities 2011	Governmental Activities 2010
	<u>2011</u>	<u>2010</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 782,049	\$ 689,966
Operating grants and contributions	406,791	411,622
Capital grants and contributions	1,630,468	5,822,840
<b>Total program revenues</b>	<u>2,819,308</u>	<u>6,924,428</u>
General revenues		
Property and other local taxes	1,984,039	1,751,869
Income taxes	2,857,429	2,706,732
Unrestricted grants and entitlements	785,113	734,220
Investment earnings	2,599	4,396
Miscellaneous	33,903	71,235
<b>Total general revenues</b>	<u>5,663,083</u>	<u>5,268,452</u>
<b>Total revenues</b>	<u>8,482,391</u>	<u>12,192,880</u>



**CITY OF OLMSTED FALLS, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)

	<b>Change in Net Assets</b>	
	Governmental Activities 2011	Governmental Activities 2010
	<u>2011</u>	<u>2010</u>
<b>Expenses</b>		
General government	\$ 1,293,126	\$ 1,227,489
Security of persons and property	3,089,934	3,084,464
Physical environment	372,749	309,516
Transportation	1,123,500	879,346
Economic environment	356,804	194,959
Public health and welfare	89,527	86,785
Culture and recreation	166,064	424,616
Interest and fiscal charges	129,069	276,506
Total expenses	<u>6,620,773</u>	<u>6,483,681</u>
Change in net assets	<u>1,861,618</u>	<u>5,709,199</u>
Net assets at beginning of year	<u>25,630,002</u>	<u>19,920,803</u>
Net assets at end of year	<u>\$ 27,491,620</u>	<u>\$ 25,630,002</u>

**Governmental Activities**

Governmental activities net assets increased \$1,861,618 in 2011. This increase is a result of the spending level being set below the sources of income revenue.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$3,089,934 of the total expenses of the City. These expenses were partially funded by \$330,246 in direct charges to users of the services, \$18,666 in operating grants and \$45,394 in capital grants. Transportation expenses totaled \$1,123,500. Transportation expenses were completely funded by \$5,438 in direct charges to users of these services, \$388,125 in operating grants and contributions and \$1,416,820 in capital grants and contributions.

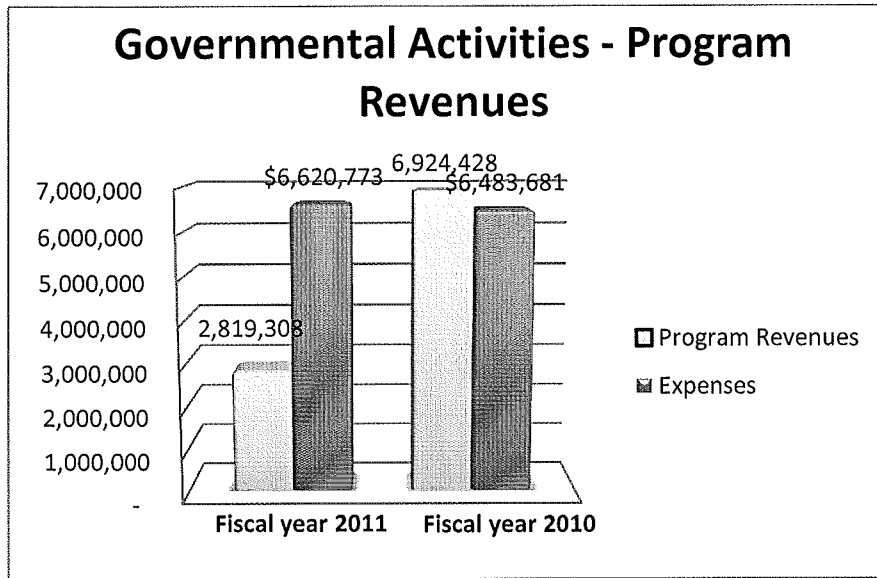
The county, state and federal government contributed to the City a total of \$406,791 in operating grants and contributions and \$1,630,468 in capital grant and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$5,663,083, and amounted to 66.76% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,841,468. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$785,113.

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

**CITY OF OLMSTED FALLS, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)



	Governmental Activities			
	2011		2010	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses				
General government	\$ 1,293,126	\$ 1,128,503	\$ 1,227,489	\$ 1,133,422
Security of persons and property	3,089,934	2,695,628	3,084,464	2,750,382
Physical environment	372,749	44,022	309,516	22,835
Transportation	1,123,500	(686,883)	879,346	(5,230,331)
Economic environment	356,804	250,108	194,959	107,662
Public health and welfare	89,527	74,954	86,785	86,785
Culture and recreation	166,064	166,064	424,616	411,992
Interest and fiscal charges	129,069	129,069	276,506	276,506
<b>Total</b>	<b>\$ 6,620,773</b>	<b>\$ 3,801,465</b>	<b>\$ 6,483,681</b>	<b>\$ (440,747)</b>

**Financial Analysis of the Government's Funds.**

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

**Governmental Funds**

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

**CITY OF OLMSTED FALLS, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)

The City's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$4,515,065 which is \$48,879 lower than last year's total of \$4,465,186. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2011 for all major and non major governmental funds.

	Fund Balances <u>12/31/2011</u>	Fund Balances <u>12/31/2010</u>	Increase (Decrease)
Major funds:			
General	\$ 1,617,744	\$ 1,308,785	\$ 308,959
Sewer debt project 2	222,609	176,916	45,693
Sewer debt project 4	(217,187)	(217,187)	-
Capital Improvement	60,980	176,919	(115,939)
Grade Separation	255,331	433,196	(177,865)
Other nonmajor governmental funds	<u>2,575,588</u>	<u>2,586,557</u>	<u>(10,969)</u>
Total	<u>\$ 4,515,065</u>	<u>\$ 4,465,186</u>	<u>\$ 49,879</u>

**General Fund**

The City's general fund balance increased by \$308,959. The table that follows assists in illustrating the revenues of the general fund.

