



Dave Yost • Auditor of State

**CITY OF TWINSBURG
SUMMIT COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Twinsburg
Summit County
10075 Ravenna Road
Twinsburg, Ohio 44087

To the Honorable Mayor and City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Twinsburg, Summit County, Ohio (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation. We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Twinsburg, Summit County, Ohio, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended December 31, 2013, the City adopted the provisions of Governmental Accounting Standard No. 65, "Items Previously Reported as Assets and Liabilities." We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

October 31, 2014

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

The discussion and analysis of the City of Twinsburg's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2013. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Key financial highlights for 2013 are as follows:

- ◆ The assets and deferred outflows of resources of the City of Twinsburg exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$191,393,717. Of this amount, \$35,134,033 may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ Total assets and deferred outflows increased by \$3,868,738, which represents an increase of 1.87 percent over 2012. The primary change that contributed to this increase was the increase in cash and cash equivalents of \$3,457,766 and the increase in municipal income taxes receivable of \$2,873,074. These increases were offset largely by a decrease in capital assets, net depreciation of \$2,577,913.
- ◆ Total liabilities and deferred inflows of resources decreased by \$434,451, which represents a decrease of 2.19 percent over 2012. The main factor that contributed to this decrease was the decrease of \$319,284 in long-term liabilities.
- ◆ In total, net position increased by \$4,303,189 during 2013. This represents a 2.30 percent increase from 2012.

Using this Annual Financial Report

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

Government-Wide Financial Statements – Reporting the City of Twinsburg as a Whole

Statement of Net Position and the Statement of Activities

The statement of net position presents information on all the City of Twinsburg's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the four reported as *net position*. Over time, increase or decrease in net position may serve as a useful indicator of whether the financial position of the City of Twinsburg is improving or deteriorating. However, in evaluating the overall position of the City, nonfinancial factors such as the City's tax base, change in property and municipal income tax laws, and the condition of the capital assets should also be considered.

The statement of activities presents information showing how the City's net position changed during the recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave).

Both the statement of net position and the statement of activities use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

In the statement of net position and the statement of activities, we divide the City into two kinds of activities:

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

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

Fund Financial Statements

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

Governmental Funds

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

The City maintains 25 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the general fund, park debt service fund, and the capital improvement fund, all of which are considered to be major funds. The remaining funds are combined and presented within the column titled other governmental funds.

Proprietary Funds

The City of Twinsburg maintains enterprise funds that are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer system, fitness center and other business type activity.

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

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

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

Notes to the Financial Statements

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

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

As noted earlier, the statement of net position looks at the City as a whole and can prove to be a useful indicator of the City's financial position.

The statement of net position and the statement of activities are divided into the following categories:

- Assets
- Deferred outflows of resources
- Liabilities
- Deferred inflows of resources
- Net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources)
- Program expenses and revenues
- General Revenues
- Net position beginning and end of year

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

Table 1 provides a summary of the City's net position for 2013 as compared to 2012.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other assets	\$ 42,659,706	\$ 35,742,232	\$ 3,266,936	\$ 3,716,442	\$ 45,926,642	\$ 39,458,674
Capital assets, net	<u>120,160,498</u>	<u>121,803,476</u>	<u>44,533,691</u>	<u>45,468,626</u>	<u>164,694,189</u>	<u>167,272,102</u>
Total assets	<u>162,820,204</u>	<u>157,545,708</u>	<u>47,800,627</u>	<u>49,185,068</u>	<u>210,620,831</u>	<u>206,730,776</u>
Deferred outflows of resources:						
Deferred charges on refunding	<u>170,532</u>	<u>191,849</u>	-	-	<u>170,532</u>	<u>191,849</u>
Liabilities:						
Current and other liabilities	1,769,007	1,785,639	450,511	406,268	2,219,518	2,191,907
Long-term liabilities:						
Due within one year	2,331,145	1,964,277	134,056	110,719	2,465,201	2,074,996
Due in more than one year	<u>13,024,139</u>	<u>13,983,526</u>	<u>598,812</u>	<u>348,914</u>	<u>13,622,951</u>	<u>14,332,440</u>
Total liabilities	<u>17,124,291</u>	<u>17,733,442</u>	<u>1,183,379</u>	<u>865,901</u>	<u>18,307,670</u>	<u>18,599,343</u>
Deferred inflows of resources:						
Property taxes	<u>1,089,976</u>	<u>1,232,754</u>	-	-	<u>1,089,976</u>	<u>1,232,754</u>
Net position:						
Net investment in capital assets	106,911,674	107,775,665	44,128,179	45,362,111	151,039,853	153,137,776
Restricted for:						
Unclaimed monies	1,385	2,093	-	-	1,385	2,093
Capital projects	2,798,763	4,397,575	-	-	2,798,763	4,397,575
Debt service	85,895	33,164	-	-	85,895	33,164
Other purposes	2,333,788	2,647,566	-	-	2,333,788	2,647,566
Unrestricted	<u>32,644,964</u>	<u>23,915,298</u>	<u>2,489,069</u>	<u>2,957,056</u>	<u>35,134,033</u>	<u>26,872,354</u>
Total net position	<u>\$ 144,776,469</u>	<u>\$ 138,771,361</u>	<u>\$ 46,617,248</u>	<u>\$ 48,319,167</u>	<u>\$ 191,393,717</u>	<u>\$ 187,090,528</u>

The largest portion (78.92 percent) of the City's net position reflects its net investment in capital assets. Capital assets include construction in progress, land, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure. The City uses those capital assets to provide services to its citizens; consequently, they are not available for future spending. Net investment in capital assets as of December 31, 2013, was \$151,039,853. Although the City's investment is reported net of related debt, it should be noted that resources to repay the debt must be provided from other sources since capital assets may not be used to liquidate these liabilities.

An additional portion of the City's net position (2.73 percent) represents resources that have been restricted on how they may be used. The remaining balance of unrestricted net position \$35,134,033 may be used to meet the City's ongoing obligations to citizens and creditors.

Total net position of the City increased \$4,303,189. The following factors were responsible for this increase:

- An increase in cash and cash equivalents of \$3,457,766.
- A decrease in capital assets, net of \$2,577,913.
- An increase in taxes receivable of \$2,873,074.
- An increase in accounts payable of \$119,026.
- A decrease in long-term debt of \$319,284.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

The net position of our business-type activities decreased by 3.52 percent in 2013. The City generally can only use the net position to finance the continuing operations of the sewer system, fitness center, golf course, and community theater operations.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the current year in comparison to 2012.

Table 2
Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 3,071,558	\$ 2,807,777	\$ 4,994,057	\$ 5,009,101	\$ 8,065,615	\$ 7,816,878
Operating grants and contributions	25,554	72,337	-	-	25,554	72,337
Capital grants and contributions	1,409,545	2,981,575	463,815	274,960	1,873,360	3,256,535
Total program revenue	<u>4,506,657</u>	<u>5,861,689</u>	<u>5,457,872</u>	<u>5,284,061</u>	<u>9,964,529</u>	<u>11,145,750</u>
General revenues:						
Property and other local taxes	1,239,860	1,253,802	-	-	1,239,860	1,253,802
Municipal income taxes	27,931,865	22,852,493	-	-	27,931,865	22,852,493
Grants and entitlements (not restricted to specific programs)	1,939,843	1,764,011	-	-	1,939,843	1,764,011
Investment income	45,992	16,304	-	-	45,992	16,304
Miscellaneous income	68,834	39,132	-	-	68,834	39,132
Transfers	-	-	311,951	1,082,805	311,951	1,082,805
Total general revenues and transfers	<u>31,226,394</u>	<u>25,925,742</u>	<u>311,951</u>	<u>1,082,805</u>	<u>31,538,345</u>	<u>27,008,547</u>
Total revenues	<u>35,733,051</u>	<u>31,787,431</u>	<u>5,769,823</u>	<u>6,366,866</u>	<u>41,502,874</u>	<u>38,154,297</u>
Program expenses:						
General government	6,688,110	4,446,875	-	-	6,688,110	4,446,875
Security of persons and property	8,451,014	8,349,908	-	-	8,451,014	8,349,908
Transportation	7,148,445	8,271,282	-	-	7,148,445	8,271,282
Leisure time activities	1,677,223	1,571,366	-	-	1,677,223	1,571,366
Community development	4,845,641	2,180,556	-	-	4,845,641	2,180,556
Basic utility services	12,225	62,463	-	-	12,225	62,463
Interest and fiscal charges	593,334	475,342	-	-	593,334	475,342
Sewer	-	-	4,769,812	3,049,169	4,769,812	3,049,169
Fitness center	-	-	1,622,192	1,480,899	1,622,192	1,480,899
Other business-type activities	-	-	1,079,738	961,762	1,079,738	961,762
Transfers	311,951	1,082,805	-	-	311,951	1,082,805
Total program expenses	<u>29,727,943</u>	<u>26,440,597</u>	<u>7,471,742</u>	<u>5,491,830</u>	<u>37,199,685</u>	<u>31,932,427</u>
Change in net position	6,005,108	5,346,834	(1,701,919)	875,036	4,303,189	6,221,870
Net position, beginning of the year	<u>138,771,361</u>	<u>133,424,527</u>	<u>48,319,167</u>	<u>47,444,131</u>	<u>187,090,528</u>	<u>180,868,658</u>
Net position, end of the year	<u>\$ 144,776,469</u>	<u>\$ 138,771,361</u>	<u>\$ 46,617,248</u>	<u>\$ 48,319,167</u>	<u>\$ 191,393,717</u>	<u>\$ 187,090,528</u>

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

Governmental Activities

Several revenue sources fund our governmental activities with the City municipal income tax being the largest contributor. The City's municipal income tax rate increased January 2010 from 2.00 percent to 2.25 percent. Residents of the City who work in another municipality and pay the withholding tax for that municipality will receive a 100 percent tax credit on up to 2.25 percent for municipal income taxes paid to their workplace municipality. During 2013, the revenues generated from municipal income tax collections amounted to \$27,931,865. The City continues to enforce a delinquent letter program and the subpoena program to ensure compliance with the local tax laws.

Security of persons and property, transportation and general government are the major activities of the City generating 79 percent of the governmental expenses. Security of persons and property includes the cost of providing police, dispatch, fire and paramedic services. The fire department consists of 30 full-time and 13 part-time fire fighters. Training plays a crucial role in the day-to-day operation of the fire department. Techniques such as driving rodeos, continuing education classes, practice drills and watching training videos help keep the men and women updated to perform their jobs most efficiently. There were 2,232 calls for assistance during 2013. The total cost of operating the fire and EMS department during 2013 was \$3,139,969 within the general fund. As a result of entering into a contract with Life Force Management, Inc. for the EMS billing services the City received \$388,590 in revenue. The police department consists of 33 full-time sworn officers, 3 sworn part-time officers/jailers and a civilian support staff of 16 employees in the police department. During 2013, the department still continues to place strong emphasis on the training of its employees in order to keep up with the rapidly changing laws, practices and technology.

