



Dave Yost • Auditor of State



**CITY OF MUNROE FALLS  
SUMMIT COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

City of Munroe Falls  
Summit County  
43 Munroe Falls Avenue  
Munroe Falls, Ohio 44262

To the City Council:

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 Munroe Falls, Summit County, Ohio, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Munroe Falls, Summit County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund, Fire Department Special Levy Fund, and EMS Special Levy Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during 2011 the City of Munroe Falls adopted Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2012 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Dave Yost**  
Auditor of State

July 20, 2012

**City of Munroe Falls, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2011*  
*Unaudited*

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

**Financial Highlights**

Key financial highlights for 2011 are:

- The City continues to pursue economic development efforts for the limited land that is available. Primary emphasis is in the Town Center, where there is opportunity to capitalize on the natural beauty of the Cuyahoga River.
- Even though we are still in uncertain economic times, the City has experienced another increase in municipal income taxes collected, which is the largest revenue source. The City has made aggressive efforts at controlling operating costs and limiting the growth of personnel costs. This will provide an assurance to the residents of our community that the City will continue to maintain the highest level of public safety, recreation, street and sewer infrastructures. The City monitors its sources of revenue very closely for any changes or fluctuations and continually looks for new revenue sources.

**Using This Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City of Munroe Falls as a financial whole or as an entire operating entity. The statements proceed to provide an increasingly detailed look at our specific financial condition.

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

**Reporting the City of Munroe Falls as a Whole**

*Statement of Net Assets and Statement of Activities*

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City do financially during 2011?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

**City of Munroe Falls, Ohio**  
*Management's Discussion and Analysis*  
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These two statements report the City's net assets and the changes in those net assets. The changes in net assets are important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

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

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

### **Reporting the City of Munroe Falls' Most Significant Funds**

#### ***Fund Financial Statements***

The analysis of the City's major funds begins on page 8. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds which account for the multitude of services and facilities provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Munroe Falls, the major funds are the general, fire department special levy, EMS special levy, general obligation bond retirement, capital improvement, and the water enterprise fund.

#### ***Governmental Funds***

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

#### ***Proprietary Funds***

The City's only proprietary fund (the water fund) is an enterprise fund which uses the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statements for the City as a whole.

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*Management's Discussion and Analysis*  
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***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's only fiduciary fund is an agency fund.

**The City as a Whole**

The *Statement of Net Assets* looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2011 compared to 2010.

**Table 1**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Assets</b>						
Current and Other Assets	\$5,101,256	\$4,787,293	\$2,810,463	\$2,724,455	\$7,911,719	\$7,511,748
Capital Assets, Net	6,411,756	6,635,506	2,798,623	2,033,409	9,210,379	8,668,915
<i>Total Assets</i>	<u>11,513,012</u>	<u>11,422,799</u>	<u>5,609,086</u>	<u>4,757,864</u>	<u>17,122,098</u>	<u>16,180,663</u>
<b>Liabilities</b>						
Current and Other Liabilities	822,603	872,369	32,343	11,018	854,946	883,387
Long-Term Liabilities:						
Due Within One Year	233,805	372,880	109,250	84,211	343,055	457,091
Due in More than One Year	920,724	886,061	628,271	275,045	1,548,995	1,161,106
<i>Total Liabilities</i>	<u>1,977,132</u>	<u>2,131,310</u>	<u>769,864</u>	<u>370,274</u>	<u>2,746,996</u>	<u>2,501,584</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	5,757,403	5,817,767	2,122,169	1,709,683	7,879,572	7,527,450
Restricted:						
Capital Projects	386,675	488,164	0	0	386,675	488,164
Debt Service	25,143	45,350	0	0	25,143	45,350
Street Maintenance and Repair	353,987	382,525	0	0	353,987	382,525
Fire Department	255,733	235,224	0	0	255,733	235,224
EMS	565,571	348,188	0	0	565,571	348,188
Other Purposes	263,545	425,884	0	0	263,545	425,884
Unrestricted	1,927,823	1,548,387	2,717,053	2,677,907	4,644,876	4,226,294
<i>Total Net Assets</i>	<u>\$9,535,880</u>	<u>\$9,291,489</u>	<u>\$4,839,222</u>	<u>\$4,387,590</u>	<u>\$14,375,102</u>	<u>\$13,679,079</u>

By comparing assets and liabilities, one can see the overall position of the City has improved as evidenced by the increase in net assets. Management continues to diligently plan expenses, staying carefully within the City's revenues in an effort to maintain excellent levels of service within the constraints of the budget.

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In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year. Table 2 shows total revenues, expenses and changes in net assets for the fiscal years 2011 and 2010.

**Table 2**  
**Changes in Net Assets**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
<b>Program Revenues:</b>						
Charges for Services and Sales	\$346,683	\$308,895	\$812,526	\$842,371	\$1,159,209	\$1,151,266
Operating Grants and Contributions	322,829	368,261	0	0	322,829	368,261
Capital Grants and Contributions	36,373	282,313	296,057	0	332,430	282,313
<b>Total Program Revenues</b>	<b>705,885</b>	<b>959,469</b>	<b>1,108,583</b>	<b>842,371</b>	<b>1,814,468</b>	<b>1,801,840</b>
<b>General Revenues:</b>						
Property Taxes	768,552	801,341	0	0	768,552	801,341
Income Tax	1,161,479	1,049,332	0	0	1,161,479	1,049,332
Grants and Entitlements not Restricted to Specific Programs	521,071	397,544	0	0	521,071	397,544
Interest	61,144	91,897	0	0	61,144	91,897
Other	84,745	78,862	3,064	15,009	87,809	93,871
<b>Total General Revenues</b>	<b>2,596,991</b>	<b>2,418,976</b>	<b>3,064</b>	<b>15,009</b>	<b>2,600,055</b>	<b>2,433,985</b>
<b>Total Revenues</b>	<b>3,302,876</b>	<b>3,378,445</b>	<b>1,111,647</b>	<b>857,380</b>	<b>4,414,523</b>	<b>4,235,825</b>
<b>Program Expenses:</b>						
General Government	774,472	747,569	0	0	774,472	747,569
Security of Persons and Property	1,640,682	1,624,670	0	0	1,640,682	1,624,670
Transportation	407,925	455,420	0	0	407,925	455,420
Public Health and Welfare	39,735	39,749	0	0	39,735	39,749
Leisure Time Activities	88,208	70,475	0	0	88,208	70,475
Water Operations	0	0	660,015	734,470	660,015	734,470
Interest and Fiscal Charges	107,463	91,555	0	0	107,463	91,555
<b>Total Program Expenses</b>	<b>3,058,485</b>	<b>3,029,438</b>	<b>660,015</b>	<b>734,470</b>	<b>3,718,500</b>	<b>3,763,908</b>
Excess of Revenues Over (Under) Expenses	244,391	349,007	451,632	122,910	696,023	471,917
Transfers	0	1,382	0	(1,382)	0	0
<b>Change in Net Assets</b>	<b>244,391</b>	<b>350,389</b>	<b>451,632</b>	<b>121,528</b>	<b>696,023</b>	<b>471,917</b>
Net Assets Beginning of Year	9,291,489	8,941,100	4,387,590	4,266,062	13,679,079	13,207,162
<b>Net Assets End of Year</b>	<b>\$9,535,880</b>	<b>\$9,291,489</b>	<b>\$4,839,222</b>	<b>\$4,387,590</b>	<b>\$14,375,102</b>	<b>\$13,679,079</b>