	<u>2011</u> Amount	<u>2010</u> Amount	Percentage Change
<b>Revenues</b>			
Income taxes	\$ 2,468,743	\$ 2,341,681	5%
Property and other taxes	636,599	440,793	44%
Licenses and permits	106,696	87,516	22%
Intergovernmental	623,120	439,452	42%
Charges for services	354,918	239,755	48%
Fines and forfeitures	145,447	140,348	4%
Investment income	2,262	3,944	-43%
Other	12,828	19,418	-34%
Total	<u>\$ 4,350,613</u>	<u>\$ 3,712,907</u>	17%

**CITY OF OLMSTED FALLS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

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

	2011 Amount	2010 Amount	Percentage Change
<b><u>Expenditures</u></b>			
General government	\$ 1,210,802	\$ 1,077,318	12%
Security of persons and property	2,010,151	2,138,268	-6%
Physical environment	4,221	5,211	-19%
Transportation	418,087	401,457	4%
Economic environment	331,739	328,754	1%
Public health and welfare	42,721	36,969	16%
Culture and recreation	23,933	25,520	-6%
Capital Outlay	-	24,089	-100%
<b>Total</b>	<b>\$ 4,041,654</b>	<b>\$ 4,037,586</b>	<b>0%</b>

***Budgeting Highlights***

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

In the general fund, the actual revenues came in \$61,987 more than they were in the final budget and actual expenditures were \$222,419 less than the amount in the final budget.

***Sewer Debt Project 2 Fund***

The sewer debt project 2 fund has revenues of \$132,010 in 2011. The expenditures of the sewer debt project 2 fund, totaled \$86,317 in 2011. The net increase in fund balance for the sewer debt project 2 fund was \$45,693 or 25.83%. The increase is due to the special assessment revenue received in 2011 being greater than the debt payment made in 2011.

***Sewer Debt Project 4 Fund***

The sewer debt project 4 fund has revenues of \$56,514 in 2011. The expenditures of the sewer debt project 4 fund, totaled \$56,514 in 2011.

***Capital Improvement Fund***

The capital improvement fund had revenues and other financing sources of \$1,863,924 in 2011. The expenditures of the capital improvement fund, totaled \$1,979,863 in 2011. The net decrease in fund balance for the capital improvement fund was \$115,939 or 6.53%. The decrease is due to the payment of the Various Purpose Notes in 2011.



**CITY OF OLMSTED FALLS, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)

***Grade Separation Fund***

The grade separation fund had revenues of \$1,416,820 in 2011. The expenditures of the grade separation fund, totaled \$1,594,685 in 2011. The net decrease in fund balance for the grade separation fund was \$177,865 or 41.06%. The decrease is due to project costs not covered by the Ohio Department of Transportation.

***Capital Assets and Debt Administration***

***Capital Assets***

At the end of fiscal year 2011, the City had \$25,028,443 (net of accumulated depreciation) invested in land, construction in progress, buildings, improvements other than buildings, machinery, equipment, vehicles and infrastructure. The following table shows fiscal 2011 balances compared to 2010:

	<b>Capital Assets at December 31</b>	
	<b>(Net of Depreciation)</b>	
	<b>Governmental Activities</b>	
	2011	2010
Land	\$ 1,439,268	\$ 1,113,096
Construction in progress	11,383,314	9,624,298
Buildings	5,096,807	5,175,790
Improvements other than buildings	227,485	238,982
Machinery, equipment and vehicles	2,461,237	2,614,074
Infrastructure	4,420,332	4,505,963
<b>Total</b>	<b>\$ 25,028,443</b>	<b>\$ 23,272,203</b>

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

***Long-Term Obligations***

The City had the following long-term obligations outstanding at December 31, 2011 and 2010:

	<b>Governmental Activities</b>	
	2011	2010
W&SRC loan	\$ 396,075	\$ 396,075
OWDA loans	2,793,608	2,987,410
OPWC loan	368,666	388,070
Capital lease	472,539	588,381
Notes payable	2,201,000	2,246,000
Note premium	1,079	4,730
Compensated absence	387,111	351,841
<b>Total long-term obligations</b>	<b>\$ 6,620,078</b>	<b>\$ 6,962,507</b>