Transportation expense includes the cost of providing all public works services such as street and storm channel maintenance and improvements, snow removal, and equipment maintenance. The decrease in transportation expense of \$1,122,837 from 2012 is attributed mostly to the completion of Edgewood, Haverhill, and Croyden Roads improvements during 2012 which replaced several infrastructure assets in the prior year. This is attributed to 2012 having a larger depreciation expense than in 2013 thereby causing an overall decrease in transportation expense.

Community Development expense accounted for \$4,845,641, or 16 percent, of the governmental expenses. Expenses for this program increased \$2,665,085 compared to 2012. The increase is due primarily to an increase in depreciation expense related to the increase in infrastructure assets from completed road and storm sewer improvements in the past year.

Business-Type Activities

The business-type activities of the City, which include the City's sewer system, fitness center, golf course and community theater operations, decreased the City's net position by \$1,701,919.

Program expenses exceeded program revenues in the amount of \$1,969,728 for the sewer system for 2013.

Program expenses exceeded program revenue in the amount of \$350,947 for the fitness center operations for 2013.

Program revenues exceeded program expenses in the amount of \$306,805 for the other business-type activity operations for 2013.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

The City's Funds

Governmental Funds

Information about the City's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$37,408,659 and expenditures and other financing uses of \$34,828,905.

The net change in fund balance for the year was most significant in the general fund showing an increase in fund balance of \$3,496,927 in 2013 which increases the beginning fund balance of \$25,119,781 to \$28,616,708. The capital improvement capital projects fund reflected a decrease of \$863,575. Overall the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

General Fund Budgeting Highlights

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

For the general fund, final budget basis revenue, including other financing sources was \$6,769,114 higher than the original budget estimates of \$22,118,082. The City continues the conservative practice of estimating low in the tax, intergovernmental revenue and interest revenue areas. The final appropriations, including other financing uses of \$25,324,454 were sufficient to meet the expenditures and other financing uses for the year, which ended up at \$24,373,741.

The City's ending unobligated budgetary fund balance was \$967,858 higher than the final budgeted amount.

Business-Type Funds

The City's major enterprise funds consist of the sewer fund and fitness center fund. The basic financial statements for the major funds are included in this report.

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the sewer and fitness center. The basic proprietary fund financial statements can be found on pages 26 through 29 of this report.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2013, the City of Twinsburg had \$164,694,189, invested in construction in progress, land and land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure, net of accumulated depreciation.

Table 3 shows fiscal 2013 balances of capital assets as compared to the 2012 balances:

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Construction in progress	\$ -	\$ 1,776,418	\$ 417,294	\$ 1,505,993	\$ 417,294	\$ 3,282,411
Land and land improvements	26,253,747	25,934,053	3,281,812	2,843,237	29,535,559	28,777,290
Buildings and improvements	10,202,122	10,202,122	24,140,797	24,036,566	34,342,919	34,238,688
Machinery and equipment	5,521,161	5,195,800	4,004,375	3,930,620	9,525,536	9,126,420
Vehicles	6,602,774	6,194,433	787,616	603,915	7,390,390	6,798,348
Infrastructure:						
Roads	56,407,852	56,208,031	-	-	56,407,852	56,208,031
Water mains	32,535,157	32,520,624	-	-	32,535,157	32,520,624
Storm sewers and culverts	35,329,639	34,274,760	-	-	35,329,639	34,274,760
Traffic signs and signals	1,406,813	1,365,339	-	-	1,406,813	1,365,339
Street lights	1,633,179	1,627,623	-	-	1,633,179	1,627,623
Sewer lines	-	-	31,388,775	31,086,958	31,388,775	31,086,958
Less: Accumulated depreciation	(55,731,946)	(53,495,727)	(19,486,978)	(18,538,663)	(75,218,924)	(72,034,390)
Total capital assets	\$ <u>120,160,498</u>	\$ <u>121,803,476</u>	\$ <u>44,533,691</u>	\$ <u>45,468,626</u>	\$ <u>164,694,189</u>	\$ <u>167,272,102</u>

The City has an aggressive stance on maintaining its assets, including infrastructure, in excellent condition. Vehicles such as fire trucks and ambulances are planned for well in advance by the respective department heads and a scheduled maintenance and replacement time-table is followed to provide peak performance for the maximum time frame. Vehicles no longer in service are either traded in or sold at an auction or online.

With regards to the infrastructure, the City's engineering department maintains a comprehensive listing of all the streets, bridges, culverts and sewer lines in the City. As part of the City's annual road maintenance program, the engineer evaluates the condition of each street after each winter and prepares a list of streets to be either resurfaced or crack sealed and in the case of concrete roads, either replaced or repaired. After approval from City Council, the projects are bid in early to late spring to get the best possible pricing from contractors. This program is paid for out of the capital improvement fund of the City. Additional information concerning the City's capital assets can be found in the notes to the financial statements.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

Debt

At December 31, 2013, the City of Twinsburg had \$16,088,152 in outstanding debt and compensated absences, of which \$9,714,530 was in general obligation bonds. Table 4 summarizes the outstanding obligations of the City.

Table 4
 Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ 9,714,530	\$ 10,765,574	\$ -	\$ -	\$ 9,714,530	\$ 10,765,574
Special assessment bonds	194,000	225,000	-	-	194,000	225,000
ODOT loan refunding	270,000	535,000	-	-	270,000	535,000
Energy equipment loan payable	405,580	533,965	-	-	405,580	533,965
OPWC loans payable	2,615,405	2,160,122	304,834	83,649	2,920,239	2,243,771
Capital leases payable	219,841	-	100,678	22,866	320,519	22,866
Accrued compensated absences	<u>1,935,928</u>	<u>1,728,142</u>	<u>327,356</u>	<u>353,118</u>	<u>2,263,284</u>	<u>2,081,260</u>
Total	<u>\$ 15,355,284</u>	<u>\$ 15,947,803</u>	<u>\$ 732,868</u>	<u>\$ 459,633</u>	<u>\$ 16,088,152</u>	<u>\$ 16,407,436</u>

General obligation bonds are composed of park land and conservation, senior citizens center, golf course and road improvements. The special assessment bonds consist of the taxpayer portion of water, sewer, and road improvements. The ODOT loan is composed of road improvements. The energy equipment loan is composed of equipment purchased for energy conservation. The OPWC loans are composed of road improvements.

Other obligations include accrued compensated absences and operating and capital lease obligations. Additional information concerning the City's debt can be found in the notes to the financial statements.

2013 Economic and Community Development Accomplishments

Job Growth

Many businesses and industries within the City of Twinsburg have experienced job growth since the beginning of 2013. Companies like Windstream, Verizon, Envision Pharmaceutical Holdings, Cleveland Clinic, Assuramed, Geiseke/Devriant, RxOptions, Leiden Cabinet Company and others have experienced significant growth or consolidated operations in Twinsburg, resulting in bringing more than 350 new jobs to the City. Other companies, new to the City in 2013, like Professional Plastics, SMC Design Dynamics, and Myers Industries brought with them more than 60 new jobs.

New Buildings

One of the newer buildings in the City is the DaVita Dialysis Centers, located on E. Aurora Road near Commons Blvd. It is a 6,500 square foot medical building primarily serving kidney dialysis patients. Additionally, on Darrow Road, at E. Highland Road, Manor Care has begun constructing its "Heartland of Twinsburg" skilled nursing facility. This 64,300 square foot building will provide 120 beds. When completed in mid-2014 the facility will employ as many as 140 employees.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

Cornerstone Business Park

Substantial deconstruction of the former Chrysler Stamping Plant has occurred over the course of the year to make way for the new Cornerstone Business Park. About 1.8 million square feet of the former plant was demolished in 2013. The facility's concrete floors, high-bay's basement and the office portion of the building will be removed in 2014. Contracts have been let by the property owners and, with assistance from the State's Jobs Ready Site Program and the Clean Ohio Revitalization Program, the remaining elements will be removed and basic infrastructure provided to create a 167-acre contemporary industrial park on the former stamping plant site. Demolition and cleanup work are anticipated to be complete by July of 2014. A portion of the site was occupied by VISTAR, a food products distribution company, who expanded into a new 137,000 square foot facility located on the Chamberlin Road frontage of the new Cornerstone Business Park in late 2012.

Comprehensive Plan Update

City staff and the Comprehensive Plan Review Committee are completing an update of the City's comprehensive plan. The comprehensive plan provides an analysis of existing conditions, assessments of problems and opportunities and provides recommendations to address community development goals. This document is important in that it provides a policy and objectives that helps the City focus efforts and expenditures in ways that provide a maximum benefit to the community. This particular update included an emphasis on the City's central area around Twinsburg Square. The Comprehensive Plan Committee met throughout the year and drafted a comprehensive plan that has been sent to City Council by the City's Planning Commission with a recommendation that it be adopted as our official Plan.