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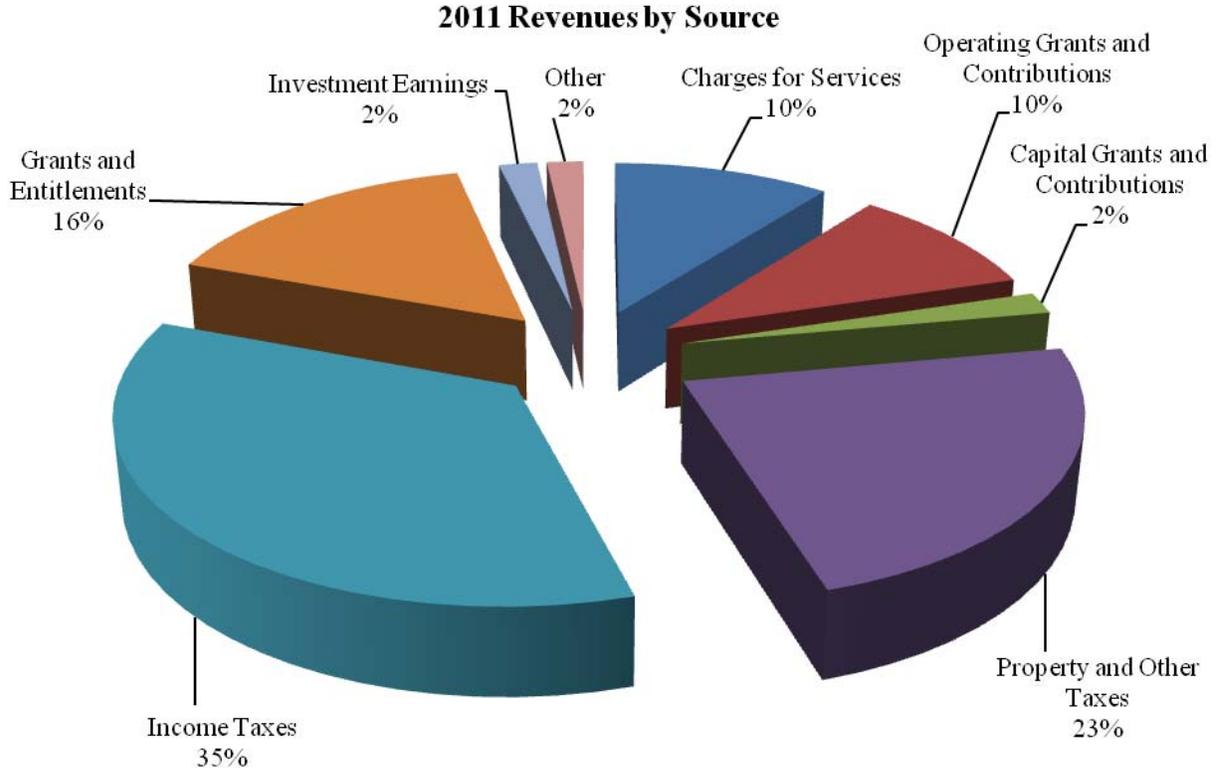
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**Governmental Activities**

Several revenue sources fund the City's governmental activities with City income tax being the largest. An income tax of 2 percent is levied on substantially all income earned within the City. In addition, income of residents earned outside of the City is subject to income tax; however, credit is allowed for income taxes paid to other municipalities and to the Joint Economic Development District up to 100 percent of the City's current tax rate. Income tax revenues increased slightly in 2011, mainly due to improvements in the economy and effective tax collections.

General revenues from property taxes and local government funds are also significant revenue generators. Property taxes include amounts levied against all real and public utility located in the City. Taxes collected from real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January of that preceding year, the lien date. Assessed values are established by the County Fiscal Officer at 35 percent of the appraised market value. All property is required to be revalued every six years with triennial updates. Property tax revenues decreased slightly but with no material difference between 2011 and 2010.

Grants and entitlements not restricted to specific programs were higher than the prior year due to a significant increase in inheritance taxes collected in 2011. Investment income for 2011 was less than 2010 as interest rates have decreased from the prior year's rates. Operating grants and contributions and capital grants decreased in 2011. This was due mainly to a decrease in the availability of grants for the City.



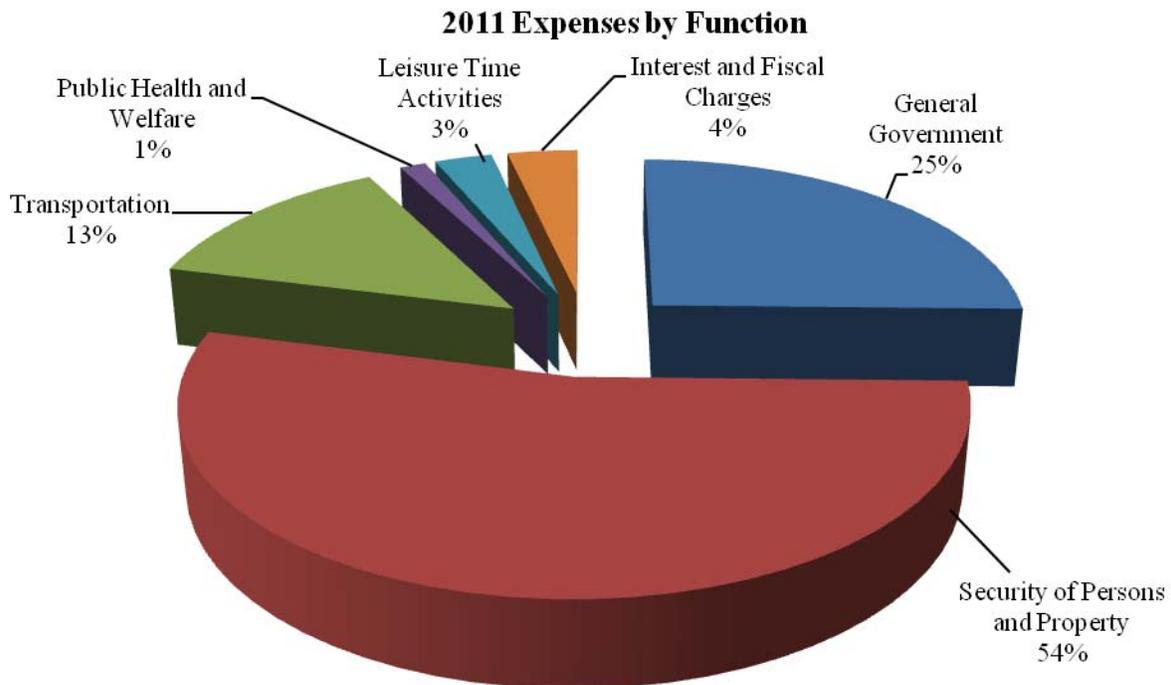
**City of Munroe Falls, Ohio**  
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The police department continues to operate very efficiently utilizing full and part time personnel. The police department is funded primarily from revenues generated through the general fund. The fire department is primarily a volunteer force and works from two fire stations. Operations are funded primarily through fire and EMS special levies and rescue billing collections. For 2011, security of persons and property spending was carefully monitored and was just slightly above the prior year.

General government expenses include such services as planning, zoning, administration, finance, legal, legislature, lands and buildings, and engineering. These expenses increased in 2011 largely due to increased repairs and maintenance, hospitalization and workers' compensation costs.

Transportation costs include street lighting, snow and ice removal and the costs of maintaining the City streets. These costs were less in 2011 because of lower material prices for items such as gasoline and decreased usage of salt due to a mild winter.



### **The City's Funds**

The City of Munroe Falls uses fund accounting as mandated by governmental legal requirements. The intent of accounting and reporting using this method is to demonstrate compliance with these finance related requirements.

### **Governmental Funds**

Information about the City's governmental funds begins on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$3,254,676 and expenditures of \$3,109,188. The most significant fund is the general fund with a year-end balance of \$2,087,991, which included an unassigned fund balance of \$1,921,522, compared to annual expenditures of \$1,788,134. The City focuses on its governmental funds to provide a financial picture on activities as they provide information on how the City did over a period of one year as well as where the City's funds stood at December 31, 2011. The information provided is useful to determine the City's available

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balances. At December 31, 2011, the City's combined ending cash and cash equivalents balance was \$3,415,985. Along those same lines, the City's 2011 ending combined governmental fund balance is \$3,819,599.

The fire department special levy and EMS special levy special revenue funds had revenues of \$178,265 and \$342,962, respectively. The fire department special levy fund had an increase of fund balance, ending the year with a fund balance of \$242,156. The EMS special levy fund also had an increase of fund balance, ending the year with a fund balance of \$544,810.

The general obligation bond retirement fund had a fund balance of \$17,188 and an ending cash and cash equivalents balance of \$17,188. Revenues for the year were \$209,824, with expenditures of \$228,750.

The capital improvement fund had a fund balance of \$219,668. The cash and cash equivalents balance was \$206,396. Revenues for the year were \$180,355, with expenditures of \$293,679.

***Business-Type Fund***

As mentioned earlier, the City's lone business-type activity is the water fund. Net assets of the water fund increased in 2011 by \$451,632. This was mainly due to an Ohio Public Works Commission (OPWC) grant related to the North River waterline replacement. The City was also able to keep the costs of running the City's water down in 2011, while still maintaining the same quality of service.