**CITY OF OLMSTED FALLS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

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

***Contacting the City's Financial Management***

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

CITY OF OLMSTED FALLS, OHIO  
STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Governmental Activities
<b>Assets</b>	
Equity in pooled cash and cash equivalents	\$4,067,542
Receivables (net of allowance for uncollectables):	
Income taxes	1,305,237
Property and other taxes	2,388,667
Accounts	289,505
Special assessments	2,725,740
Intergovernmental	505,715
Loan receivable	388,070
Prepayments	97,413
Materials and supplies inventory	9,811
Capital assets:	
Land	1,439,268
Construction in progress	11,383,314
Depreciable capital assets, net	<u>12,205,861</u>
Total capital assets, net	<u>25,028,443</u>
 <i>Total Assets</i>	 <u>36,806,143</u>
 <b>Liabilities</b>	
Accounts payable	323,918
Accrued wages and benefits	33,033
Accrued interest payable	10,317
Due to other governments	65,468
Deferred revenue	2,261,709
Long-term liabilities	
Due within one year	466,366
Due in more than one year	<u>6,153,712</u>
 <i>Total Liabilities</i>	 <u>9,314,523</u>
 <b>Net assets:</b>	
Invested in capital assets, net of related debt	21,171,133
Restricted for:	
Capital projects	0
Debt service	2,320,498
Other purposes	2,405,845
Unrestricted	<u>1,594,144</u>
 Total net assets	 <u>\$27,491,620</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF OLMSTED FALLS, OHIO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenues and Changes in Net Assets
					Governmental Activities
<b>Governmental Activities:</b>					
General government	\$1,293,126	\$140,623		\$24,000	(\$1,128,503)
Security of persons and property	3,089,934	330,246	18,666	45,394	(2,695,628)
Physical environment	372,749	184,473		144,254	(44,022)
Transportation	1,123,500	5,438	388,125	1,416,820	686,883
Economic development	356,804	106,696			(250,108)
Public health and welfare	89,527	14,573			(74,954)
Culture and recreation	166,064				(166,064)
Interest and fiscal charges	129,069				(129,069)
<b>Total Governmental Activities</b>	<u>\$6,620,773</u>	<u>\$782,049</u>	<u>\$406,791</u>	<u>\$1,630,468</u>	<u>(3,801,465)</u>
		<b>General Revenues</b>			
		Property Taxes Levied for:			
		General purposes			638,284
		Special revenue			1,239,312
		Debt services			106,443
		Income Tax Levied for:			
		General purposes			2,526,644
		Capital projects			330,785
		Grants and entitlements not restricted to specific programs			785,113
		Investment earnings			2,599
		Miscellaneous			33,903
		<b>Total general revenues</b>			<u>5,663,083</u>
		Change in net assets			1,861,618
		Net assets beginning of year			<u>25,630,002</u>
		Net assets end of year			<u>\$27,491,620</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF OLMSTED FALLS, OHIO  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Sewer Debt Project 2	Sewer Debt Project 4	Capital Improvement	Grade Separation	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Equity in pooled cash and cash equivalents	\$870,793	\$222,609	\$0	\$12,943	\$303,287	\$2,657,910	\$4,067,542
Receivables (net of allowance for uncollectables):							
Income taxes	1,148,608	0	0	130,524	0	26,105	\$1,305,237
Property and other taxes	757,714	0	0	0	0	1,630,953	\$2,388,667
Accounts	172,888	0	0	0	0	116,617	\$289,505
Special assessments	0	930,923	801,762	0	0	993,055	\$2,725,740
Intergovernmental	218,609	0	0	0	500	286,606	\$505,715
Prepayments	97,413	0	0	0	0	0	97,413
Due from other funds	245,454	0	0	0	0	0	245,454
Materials and supplies inventory	491	0	0	0	0	9,320	9,811
<b>Total Assets</b>	<b>\$3,511,970</b>	<b>\$1,153,532</b>	<b>\$801,762</b>	<b>\$143,467</b>	<b>\$303,787</b>	<b>\$5,720,566</b>	<b>\$11,635,084</b>
<b>Liabilities</b>							
Accounts payable	\$76,924	\$0	\$0	\$308	\$48,456	\$198,230	323,918
Accrued wages and benefits	32,301	0	0	0	0	732	33,033
Due to other funds	0	0	217,187	0	0	28,267	245,454
Due to other governments	65,355	0	0	0	0	113	65,468
Deferred revenue	1,719,646	930,923	801,762	82,179	0	2,917,636	6,452,146
<b>Total Liabilities</b>	<b>1,894,226</b>	<b>930,923</b>	<b>1,018,949</b>	<b>82,487</b>	<b>48,456</b>	<b>3,144,978</b>	<b>7,120,019</b>
<b>Fund Balances</b>							
Nonspendable	97,904	0	0	0	0	9,320	107,224
Restricted	0	222,609	0	60,980	255,331	2,581,892	3,120,812
Committed	25,000	0	0	0	0	0	25,000
Assigned	39,164	0	0	0	0	7,584	46,748
Unassigned (Deficit)	1,455,676	0	(217,187)	0	0	(23,208)	1,215,281
<b>Total Fund Balances (Deficits)</b>	<b>1,617,744</b>	<b>222,609</b>	<b>(217,187)</b>	<b>60,980</b>	<b>255,331</b>	<b>2,575,588</b>	<b>4,515,065</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$3,511,970</b>	<b>\$1,153,532</b>	<b>\$801,762</b>	<b>\$143,467</b>	<b>\$303,787</b>	<b>\$5,720,566</b>	<b>\$11,635,084</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF OLMSTED FALLS, OHIO  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

<b>Total Governmental Funds Balances</b>		<b>\$4,515,065</b>
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		25,028,443
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property and other taxes receivable	\$ 133,368	
Income taxes receivable	805,762	
Special assessments receivable	2,725,740	
Intergovernmental receivable	341,206	
Loans receivable	388,070	
Accounts receivable	<u>184,361</u>	
Total		4,578,507
In the statement of activities interest is accrued on notes payable, whereas in governmental funds, interest expenditures are reported when due.		(10,317)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
OWDA loans payable	\$ (2,793,608)	
OPWC loans payable	(368,666)	
Loans payable	(396,075)	
Premium on notes	(1,079)	
Notes payable	(2,201,000)	
Capital lease payable	(472,539)	
Compensated absences payable	<u>(387,111)</u>	
Total		<u>(6,620,078)</u>
Net Assets of Governmental Activities		<u><u>\$27,491,620</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF OLMSTED FALLS, OHIO  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Sewer Debt Project 2	Sewer Debt Project 4	Capital Improvement	Grade Separation	Other Governmental	Total Governmental
<b>Revenues</b>							
Income Taxes	\$2,468,743	\$0	\$0	\$268,938	\$0	\$53,788	\$2,791,469
Property Taxes	636,599	0	0	0	0	1,339,791	1,976,390
Licenses and permits	106,696	0	0	0	0	0	106,696
Intergovernmental	623,120	0	0	24,000	1,416,820	639,141	2,703,081
Charges for services	354,918	0	0	0	0	195,329	550,247
Fines and forfeitures	145,447	0	0	0	0	8,223	153,670
Special assessments	0	132,010	56,514	0	0	265,165	453,689
Investment income	2,262	0	0	0	0	337	2,599
Miscellaneous income	12,828	0	0	0	0	3,767	16,595
<b>Total revenues</b>	<b>4,350,613</b>	<b>132,010</b>	<b>56,514</b>	<b>292,938</b>	<b>1,416,820</b>	<b>2,505,541</b>	<b>8,754,436</b>
<b>Expenditures</b>							
<b>Current operations and maintenance:</b>							
General government	1,210,802	0	0	19,562	0	5,215	1,235,579
Security of persons and property	2,010,151	0	0	0	0	837,738	2,847,889
Physical environment	4,221	0	0	0	0	334,886	339,107
Transportation	418,087	0	0	0	0	446,044	864,131
Economic development	331,739	0	0	0	0	17,306	349,045
Public health	42,721	0	0	0	0	46,806	89,527
Cultural and recreation	23,933	0	0	0	0	132,022	155,955
Capital outlay	0	0	0	366,533	1,594,685	370,335	2,331,553
<b>Debt Service:</b>							
Principal retirement	0	61,176	23,935	1,571,106	0	905,516	2,561,733
Interest and fiscal charges	0	25,141	32,579	22,662	0	64,284	144,666
<b>Total expenditures</b>	<b>4,041,654</b>	<b>86,317</b>	<b>56,514</b>	<b>1,979,863</b>	<b>1,594,685</b>	<b>3,160,152</b>	<b>10,919,185</b>
<b>Excess of revenues over (under) expenditures</b>	<b>308,959</b>	<b>45,693</b>	<b>-</b>	<b>(1,686,925)</b>	<b>(177,865)</b>	<b>(654,611)</b>	<b>(2,164,749)</b>
<b>Other financing sources (uses)</b>							
Proceeds from Sale of Debt	0	0	0	1,570,000	0	631,000	2,201,000
Premium on debt issuance	0	0	0	986	0	93	1,079
Sale of Capital Assets	0	0	0	0	0	12,549	12,549
<b>Total other financing sources</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,570,986</b>	<b>0</b>	<b>643,642</b>	<b>2,214,628</b>
<b>Net change in fund balances</b>	<b>308,959</b>	<b>45,693</b>	<b>-</b>	<b>(115,939)</b>	<b>(177,865)</b>	<b>(10,969)</b>	<b>49,879</b>
<b>Fund balance at beginning of year</b>	<b>1,308,785</b>	<b>176,916</b>	<b>(217,187)</b>	<b>176,919</b>	<b>433,196</b>	<b>2,586,557</b>	<b>4,465,186</b>
<b>Fund balance at end of year</b>	<b>\$ 1,617,744</b>	<b>\$ 222,609</b>	<b>\$ (217,187)</b>	<b>\$ 60,980</b>	<b>\$ 255,331</b>	<b>\$ 2,575,588</b>	<b>\$ 4,515,065</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF OLMSTED FALLS, OHIO  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2011