New and Expanding Businesses in 2013

The following businesses have either established themselves in the community in 2013 or expanded their operation in the City during this year:

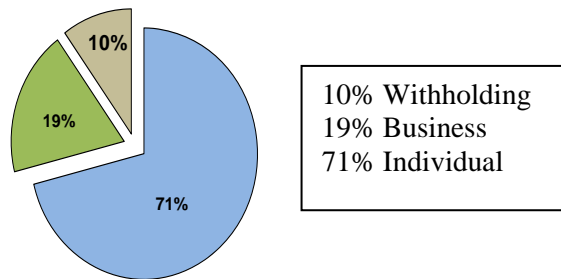
- Myers Industries, Lawn and Garden Group
- Professional Plastics
- Just Like Family
- Cobra Trading
- Ciesecke & Devriant
- Greco Roman Scratch Bakery and Pizzeria
- Family Learning Center for Music
- Emergency Mower Technicians
- Cleveland Gymnastics Training Center
- ReVolt Fitness, LLC
- Summit Petroleum Inc.
- Watts Water Quality and Conditioning Products
- CTEK Power USA, LLC
- Dr. Gen Orthodontics
- Our Community Hunger Center
- Fuse Public Safety
- Twinsburg Public Safety and Firearms
- Chipotle American Grill
- Bedrooms Today
- Natural Touch Day Spa
- SGR Metal Inc.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
 For the Fiscal Year Ended December 31, 2013

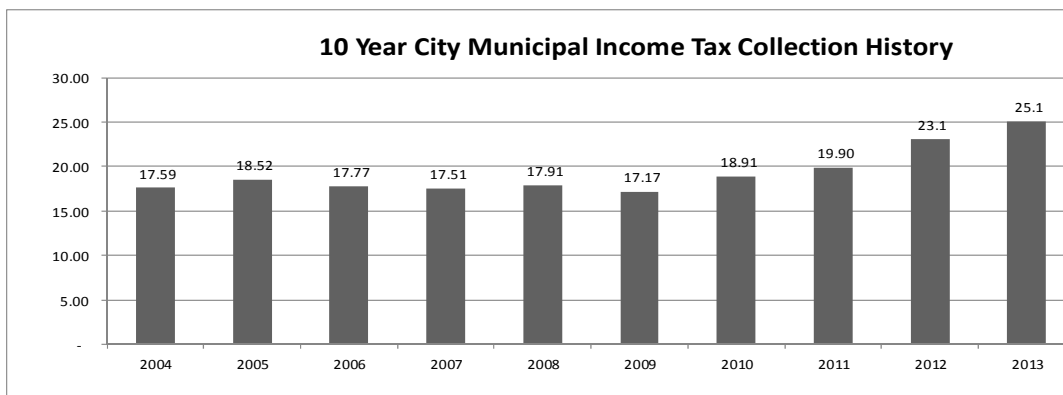
Current Related Financial Activities

The City of Twinsburg, in the past, faced some challenging financial years due to the economic downturn and the loss of a major manufacturing company that contributed over 2 million dollars to the City's operations. On a cash basis, the municipal income tax revenue represents 87 percent of the City's total general fund revenue. The net income collections (gross collections less refunds) for 2013 were \$25,058,791 compared to 2012 collections of \$23,148,247. This reflects an increase over last year of 8.25 percent.

As a result of the quarter percent rate increase to the City's municipal income tax in 2010; the City collected an additional \$3,588,542. Compared to 2012 the City received a total of \$3,235,034 additional dollars as a result of the increase. This increase reflects 10.93 percent more over 2012. The breakdowns of the City's 2013 municipal income tax collected are as follows:



The quarter percent increase passed in 2010 was rescinded November 2013. Hence, effective 2014 the new municipal income tax rate will return to 2 percent. It is estimated that the City's municipal income tax revenue will drop by 19 percent. Below shows a 10 year history of municipal income tax collected from 2004 to 2013 based on a cash basis:



The City continues to operate lean and under budget. With the award of several grants to help support the cost of major capital projects, the City was able to end the year strongly. The general fund 2013 unassigned year balance was \$21,710,920. From 2009 to 2013 the City's general fund beginning balance grew from \$3,346,426 to \$21,851,874. This reflects a 553 percent growth increase.

In an effort to maintain healthy balances, the City plans to create reserve funds in 2014. One reserve fund will be for employee's payouts such as accrued sick time, vacation and compensation time earnings. The other will be a stabilization reserve fund for emergency matters in times of revenue fluctuations. Based on the City's strong financial conditions, the City does not anticipate a need to increase the municipal income tax rate in the future.

City of Twinsburg
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended December 31, 2013

The City's current credit rating assigned by Moody's is Aa2 improving from A1 with a negative outlook. The assigned negative outlook was due to the anticipated revenue loss from the closing of Chrysler Stamping Plant back in 2009. The Aa2 rating was reaffirmed in March of 2011 due to the demonstrations of financial stability and the ability to capitalizing on development opportunities. The City's system of budgeting and internal controls is well regarded. As a continued effort to stay above the economic challenges, the Administration and City Council meet frequently to discuss current operating conditions, the economy and community development. The City will continue to be proactive by strategizing to maintain solvency not just for today, but for the future.

Contacting the City of Twinsburg's Finance Department

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

City of Twinsburg, Ohio

Statement of Net Position

December 31, 2013

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 33,184,977	\$ 2,498,936	\$ 35,683,913
Restricted cash	1,385	-	1,385
Accounts receivable	138,523	508,855	647,378
Accrued interest receivable	789	-	789
Intergovernmental receivable	727,930	119,990	847,920
Municipal income taxes receivable	7,041,394	-	7,041,394
Property taxes receivable	1,168,786	-	1,168,786
Special assessments receivable	360	14,039	14,399
Materials and supplies inventory	395,562	125,116	520,678
Nondepreciable capital assets	23,266,397	3,098,444	26,364,841
Depreciable capital assets, net	<u>96,894,101</u>	<u>41,435,247</u>	<u>138,329,348</u>
Total assets	<u>162,820,204</u>	<u>47,800,627</u>	<u>210,620,831</u>
Deferred outflows of resources:			
Deferred charges on refunding	<u>170,532</u>	<u>-</u>	<u>170,532</u>
Liabilities:			
Accounts payable	388,854	119,480	508,334
Accrued wages and benefits	511,413	110,101	621,514
Intergovernmental payable	725,253	62,054	787,307
Claims payable	102,720	29,544	132,264
Accrued interest payable	40,767	2,019	42,786
Unearned revenue	-	127,313	127,313
Long-term liabilities:			
Due within one year	2,331,145	134,056	2,465,201
Due in more than one year	<u>13,024,139</u>	<u>598,812</u>	<u>13,622,951</u>
Total liabilities	<u>17,124,291</u>	<u>1,183,379</u>	<u>18,307,670</u>
Deferred inflows of resources:			
Property taxes	<u>1,089,976</u>	<u>-</u>	<u>1,089,976</u>
Net position:			
Net investment in capital assets	106,911,674	44,128,179	151,039,853
Restricted for:			
Unclaimed monies	1,385	-	1,385
Capital projects	2,798,763	-	2,798,763
Debt service	85,895	-	85,895
Other purposes	2,333,788	-	2,333,788
Unrestricted	<u>32,644,964</u>	<u>2,489,069</u>	<u>35,134,033</u>
Total net position	<u>\$ 144,776,469</u>	<u>\$ 46,617,248</u>	<u>\$ 191,393,717</u>

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Statement of Activities

For The Year Ended December 31, 2013

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 6,688,110	\$ 1,599,390	\$ -	\$ 36,790
Security of persons and property	8,451,014	541,230	25,554	-
Transportation	7,148,445	-	-	500,000
Leisure time activities	1,677,223	414,539	-	-
Community development	4,845,641	516,399	-	872,755
Basic utility service	12,225	-	-	-
Interest and fiscal charges	593,334	-	-	-
Total governmental activities	<u>29,415,992</u>	<u>3,071,558</u>	<u>25,554</u>	<u>1,409,545</u>
Business-type activities:				
Sewer	4,769,812	2,800,084	-	-
Fitness center	1,622,192	1,246,005	-	25,240
Golf course	1,046,463	906,123	-	438,575
Community theater	33,275	41,845	-	-
Total business-type activities	<u>7,471,742</u>	<u>4,994,057</u>	<u>-</u>	<u>463,815</u>
Total	\$ <u>36,887,734</u>	\$ <u>8,065,615</u>	\$ <u>25,554</u>	\$ <u>1,873,360</u>

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

Total general revenues and transfers

Change in net position

Net position beginning of year

Net position end of year

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (5,051,930)	\$ -	\$ (5,051,930)
(7,884,230)	-	(7,884,230)
(6,648,445)	-	(6,648,445)
(1,262,684)	-	(1,262,684)
(3,456,487)	-	(3,456,487)
(12,225)	-	(12,225)
(593,334)	-	(593,334)
<u>(24,909,335)</u>	<u>-</u>	<u>(24,909,335)</u>
-	(1,969,728)	(1,969,728)
-	(350,947)	(350,947)
-	298,235	298,235
-	8,570	8,570
-	<u>(2,013,870)</u>	<u>(2,013,870)</u>
<u>(24,909,335)</u>	<u>(2,013,870)</u>	<u>(26,923,205)</u>
459,086	-	459,086
780,774	-	780,774
27,931,865	-	27,931,865
1,939,843	-	1,939,843
45,992	-	45,992
68,834	-	68,834
<u>(311,951)</u>	<u>311,951</u>	<u>-</u>
<u>30,914,443</u>	<u>311,951</u>	<u>31,226,394</u>
6,005,108	(1,701,919)	4,303,189
<u>138,771,361</u>	<u>48,319,167</u>	<u>187,090,528</u>
\$ <u>144,776,469</u>	\$ <u>46,617,248</u>	\$ <u>191,393,717</u>

City of Twinsburg, Ohio

Balance Sheet Governmental Funds

December 31, 2013

	<u>General</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 27,815,121
Restricted cash	1,385
Accounts receivable	138,523
Accrued interest receivable	789
Intergovernmental receivable	311,556
Municipal income taxes receivable	7,041,394
Property taxes receivable	-
Special assessment receivable	360
Materials and supplies inventory	<u>395,562</u>
Total assets	\$ <u><u>35,704,690</u></u>
Liabilities, deferred inflows of resources and fund balances:	
Liabilities:	
Accounts payable	\$ 140,689
Accrued wages and benefits	248,182
Intergovernmental payable	576,799
Claims payable	<u>102,720</u>
Total liabilities	<u>1,068,390</u>
Deferred inflows of resources:	
Property taxes	-
Unavailable revenue	<u>6,019,592</u>
Total deferred inflows of resources	<u>6,019,592</u>
Fund balances (deficit):	
Nonspendable	396,947
Restricted	-
Committed	-
Assigned	6,508,841
Unassigned	<u>21,710,920</u>
Total fund balances (deficit)	<u>28,616,708</u>
Total liabilities, deferred inflows of resources, and fund balances	\$ <u><u>35,704,690</u></u>

The accompanying notes are an integral part of the financial statements.