The City continues the process of identifying the long-term maintenance and replacement needs of its water line infrastructure and other capital assets requirements. A water model study was completed in 2004 which identified all waterline capacities throughout the entire City. This has enabled the Service Department to better estimate replacement and repair costs.

***General Fund Budgeting Highlights***

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. At the direction of Council, all capital projects and requests for capital purchases must be reviewed and approved individually by Council. Recommendations and requests for budget changes are referred to the Finance Committee of City Council for review, after which they are sent to the formal Council meeting for ordinance enactment on the change. The City's legal level of control has been established by Council at the personal services and other object level within each fund and department.

The most significant budgeted fund is the general fund. The general fund supports many major activities such as the police, building and planning departments as well as the legislative and most executive activities. Some major capital projects are funded with general fund dollars. By legislation, these funds are transferred from the general fund to capital projects funds where the revenue and expenditures for the capital improvement are tracked and monitored. For the general fund, the original budgeted revenues were \$2,250,901 and the final budgeted amount was \$1,957,221. The majority of this \$293,680 difference was due to lower anticipated income tax revenue. The City continued to maintain a respectable level of liquidity in the general fund by reducing final expenditures and thus maintaining unrestricted cash at year-end. The variance from final budget to actual expenditures in general government was due to a concerted effort by the City to reduce expenditures.

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**Capital Assets and Debt Administration**

*Capital Assets*

**Table 3**  
**Capital Assets**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$1,653,686	\$1,653,686	\$31,689	\$31,689	\$1,685,375	\$1,685,375
Land Improvements	221,848	241,143	0	0	221,848	241,143
Buildings and Improvements	2,782,956	2,794,156	636,093	556,317	3,419,049	3,350,473
Equipment	670,489	787,540	108,213	104,961	778,702	892,501
Infrastructure	1,082,777	1,158,981	2,022,628	1,340,442	3,105,405	2,499,423
Totals	<u>\$6,411,756</u>	<u>\$6,635,506</u>	<u>\$2,798,623</u>	<u>\$2,033,409</u>	<u>\$9,210,379</u>	<u>\$8,668,915</u>

Total governmental capital assets for the City of Munroe Falls as of December 31, 2011 were \$6,411,756, which was a decrease of \$223,750 from the prior year. Deletions were primarily made to equipment and infrastructure. Business-type capital assets increased \$765,214, with the majority of the increase relating to a new waterline. For additional information see Note 8 to the basic financial statements.

**Debt**

On December 31, 2011, the City of Munroe Falls had \$1,764,996 in outstanding debt from general obligation bonds, capital appreciation bonds and capital leases. This represents obligations backed by the full faith and credit of the government. Table 4 summarizes bonds and loans outstanding as of December 31, 2011.

**Table 4**  
**Outstanding Debt at Year End**

	Governmental Activities		Business-Type Activity		Total	
	2011	2010	2011	2010	2011	2010
Refunding Bond - Series A						
General Obligation Bonds	\$0	\$200,000	\$0	\$0	\$0	\$200,000
Capital Appreciation Bonds	130,000	130,000	0	0	130,000	130,000
Accretion on Capital Appreciation Bonds	351,303	292,649	0	0	351,303	292,649
Refunding Bond - Series B						
General Obligation Bonds	44,955	60,744	275,045	359,256	320,000	420,000
Capital Asset Acquisition Bonds - 2008						
General Obligation Bonds	195,000	285,000	0	0	195,000	285,000
Premium on Bonds	4,996	7,494	0	0	4,996	7,494
Capital Asset Acquisition Bonds - 2011						
General Obligation Bonds	170,000	0	440,000	0	610,000	0
Premium on Bonds	10,526	0	22,476	0	33,002	0
Capital Leases	120,695	141,995	0	0	120,695	141,995
Totals	<u>\$1,027,475</u>	<u>\$1,117,882</u>	<u>\$737,521</u>	<u>\$359,256</u>	<u>\$1,764,996</u>	<u>\$1,477,138</u>

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*Unaudited*

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The general obligation bonds and capital appreciation bonds were for the City Hall, Safety Building Expansion, Water Improvements, and Capital Asset Acquisition and are paid from property tax levies and the water fund.

The capital lease was for the lease-purchase of a new fire truck. Payments for the fire truck began in 2005. For additional information see Note 12 to the basic financial statements.

**Current Financial Related Activities**

The City of Munroe Falls is challenged with limited areas for development of industrial, commercial, and residential properties. The City Council endeavors to keep debt obligations low. Our finances are planned so that we can pay cash for as many of the facility improvements and acquisitions as possible without jeopardizing liquidity and reserve balance needs. Our Debt and Fund Reserve Policies provide financial analysis tools for measuring and maintaining healthy fund balances. These policies, integrated with a comprehensive five-year budgeting forecast, helps to give a warning system for long-term effects on decisions made in the current period. The City's leadership is committed to controlling and reducing the cost of government operations while still providing the services the citizens need. Efforts are continually made to enhance revenue opportunities.

Our commitment to our residents is full disclosure of the financial position of the City.

**Contacting the City's Finance Department**

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all money it receives, spends or invests. If you have any questions about this report or need financial information contact the Director of Finance, David P. Bailey, CPA, 43 Munroe Falls Avenue, Munroe Falls, Ohio 44262, telephone (330) 688-7491, or the website at [www.munroefalls.com](http://www.munroefalls.com).

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## Basic Financial Statements

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**City of Munroe Falls, Ohio**

*Statement of Net Assets*

*December 31, 2011*

	Governmental Activities	Business-Type Activity	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$3,415,985	\$2,587,501	\$6,003,486
Materials and Supplies Inventory	55,085	2,790	57,875
Accrued Interest Receivable	31,091	0	31,091
Accounts Receivable	183,983	171,377	355,360
Intergovernmental Receivable	386,410	0	386,410
Prepaid Items	29,836	10,204	40,040
Income Taxes Receivable	240,166	0	240,166
Property Taxes Receivable	752,403	0	752,403
Deferred Charges	6,297	38,591	44,888
Nondepreciable Capital Assets	1,653,686	31,689	1,685,375
Depreciable Capital Assets, Net	4,758,070	2,766,934	7,525,004
<i>Total Assets</i>	<u>11,513,012</u>	<u>5,609,086</u>	<u>17,122,098</u>
<b>Liabilities</b>			
Accounts Payable	12,898	20,151	33,049
Accrued Wages	43,478	3,372	46,850
Intergovernmental Payable	35,208	2,525	37,733
Accrued Interest Payable	18,810	6,295	25,105
Retainage Payable	15,303	0	15,303
Deferred Revenue	696,906	0	696,906
Long-Term Liabilities:			
Due Within One Year	233,805	109,250	343,055
Due In More Than One Year	920,724	628,271	1,548,995
<i>Total Liabilities</i>	<u>1,977,132</u>	<u>769,864</u>	<u>2,746,996</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	5,757,403	2,122,169	7,879,572
Restricted for:			
Capital Projects	386,675	0	386,675
Debt Service	25,143	0	25,143
Street Maintenance and Repair	353,987	0	353,987
Fire Department	255,733	0	255,733
EMS	565,571	0	565,571
Other Purposes	263,545	0	263,545
Unrestricted	1,927,823	2,717,053	4,644,876
<i>Total Net Assets</i>	<u>\$9,535,880</u>	<u>\$4,839,222</u>	<u>\$14,375,102</u>

See accompanying notes to the basic financial statements

**City of Munroe Falls, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2011

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$774,472	\$96,645	\$1,128	\$0
Security of Persons and Property	1,640,682	233,946	59,716	0
Transportation	407,925	8,434	261,985	36,373
Public Health and Welfare	39,735	3,821	0	0
Leisure Time Activities	88,208	3,837	0	0
Interest and Fiscal Charges	107,463	0	0	0
<i>Total Governmental Activities</i>	3,058,485	346,683	322,829	36,373
<b>Business-Type Activity:</b>				
Water	660,015	812,526	0	296,057
<i>Total</i>	<u>\$3,718,500</u>	<u>\$1,159,209</u>	<u>\$322,829</u>	<u>\$332,430</u>

**General Revenues**

Property and Other Local Taxes Levied for:

General Purposes

Fire Department

EMS

General Obligation Bond Retirement

Income Tax Levied for:

General Purposes

Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Interest

Other

*Total General Revenues*

Change in Net Assets

*Net Assets Beginning of Year*

*Net Assets End of Year*

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Total</u>
(\$676,699)	\$0	(\$676,699)
(1,347,020)	0	(1,347,020)
(101,133)	0	(101,133)
(35,914)	0	(35,914)
(84,371)	0	(84,371)
(107,463)	0	(107,463)
(2,352,600)	0	(2,352,600)
<u>0</u>	<u>448,568</u>	<u>448,568</u>
<u>(2,352,600)</u>	<u>448,568</u>	<u>(1,904,032)</u>
249,667	0	249,667
156,041	0	156,041
176,847	0	176,847
185,997	0	185,997
1,031,725	0	1,031,725
129,754	0	129,754
521,071	0	521,071
61,144	0	61,144
84,745	3,064	87,809
<u>2,596,991</u>	<u>3,064</u>	<u>2,600,055</u>
244,391	451,632	696,023
<u>9,291,489</u>	<u>4,387,590</u>	<u>13,679,079</u>
<u>\$9,535,880</u>	<u>\$4,839,222</u>	<u>\$14,375,102</u>

**City of Munroe Falls, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2011*

	General	Fire Department Special Levy	EMS Special Levy	General Obligation Bond Retirement	Capital Improvement
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$1,815,303	\$248,467	\$493,128	\$17,188	\$206,396
Materials and Supplies Inventory	29,743	0	0	0	0
Accrued Interest Receivable	31,091	0	0	0	0
Accounts Receivable	64,125	190	65,148	0	26,757
Intergovernmental Receivable	180,173	23,103	28,787	28,787	0
Prepaid Items	23,078	1,234	1,506	0	369
Income Taxes Receivable	211,346	0	0	0	28,820
Property Taxes Receivable	241,075	150,672	170,762	189,894	0
<i>Total Assets</i>	<u>\$2,595,934</u>	<u>\$423,666</u>	<u>\$759,331</u>	<u>\$235,869</u>	<u>\$262,342</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$6,847	\$205	\$473	\$0	\$2,804
Accrued Wages	26,478	4,169	8,336	0	0
Intergovernmental Payable	22,875	3,361	6,163	0	0
Retainage Payable	0	0	0	0	0
Deferred Revenue	451,743	173,775	199,549	218,681	39,870
<i>Total Liabilities</i>	<u>507,943</u>	<u>181,510</u>	<u>214,521</u>	<u>218,681</u>	<u>42,674</u>
<b>Fund Balances</b>					
Nonspendable	52,821	1,234	1,506	0	369
Restricted	0	240,922	543,304	17,188	219,299
Committed	107,355	0	0	0	0
Assigned	6,293	0	0	0	0
Unassigned	1,921,522	0	0	0	0
<i>Total Fund Balances</i>	<u>2,087,991</u>	<u>242,156</u>	<u>544,810</u>	<u>17,188</u>	<u>219,668</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,595,934</u>	<u>\$423,666</u>	<u>\$759,331</u>	<u>\$235,869</u>	<u>\$262,342</u>

See accompanying notes to the basic financial statements

**City of Munroe Falls, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2011*

Other Governmental Funds	Total Governmental Funds		
		<b>Total Governmental Fund Balances</b>	<b>\$3,819,599</b>
		<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
		Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,411,756
\$635,503	\$3,415,985	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
25,342	55,085	Property Taxes	55,497
0	31,091	Income Taxes	116,877
27,763	183,983	Grants	273,348
125,560	386,410	Other	25,845
3,649	29,836	Total	471,567
0	240,166		
0	752,403	Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(18,810)
\$817,817	\$5,094,959	In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	6,297
		Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
\$2,569	\$12,898	General Obligation Bonds	(409,955)
4,495	43,478	Capital Appreciaton Bonds	(481,303)
2,809	35,208	Capital Leases	(120,695)
15,303	15,303	Premium on Bonds	(15,522)
84,855	1,168,473	Compensated Absences	(127,054)
110,031	1,275,360	Total	(1,154,529)
		<i>Net Assets of Governmental Activities</i>	<i>\$9,535,880</i>
28,991	84,921		
641,213	1,661,926		
37,582	144,937		
0	6,293		
0	1,921,522		
707,786	3,819,599		
\$817,817	\$5,094,959		

**City of Munroe Falls, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2011*

	General	Fire Department Special Levy	EMS Special Levy	General Obligation Bond Retirement	Capital Improvement
<b>Revenues</b>					
Property Taxes	\$242,186	\$151,366	\$171,549	\$180,386	\$0
Income Taxes	1,010,845	0	0	0	126,907
Special Assessments	0	0	0	0	0
Intergovernmental	505,085	24,531	27,802	29,438	48,943
Interest	55,330	0	0	0	0
Fines, Licenses and Permits	161,851	0	0	0	0
Charges for Services	9,699	0	141,764	0	0
Contributions and Donations	520	0	0	0	0
Other	50,180	2,368	1,847	0	4,505
<i>Total Revenues</i>	<u>2,035,696</u>	<u>178,265</u>	<u>342,962</u>	<u>209,824</u>	<u>180,355</u>
<b>Expenditures</b>					
Current:					
General Government	630,548	2,545	2,500	2,454	0
Security of Persons and Property	990,233	158,513	299,448	0	0
Transportation	87,714	0	0	0	0
Public Health and Welfare	39,735	0	0	0	0
Leisure Time Activities	39,904	0	0	0	0
Capital Outlay	0	0	0	0	249,240
Debt Service:					
Principal Retirement	0	0	0	215,789	36,300
Interest and Fiscal Charges	0	0	10,526	10,507	8,139
Bond Issuance Costs	0	0	0	0	0
<i>Total Expenditures</i>	<u>1,788,134</u>	<u>161,058</u>	<u>312,474</u>	<u>228,750</u>	<u>293,679</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>247,562</u>	<u>17,207</u>	<u>30,488</u>	<u>(18,926)</u>	<u>(113,324)</u>
<b>Other Financing Sources (Uses)</b>					
General Obligation Bonds Issued	0	0	170,000	0	0
Bond Premium	0	0	10,526	0	0
Transfers In	0	0	0	18,296	0
Transfers Out	0	0	0	0	(18,296)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>180,526</u>	<u>18,296</u>	<u>(18,296)</u>
<i>Net Change in Fund Balances</i>	247,562	17,207	211,014	(630)	(131,620)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>1,840,429</u>	<u>224,949</u>	<u>333,796</u>	<u>17,818</u>	<u>351,288</u>
<i>Fund Balances End of Year</i>	<u><u>\$2,087,991</u></u>	<u><u>\$242,156</u></u>	<u><u>\$544,810</u></u>	<u><u>\$17,188</u></u>	<u><u>\$219,668</u></u>

See accompanying notes to the basic financial statements

**City of Munroe Falls, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2011*

Other Governmental Funds	Total Governmental Funds		
		<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$326,014
		<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
		Governmental funds report capital outlays as expenditures.	
		However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	
\$0	\$745,487	Capital Asset Additions	183,853
0	1,137,752	Current Year Depreciation	(311,987)
33,269	33,269	Total	(128,134)
260,444	896,243		
5,814	61,144		
100	161,951		
0	151,463		
7,947	8,467		
0	58,900		
307,574	3,254,676	Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(95,616)
		Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
17,911	655,958	Property Taxes	23,065
4,475	1,452,669	Income Taxes	23,727
214,658	302,372	Grants	(24,437)
0	39,735	Other	25,845
0	39,904	Total	48,200
1,399	250,639		
75,000	327,089	Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	327,089
5,353	34,525		
6,297	6,297	In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	6,297
325,093	3,109,188		
		In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	
(17,519)	145,488	Accrued Interest	(16,782)
		Amortization of Bond Premium	2,498
0	170,000	Bond Accretion	(58,654)
0	10,526	Total	(72,938)
0	18,296		
0	(18,296)	Some expenses, such as compensated absences, 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.	14,005
0	180,526		
(17,519)	326,014	Other financing sources in the governmental funds increase long-term liabilities in the statement of net assets.	
		General Obligation Bonds Issued	(170,000)
725,305	3,493,585	Premium on Bonds Issued	(10,526)
\$707,786	\$3,819,599	Total	(180,526)
		<i>Change in Net Assets of Governmental Activities</i>	<u>\$244,391</u>