Net Change in Fund Balances - Total Governmental Funds \$ 49,879

*Amounts reported for governmental activities in the  
 statement of activities are different because*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital asset additions less CIP deletions	2,241,877	
Current year depreciation	<u>(446,851)</u>	
Total		1,795,026
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(38,786)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	7,649	
Income Tax	65,960	
Special Assessments	(309,438)	
Intergovernmental revenues	(24,963)	
Charges for Services	<u>(28,420)</u>	
Total		(289,212)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		2,575,048
Other financing resources in the governmental funds increase long-term liabilities in the statement of net assets.		
Notes Issued	(2,201,000)	
Premium on Notes Issued	<u>(1,079)</u>	
Total		(2,202,079)
In the statement of activities, interest is accrued on notes payable, whereas in governmental funds, an interest expenditure is reported when due.		2,282
Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	(35,270)	
Amortization of Bond Premium	<u>4,730</u>	
Total		<u>(30,540)</u>
<i>Change in Net Assets of Governmental Activities</i>		<u>\$ 1,861,618</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



CITY OF OLMSTED FALLS, OHIO  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive/(Negative)
<b>Revenues</b>				
Income Taxes	\$ 2,389,823.00	\$ 2,400,000	\$ 2,419,835	\$ 19,835
Property Taxes	628,704	631,058	636,599	5,541
Licenses and permits	121,658	110,000	123,186	13,186
Intergovernmental	569,515	547,023	576,667	29,644
Charges for services	327,741	323,988	331,857	7,869
Fines and forfeitures	143,643	160,000	145,447	(14,553)
Special assessments				
Investment income	2,234	3,000	2,262	(738)
Miscellaneous income	12,669	11,625	12,828	1,203
<b>Total revenues</b>	<u>4,195,987</u>	<u>4,186,694</u>	<u>4,248,681</u>	<u>61,987</u>
<b>Expenditures</b>				
Current operations and maintenance:				
General government	1,104,642	1,203,668	1,188,702	14,966
Security of persons and property	2,175,736	2,175,736	2,021,826	153,910
Physical environment	10,000	10,000	4,221	5,779
Transportation	441,247	450,925	425,686	25,239
Economic development	338,519	343,404	335,488	7,916
Public health	38,000	47,000	37,611	9,389
Cultural and recreation	28,005	29,392	24,172	5,220
Capital outlay			-	
<b>Total expenditures</b>	<u>4,136,149</u>	<u>4,260,125</u>	<u>4,037,706</u>	<u>222,419</u>
<b>Excess of revenues over (under) expenditures</b>	<u>59,838</u>	<u>(73,431)</u>	<u>210,975</u>	<u>284,406</u>
Net change in fund balances	59,838	(73,431)	210,975	284,406
Fund balance at beginning of year	664,877	664,877	664,877	-
Prior year encumbrances appropriated	50,182	50,182	50,182	-
<b>Fund balance at end of year</b>	<u>\$ 774,897</u>	<u>\$ 641,628</u>	<u>\$ 926,034</u>	<u>\$ 284,406</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF OLMSTED FALLS, OHIO  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	<u>\$ 72,338</u>
Total assets	<u><u>\$ 72,338</u></u>
Liabilities	
Deposits held and due to others	<u>\$ 72,338</u>
Total liabilities	<u><u>\$ 72,338</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## CITY OF OLMSTED FALLS, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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#### **Note 1 – DESCRIPTION OF CITY AND REPORTING ENTITY**

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

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

#### **Reporting Entity**

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

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

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

The City is associated with five jointly governed organizations, the Northeast Ohio Public Energy Council, Chestnut Grove Union Cemetery, Joint Economic Development District, Southwest Council of Governments, and the Southwest General Health Center. A jointly governed organization is managed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility on the part of the participating governments. These organizations are presented in Note 13.

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

CITY OF OLMSTED FALLS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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**Note 1: The Reporting Entity (continued)**

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

Each year, the residents of Olmsted Falls are assessed, through a tax levy, for a portion of the general operating expenses of the Chestnut Grove Union Cemetery. For 2011, the amount paid to the Chestnut Grove Union Cemetery amounted to \$39,833. The residents are also assessed, through a tax levy, for a portion of the operating expenses of Southwest General Hospital. The amount paid in 2011 to Southwest General Hospital amounted to \$46,806. Both of these organizations exercise their own budgetary and financial management authority. Therefore, they are not considered part of the City and their operations are not reflected in the City's financial statements.

**Note 2: Summary of Significant Accounting Policies**

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

**A. Basis of Presentation**

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

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

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

CITY OF OLMSTED FALLS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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**Note 2: Summary of Significant Accounting Policies (continued)**

**A. Basis of Presentation (continued)**

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

**B. Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: Governmental, Proprietary and Fiduciary. The City does not have proprietary funds.

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

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

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

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

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

*Grade Separation Fund* – This fund is used to account for the financial resources to be used for the acquisition and construction of the Grade Separation Project.

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

## CITY OF OLMSTED FALLS, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### **B. Fund Accounting (continued)**

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

##### **C. Measurement Focus**

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

*Fund Financial Statements* - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

##### **D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; fiduciary funds also use the accrual basis of accounting.