<u>Park Debt Service</u>	<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 49,764	\$ 2,998,252	\$ 2,321,840	\$ 33,184,977
-	-	-	1,385
-	-	-	138,523
-	-	-	789
43,756	-	372,618	727,930
-	-	-	7,041,394
842,434	-	326,352	1,168,786
-	-	-	360
-	-	-	395,562
<u>\$ 935,954</u>	<u>\$ 2,998,252</u>	<u>\$ 3,020,810</u>	<u>\$ 42,659,706</u>
\$ -	\$ 183,046	\$ 65,119	\$ 388,854
-	-	263,231	511,413
-	-	148,454	725,253
-	-	-	102,720
<u>-</u>	<u>183,046</u>	<u>476,804</u>	<u>1,728,240</u>
785,720	-	304,256	1,089,976
<u>100,470</u>	<u>-</u>	<u>271,453</u>	<u>6,391,515</u>
<u>886,190</u>	<u>-</u>	<u>575,709</u>	<u>7,481,491</u>
-	-	-	396,947
49,764	-	1,955,645	2,005,409
-	-	383,665	383,665
-	2,815,206	-	9,324,047
-	-	(371,013)	21,339,907
<u>49,764</u>	<u>2,815,206</u>	<u>1,968,297</u>	<u>33,449,975</u>
<u>\$ 935,954</u>	<u>\$ 2,998,252</u>	<u>\$ 3,020,810</u>	<u>\$ 42,659,706</u>

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City of Twinsburg, Ohio

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

December 31, 2013

Total governmental fund balances \$ 33,449,975

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 120,160,498

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

Property and other taxes	\$ 78,810
Municipal income taxes	5,780,672
Special assessments	360
Charges for services	96,491
Intergovernmental	<u>435,182</u>

Total 6,391,515

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (40,767)

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

General obligation bonds	(9,714,530)
Special assessment bonds	(194,000)
ODOT loan refunding	(270,000)
Energy Equipment loan payable	(405,580)
OPWC loan payable	(2,615,405)
Capital lease payable	(219,841)
Accrued compensated absences	<u>(1,935,928)</u>

Total (15,355,284)

Deferred charges on refunding related to the issuance of long-term refunding debt that will be amortized over the life of the debt on the statement of net position. 170,532

Net position of governmental activities \$ 144,776,469

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

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

For The Year Ended December 31, 2013

	<u>General</u>
Revenues:	
Property and other taxes	\$ 336
Municipal income tax	23,405,030
Other local taxes	156,428
Intergovernmental	920,748
Charges for services	1,419,960
License and permits	239,508
Fines and forfeitures	113,742
Investment income	45,992
Miscellaneous income	<u>932,192</u>
Total revenues	<u>27,233,936</u>
Expenditures:	
Current operations and maintenance:	
General government	5,604,523
Security of persons and property	7,060,867
Transportation	3,892,273
Leisure time activities	1,456,228
Community development	1,258,411
Basic utility service	99,342
Capital outlay	-
Debt service:	
Principal retirement	-
Interest and fiscal charges	<u>-</u>
Total expenditures	<u>19,371,644</u>
Excess of revenues over (under) expenditures	<u>7,862,292</u>
Other financing sources (uses):	
Inception of capital leases	-
Issuance of debt	28,970
Transfers – in	-
Transfers – out	<u>(4,394,335)</u>
Total other financing sources (uses)	<u>(4,365,365)</u>
Net change in fund balances	3,496,927
Fund balance beginning of year	<u>25,119,781</u>
Fund balance end of year	\$ <u>28,616,708</u>

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

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

For The Year Ended December 31, 2013

<u>Park Debt Service</u>	<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
\$ 780,764	\$ -	\$ 305,158	\$ 1,086,258
-	-	-	23,405,030
-	-	-	156,428
91,746	661,877	1,415,710	3,090,081
-	-	39,705	1,459,665
-	-	-	239,508
-	-	-	113,742
-	-	-	45,992
-	35,375	46,519	1,014,086
<u>872,510</u>	<u>697,252</u>	<u>1,807,092</u>	<u>30,610,790</u>
-	1,872,713	-	7,477,236
-	-	1,148,695	8,209,562
-	-	1,224,292	5,116,565
-	-	122,044	1,578,272
-	-	-	1,258,411
-	-	12,225	111,567
-	2,372,266	326,490	2,698,756
615,000	113,863	2,740,883	3,469,746
235,375	-	279,080	514,455
<u>850,375</u>	<u>4,358,842</u>	<u>5,853,709</u>	<u>30,434,570</u>
<u>22,135</u>	<u>(3,661,590)</u>	<u>(4,046,617)</u>	<u>176,220</u>
-	333,704	-	333,704
-	464,311	1,888,500	2,381,781
-	2,000,000	2,082,384	4,082,384
-	-	-	(4,394,335)
-	<u>2,798,015</u>	<u>3,970,884</u>	<u>2,403,534</u>
22,135	(863,575)	(75,733)	2,579,754
<u>27,629</u>	<u>3,678,781</u>	<u>2,044,030</u>	<u>30,870,221</u>
\$ <u>49,764</u>	\$ <u>2,815,206</u>	\$ <u>1,968,297</u>	\$ <u>33,449,975</u>

City of Twinsburg, Ohio

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For The Year Ended December 31, 2013

Net change in fund balances - total governmental funds \$ 2,579,754

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

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

Capital outlay	\$ 2,797,676	
Depreciation	<u>(3,918,655)</u>	(1,120,979)

In the statement of activities, only the loss on the disposal of property and equipment are reported, whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the property and equipment. (521,999)

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

Property and other local taxes	(22,794)	
Municipal income taxes	4,526,835	
Special assessment	(27)	
Charges for services	72,283	
Intergovernmental	<u>24,439</u>	4,600,736

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 3,469,746

Other financing sources in the governmental funds increase long-term liabilities in the statement of net position.

General obligation bonds	(1,888,500)	
Inception of capital lease	(333,704)	
OPWC loan proceeds	<u>(493,281)</u>	(2,715,485)

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.

Accrued compensated absences	(207,786)	
Amortization of premium	46,044	
Amortization of loss on refunding	(21,317)	
Unamortized issuance costs	(107,511)	
Accrued interest on bonds	<u>3,905</u>	<u>(286,665)</u>

Change in net position of governmental activities \$ 6,005,108

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

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

General Fund

December 31, 2013

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property and other local taxes	\$ -	\$ -	\$ 336	\$ 336
Municipal income taxes	18,468,853	25,068,853	25,058,791	(10,062)
Other local taxes	110,000	138,124	138,124	-
Intergovernmental	529,400	725,129	959,514	234,385
Charges for services	377,250	1,420,918	1,439,532	18,614
License and permits	275,100	472,390	239,508	(232,882)
Fines and forfeitures	153,400	109,687	109,760	73
Investment income	-	42,766	46,170	3,404
Miscellaneous income	2,204,079	909,329	912,606	3,277
Total revenue	<u>22,118,082</u>	<u>28,887,196</u>	<u>28,904,341</u>	<u>17,145</u>
Expenditures:				
Current:				
General government	5,744,413	5,917,977	5,531,267	386,710
Security of property and persons	7,294,125	7,324,125	7,131,053	193,072
Transportation	4,153,893	4,214,893	4,091,420	123,473
Leisure time activities	1,554,318	1,544,958	1,474,998	69,960
Community development	1,511,519	1,752,864	1,651,326	101,538
Basic utility services	125,000	125,000	99,342	25,658
Total expenditures	<u>20,383,268</u>	<u>20,879,817</u>	<u>19,979,406</u>	<u>900,411</u>
Excess of revenues over expenditures	<u>1,734,814</u>	<u>8,007,379</u>	<u>8,924,935</u>	<u>917,556</u>
Other financing uses:				
Transfers – out	<u>(2,268,637)</u>	<u>(4,444,637)</u>	<u>(4,394,335)</u>	<u>50,302</u>
Net change in fund balance	(533,823)	3,562,742	4,530,600	967,858
Prior year encumbrances	152,940	152,940	152,940	-
Fund balance, beginning of the year	<u>22,702,461</u>	<u>22,702,461</u>	<u>22,702,461</u>	<u>-</u>
Fund balance, end of the year	\$ <u>22,321,578</u>	\$ <u>26,418,143</u>	\$ <u>27,386,001</u>	\$ <u>967,858</u>

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Statement of Fund Net Position Proprietary Funds

December 31, 2013

	Business-Type Activities			
	Sewer	Fitness Center	Other Business-Type	Total
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 2,106,938	\$ 136,938	\$ 255,060	\$ 2,498,936
Accounts receivable	500,961	7,894	-	508,855
Intergovernmental receivable	119,990	-	-	119,990
Special assessments receivable	14,039	-	-	14,039
Materials and supplies inventory	125,116	-	-	125,116
Total current assets	<u>2,867,044</u>	<u>144,832</u>	<u>255,060</u>	<u>3,266,936</u>
Non-current assets:				
Nondepreciable capital assets	448,444	-	2,650,000	3,098,444
Depreciable capital assets, net	<u>32,212,452</u>	<u>8,349,350</u>	<u>873,445</u>	<u>41,435,247</u>
Total non-current assets	<u>32,660,896</u>	<u>8,349,350</u>	<u>3,523,445</u>	<u>44,533,691</u>
Total assets	<u>35,527,940</u>	<u>8,494,182</u>	<u>3,778,505</u>	<u>47,800,627</u>
Liabilities:				
Current liabilities:				
Accounts payable	118,458	274	748	119,480
Accrued wages and benefits	110,101	-	-	110,101
Intergovernmental payable	44,801	17,253	-	62,054
Claims payable	21,495	5,318	2,731	29,544
Accrued interest payable	-	-	2,019	2,019
Unearned revenue	-	127,313	-	127,313
Due within one year	<u>67,967</u>	<u>20,683</u>	<u>45,406</u>	<u>134,056</u>
Total current liabilities	<u>362,822</u>	<u>170,841</u>	<u>50,904</u>	<u>584,567</u>
Long-term liabilities (net of current portion):				
Capital lease payable	-	-	72,636	72,636
Loan payable	298,339	-	-	298,339
Compensated absences	<u>168,244</u>	<u>27,454</u>	<u>32,139</u>	<u>227,837</u>
Total long-term liabilities	<u>466,583</u>	<u>27,454</u>	<u>104,775</u>	<u>598,812</u>
Total liabilities	<u>829,405</u>	<u>198,295</u>	<u>155,679</u>	<u>1,183,379</u>
Net position:				
Net investment in capital assets	32,356,062	8,349,350	3,422,767	44,128,179
Unrestricted (deficit)	<u>2,342,473</u>	<u>(53,463)</u>	<u>200,059</u>	<u>2,489,069</u>
Total net position	\$ <u>34,698,535</u>	\$ <u>8,295,887</u>	\$ <u>3,622,826</u>	\$ <u>46,617,248</u>