**City of Munroe Falls, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2011*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$271,143	\$237,698	\$242,186	\$4,488
Income Taxes	1,128,601	973,354	994,187	20,833
Intergovernmental	537,278	471,006	479,899	8,893
Interest	60,164	52,743	53,739	996
Fines, Licenses and Permits	180,478	158,217	161,204	2,987
Charges for Services	10,859	9,519	9,699	180
Contributions and Donations	582	510	520	10
Other	61,796	54,174	55,196	1,022
<i>Total Revenues</i>	<u>2,250,901</u>	<u>1,957,221</u>	<u>1,996,630</u>	<u>39,409</u>
<b>Expenditures</b>				
Current:				
General Government	667,143	679,143	613,839	65,304
Security of Persons and Property	1,085,594	1,073,594	1,015,084	58,510
Transportation	116,432	116,432	111,852	4,580
Public Health and Welfare	41,000	41,000	39,735	1,265
Leisure Time Activities	45,066	45,066	44,343	723
<i>Total Expenditures</i>	<u>1,955,235</u>	<u>1,955,235</u>	<u>1,824,853</u>	<u>130,382</u>
<i>Net Change in Fund Balance</i>	295,666	1,986	171,777	169,791
<i>Fund Balance Beginning of Year</i>	1,461,275	1,461,275	1,461,275	0
Prior Year Encumbrances Appropriated	64,286	64,286	64,286	0
<i>Fund Balance End of Year</i>	<u>\$1,821,227</u>	<u>\$1,527,547</u>	<u>\$1,697,338</u>	<u>\$169,791</u>

See accompanying notes to the basic financial statements

**City of Munroe Falls, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Fire Department Special Levy Fund*  
*For the Year Ended December 31, 2011*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$158,625	\$158,625	\$151,366	(\$7,259)
Intergovernmental	16,769	16,769	24,531	7,762
Other	100	1,610	2,392	782
<i>Total Revenues</i>	<u>175,494</u>	<u>177,004</u>	<u>178,289</u>	<u>1,285</u>
<b>Expenditures</b>				
Current:				
General Government	2,500	2,700	2,545	155
Security of Persons and Property	184,054	184,054	160,323	23,731
<i>Total Expenditures</i>	<u>186,554</u>	<u>186,754</u>	<u>162,868</u>	<u>23,886</u>
<i>Net Change in Fund Balance</i>	(11,060)	(9,750)	15,421	25,171
<i>Fund Balance Beginning of Year</i>	232,711	232,711	232,711	0
Prior Year Encumbrances Appropriated	153	153	153	0
<i>Fund Balance End of Year</i>	<u>\$221,804</u>	<u>\$223,114</u>	<u>\$248,285</u>	<u>\$25,171</u>

See accompanying notes to the basic financial statements

**City of Munroe Falls, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*EMS Special Levy Fund*  
*For the Year Ended December 31, 2011*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$179,737	\$179,737	\$171,549	(\$8,188)
Intergovernmental	23,505	23,505	27,802	4,297
Charges for Services	119,432	119,432	144,420	24,988
Other	7,571	2,343	1,837	(506)
<i>Total Revenues</i>	<u>330,245</u>	<u>325,017</u>	<u>345,608</u>	<u>20,591</u>
<b>Expenditures</b>				
Current:				
General Government	2,700	2,700	2,500	200
Security of Persons and Property	327,286	515,286	481,269	34,017
<i>Total Expenditures</i>	<u>329,986</u>	<u>517,986</u>	<u>483,769</u>	<u>34,217</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	259	(192,969)	(138,161)	54,808
<b>Other Financing Sources</b>				
General Obligation Bonds Issued	0	0	170,000	170,000
<i>Net Change in Fund Balance</i>	259	(192,969)	31,839	224,808
<i>Fund Balance Beginning of Year</i>	276,083	276,083	276,083	0
Prior Year Encumbrances Appropriated	4,920	4,920	4,920	0
<i>Fund Balance End of Year</i>	<u>\$281,262</u>	<u>\$88,034</u>	<u>\$312,842</u>	<u>\$224,808</u>

See accompanying notes to the basic financial statements

**City of Munroe Falls, Ohio**

*Statement of Fund Net Assets*

*Enterprise Fund*

*December 31, 2011*

	<u>Water</u>
<b>Assets</b>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$2,587,501
Materials and Supplies Inventory	2,790
Accounts Receivable	171,377
Prepaid Items	<u>10,204</u>
<i>Total Current Assets</i>	<u>2,771,872</u>
<i>Non-Current Assets:</i>	
Deferred Charges	38,591
Land	31,689
Depreciable Capital Assets, Net	<u>2,766,934</u>
<i>Total Non-Current Assets</i>	<u>2,837,214</u>
<i>Total Assets</i>	<u>5,609,086</u>
<b>Liabilities</b>	
<i>Current Liabilities:</i>	
Accounts Payable	20,151
Accrued Wages	3,372
Intergovernmental Payable	2,525
Accrued Interest Payable	6,295
General Obligation Bonds Payable	<u>109,250</u>
<i>Total Current Liabilities</i>	141,593
<i>Long-Term Liabilities:</i>	
General Obligation Bonds Payable (net of current portion)	<u>628,271</u>
<i>Total Liabilities</i>	<u>769,864</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	2,122,169
Unrestricted	<u>2,717,053</u>
<i>Total Net Assets</i>	<u><u>\$4,839,222</u></u>

See accompanying notes to the basic financial statements

**City of Munroe Falls, Ohio**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Enterprise Fund  
For the Year Ended December 31, 2011*

	Water
<b>Operating Revenues</b>	
Charges for Services	\$812,526
Other	3,064
	815,590
 <b>Operating Expenses</b>	
Personal Services	161,743
Contractual Services	328,250
Materials and Supplies	19,680
Depreciation	125,798
	635,471
 <i>Operating Income</i>	 180,119
 <b>Non-Operating Expenses</b>	
Interest and Fiscal Charges	(24,544)
	155,575
 <i>Income before Capital Contributions</i>	 155,575
 Capital Contributions	 296,057
	451,632
 <i>Change in Net Assets</i>	 451,632
 <i>Net Assets Beginning of Year</i>	 4,387,590
 <i>Net Assets End of Year</i>	 \$4,839,222

See accompanying notes to the basic financial statements

**City of Munroe Falls, Ohio**  
*Statement of Cash Flows*  
*Enterprise Fund*  
For the Year Ended December 31, 2011

	Water
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Customers	\$819,922
Other Cash Receipts	1,819
Cash Payments to Employees for Services	(147,347)
Cash Payments for Goods and Services	(343,658)
<i>Net Cash Provided by Operating Activities</i>	330,736
<b>Cash Flows from Capital and Related Financing Activities</b>	
Capital Grants Received	296,057
Proceeds from Sale of General Obligation Bonds	440,000
Proceeds from Premium on Bonds	14,761
Principal Paid on General Obligation Bonds	(84,211)
Interest Paid on General Obligation Bonds	(14,831)
Payments for Capital Acquisitions	(891,012)
<i>Net Cash Used in Capital and Related Financing Activities</i>	(239,236)
<i>Net Increase in Cash and Cash Equivalents</i>	91,500
<i>Cash and Cash Equivalents Beginning of Year</i>	2,496,001
<i>Cash and Cash Equivalents End of Year</i>	\$2,587,501
	(continued)

**City of Munroe Falls, Ohio**  
*Statement of Cash Flows*  
*Enterprise Fund (continued)*  
*For the Year Ended December 31, 2011*

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	<u>Water</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income	\$180,119
Adjustments:	
Depreciation	125,798
(Increase) Decrease in Assets:	
Accounts Receivable	6,151
Prepaid Items	4,493
Materials and Supplies Inventory	(2,091)
Increase (Decrease) in Liabilities:	
Accounts Payable	18,289
Accrued Wages	837
Intergovernmental Payable	(2,860)
	<u>                    </u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$330,736</u></u>

See accompanying notes to the basic financial statements

**City of Munroe Falls, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*December 31, 2011*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$57,302</u></u>
<b>Liabilities</b>	
Undistributed Monies	<u><u>\$57,302</u></u>

See accompanying notes to the basic financial statements

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**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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**Note 1 – Description of the City and Reporting Entity**

The City of Munroe Falls, Ohio, (the City) is incorporated as a municipal corporation under the laws of the State of Ohio. The City operates under a Council-Mayor form of government and provides the following services: security of persons and property (police and fire), public health and welfare, leisure time activities, transportation (highways and streets), public improvements, community development, water utility system and general government services.

The Mayor and City Council members are elected officials serving four-year terms. The department heads for police, fire, service, law and finance are appointed by the Mayor with approval from Council.