*Revenues – Exchange and Non-Exchange Transactions* - Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Available period for the City is sixty days after year-end.

CITY OF OLMSTED FALLS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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**Note 2: Summary of Significant Accounting Policies (continued)**

**D. Basis of Accounting (continued)**

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 8). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2011 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

**E. Budgetary Process**

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

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

CITY OF OLMSTED FALLS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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**Note 2: Summary of Significant Accounting Policies (continued)**

**E. Budgetary Process (continued)**

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

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

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

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

**F. Cash and Cash Equivalents**

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

During 2011, the City's investments were limited to STAR Ohio. Investments are reported at fair value.



**CITY OF OLMSTED FALLS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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**Note 2: Summary of Significant Accounting Policies (continued)**

**F. Cash and Cash Equivalents (continued)**

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2011.

The provisions of the Ohio Revised Code restrict investment procedures. Interest revenue credited to the general fund during 2011 amounted to \$2,262 which includes \$1,719 assigned from other funds. Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2011, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure in the year in which the services are consumed.

**H. Inventory**

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

**I. Capital Assets**

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of streets, sanitary sewers, bridges and traffic signals. Traffic signals acquired prior to January 1, 2002 are not reported. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Retro to December 31, 2004, the City has implemented a bridge infrastructure accounting of all bridges greater than a ten foot span.

CITY OF OLMSTED FALLS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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**Note 2: Summary of Significant Accounting Policies (continued)**

**I. Capital Assets (continued)**

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings	25-110 years
Improvements other than Buildings	20- 50 years
Machinery, equipment and vehicles	5-75 years
Infrastructure	20-100 years

**J. Interfund Balances**

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

**K. Compensated Absences**

Holiday, personal, vacations and other leave balances are a use it or lose it policy. Individual exceptions are allowed to carry forward certain unused amounts into the next year. Generally, such requests are infrequent.

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

**L. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

CITY OF OLMSTED FALLS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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**Note 2: Summary of Significant Accounting Policies (continued)**

**M. Fund Balance**

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

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

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

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

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

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

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

**CITY OF OLMSTED FALLS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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**Note 2: Summary of Significant Accounting Policies (continued)**

**M. Fund Balance (continued)**

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

**N. Net Assets**

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

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

**O. Interfund Activity**

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

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

**P. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. The City had neither type of transaction during 2011.

**Q. Estimates**

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

CITY OF OLMSTED FALLS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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**Note 3: Change in Accounting Principles**

For fiscal year 2011, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 51 "Accounting and Reporting for Intangible Assets" and Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

GASB Statement No. 51 establishes accounting and financial reporting of such assets to reduce inconsistencies, thereby enhancing the comparability of accounting and financial reporting of such assets amount state and local governments. The implementation of this statement did not result in any change to the City's financial statements.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in the reclassification of fund balances.

**Note 4: Accountability**

**Deficit GAAP Fund Balances**

The following funds had a deficit fund balance at December 31, 2011:

	<u>Deficit</u>
<u>Nonmajor governmental funds</u>	
Community Development Block Grant Fund	\$19,571
OWDA Sewer Fund	\$3,637
Sewer Debt Project 4 Fund	\$217,187

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

**Note 5: Fund Balances**

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

**CITY OF OLMSTED FALLS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Note 5: Fund Balances (continued)**

<u>Fund Balances</u>	<u>General Fund</u>	<u>Sewer Debt Project 2</u>	<u>Sewer Debt Project 4</u>	<u>Capital Improvement</u>	<u>Grade Separation</u>	<u>Other Governmental</u>	<u>Total</u>
<u>Nonspendable</u>							
Prepays	\$97,413	\$0	\$0	\$0	\$0	\$0	\$97,413
Inventory	491	0	0	0	0	9,320	9,811
<i>Total Nonspendable</i>	<u>97,904</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,320</u>	<u>107,224</u>
<u>Restricted for:</u>							
Road Improvements	0	0	0	0	0	892,324	892,324
Police and Fire Departments	0	0	0	0	0	158,375	158,375
Drug and alcohol enforcement	0	0	0	0	0	1,106	1,106
Juvenile diversion	0	0	0	0	0	10,447	10,447
Law Enforcement	0	0	0	0	0	50,676	50,676
Sanitary Sewer Improvements	0	0	0	0	0	886,737	886,657
Shade Trees	0	0	0	0	0	28,263	28,263
Storm Sewer Improvements	0	0	0	0	0	80,771	80,771
Street Lights	0	0	0	0	0	1,253	1,253
Capital Improvements	0	0	0	60,980	0	90,642	151,622
Equipment	0	0	0	0	0	40,753	40,753
Railroad bridge	0	0	0	0	255,331	0	255,331
Park	0	0	0	0	0	151,934	151,934
Covered Bridge	0	0	0	0	0	10,733	10,733
Cemetery	0	0	0	0	0	256	256
Southwest Hospital	0	0	0	0	0	532	532
Debt Service Payments	0	222,609	0	0	0	177,090	399,699
<i>Total Restricted</i>	<u>0</u>	<u>222,609</u>	<u>0</u>	<u>60,980</u>	<u>255,331</u>	<u>2,581,892</u>	<u>3,120,812</u>
<u>Committed to:</u>							
Compensated Absences	25,000	0	0	0	0	0	25,000
<i>Total Committed</i>	<u>25,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>25,000</u>
<u>Assigned to:</u>							
Park Operations	0	0	0	0	0	7,584	7,584
Other Purposes	39,164	0	0	0	0	0	39,164
<i>Total Assigned</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,584</u>	<u>46,748</u>
Unassigned (Deficit):	<u>1,455,676</u>	<u>0</u>	<u>(217,187)</u>	<u>0</u>	<u>0</u>	<u>(23,208)</u>	<u>1,215,281</u>
<b>Total Fund Balances (Deficit)</b>	<u><u>\$1,617,744</u></u>	<u><u>\$222,609</u></u>	<u><u>(\$217,187)</u></u>	<u><u>\$60,980</u></u>	<u><u>\$255,331</u></u>	<u><u>\$2,575,588</u></u>	<u><u>\$4,515,065</u></u>

## CITY OF OLMSTED FALLS, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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#### **Note 6: Deposits and Investments**

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are monies identified as not required for use within the current five year period of designation of depositories.