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds

For The Year Ended December 31, 2013

	Business-Type Activities			Total
	Sewer	Fitness Center	Other Business-Type	
Operating revenues:				
Charges for services	\$ 2,800,084	\$ 1,238,691	\$ 932,455	\$ 4,971,230
Miscellaneous income	-	7,314	15,513	22,827
Total operating revenues	<u>2,800,084</u>	<u>1,246,005</u>	<u>947,968</u>	<u>4,994,057</u>
Operating expenses:				
Personal services	1,916,728	1,008,667	546,888	3,472,283
Materials and supplies	245,637	97,975	226,674	570,286
Contractual services	1,785,432	214,707	217,970	2,218,109
Other operating expenses	-	-	53,217	53,217
Depreciation	<u>799,944</u>	<u>300,843</u>	<u>33,724</u>	<u>1,134,511</u>
Total operating expenses	<u>4,747,741</u>	<u>1,622,192</u>	<u>1,078,473</u>	<u>7,448,406</u>
Operating loss	<u>(1,947,657)</u>	<u>(376,187)</u>	<u>(130,505)</u>	<u>(2,454,349)</u>
Non-operating revenue (expenses):				
Loss on capital asset disposal	(21,879)	-	-	(21,879)
Interest and fiscal charges	<u>(192)</u>	<u>-</u>	<u>(1,265)</u>	<u>(1,457)</u>
Total non-operating revenues (expenses)	<u>(22,071)</u>	<u>-</u>	<u>(1,265)</u>	<u>(23,336)</u>
Loss before transfers and contributed capital	(1,969,728)	(376,187)	(131,770)	(2,477,685)
Transfers – in	-	98,641	213,310	311,951
Contributed capital	<u>-</u>	<u>25,240</u>	<u>438,575</u>	<u>463,815</u>
Change in net position	(1,969,728)	(252,306)	520,115	(1,701,919)
Net position beginning of year	<u>36,668,263</u>	<u>8,548,193</u>	<u>3,102,711</u>	<u>48,319,167</u>
Net position end of year	\$ <u>34,698,535</u>	\$ <u>8,295,887</u>	\$ <u>3,622,826</u>	\$ <u>46,617,248</u>

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Statement of Cash Flows Proprietary Funds

For The Year Ended December 31, 2013

	Business-Type Activities			
	Sewer	Fitness Center	Other Business-Type	Total
Cash flows from operating activities:				
Cash received from customers	\$ 2,836,323	\$ 1,207,363	\$ 932,455	\$ 4,976,141
Cash payments for personal services	(1,889,602)	(1,000,133)	(558,852)	(3,448,587)
Cash payments for contractual services	(1,757,540)	(219,036)	(217,725)	(2,194,301)
Cash payments to vendors for supplies and materials	(249,011)	(97,975)	(226,674)	(573,660)
Cash received for other operating activities	-	7,314	15,513	22,827
Cash used for other operating activities	-	-	(53,217)	(53,217)
Net cash used in operating activities	<u>(1,059,830)</u>	<u>(102,467)</u>	<u>(108,500)</u>	<u>(1,270,797)</u>
Cash flows from capital and related financing activities:				
Principal paid on capital lease	-	-	(29,888)	(29,888)
Miscellaneous fiscal charges	(192)	-	-	(192)
Proceed from OPWC loan	184,844	-	-	184,844
Payments for capital acquisitions	<u>474,619</u>	<u>(118,659)</u>	<u>(5,900)</u>	<u>350,060</u>
Net cash provided by (used in) capital and related financing activities	<u>659,271</u>	<u>(118,659)</u>	<u>(35,788)</u>	<u>504,824</u>
Cash flows from noncapital financing activities:				
Transfers – in	-	98,641	213,310	311,951
Net cash provided by noncapital financing activities	<u>-</u>	<u>98,641</u>	<u>213,310</u>	<u>311,951</u>
Net increase (decrease) in cash and cash equivalents	(400,559)	(122,485)	69,022	(454,022)
Cash and cash equivalents, beginning of year	<u>2,507,497</u>	<u>259,423</u>	<u>186,038</u>	<u>2,952,958</u>
Cash and cash equivalents, end of year	\$ <u><u>2,106,938</u></u>	\$ <u><u>136,938</u></u>	\$ <u><u>255,060</u></u>	\$ <u><u>2,498,936</u></u>

(Continued)

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Statement of Cash Flows (Continued) Proprietary Funds

For The Year Ended December 31, 2013

	Business-Type Activities			
	<u>Sewer</u>	<u>Fitness Center</u>	<u>Other Business-Type</u>	<u>Total</u>
Reconciliation of operating loss to net cash from operating activities:				
Operating loss	\$ <u>(1,947,657)</u>	\$ <u>(376,187)</u>	\$ <u>(130,505)</u>	\$ <u>(2,454,349)</u>
Adjustments:				
Depreciation	799,944	300,843	33,724	1,134,511
(Increase) decrease in assets:				
Accounts receivable	35,200	(1,040)	-	34,160
Materials and supplies inventory	(3,374)	-	-	(3,374)
Special assessments receivable	1,039	-	-	1,039
Increase (decrease) in liabilities:				
Accounts payable	82,858	(4,613)	245	78,490
Accrued wages and benefits	17,292	-	-	17,292
Intergovernmental payable	(15,365)	284	-	(15,081)
Claims payable	(2,822)	(295)	(4,318)	(7,435)
Unearned revenue	-	(30,288)	-	(30,288)
Accrued compensated absences payable	(26,945)	8,829	(7,646)	(25,762)
Total adjustments	<u>887,827</u>	<u>273,720</u>	<u>22,005</u>	<u>1,183,552</u>
Net cash used in operating activities:	\$ <u>(1,059,830)</u>	\$ <u>(102,467)</u>	\$ <u>(108,500)</u>	\$ <u>(1,270,797)</u>
Noncash capital activities:				
Contributed capital from governmental activities	\$ -	\$ 25,240	\$ 438,575	\$ 463,815
Increase in capital assets due to payable	-	5,100	-	5,100
Loss on sale of capital asset	(21,879)	-	-	(21,879)
Net OPWC loan due to receivable	36,341	-	-	36,341
Capital assets acquired through capital lease	-	-	107,700	107,700
Total noncash capital activities	<u>\$ 14,462</u>	<u>\$ 30,340</u>	<u>\$ 546,275</u>	<u>\$ 591,077</u>

The accompanying notes are an integral part of the financial statements.

City of Twinsburg, Ohio

Notes to Basic Financial Statements

For The Year Ended December 31, 2013

Note 1: The Reporting Entity

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

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

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

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

Jointly Governed Organizations

Northeast Ohio Public Energy Council – The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 134 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 1: The Reporting Entity (continued)

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. This Board of Directors 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 of Directors. The City of Twinsburg did not contribute to NOPEC during 2013. Financial information can be obtained by contacting Dan DiLiberto, Treasurer, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

Note 2: Summary of Significant Accounting Policies

The financial statements of the City of Twinsburg have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City's accounting policies are described below.

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

Fund Financial Statements

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

B. Fund Accounting

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

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

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

Park Debt Fund – The park debt fund accounts for property taxes levied for the purpose of improving parks and paying off debt associated with maintenance of the parks.

Capital Improvement Fund – The capital improvement fund accounts for resources allocated for the purpose of improving, constructing, maintaining, and purchasing those items necessary to enhance the operation of the City.

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

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

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

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

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

The other business-type funds of the City account for other resources whose use is restricted to a particular purpose.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources 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. The 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.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

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

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

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 municipal income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from municipal income taxes is recognized in the period in which the income is earned.

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

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

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

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may include a section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2013, but which were levied to finance fiscal year 2014 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, municipal income taxes, special assessments, EMS charges for services, and intergovernmental revenue. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

Expenses/Expenditures

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

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process

An annual appropriated budget is legally required to be prepared for all funds of the City. City Council passes appropriations at the line item level except for capital projects funds which are appropriated by department or project. Line item appropriations may be transferred between the accounts with the approval of the City Council. City Council must approve any revisions in the budget that alter total fund appropriations. The following are the procedures used by the City in establishing the budgetary data reported in the basic financial statements:

Tax Budget

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

Estimated Resources

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

On or about January 1 the certificate of estimated resources is amended to include unencumbered fund balances at December 31. Further amendments may be made during the year if the Finance Director determines that revenue to be collected will be greater than or less than the prior estimates and the budget commission find the revised estimates to be reasonable. The amounts reported in the budgetary statements as original represent the amounts in the first official certificate of estimated resources issued during 2013. The amounts reported in the budgetary statements as final reflect the amounts in the final amended official certificate of estimated resources issued during 2013.

Annual Estimate

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

Appropriations

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

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

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.

Budgeted Level of Expenditure

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

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 at the legal level of budgetary control.

On the GAAP basis, encumbrances outstanding at year end are reported as assigned, committed, or restricted fund balances for subsequent-year expenditures for governmental funds.

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 City records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

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

Interest allocation is determined by the Ohio Constitution, State statutes, and local ordinances adopted under City Charter. Under these provisions, City funds required to receive interest allocations are: 1) those which receive proceeds from the sale of notes and/or bonds and 2) those which receive distributions of state gasoline tax and motor vehicle licenses fees (street maintenance and state highway special revenue funds). All remaining interest is allocated to the general fund. Legally, proprietary funds generally do not receive interest. Interest revenue credited to the general fund during 2013 amounted to \$45,992.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

G. Inventory

Inventories of all funds are stated at cost which is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as expenditures in the governmental fund types and as expenses in the proprietary fund type when used.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2013, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

I. Capital Assets

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	5 to 50 years
Buildings and improvements	5 to 50 years
Machinery and equipment	5 to 30 years
Vehicles	10 to 15 years
Infrastructure	20 to 100 years

J. Interfund Balances

On fund financial statements, interfund loans are classified as "interfund receivable/payable" on the balance sheet. Long-term interfund loans are classified as "advances to/from other funds" on the balance sheet and are equally offset as part of nonspendable fund balance which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances. The City did not have interfund balances in the current year.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

K. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

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

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

L. Payables, Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

M. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when limitations are imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for sewer, fitness center, and other proprietary programs. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

O. Interfund Activity

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

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

P. Deferred Charge on Refunding

The difference between the reacquisition price (funds required to refund the old debt) of various refunding bonds and the net carrying amount of the old debt, the deferred amount (loss) on refunding, is being amortized as a component of interest expense. This accounting loss is amortized over the remaining life of the old debt or the life of the new debt whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

Q. Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, bond premiums are received in the year the bonds are issued.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2013.

S. 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.

T. Contributed Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction and from contributions from governmental funds. During 2013, the fitness center fund and golf course fund received contributions of capital in the amount of \$25,240 and \$438,575, respectively from governmental activities.

U. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through October 31, 2014, the date the financial statements were available to be issued. See Note 19 for subsequent events noted.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 2: Summary of Significant Accounting Policies (continued)

V. 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.

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 a 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 is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

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

The City applies restricted resources first when 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.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 3: Changes in Accounting Principle

For 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 66, *Technical Corrections – 2012; an amendment of GASB Statements No. 10 and No. 62*.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, the display of component units (blending versus discrete presentation), and certain disclosure requirements. The implementation of this statement did not result in any change in the City's financial statements.

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

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

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014. The City has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 4: Budgetary Basis of Accounting

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

The statements of revenues, expenditures, and changes in fund balance – budget (non-GAAP budgetary basis) are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budgetary basis and the GAAP basis are identified as follows:

- (a) Revenues are recorded when received in cash (budgetary basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures/Expenses are recorded when paid in cash (budgetary basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are treated as expenditures (budgetary basis) rather than a restricted, committed, or assigned fund balance (GAAP basis).