***Reporting Entity***

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The 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 Munroe Falls this includes police, fire, emergency medical services, street construction, parks, water utility, general administrative services and a City council.

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

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

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise fund unless these pronouncements conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

***Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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

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

***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. The City's funds are classified as either governmental, proprietary or fiduciary.

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

***General Fund*** The general fund accounts for and reports 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 general laws of Ohio.

***Fire Department Special Levy Fund*** The fire department special levy special revenue fund accounts and reports property tax collections restricted for 50 percent of full-time fire department salaries and fringe benefits.

***EMS Special Levy Fund*** The EMS special levy special revenue fund accounts for and reports supplies, training and other major items restricted to support EMS services in the City and 50 percent of full-time fire department salaries and fringe benefits.

***General Obligation Bond Retirement Fund*** The general obligation bond retirement debt service fund accounts for and reports property tax collections restricted for general obligation long-term debt principal and interest payments.

***Capital Improvement Fund*** The capital improvements capital projects fund accounts for and reports City income tax revenue restricted for various capital projects.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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

***Proprietary Funds*** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The City's only proprietary fund is an enterprise fund:

***Enterprise Fund*** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City has one major enterprise fund.

***Water Fund*** This fund accounts for the treatment and provision of water to the residents and commercial users of the City.

***Fiduciary Funds*** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to 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. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The City's two fiduciary funds are agency funds. The agency funds are used to account for contractor deposits and claims.

***Measurement Focus***

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

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

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 fund net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

***Basis of Accounting***

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

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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**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. For the City, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 6.) Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

***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. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During 2011, investments were limited to certificates of deposit, repurchase agreements sweep accounts, STAROhio, federal home loan bank bonds, and federal farm credit bonds.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as certificates of deposit and repurchase agreements are reported at cost.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2011 amounted to \$55,330, which includes \$32,493 assigned from other City funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

***Prepaid Items***

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

***Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

***Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. 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.

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

**City of Munroe Falls, Ohio**  
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Description	Governmental Activities Estimated Lives	Business-Type Activity Estimated Lives
Land Improvements	25-35 years	N/A
Buildings and Improvements	25-60 years	25-60 years
Equipment	4-25 years	4-25 years
Infrastructure	50-70 years	50-70 years

The City's infrastructure consists of streets, sidewalks, curbs and culverts. The City reported infrastructure used in governmental activities for the first time in 2003. The City only reports the amounts acquired after 2002.

***Compensated Absences***

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

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 the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for employees after one year of service with the City.

***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 funds financial statements.

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

***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.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
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**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.

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

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

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

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

***Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes includes funds for federal emergency grant programs, drug law enforcement, police law enforcement, enforcement and education programs, and fire prevention and awareness programs.

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

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues are only charges for services for water services. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

***Internal Activity***

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

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

***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.

***Bond Issuance Costs***

Bond issuance costs for underwriting fees and bond insurance for the refunding bonds – series B are being amortized using the straight-line method over the life of the bonds on the government-wide statements. The straight-line method of amortization is not materially different from the effective-interest method. On the governmental financial statements, issuance costs are reported as an expense in the fiscal year in which the bonds are issued. Bond issuance costs are generally paid from bond proceeds.

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

***Bond Premium***

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

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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***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.

***Budgetary Process***

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the alternative tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of budgetary control has been established by Council at the personal services and other object level within each fund and department. For the other object level the Finance Director has been authorized to allocate appropriations within each department and any object level which he maintains on his books, other than personal services.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time original and final appropriations were enacted by Council.

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

**Note 3 – Change in Accounting Principle and Restatement of Fund Balances**

For 2011, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the City's financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments and external investment pools. The implementation of this statement did not result in any change in the City's financial statements.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
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The implementation of GASB Statement No. 54 had the following effect on fund balances of the major and nonmajor funds as previously reported:

	General	Fire Department Special Levy	EMS Special Levy	General Obligation Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Fund Balance at December 31, 2010	\$1,706,949	\$224,949	\$333,796	\$17,818	\$351,288	\$858,785	\$3,493,585
GASB 54 Change in Fund Structure	133,480	0	0	0	0	(133,480)	0
Adjusted Fund Balance at December 31, 2010	<u>\$1,840,429</u>	<u>\$224,949</u>	<u>\$333,796</u>	<u>\$17,818</u>	<u>\$351,288</u>	<u>\$725,305</u>	<u>\$3,493,585</u>

**Note 4 – Budgetary Basis of Accounting**

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

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

1. Revenues and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed, or assigned fund balance (GAAP).
4. Investments are reported at fair value (GAAP) rather than cost (budget).
5. Budgetary revenues and expenditures of the compensated absences fund are reclassified to the general fund for GAAP reporting.

**City of Munroe Falls, Ohio**  
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The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and major special revenue funds.

Net Change in Fund Balance General and Major Special Revenue Funds			
	General	Fire Department Special Levy	EMS Special Levy
GAAP Basis	\$247,562	\$17,207	\$211,014
Adjustment for Revenue Accruals	(23,305)	24	(7,880)
Beginning Fair Value Adjustment for Investments	(20,012)	0	0
Ending Fair Value Adjustment for Investments	4,251	0	0
Adjustment for Expenditure Accruals	4,267	(1,628)	8,991
Excess of Revenues and Other Financing Sources and Over (Under) Expenditures and Other Financing Uses:			
Compensated Absences	(26,125)	0	0
Adjustment for Encumbrances	(14,861)	(182)	(180,286)
Budget Basis	\$171,777	\$15,421	\$31,839

**Note 5 – Deposits and Investments**

The City has chosen to follow State statutes and classify monies held by the City into three categories.

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**City of Munroe Falls, Ohio**  
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3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers' acceptances if training requirements have been met.

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

At year end, the City had \$2,000 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

#### Deposits

**Custodial Credit Risk** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the City's bank balance of \$2,266,761 was fully insured and collateralized.

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

**City of Munroe Falls, Ohio**  
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Investments

As of December 31, 2011, the City had the following investments:

Investment Type	Investment Maturities (in Years)			
	Less than 1	1-2	2-3	3-5
Repurchase Agreements:				
Federal Home Loan Mortgage Corporation Bonds	\$740,000	\$0	\$0	\$0
STAROhio	1,023,682	0	0	0
Federal Home Loan Bank Bonds	105,146	0	475,048	593,209
Federal Farm Credit Bonds	167,593	0	0	800,000
Total Investments	<u>\$2,036,421</u>	<u>\$0</u>	<u>\$475,048</u>	<u>\$1,393,209</u>

**Interest Rate Risk.** The City has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the expectation that it will be held to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

**Credit Risk.** The repurchase agreements were backed by Federal Home Loan Mortgage Corporation Bonds, which carry a rating of Aaa by Moody's. The Federal Home Loan Bank Bonds and Federal Farm Credit Bonds also carry a rating of Aaa by Moody's. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that addresses credit risk.

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Mortgage Corporation Bonds, Federal Home Loan Bank Bonds, and Federal Farm Credit Bonds are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**Concentration of Credit Risk.** With the exception of U.S. Treasury securities, federal government agency securities, and authorized pools, no more than 50 percent of the City's total investment portfolio will be invested in a single security type or with a single financial institution per the Council approved credit risk policy.

The following is the City's allocation as of December 31, 2011:

Investment Issuer	Percentage
Federal Home Loan Bank Bonds	30.05 %
Federal Farm Credit Bonds	24.78
Repurchase Agreement Sweep Account:	
Federal Home Loan Mortgage Corporation Bonds	18.95

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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**Note 6 – Receivables**

Receivables at December 31, 2011, consisted primarily of municipal income taxes, property taxes, accounts, interest, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are deemed collectible in full and are expected to be received within one year; however, property taxes and income taxes, although ultimately collectible, include some portions of delinquencies that will not be collected within one year.

***Property Taxes***

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

2011 real property taxes are levied after October 1, 2011 on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes, which became a lien December 31, 2010, are levied after October 1, 2011, and collected in 2012 with real property taxes.

The tax rate for all City operations for the year ended December 31, 2011, was \$7.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Property	\$115,523,780
Public Utility	<u>1,017,040</u>
Total Valuation	<u><u>\$116,540,820</u></u>

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

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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***Municipal Income Taxes***

The City levies a municipal income tax of two percent on all income earned within the City as well as on income of residents earned outside of the City. In the latter case, the City allows a credit of up to 100 percent on the income earned outside of the City and paid to another municipality. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are required to pay their estimated tax at least quarterly and file a final return annually.