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

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

CITY OF OLMSTED FALLS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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**Note 6: Deposits and Investments (continued)**

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

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

**A. Deposits with Financial Institutions**

At December 31, 2011, the carrying amount of the City's deposits was \$1,559,213 and the bank balance was \$1,868,271. Of the bank balance \$1,368,271 was exposed to custodial risk as discussed below and \$500,000 was covered by the Federal Deposit Insurance Corporation. Although the securities were held by the pledging institution's trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

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

**B. Investments**

Investments are reported at fair value. As of December 31, 2011, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	\$2,580,667	\$2,580,667

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

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



**CITY OF OLMSTED FALLS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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**Note 6: Deposits and Investments (continued)**

All investments of the City are registered and carry a rating AAA by Standard & Poor's.

*Concentration of Credit Risk-* The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 2,580,766	100%

*Reconciliation of Cash and Investment to the Statement of Net Assets –* The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of December 31, 2011.

Cash and Investments

Carrying amount of deposits	\$1,559,213
Investments	<u>2,580,667</u>
Total	<u>\$ 4,139,880</u>

Cash and Investments per Statement of Net Assets

Governmental Activities	\$ 4,067,542
Fiduciary Funds	<u>72,338</u>
Total	<u>\$ 4,139,880</u>

**Note 7: Interfund Transfers**

Interfund loans consisted of the following amounts “due to/from other funds” at December 31, 2011, as reported on the fund financial statements.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Sewer Debt Project 4 Fund	\$217,187
General Fund	Other Governmental Funds	<u>28,267</u>
Total		<u>\$245,454</u>

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at December 31, 2011 are reported on the statement of net assets.

CITY OF OLMSTED FALLS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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**Note 8: Receivables**

Receivables at December 31, 2011, consisted of municipal income taxes, property taxes, accounts, due from other governments, and special assessments. All receivables are considered fully collectible.

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of the 2010 taxes. Property tax payments received during 2011 for tangible personal property (other than public utility property) are for 2011 taxes.

2011 real property taxes are levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2011.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2011 with real property taxes.

Tangible personal property tax revenue received during 2011 (other than public utility property) represents the collection of 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. 2011 is the last year for the collection of tangible personal property taxes from telephone companies; however, the City received no tangible personal property tax revenue from telephone company property. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20

The full tax rate applied to real property for the fiscal year ended December 31, 2011 was \$14.45 for \$1,000 of assessed valuation. The assessed values of real and tangible personal property, upon which 2011 property tax receipts were based, are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Property	\$ 196,781,450
Public Utility Tangible	3,598,280
Total	<u>\$ 200,379,730</u>

CITY OF OLMSTED FALLS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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**Note 8: Receivables (continued)**

**A. Property Taxes (continued)**

The Cuyahoga County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2011 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue is deferred.

**B. Income Taxes**

The City levies an income tax of 1.50% on substantially all income earned within the City. In addition, residents of the City are required to pay City income tax on income earned outside the City; however, a 50% credit up to .75% is allowed for income taxes paid to other municipalities. Employers within the City are required to withhold income tax on employee earnings and remit the tax at least quarterly to the Regional Income Tax Agency, who administers the City's income tax collections. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

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

**C. Intergovernmental Receivable**

A summary of intergovernmental receivables as of December 31, 2011, follows:

Governmental Activities:	Amount
Local Government and Local Government Revenue Assistance	\$ 108,340
Homestead and Rollback	154,975
Estate Tax	59,625
Gasoline and Excise Tax	89,498
Auto Registration Tax	25,403
Cents Gallon Tax	45,263
State Government	21,349
Other	1,262
Total	<u>\$ 505,715</u>

**CITY OF OLMSTED FALLS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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**Note 8: Receivables (continued)**

**D. Loan Receivable**

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

As of December 31, 2011, the full amount of the loan has been “drawn down”, thus creating a long-term OPWC loan payable by the City (See Note 10). A corresponding long-term loan receivable has been reported in the City’s financial statements in the amount of \$388,070, which represents the amount owed by the City of Berea to the City. This loan is classified as loan receivable on the statement of net assets, considered collectible in full, and is expected to be collected in more than one year.

**CITY OF OLMSTED FALLS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Note 9: Capital Assets**

Capital asset activity for Governmental Activities for the year ended December 31, 2011:

	Balance 1/01/2011	Additions	Deductions	Balance 12/31/2011
<b><u>Governmental Activities</u></b>				
<b><i>Capital Assets, not being depreciated:</i></b>				
Land	\$1,113,096	\$326,172	\$0	\$1,439,268
Construction in Progress	9,624,298	1,759,016	0	11,383,314
<b><i>Total Capital Assets, not being Depreciated</i></b>	<b><u>10,737,394</u></b>	<b><u>2,085,188</u></b>	<b><u>0</u></b>	<b><u>12,822,582</u></b>
<b><i>Capital Assets, being Depreciated:</i></b>				
Buildings and Improvements	5,752,228	0	0	5,752,228
Improvements other than buildings	255,587	0	0	255,587
Machinery, equipment and vehicles	3,919,388	127,798	(342,423)	3,704,763
Infrastructure				
Traffic Signals	419,817	0	0	419,817
Bridges	536,406	0	0	536,406
Roads	1,321,061	28,891	0	1,349,952
Sanitary Sewers	2,523,171	0	0	2,523,171
<b><i>Total Capital Assets, being Depreciated</i></b>	<b><u>14,727,658</u></b>	<b><u>156,689</u></b>	<b><u>(342,423)</u></b>	<b><u>14,541,924</u></b>
<b>Less Accumulated Depreciation:</b>				
Buildings and Improvements	(576,438)	(78,983)	0	(655,421)
Improvements other than buildings	(16,605)	(11,497)	0	(28,102)
Machinery, equipment and vehicles	(1,305,314)	(241,849)	303,637	(1,243,526)
Infrastructure				
Traffic signals	(22,021)	(8,396)	0	(30,417)
Bridges	(93,512)	(4,986)	0	(98,498)
Roads	(154,896)	(67,498)	0	(222,394)
Sanitary sewers	(24,063)	(33,642)	0	(57,705)
<b><i>Total Accumulated Depreciation</i></b>	<b><u>(2,192,849)</u></b>	<b><u>(446,851) *</u></b>	<b><u>303,637</u></b>	<b><u>(2,336,063)</u></b>
<b>Total Capital Assets, being Depreciated, net</b>	<b><u>12,534,809</u></b>	<b><u>(290,162)</u></b>	<b><u>(38,786)</u></b>	<b><u>12,205,861</u></b>
<b>Governmental Activities Capital Assets, Net</b>	<b><u>\$23,272,203</u></b>	<b><u>\$1,795,026</u></b>	<b><u>\$(38,786)</u></b>	<b><u>\$25,028,443</u></b>