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

	<u>General</u>
GAAP basis	\$ 3,496,927
Increase (decrease) due to:	
Revenue accruals	1,641,435
Expenditure accruals	(1,038,267)
Outstanding encumbrances	<u>430,505</u>
Budgetary basis	<u>\$ 4,530,600</u>

Note 5: 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 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 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 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;

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 5: Deposits and Investments (continued)

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 (STAROhio).

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.

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.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of City funds shall be required to pledge as security for repayment of all public moneys.

At year-end, the carrying amount of the City's deposits was \$5,150,298 and the bank balance was \$5,592,311. Of the bank balance, \$2,300,170 was covered by FDIC. The remaining uncovered balance was collateralized with securities held by the pledging institution's trust department, not in the City's name.

Investments

Investments are reported at fair value. As of December 31, 2013, the City had the following investments:

	<u>Fair Value</u>	<u>Maturities Less than One Year</u>
Repurchase Agreements	\$ <u>30,535,000</u>	\$ <u>30,535,000</u>

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 5: Deposits and Investments (continued)

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's investment policy also limits security purchases to those that mature within five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than one year.

Custodial Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The securities underlying the repurchase agreements are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty. The City has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that requires securities shall be delivered into the custody of the Finance Director or governing board or an agent designated by the Finance Director or governing board. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the City must meet a set of prescribed standards and be periodically reviewed.

Credit Risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that the portfolio be diversified both by types of investment and issuer. All investments of the City are registered and carry an Aaa rating by Moody's.

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The repurchase agreements represent 100 percent of the City's investments.

Note 6: Receivables

Receivables at December 31, 2013 consisted primarily of taxes, intergovernmental receivables arising from grants, entitlements or shared revenues, accounts, special assessments and interest on investments. All receivables are considered fully collectible.

A. Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Real property taxes collected in 2013 are levied after October 1, 2012, on assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Real property taxes collected in 2013 were intended to finance 2013 operations.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 88 percent of cost). Public utility property taxes paid in 2013 that became a lien on December 31, 2012, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 6: Receivables (continued)

A. Property Taxes (continued)

The full tax rate for all City operations for the year ended December 31, 2013, was \$2.14 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2013 property tax receipts were based are as follows:

	<u>Total Assessed Value</u>
Real Property Valuation:	
Residential/Agriculture	\$ 407,270,030
Commercial/Industrial/Mineral	150,831,430
Public Utilities	27,390
Tangible Personal Property Valuation:	
Public Utilities	<u>8,904,300</u>
Total Valuation	\$ <u><u>567,033,150</u></u>

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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. 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.

B. Municipal Income Taxes

The City levies and collects a municipal income tax of 2.25 percent on all income earned within the City as well as on income of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold municipal income tax on employee earnings and remit the tax to the City at least quarterly.

Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Governmental activities:	
Local government and local government revenue assistance	\$ 220,794
CAT tax	9,977
Estate tax	90,763
Homestead and rollback	61,738
Gasoline and excise tax and state highway distributions	334,096
Permissive motor vehicle license tax	<u>10,562</u>
Total governmental activities	727,930
Business type activities:	
OPWC revenue	<u>119,990</u>
Total	\$ <u><u>847,920</u></u>

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 7: Capital Assets

Capital asset activity for government the year ended December 31, 2013, was as follows:

	Balance <u>12/31/12</u>	Additions	Disposals	Balance <u>12/31/13</u>
<i>Governmental Activities:</i>				
Capital assets not being depreciated				
Construction in progress	\$ 1,776,418	\$ 964,484	\$ (2,740,902)	\$ -
Land	<u>22,946,703</u>	<u>319,694</u>	<u>-</u>	<u>23,266,397</u>
Total capital assets not being depreciated	<u>24,723,121</u>	<u>1,284,178</u>	<u>(2,740,902)</u>	<u>23,266,397</u>
Capital assets being depreciated				
Land improvements	2,987,350	-	-	2,987,350
Buildings and improvements	10,202,122	-	-	10,202,122
Machinery and equipment	5,195,800	343,934	(18,573)	5,521,161
Vehicles	6,194,433	848,378	(440,037)	6,602,774
Infrastructure:				
Roads	56,208,031	1,766,430	(1,566,609)	56,407,852
Water mains	32,520,624	14,533	-	32,535,157
Storm sewers and culverts	34,274,760	1,218,117	(163,238)	35,329,639
Traffic signs and signals	1,365,339	53,310	(11,836)	1,406,813
Streetlights	<u>1,627,623</u>	<u>9,698</u>	<u>(4,142)</u>	<u>1,633,179</u>
Total capital assets being depreciated	<u>150,576,082</u>	<u>4,254,400</u>	<u>(2,204,435)</u>	<u>152,626,047</u>
Less accumulated depreciation:				
Land improvements	(1,315,003)	(76,131)	-	(1,391,134)
Buildings and improvements	(3,746,964)	(206,107)	-	(3,953,071)
Machinery and equipment	(3,810,802)	(241,395)	11,144	(4,041,053)
Vehicles	(3,794,899)	(377,176)	264,133	(3,907,942)
Infrastructure:				
Roads	(23,913,095)	(1,970,584)	1,320,534	(24,563,145)
Water mains	(5,792,932)	(325,541)	-	(6,118,473)
Storm sewers and culverts	(9,355,607)	(591,482)	72,778	(9,874,311)
Traffic signs and signals	(711,179)	(67,679)	11,178	(767,680)
Streetlights	<u>(1,055,246)</u>	<u>(62,560)</u>	<u>2,669</u>	<u>(1,115,137)</u>
Total accumulated depreciation	<u>(53,495,727)</u>	<u>(3,918,655)</u>	<u>1,682,436</u>	<u>(55,731,946)</u>
Net capital assets being depreciated	<u>97,080,355</u>	<u>335,745</u>	<u>(521,999)</u>	<u>96,894,101</u>
Governmental activities capital assets, net \$	<u>121,803,476</u>	<u>1,619,923</u>	<u>(3,262,901)</u>	<u>120,160,498</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 68,459
Security of persons and property	447,309
Transportation	2,257,438
Leisure time activities	193,338
Community development	<u>952,111</u>
Total depreciation expense	<u>\$ 3,918,655</u>

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 7: Capital Assets (continued)

	Balance 12/31/12	Additions	Disposals	Balance 12/31/13
<i>Business-Type Activities:</i>				
Capital assets not being depreciated:				
Construction in progress	\$ 1,505,993	\$ 511,094	\$ (1,599,793)	\$ 417,294
Land	<u>2,681,150</u>	<u>-</u>	<u>-</u>	<u>2,681,150</u>
Total capital assets not being depreciated	<u>4,187,143</u>	<u>511,094</u>	<u>(1,599,793)</u>	<u>3,098,444</u>
Capital assets being depreciated:				
Land improvements	162,087	438,575	-	600,662
Buildings and improvements	24,036,566	104,231	-	24,140,797
Machinery and equipment	3,930,620	158,368	(84,613)	4,004,375
Vehicles	603,915	296,529	(112,828)	787,616
Infrastructure:				
Sewer lines	<u>31,086,958</u>	<u>312,451</u>	<u>(10,634)</u>	<u>31,388,775</u>
Total capital assets being depreciated	<u>59,820,146</u>	<u>1,310,154</u>	<u>(208,075)</u>	<u>60,922,225</u>
Less accumulated depreciation:				
Land improvements	(27,311)	(3,979)	-	(31,290)
Buildings and improvements	(9,009,303)	(535,424)	-	(9,544,727)
Machinery and equipment	(2,332,830)	(137,509)	84,613	(2,385,726)
Vehicles	(376,703)	(43,052)	97,784	(321,971)
Infrastructure:				
Sewer lines	<u>(6,792,516)</u>	<u>(414,547)</u>	<u>3,799</u>	<u>(7,203,264)</u>
Total accumulated depreciation	<u>(18,538,663)</u>	<u>(1,134,511)</u>	<u>186,196</u>	<u>(19,486,978)</u>
Net capital assets being depreciated	<u>41,281,483</u>	<u>175,643</u>	<u>(21,879)</u>	<u>41,435,247</u>
Total business-type activities capital assets, net	\$ <u>45,468,626</u>	\$ <u>686,737</u>	\$ <u>(1,621,672)</u>	\$ <u>44,533,691</u>

Note 8: Long-Term Obligations

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

	Original Issue Date	Original Interest Rate	Issue Amount
<i>Governmental Activities:</i>			
General obligation bonds:			
Park land and conservation refunding	2011A	2.00% - 4.88%	\$ 6,455,000
ODOT loan, senior citizens center, and golf course refunding	2011B	2.00% - 4.25%	3,115,000
Darrow Road improvement	2003	2.00% - 4.80%	3,065,000
Darrow Road improvement refunding	2013	2.20%	1,888,500

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 8: Long-Term Obligations (continued)

	<u>Original Issue Date</u>	<u>Original Interest Rate</u>	<u>Issue Amount</u>
<i>Governmental Activities (continued):</i>			
Special Assessment Bonds:			
Creekside/Glenwood improvement	1993	5.00%	\$ 462,000
Darrow/Chamberlin	1995	6.00%	191,875
Liberty/Cannon/Chamberlin/Ravenna	2003	2.75% - 5.10%	310,000
Chamberlin Waterline	2005	4.20% - 5.00%	62,000
Energy equipment loan payable	2009	4.38%	902,008
OPWC loans:			
Edgewood Road Improvements	2008	0.00%	344,925
Haverhill and Croyden Road improvements	2009	0.00%	347,170
Post Road improvements	2010	0.00%	895,653
Sunview Drive improvements	2012	0.00%	631,912
Cobblestone Lane and Old Pond Lane improvements	2013	0.00%	499,000
<i>Business-Type Activities:</i>			
OPWC loans:			
Darrow Road improvements	2012	0.00%	84,834
Belmeadow Drive and Serene Ct.	2013	0.00%	220,000

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2013 was as follows:

	<u>Balance 12/31/12</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/13</u>	<u>Due in One Year</u>
<i>Governmental Activities:</i>					
General obligation bonds:					
Park land and conservation refunding due through 2021	\$ 5,710,000	\$ -	\$ (615,000)	\$ 5,095,000	\$ 630,000
Senior citizens center and golf course refundings due through 2021	2,830,000	-	(280,000)	2,550,000	295,000
Darrow Road improvement, due through 2022	1,840,000	-	(1,840,000)	-	-
Darrow Road improvement refunding due through 2022	-	1,888,500	(158,500)	1,730,000	175,000
Premium on general obligation bonds	385,574	-	(46,044)	339,530	-
Total general obligation bonds	<u>10,765,574</u>	<u>1,888,500</u>	<u>(2,939,544)</u>	<u>9,714,530</u>	<u>1,100,000</u>
Special assessment bonds:					
Creekside/Glenwood improvement, due through 2013	10,000	-	(10,000)	-	-
Darrow/Chamberlin, due through 2015	9,000	-	(3,000)	6,000	3,000
Liberty/Cannon/Chamberlin/Ravenna due through 2023	165,000	-	(15,000)	150,000	15,000
Chamberlin Waterline due through 2025	41,000	-	(3,000)	38,000	3,000
Total special assessment bonds	<u>225,000</u>	<u>-</u>	<u>(31,000)</u>	<u>194,000</u>	<u>21,000</u>
Other long-term obligations:					
ODOT loan refunding	535,000	-	(265,000)	270,000	270,000
Energy equipment loan payable	533,965	-	(128,385)	405,580	134,009

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 8: Long-Term Obligations (continued)

	Balance 12/31/12	Issued	Retired	Balance 12/31/13	Due in One Year
<i>Governmental Activities (continued):</i>					
OPWC – Edgewood Road improvements	333,428	-	(11,498)	321,930	11,498
OPWC – Haverhill and Croyden Road improvements	335,598	-	(11,572)	324,026	11,572
OPWC – Post Road improvements	866,684	28,970	(14,928)	880,726	29,856
OPWC – Sunview Drive improvements	624,412	7,500	-	631,912	21,064
OPWC – Cobblestone Lane and Old Pond Lane improvements	-	456,811	-	456,811	-
Capital lease payable	-	333,704	(113,863)	219,841	108,627
Accrued compensated absences	<u>1,728,142</u>	<u>679,607</u>	<u>(471,821)</u>	<u>1,935,928</u>	<u>623,519</u>
Total other long-term obligations	<u>4,957,229</u>	<u>1,506,592</u>	<u>(1,017,067)</u>	<u>5,446,754</u>	<u>1,210,145</u>
Total governmental activities	\$ <u>15,947,803</u>	\$ <u>3,395,092</u>	\$ <u>(3,987,611)</u>	\$ <u>15,355,284</u>	\$ <u>2,331,145</u>

	Balance 12/31/12	Issued	Retired	Balance 12/31/13	Due in One Year
<i>Business-Type Activities:</i>					
Other long term obligations:					
OPWC – Darrow Road improvements	\$ 83,649	\$ 1,185	\$ -	\$ 84,834	\$ 2,828
OPWC – Belmeadow/Serene Ct.	-	220,000	-	220,000	3,667
Capital leases payable	22,866	107,700	(29,888)	100,678	28,042
Accrued compensated absences	<u>353,118</u>	<u>77,750</u>	<u>(103,512)</u>	<u>327,356</u>	<u>99,519</u>
Total other long-term obligations	<u>459,633</u>	<u>406,635</u>	<u>(133,400)</u>	<u>732,868</u>	<u>134,056</u>
Total business-type activities	\$ <u>459,633</u>	\$ <u>406,635</u>	\$ <u>(133,400)</u>	\$ <u>732,868</u>	\$ <u>134,056</u>

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2013 were as follows:

Governmental Activities

Year	General Obligation Bonds		Special Assessment Bonds		Energy Equipment & ODOT Loans		OPWC	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	
2014	\$ 1,100,000	\$ 323,635	\$ 21,000	\$ 9,862	\$ 404,009	\$ 23,791	\$ 73,990	\$ 1,956,287
2015	1,140,000	300,497	21,000	8,791	139,879	12,522	73,989	1,696,678
2016	1,155,000	262,637	18,000	7,720	131,692	6,395	73,989	1,655,433
2017	1,195,000	223,892	18,000	6,805	-	-	73,989	1,517,686
2018	1,230,000	179,999	18,000	5,890	-	-	73,989	1,507,878
2019-2023	3,555,000	255,334	90,000	15,725	-	-	369,945	4,286,004
2024-2028	-	-	8,000	600	-	-	369,945	378,545
2029-2033	-	-	-	-	-	-	369,945	369,945
2034-2038	-	-	-	-	-	-	369,945	369,945
2039-2043	-	-	-	-	-	-	308,868	308,868
	\$ <u>9,375,000</u>	\$ <u>1,545,994</u>	\$ <u>194,000</u>	\$ <u>55,393</u>	\$ <u>675,580</u>	\$ <u>42,708</u>	\$ <u>2,158,594</u>	\$ <u>14,047,269</u>

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 8: Long-Term Obligations (continued)

Year	<u>Business-Type Activities</u>	
		<u>OPWC Principal</u>
2014	\$	6,495
2015		10,161
2016		10,161
2017		10,161
2018		10,161
2019-2023		50,805
2024-2028		50,805
2029-2033		50,805
2034-2038		50,805
2039-2043		50,799
2044-2048		<u>3,676</u>
	\$	<u>304,834</u>

General obligation bonds will be paid from the bond retirement debt service fund and park debt service fund. Special assessment bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefited from the project. Special assessment monies will be received in, and the debt will be retired through, the special assessment bond retirement debt service fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments. Compensated absences will be paid from the fund which the employees' salaries are paid. Ohio Department of Transportation loan (ODOT) will be paid from the bond retirement debt service fund. See Note 9 for further detail on capital leases.

In 2008, the City entered into a loan agreement with Ohio Public Works Commission (OPWC) for the Edgewood Road improvements in the amount of \$344,925, payable in semi-annual payments of \$5,748 at zero percent interest for 30 years. The amounts are included in the amortization table above. This loan will be paid back from municipal income tax monies.

During 2009, the City entered into a loan agreement with OPWC for the Haverhill and Croyden Road improvements in the amount of \$347,170, payable in semi-annual payments of \$5,786 at zero percent interest for 30 years. The amounts are included in the amortization table above. This loan will be paid back from municipal income tax monies.

Also during 2009, the City entered into a loan agreement with First Merit bank for the purchase of energy efficient equipment in the amount of \$902,008, payable in annual combined principal and interest payments of \$152,401. The amounts are included in the amortization table above. This loan will be paid back from municipal income tax monies.

During 2010, the City obtained an OPWC loan for the Post Road improvements in the amount of \$895,654, payable in semi-annual payments of \$14,928 at zero percent interest for 30 years. The amounts are included in the amortization table above. This loan will be paid back from municipal income tax monies.

In 2011, the City defeased a portion of various general obligation bonds and the City's ODOT loan in order to take advantage of lower interest rates. The proceeds of the new bonds and loan were placed in an irrevocable trust to provide for all future debt service payments on the refunded portion of the various general obligation bonds and ODOT loan. Accordingly, the trust account assets and liabilities for the defeased bonds and loan are not included in the City's financial statements. At December 31, 2013, \$8,605,138 of the defeased bonds and loan are still outstanding.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 8: Long-Term Obligations (continued)

During 2012, the City obtained an OPWC loan for the Sunview Drive improvements in the amount of \$631,912, payable in semi-annual payments of \$10,532, at zero percent interest for 30 years. The amounts are included in the amortization table above. This loan will be paid back from municipal income tax monies.

Also in 2012, the City obtained an OPWC loan for the Darrow Road sanitary and Tinkers Lane to Tinkers Creek improvements in the amount of \$84,834, payable in semi-annual payments of \$1,414 at zero percent interest for 30 years. The amounts are included in the amortization table above. This loan will be paid back from municipal income tax monies.

On April 16, 2013, the City issued \$1,888,500 in general obligation bonds for the purpose of refunding various general obligation bonds in order to take advantage of lower interest rates. An analysis of the information follows:

		2003
		Darrow Road
		<u>Acquisition</u>
Outstanding at December 31, 2012	\$	1,840,000
Amount refunded		<u>(1,840,000)</u>
Outstanding at December 31, 2013	\$	<u>-</u>

Proceeds of \$1,888,500 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the various general obligation bonds. As a result, \$1,840,000 of these bonds are considered defeased and the liability for the refunded portion of these bonds has been removed from the City's financial statements.

The City decreased its total debt service payments by \$201,638 as a result of the refunding. The City also incurred an economic gain (difference between the present value of the old and new debt service payments) of \$181,151.

Also during 2013, the City obtained an OPWC loan for the Belmeadow Drive and Serene Court sanitary sewer replacement in the amount of \$220,000, payable in semi-annual payments of \$3,667 at zero percent interest for 30 years. The amounts are included in the amortization table above. This loan will be paid back from municipal income tax monies.

The City also obtained an OPWC loan for the Cobblestone Lane and Old Pond Lane reconstruction to be repaid in semi-annual principal payments upon project completion. OPWC has authorized this loan up to \$499,000. The above represents the monies drawn against this loan and as a result, the debt maturity schedule above does not reflect any amounts for principal or interest. When the loan is finalized, the principal and interest will be included above.

Note 9: Lease Obligations

The City has entered into lease agreements as lessee for financing which relate to various equipment and vehicles. These lease agreements qualify as operating and capital leases. For accounting purposes, capital leases have been recorded at the present value of its future minimum lease payments as of inception date.

Governmental capital assets acquired by these leases have been capitalized as equipment in the amount of \$341,590, accumulated depreciation as of December 31, 2013, for the equipment was \$28,466, leaving a current book value of \$313,124 for equipment. Principal payments in the current year totaled \$113,863; the City did not have interest expense for these leases in the current year.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 9: Lease Obligations (continued)

Business-type capital assets acquired by these leases have been capitalized as equipment in the amount of \$147,600, accumulated depreciation as of December 31, 2013, for the equipment was \$9,839, leaving a current book value of \$137,761 for equipment. Principal payments in the current year totaled \$29,888; the City had interest expense of \$1,293 for these leases in the current year.

The following is a schedule of the future minimum lease payments required under the operating and capital leases and the present value of the minimum lease payments at year-end:

Year	Operating Lease		Capital Leases	
	Governmental Lease Payments	Governmental Lease Payments	Business-Type Lease Payments	Business-Type Lease Payments
2014	\$ 8,000	\$ 113,863	\$ 31,181	
2015	-	113,863	31,182	
2016	-	-	22,681	
2017	-	-	22,682	
Total minimum lease payments	8,000	227,726	107,726	
Less: amount representing interest	-	(7,885)	(7,048)	
Present value of minimum lease payments	\$ 8,000	\$ 219,841	\$ 100,678	

Rental expenditures related to operating leases for equipment totaled \$16,000 for governmental funds for the year ended December 31, 2013.