\*Depreciation expense was charged to governmental activities as follows:

General government	\$52,935
Security persons & property	192,083
Physical environment	33,642
Transportation	155,194
Economic environment	2,888
Cultural & recreation	10,109
<b>Total</b>	<b><u>\$446,851</u></b>

**CITY OF OLMSTED FALLS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Note 10: Long-Term Obligations**

The City had the following activity in long-term obligations during 2011:

	Balance 1/01/2011	Additions	Reductions	Balance 12/31/2011	Due Within One Year
1998 Ohio Water and Sewer Rotary Commission Loan	\$396,075	\$ -	\$ -	\$396,075	\$ -
Ohio Water Development Authority Loans (OWDA):					
1989 Sanitary Sewer 7.51%	41,522	-	(41,522)	0	0
1991 Water Mains 7.45%	86,411	-	(15,830)	70,581	34,020
1995 Water Mains 6.56%	395,983	-	(19,606)	376,377	40,497
1995 Sanitary Sewers 4.35%	1,155,906	-	(61,176)	1,094,730	123,373
2002 Sanitary Sewer 3.95%	408,787	-	(11,065)	397,722	22,790
2002 Storm Sewers 5.70%	68,125	-	(1,623)	66,502	3,386
2009 Sanitary Sewers 3.25%	830,676	-	(42,980)	787,696	43,678
Subtotal OWDA:	2,987,410	-	(193,802)	2,793,608	267,744
2011 Ohio Public Works Commission 0.00%	388,070		(19,404)	368,666	19,404
2011 Fire Station Improvement Notes 1.25%	731,000	631,000	(731,000)	631,000	-
2011 Building Improvement Notes 1.25%	1,255,000	1,050,000	(1,255,000)	1,050,000	-
2011 Various Purpose Notes 1.25%	260,000	240,000	(260,000)	240,000	-
2011 Real Estate 1.25%	0	280,000	0	280,000	-
Note Premium	4,730	1,079	(4,730)	1,079	-
Capital Leases	588,381	-	(115,842)	472,539	129,234
Compensated Absence	351,841	35,270	-	387,111	49,984
Total Governmental Activities Long-Term Liabilities	\$6,962,507	\$2,237,349	(\$2,579,778)	\$6,620,078	\$466,366

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

The amount of filing and unbilled special assessments for the improvements within the Agricultural District was \$396,075. There was no change in the status of the parcels for the fiscal year ended December 31, 2011.

**CITY OF OLMSTED FALLS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Note 10: Long-Term Obligations (continued)**

Ohio Water Development Authority (OWDA) - The City has obtained loans from OWDA for water and sewer line extension in fiscal years 1989, 1991, 1995 and 2011. The sewer projects have been mandated by the Ohio Environmental Protection Agency. These loans will be paid from the debt service funds using special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, the City would make payment. These loans are paid for from various debt service funds.

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

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

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

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

The City's overall legal debt margin was \$21,124,143 and an unvoted debt margin of \$11,020,885 at December 31, 2011. Principal and interest requirement to retire long-term obligations outstanding at December 31, 2011, are as follows:

	<u>OWDA Loans</u>		<u>OPWC Loan</u>	<u>Totals</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
2012	\$267,744	\$95,427	\$19,404	\$382,575
2013	238,927	83,568	19,404	341,899
2014	212,151	71,068	19,404	302,623
2015	222,426	77,336	19,404	319,166
2016	284,877	76,261	19,404	380,542
2017-2021	1,010,383	200,757	97,020	1,308,160
2022-2026	481,223	67,560	97,020	645,803
2027-2030	75,877	6,131	77,606	159,614
Total	<u>\$2,793,608</u>	<u>\$678,108</u>	<u>\$368,666</u>	<u>\$3,840,382</u>

**CITY OF OLMSTED FALLS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Note 11: Capital Leases**

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

The capital assets acquired by the leases has been capitalized and depreciated as follows as of December 31, 2011:

	Governmental Activities
<b>Capital Leases, being depreciated</b>	
Vehicles	\$828,070
Total Capital Leases, being depreciated	828,070
Less Accumulated Depreciation	
Vehicles	(116,121)
Total Accumulated Depreciation	(116,121)
Capital Leases, Net	\$711,949

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2011.

Future long-term minimum lease payments:

		Governmental Activities
Year Ending December 31,		
2012		150,312
2013		126,615
2014		126,615
2015		121,267
Total		524,809
Less: Amount Representing Interest		(52,270)
Present Value of Net Minimum Lease Payments		\$472,539



CITY OF OLMSTED FALLS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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**Note 12: Risk Management**

The City of Olmsted Falls is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. During 2011, the City contracted through the Municipal Insurance Alliance Agency of Ohio for various types of insurance as follows:

<u>Company</u>	<u>Type</u>	<u>Coverage</u>
U.S. Specialty Insurance Company	Building and Property	\$ 7,548,460
	General Liability	3,000,000
	Public Officials Liability	1,000,000
	Law Enforcement Liability	1,000,000
	Crime Coverage	25,000
	Employee Dishonesty	50,000
	Automobile Liability	1,000,000
	Umbrella Liability	10,000,000
	Boiler/Machinery	7,548,460

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

**Note 13: Jointly Governed Organizations**

**A. Northeast Ohio Public Energy Council (NOPEC)**

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

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Olmsted Falls did not contribute to NOPEC during 2011. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 31320 Solon Rd, Suite 20, Solon, Ohio 44139.

**CITY OF OLMSTED FALLS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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**Note 13: Jointly Governed Organizations (continued)**

**B. Chestnut Grove Union Cemetery**

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

A joint council consisting of the council members of Olmsted Falls and the Trustees of Olmsted Township governs the Cemetery. The joint council elects and appoints the members of the Board of Trustees. The members of the Board of Trustees consist of the following: one elected member of the legislative body from each of the political subdivisions and one appointed resident from either of the political subdivisions who is not a member of the legislative body. The joint council exercises control over the operation of the Cemetery through budgeting, appropriating and contracting. The Board of Trustees control daily operations of the Cemetery. During 2011, the City contributed \$39,833 to the Chestnut Grove Union Cemetery.

**C. Joint Economic Development District**

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

A Board of Directors governs the JEDD. The Board is composed of the following members: (a) one member representing the City, appointed by the Mayor and approved by the City Council; (b) one member representing the Township, appointed by the Township Trustees; and (c) one member selected by the two members listed. The Board exercises control over the operation of JEDD through budgeting, appropriations, contracting and designating management. The control by the city and township is limited to the representation on the board. During 2011, the City did not contribute to the JEDD.

**D. Southwest Council of Governments**

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

The Council has established two subsidiary organizations, the Hazardous Material Response Team ("HAZMAT"), which provides hazardous material protection and assistance, and the Southwest Enforcement Bureau, which provides extra assistance to cities in the form of a SWAT team. During 2011, the City contributed \$15,000 to the Council. The Council's financial reports may be obtained by contacting Dana Kavender, Secretary-Treasurer, 11 Berea Commons, Berea, Ohio 44017.

## CITY OF OLMSTED FALLS, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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#### **Note 13: Jointly Governed Organizations (continued)**

##### **E. Southwest General Health Center**

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

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

The Board exercises total control over the operations of the Health Center, including budgeting, appropriating, contracting and designating management. Each City's control is limited to its representation on the Board. During 2011, the City contributed \$46,806 to the Health Center.

#### **Note 14: Pension Plans**

##### **A. Ohio Public Employees Retirement System**

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

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the year ended December 31, 2011, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 10.5 percent and 11.1 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2011, member and employer contribution rates were consistent across all three plans.

**CITY OF OLMSTED FALLS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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**Note 14: Pension Plans (continued)**

**A. Ohio Public Employees Retirement System (continued)**

The City's 2011 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.87 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 10 percent during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 7.95 percent for calendar year 2011. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2011, 2009, and 2008 were \$144,991, \$128,817, and \$111,329, respectively; 99% has been contributed for 2011 and 100% for 2010 and 2009.

**B. Ohio Police and Fire Pension Fund**

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

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

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's required contributions to the OP&F for police and firefighters were \$86,708 and \$87,372 for the year ended December 31, 2011, \$91,523 and \$89,438 for the year ended December 31, 2010, and \$83,441 and \$88,099 for the year ended December 31, 2009. 99.9% for the police department and 99.9% for the fire department has been contributed for 2011. The full amount has been contributed for 2010 and 2009.

**Note 15: Postemployment Benefit Plans**

**A. Ohio Public Employees Retirement System**

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

**CITY OF OLMSTED FALLS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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**Note 15: Postemployment Benefit Plans (continued)**

**A. Ohio Public Employees Retirement System (continued)**

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

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-5601 or 800-222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local government employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed 17.87 percent. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4 percent for calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for calendar year 2011.

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

The City's contributions allocated to fund post-employment health care benefits for the year ended December 31, 2011, 2009, and 2008 were \$57,997, \$73,362, and \$80,125, respectively; 99% has been contributed for 2009 and 100% for 2010 and 2009.

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

**CITY OF OLMSTED FALLS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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**Note 15: Postemployment Benefit Plans (continued)**

**B. Ohio Police and Pension Fund**

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

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$45,904 and \$34,189 for the year ended December 31, 2011, \$48,454 and \$34,998 for the year ended December 31, 2010, and \$44,175 and \$34,474 for the year ended December 31, 2009. 99% has been contributed for police and 99% has been contributed for firefighters for 2011. The full amount has been contributed for 2010 and 2009.

CITY OF OLMSTED FALLS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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**Note 16: Contingencies**

**A. Grants**

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and may be subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2011.

**B. Litigation**

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

**Note 17: Budgetary Basis of Accounting**

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

- 1 Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- 2 Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- 3 Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

Net Change in Fund Balance	
	<u>General Fund</u>
Budget basis	\$ 210,975
Net adjustment for revenues	101,932
Net adjustment for expenditures	<u>(3,948)</u>
GAAP Basis	<u>\$ 308,959</u>

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**CITY OF OLMSTED FALLS  
CUYAHOGA COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Expenditures
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>		
<i>Passed Through University Hospitals</i>		
State and Community Highway Safety	20.600	\$7,680
<i>Passed Through Ohio Department of Transportation</i>		
ARRA - Highway Planning and Construction	20.205	<u>1,258,563</u>
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>		<u>1,266,243</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>		
<i>Direct Award</i>		
Assistance to Firefighters Grant	97.044	45,394
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>		<u>45,394</u>
<b>TOTAL</b>		<u><u>\$1,311,637</u></u>

*The accompanying notes are an integral part of this schedule.*

**CITY OF OLMSTED FALLS  
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED DECEMBER 31, 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the City of Olmsted Fall's (the City's) federal award programs' disbursements. The schedule has been prepared on the cash basis of accounting.

**NOTE B - MATCHING REQUIREMENTS**

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

CFDA – Catalog of Federal Domestic Assistance



# Dave Yost • 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 Olmsted Falls  
Cuyahoga County  
26100 Bagley Road  
Olmsted Falls, Ohio 44138

To the City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Olmsted Falls, Cuyahoga County, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 19, 2012, wherein we noted the City implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 19, 2012.

We intend this report solely for the information and use of management, the finance committee, City Council, federal awarding agencies and pass-through entities, and others within the City. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State

September 19, 2012



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the City Council:

### Compliance

We have audited the compliance of the City of Olmsted Falls, Cuyahoga County, Ohio (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the City of Olmsted Falls' major federal program for the year ended December 31, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the City's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with these requirements.

In our opinion, the City of Olmsted Falls complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2011.

### Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the finance committee, management, City Council, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

September 19, 2012

**CITY OF OLMSTED FALLS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510(a)?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	CFDA 20.205 ARRA – Highway Planning and Construction
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

None

**CITY OF OLMSTED FALLS  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2010-01	ORC 5705.41(B) Expenditures Exceeding Appropriations in Railroad Grade Separation Fund	Yes	Finding No Longer Valid





# Dave Yost • Auditor of State

CITY OF OLMSTED FALLS

CUYAHOGA COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
OCTOBER 4, 2012