Note 10: Compensated Absences

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

Sick leave is earned at the rate of ten hours per month for full-time employees and 4.6 hours per eighty hours worked by part-time employees. Each employee with the City is paid for up to 180 days or a maximum of 1,440 hours for Ohio Public Employment Retirement System (OPERS) employees and 1,740 hours for Ohio Police and Fire Pension Fund (OP&F) employees, upon retirement from the City, and 30 years of service for OPERS employees and 20 years of service for retiring police employees. Individuals leaving the employment of the City prior to retirement lose their accumulated sick leave.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 11: Pension Plans

A. Ohio Public Employees Retirement System

The City of Twinsburg participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional pension plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, member and employer contribution rates were consistent across all three plans. For the year ended December 31, 2013, the members of all three plans were required to contribute 10.0 percent of their annual covered salary to fund pension obligations. The City contributed 14.0 percent of covered payroll.

The City's required contributions for pension obligations, excluding the health care portion, to the traditional pension and combined plans for the years ended December 31, 2013, 2012, and 2011 were \$992,064, \$726,816, and \$707,772, respectively. The full amount has been contributed for 2012 and 2011, while 92.30 percent has been contributed for 2013. Contributions to the member-directed plan for 2013 were \$15,066 made by the City of Twinsburg and \$10,761 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

From January 1, 2013 through July 1, 2013, plan members were required to contribute 10 percent of their annual covered salary. From July 2, 2013 through December 31, 2013, plan members were required to contribute 10.75 percent of their annual covered salary. Throughout 2013, employers were required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by State statute. The City of Twinsburg's contributions to the OP&F for police and firefighters were \$521,566 and \$590,444 for the year ended December 31, 2013, \$494,228 and \$557,648 for the year ended December 31, 2012, and \$462,969 and \$551,462 for the year ended December 31, 2011. The full amount has been contributed for 2012 and 2011. 91.20 percent for police and 92.30 percent for firefighters has been contributed for 2013 with the remainder being reported as a liability.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 12: Post-Employment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

In order to qualify for post-retirement health care coverage, age-and-service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 E. Town St., Columbus, OH, 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, state and local employers contributed at a rate of 14.0 percent of covered payroll and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of the post-employment health care benefits. The portion of employer contributions allocated to health care for members in the traditional pension plan was 1.0 percent during calendar year 2013. The portion of employer contributions allocated to health care for members in the combined plan was 1.0 percent during calendar year 2013.

Effective January 1, 2014, the portion of employer contributions allocated to health care was raised to 2 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care for the years ended December 31, 2013, 2012, and 2011 were \$76,280, \$297,023, and \$289,241, respectively; 100 percent has been contributed for 2012 and 2011, while 92.30 percent has been contributed for 2013.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 12: Post-Employment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

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

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement 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 E. Town St., Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

The Ohio Revised Code provides for contribution requirements of the participating employers and of the plan members to the OP&F (defined benefit pension plan). Participating employers are required 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. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of the covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. 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 administered 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, 2013, the employer contribution allocated to health care plan was 4.69 percent of covered payroll from January 1, 2013 thru May 31, 2013 and 2.85 percent of covered payroll from June 1, 2013 thru December 31, 2013. The amount of employer contributions allocated to the health care plan each year is subject to the Board Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 12: Post-Employment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

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 total contributions to OP&F for police and fire for the years ending December 31, 2013, 2012, and 2011 were \$521,566, \$502,733, \$495,721, and \$590,444, \$551,921, \$550,509, respectively, of which \$93,991, \$174,023, \$171,596, and \$87,183, \$155,228, \$154,831, respectively, was allocated to the health care plan. The full amount has been contributed for 2012 and 2011. For 2013, 91.20 percent for police and 92.30 percent for firefighters has been contributed, with the remainder being reported as a liability.

Note 13: Risk Management

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

The City continues to carry health insurance through Medical Mutual of Ohio (Medical Mutual). The City pays a monthly premium from the general fund, sewer fund, Gleneagles golf fund, and fitness center fund for each employee that varies according to which fund the employees' salary is paid. Incurred but not reported claims of \$132,264 have been accrued as a liability at December 31, 2013 based on an estimate by Medical Mutual.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

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

The claims liability of \$132,264 reported in the funds at December 31, 2013, was estimated by reviewing current claims and is based on the requirements of GASB No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses.

Changes in the fund's claims liability amount were:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2013	\$ 148,969	\$ 281,090	\$ 297,795	\$ 132,264
2012	103,919	342,639	297,589	148,969
2011	79,973	314,555	290,609	103,919
2010	201,353	143,528	264,908	79,973
2009	-	461,055	259,702	201,353

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 14: Fund Balances

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

<u>Fund Balances</u>	<u>General</u>	<u>Park Debt Service</u>	<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Nonspendable:					
Inventory	\$ 395,562	\$ -	\$ -	\$ -	\$ 395,562
Unclaimed monies	<u>1,385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,385</u>
Total nonspendable	<u>396,947</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>396,947</u>
Restricted for:					
Debt service payments	-	49,764	-	36,131	85,895
Streets & highways	-	-	-	1,880,939	1,880,939
Law enforcement education	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,575</u>	<u>38,575</u>
Total restricted	<u>-</u>	<u>49,764</u>	<u>-</u>	<u>1,955,645</u>	<u>2,005,409</u>
Committed to:					
Parks & Recreation	-	-	-	383,664	383,664
Glenwood Ohio Rotary	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>383,665</u>	<u>383,665</u>
Assigned to:					
Capital improvements	-	-	2,815,206	-	2,815,206
Other purposes	<u>6,508,841</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,508,841</u>
Total assigned	<u>6,508,841</u>	<u>-</u>	<u>2,815,206</u>	<u>-</u>	<u>9,324,047</u>
Unassigned (deficit)	<u>21,710,920</u>	<u>-</u>	<u>-</u>	<u>(371,013)</u>	<u>21,339,907</u>
Total fund balance	\$ <u>28,616,708</u>	\$ <u>49,764</u>	\$ <u>2,815,206</u>	\$ <u>1,968,297</u>	\$ <u>33,449,975</u>

Note 15: Contingencies/Pending Litigation

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

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 16: Accountability

The following funds had total original appropriations in excess of estimated resources plus carryover balances, contrary to Section 5705.39, Ohio Revised Code.

Governmental Funds	<u>Original Estimated Resources Plus Carryover Balances</u>	<u>Original Appropriations</u>	<u>Excess</u>
<i>Special Revenue Funds:</i>			
Police Pension	\$ 570,702	\$ 588,365	\$ (17,663)
Fire Pension	552,412	648,646	(96,234)

The City had deficit balances in the following funds at December 31, 2013:

Police Pension	\$ 181,064
Fire Pension	189,949

These fund deficits are the result of the recognition of liabilities in accordance with general accepted accounting principles.

Note 17: Interfund Transfers

Interfund transfers for the year ended December 31, 2013, consisted of the following:

<u>Transfer to</u>	<u>Transfer From General Fund</u>
Capital improvement fund	\$ 2,000,000
Fitness center fund	98,641
Other business-type fund	213,310
Other governmental funds	<u>2,082,384</u>
Total transfers	\$ <u>4,394,335</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to provide additional resources for current operations or debt service.

The City had no transfers that do not occur on a regular basis. No transfers were inconsistent with the purpose of the fund making the transfer. In addition, each of the above transfers is in compliance with the Ohio Revised Code.

City of Twinsburg, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2013

Note 18: Other Significant Commitments

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year-end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

	<u>Encumbrances</u>
Governmental Funds:	
General fund	\$ 421,460
Capital improvement fund	708,401
Other governmental funds	<u>141,851</u>
Total Governmental	\$ <u><u>1,271,712</u></u>
Proprietary Funds:	
Sewer fund	\$ <u><u>307,690</u></u>

Note 19: Subsequent Event

Effective January 1, 2014, the City's income tax rate will change from 2.25 percent to 2 percent.

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Dave Yost • Auditor of State

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

City of Twinsburg
Summit County
10075 Ravenna Road
Twinsburg, Ohio 44087

To the Honorable Mayor and City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Twinsburg, Summit County, (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 31, 2014, wherein we noted the City adopted the provisions of Governmental Accounting Standard No. 65, "Items Previously Reported as Assets and Liabilities."

Internal Control Over Financial Reporting

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

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency in internal control. We consider finding 2013-001 to be a significant deficiency.

Compliance and Other Matters

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

Entity's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

October 31, 2014

**CITY OF TWINSBURG
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013**

1. Capital Assets

<i>Finding Number</i>	2013-001
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SIGNIFICANT DEFICIENCY

Sound financial reporting is the responsibility of the City's management and City Council. The following issues were noted while testing capital assets:

- The City received several storm sewer assets which were donated by developers; however, the value of the storm sewers were improperly removed from the related expense line-item upon capitalization, as no related donation revenue and expense were recorded during the GAAP conversion. This resulted in the Governmental Activities Community Development expense and the Capital Grants and Contributions being understated by \$484,735 for Storm Sewers.
- The City received donated land with an assessed valuation at the County Fiscal Office of \$36,790 which was recorded with a value of \$0, which is contrary to the City's Capital Asset policy requiring donated assets to be recorded at fair market value (FMV) and resulting in an understatement of Land capital assets and Capital Grants and Contributions.
- Depreciation Expense is allocated to the City's programs based on the use of the related assets; however, it was noted the depreciation expense for Water Mains and Storm Sewers totaling \$917,023 was allocated to the Transportation program when it would be more appropriately classified as Community Development.
- The City's Capital Asset Policy does not reflect the same useful lives that are being used to calculate depreciation for eight of the ten (80%) items tested. Additionally, several fully-depreciated assets were noted on the City's Asset Master Listing.

In order to help ensure proper presentation and valuation of the City's Capital assets, the City should:

- Inform the GAAP Conversion team of all donated assets and their values to help ensure the proper adjustments are made to reflect the donation of the assets,
- Include donated land assets at the FMV, as required by the City's Capital Asset policy. Additionally, the City should determine a method by which the FMV will be established and document the method in the City's Capital Asset Policy,
- Review the governmental activities depreciation expense allocation to determine the reasonableness of the allocations to various City programs, and
- The City should revisit its Capital Asset policy and modify it to reflect the useful lives of assets currently being depreciated as well as revising the useful lives for future asset additions in order to more properly reflect the period for which the City is likely to use the asset.

Official's Response: The City will make a concerted effort to follow the recommendations stated by the Auditor of State applicable to the city's presentation and valuation of the City's Capital Assets.

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CITY OF TWINSBURG
SUMMIT COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2013

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	Financial statements were adjusted to correct various material errors	No	Partially Corrected. Similar comment reported as finding 2013-001

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CITY OF TWINSBURG

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 2, 2014**