Additional increases in the City's income tax rate would require voter approval. The income tax, by ordinance, is allocated, after expenditures for collections, with a minimum of 12 percent to the capital improvement fund and the remainder to the general fund. Amounts above the 12 percent may be allocated depending on the capital improvement projections.

***Intergovernmental Receivable***

A summary of the governmental activities' principal item of intergovernmental receivables follows:

<b>Governmental Activities:</b>	
Homestead and Rollback	\$113,732
Local Government	108,768
Gas Tax Distribution	106,955
School Resource Officer Grant	35,000
Motor Vehicle License Tax	18,605
Ohio Department of Public Safety Grant	3,000
Fire Grant	350
Total	\$386,410

**Note 7 – Capital Leases**

The City entered into a capital lease for a fire truck in 2004. The lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases." Capital assets were capitalized at the present value of the minimum lease payments at the time the lease was entered into.

The asset acquired through a capital lease is as follows:

Asset:	<b>Governmental Activities</b>
Equipment	\$252,931
Less: Accumulated depreciation	(60,702)
Total	\$192,229

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2011

The fire truck lease provides for minimum, annual lease payments as follows:

	Governmental Activities
2012	\$27,264
2013	27,264
2014	27,264
2015	27,264
2016	27,264
Total Minimum Lease Payment	136,320
Less: Amount Representing Interest	(15,625)
Present Value of Minimum Lease Payments	\$120,695

**Note 8 – Capital Assets**

Capital asset activity for governmental activities for the year ended December 31, 2011, was as follows:

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$1,653,686	\$0	\$0	\$1,653,686
<i>Capital Assets, being depreciated</i>				
Land Improvements	362,634	3,350	(6,775)	359,209
Buildings and Improvements	3,966,098	90,614	0	4,056,712
Equipment	2,739,403	89,889	(489,307)	2,339,985
Infrastructure	1,289,303	0	(64,714)	1,224,589
<i>Total Capital Assets, being depreciated</i>	8,357,438	183,853	(560,796)	7,980,495
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(121,491)	(15,870)	0	(137,361)
Buildings and Improvements	(1,171,942)	(101,814)	0	(1,273,756)
Equipment	(1,951,863)	(163,136)	445,503	(1,669,496)
Infrastructure	(130,322)	(31,167)	19,677	(141,812)
<i>Total Accumulated Depreciation</i>	(3,375,618)	(311,987) *	465,180	(3,222,425)
<i>Total Capital Assets being depreciated, Net</i>	4,981,820	(128,134)	(95,616)	4,758,070
<i>Governmental Activities Capital Assets, Net</i>	\$6,635,506	(\$128,134)	(\$95,616)	\$6,411,756

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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

General Government	\$79,658
Security of Persons and Property	156,668
Transportation	57,927
Leisure Time Activities	<u>17,734</u>
<b>Total Depreciation Expense</b>	<b><u><u>\$311,987</u></u></b>

Capital asset activity for business-type activities for the year ended December 31, 2011, was as follows:

	Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
<b>Business-Type Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	<u>\$31,689</u>	<u>\$0</u>	<u>\$0</u>	<u>\$31,689</u>
<i>Capital Assets, being depreciated</i>				
Buildings	939,100	105,017	0	1,044,117
Equipment	616,078	31,952	(26,865)	621,165
Infrastructure	<u>2,564,049</u>	<u>754,043</u>	<u>0</u>	<u>3,318,092</u>
<i>Total Capital Assets, being depreciated</i>	<u>4,119,227</u>	<u>891,012</u>	<u>(26,865)</u>	<u>4,983,374</u>
<i>Less Accumulated Depreciation:</i>				
Buildings	(382,783)	(25,241)	0	(408,024)
Equipment	(511,117)	(28,700)	26,865	(512,952)
Infrastructure	<u>(1,223,607)</u>	<u>(71,857)</u>	<u>0</u>	<u>(1,295,464)</u>
<i>Total Accumulated Depreciation</i>	<u>(2,117,507)</u>	<u>(125,798)</u>	<u>26,865</u>	<u>(2,216,440)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>2,001,720</u>	<u>765,214</u>	<u>0</u>	<u>2,766,934</u>
<i>Business-Type Activities Capital Assets, Net</i>	<u><u>\$2,033,409</u></u>	<u><u>\$765,214</u></u>	<u><u>\$0</u></u>	<u><u>\$2,798,623</u></u>

**Note 9 – Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

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

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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

**Funding Policy** – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions. For the year ended December 31, 2011, members in State and local divisions contributed 10 percent of covered payroll. For 2011, member and employer contribution rates were consistent across all three plans.

The City's 2011 contribution rate was 14 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$60,947, \$51,583, and \$48,521, respectively. For 2011, 97.71 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. Contributions to the Member-Directed plan for 2011 were \$10,180 made by the City and \$7,272 made by the plan members.

***Ohio Police and Fire Pension Fund***

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

**Funding Policy** – The Ohio Revised Code requires plan members to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$50,039 and \$24,181 for the year ended December 31, 2011, \$58,090 and \$23,984 for the year ended December 31, 2010, and \$60,498 and \$23,926 for the year ended December 31, 2009, respectively. For 2011, 94.8 percent for police and 91.08 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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***Social Security System***

As of December 31, 2011, thirty part-time firefighters and fifteen auxiliary police officers have elected to be covered by Social Security rather than OPERS or Ohio Police and Fire Pension Fund. The part-time firefighters' and auxiliary police officers' liability is 6.2 percent of wages paid.

**Note 10 – Postemployment Benefits**

***Ohio Public Employees Retirement System***

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

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

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

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, State and local employers contributed at a rate of 14 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

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

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$24,379, \$29,407, and \$35,085, respectively. For 2011, 97.71 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

***Ohio Police and Fire Pension Fund***

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

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

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

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

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

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

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

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

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$26,491 and \$9,462 for the year ended December 31, 2011, \$30,753 and \$9,385 for the year ended December 31, 2010, and \$32,028 and \$9,362 for the year ended December 31, 2009. For 2011, 94.8 percent has been contributed for police and 91.08 percent has been contributed for firefighters with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

## **Note 11 – Other Employee Benefits**

### ***Compensated Absences***

Vacation leave is earned at rates which vary depending upon length of service. Current policy credits vacation leave on the hiring date anniversary of each year for all full time employees. Unused vacation is cumulative and may not exceed 200 hours carryover per year for full time patrol officers and sergeants and 120 hours for full time employees. In the event of a termination of employment, death, or retirement, employees (or their estates) are paid for unused vacation leave.

Sick leave is earned for all full time employees at the rate of one and one-quarter days each month. Unused sick leave may be accumulated up to 2,080 hours. Upon retirement, the first 960 hours accumulated is compensated at 50 percent and the remaining hours at 25 percent.

Full time patrol officers and sergeants earn sick leave at a rate of ten hours for each completed month of service. Full time patrol officers and sergeants may accumulate an unlimited amount of sick leave. Upon retirement, the first 2,000 hours are compensated at 50 percent and all hours over 2,000 are compensated at 25 percent.

### ***Insurance***

The City provides health and life insurance to its employees through Summacare. Employees covered under union contracts may have different terms. All employees currently contribute 15 percent towards their health premium.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2011

**Note 12 – Long-Term Obligations**

Original issue amounts and interest rates of the City’s debt issues are as follows:

Debt Issue	Interest Rate	Original Issue	Date of Maturity
<b>Governmental Activities:</b>			
2001 Various Purpose Refunded General Obligation Bonds			
Series A General Obligation Bonds	3% - 4%	\$1,820,000	December 1, 2011
Series B General Obligation Bonds	3 - 4.25	250,525	December 1, 2014
Capital Appreciation Bonds	13.43	130,000	December 1, 2014
2008 Capital Asset Acquisition Bonds	4 - 5.5	450,000	December 1, 2013
2011 Capital Asset Acquisition Bonds	2 - 4	170,000	December 1, 2018
<b>Business-Type Activities:</b>			
2001 Various Purpose Refunded General Obligation Bonds			
Series B General Obligation Bonds	3 - 4.25	999,475	December 1, 2014
2011 Capital Asset Acquisition Bonds	2 - 4.5	440,000	December 1, 2026

The changes in long-term obligations during the year were as follows:

	Balance 12/31/2010	Issued	Retired	Balance 12/31/2011	Amounts Due In One Year
<b>Governmental Activities:</b>					
Refunding Bond - Series A					
General Obligation Bond	\$200,000	\$0	(\$200,000)	\$0	\$0
Capital Appreciation Bond	130,000	0	0	130,000	49,808
Accretion on Capital Appreciation Bond	292,649	58,654	0	351,303	0
Refunding Bond - Series B					
General Obligation Bond	60,744	0	(15,789)	44,955	15,750
Capital Asset Acquisition Bonds - 2008					
General Obligation Bond	285,000	0	(90,000)	195,000	95,000
Premium on Bonds	7,494	0	(2,498)	4,996	0
Capital Asset Acquisition Bonds - 2011					
General Obligation Bond	0	170,000	0	170,000	20,000
Premium on Bonds	0	10,526	0	10,526	0
Capital Leases	141,995	0	(21,300)	120,695	22,195
Compensated Absences	141,059	31,786	(45,791)	127,054	31,052
<b>Total Governmental Activities</b>	<b>\$1,258,941</b>	<b>\$270,966</b>	<b>(\$375,378)</b>	<b>\$1,154,529</b>	<b>\$233,805</b>
<b>Business-Type Activities:</b>					
Refunding Bond - Series B					
General Obligation Bond	\$359,256	\$0	(\$84,211)	\$275,045	\$89,250
Capital Asset Acquisition Bonds - 2011					
General Obligation Bond	0	440,000	0	440,000	20,000
Premium on Bonds	0	22,476	0	22,476	0
	<b>\$359,256</b>	<b>\$462,476</b>	<b>(\$84,211)</b>	<b>\$737,521</b>	<b>\$109,250</b>

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
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On November 1, 2001 the City issued \$1,820,000 Series A and \$1,250,000 Series B (which includes a governmental activities portion and a business-type activity portion) General Obligation Bonds and \$130,000 Series A Capital Appreciation Bonds to advance refund \$1,950,000 of 1994 Series A bonds and \$1,105,000 of 1994 Series B bonds.

For the Capital Appreciation Bond, the additions for 2011 were \$58,654, which represents the annual accretion of discounted interest. The final amount of the Capital Appreciation Bond will be \$620,000.

Payment of the principal and interest on the refunding bonds is insured by a municipal bond insurance policy issued by Financial Guaranty Insurance Company. Payments are made from the bond retirement fund for the governmental portion which includes all of the Series A and part of Series B. The remaining part of Series B, which is the business-type activity portion, is paid from the water fund.

On October 15, 2008, the City issued \$450,000 of General Obligation Bonds for the purpose of acquiring capital assets. These bonds were issued at a premium of \$12,490, which will be amortized over the life of the bonds. Payments are made from the bond retirement debt service fund.

On September 1, 2011, the City issued \$610,000 of General Obligation Bonds for the purpose of acquiring capital assets. These bonds were issued at a premium of \$33,002, which will be amortized over the life of the bonds. Payments are made from the bond retirement debt service fund and the water fund. These bonds are part of a larger issuance of \$6.5 million in fractionalized interest bonds relating to the Ohio Capital Asset Financing Program with six other political subdivisions. These bonds are several and not joint obligations. None of the political subdivisions has any obligation to pay the principal of or interest on the bonds of any other political subdivision. Payment by a political subdivision of principal and interest on its portion of the bonds will fully discharge that subdivision of its obligations.

In June 2004, the City entered into a capital lease to purchase a fire truck through the Ohio Department of Administrative Services Ohio Cooperative Purchasing Program. The cost of the fire truck and the amount of the lease is in the amount of \$252,931 with an interest rate of 4.12 percent. Annual payments of principal and interest are to be made through June 2016. Payments are to be paid out of the City's capital improvement fund.

The compensated absences liability will be paid out of the City's general fund, street construction, maintenance and repair fund, EMS special levy fund, and the fire department special levy fund.

As of December 31, 2011, the City's overall legal debt margin was \$11,714,019 and the unvoted legal debt margin was \$5,491,933. Principal and interest requirements to retire the outstanding debt at December 31, 2011, are as follows:

	Governmental Activities							
	Capital Appreciation Bond - Series A		General Obligation Refunding Bond - Series B		General Obligation Capital Acquisition - 2008		General Obligation Capital Acquisition - 2011	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$49,808	\$160,192	\$15,750	\$1,874	\$95,000	\$9,775	\$20,000	\$6,749
2013	42,697	162,303	15,001	1,240	100,000	5,500	25,000	5,250
2014	37,495	167,505	14,204	604	0	0	25,000	4,750
2015	0	0	0	0	0	0	25,000	4,000
2016	0	0	0	0	0	0	25,000	3,000
2017-2018	0	0	0	0	0	0	50,000	3,000
Totals	<u>\$130,000</u>	<u>\$490,000</u>	<u>\$44,955</u>	<u>\$3,718</u>	<u>\$195,000</u>	<u>\$15,275</u>	<u>\$170,000</u>	<u>\$26,749</u>

**City of Munroe Falls, Ohio**  
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*For the Year Ended December 31, 2011*

	Business-Type Activities			
	General Obligation Refunding Bond - Series B		General Obligation Capital Acquisition - 2011	
	Principal	Interest	Principal	Interest
2012	\$89,250	\$11,464	\$20,000	\$20,664
2013	90,000	7,896	25,000	16,900
2014	95,795	4,072	25,000	16,400
2015	0	0	25,000	15,650
2016	0	0	25,000	14,650
2017-2021	0	0	145,000	56,600
2022-2026	0	0	175,000	24,025
Totals	\$275,045	\$23,432	\$440,000	\$164,889

**Note 13 – Contingencies**

***Grants***

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experiences, management believes such refunds, if any, would not be material.

***Litigation***

The City is not currently a party to any legal proceedings which would have a material impact on the financial statements.

**Note 14 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2011, the City contracted with Select Insurance Group for its property and liability insurance. Wichert Insurance Services, Inc. serves as the City's agent.

The City carries commercial property insurance in the amount of \$9,782,903 with a \$500 deductible. The City carries insurance for general liability, auto liability and law enforcement liability with limits of \$5,000,000 per occurrence. The City also carries \$1,000,000 of public officials' liability coverage. Public officials have a deductible of \$10,000. The law enforcement deductible is \$10,000, the equipment and crime deductibles are \$500, and the inland marine deduction is \$500. Auto liability has a \$1,000,000 combined single limit of liability with a \$500 collision deductible. There has not been a significant reduction in coverage from the prior year. Claims have not exceeded this commercial coverage in any of the past three years.

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.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2011*

**Note 15 – Interfund Transfers**

During 2011, the capital improvement capital projects fund transferred \$18,296 to the general obligation bond retirement debt service fund to provide additional resources for debt service.

**Note 16 – Fund Balances**

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

Fund Balances	General	Fire Department Special Levy	EMS Special Levy	General Obligation Bond Retirement	Capital Improvement	Other Governmental Funds	Total
<u><b>Nonspendable:</b></u>							
Inventory	\$29,743	\$0	\$0	\$0	\$0	\$25,342	\$55,085
Prepays	23,078	1,234	1,506	0	369	3,649	29,836
<i>Total Nonspendable</i>	<u>52,821</u>	<u>1,234</u>	<u>1,506</u>	<u>0</u>	<u>369</u>	<u>28,991</u>	<u>84,921</u>
<u><b>Restricted to:</b></u>							
Transportation	0	0	0	0	0	501,843	501,843
Public Safety	0	240,922	543,304	0	0	12,233	796,459
Debt Service	0	0	0	17,188	0	0	17,188
Capital Improvements	0	0	0	0	219,299	127,137	346,436
<i>Total Restricted</i>	<u>0</u>	<u>240,922</u>	<u>543,304</u>	<u>17,188</u>	<u>219,299</u>	<u>641,213</u>	<u>1,661,926</u>
<u><b>Committed to:</b></u>							
Compensated Absences	107,355	0	0	0	0	0	107,355
Public Safety	0	0	0	0	0	37,582	37,582
<i>Total Committed</i>	<u>107,355</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>37,582</u>	<u>144,937</u>
<u><b>Assigned to:</b></u>							
Other Purposes	6,293	0	0	0	0	0	6,293
Unassigned	1,921,522	0	0	0	0	0	1,921,522
<b>Total Fund Balances</b>	<u><u>\$2,087,991</u></u>	<u><u>\$242,156</u></u>	<u><u>\$544,810</u></u>	<u><u>\$17,188</u></u>	<u><u>\$219,668</u></u>	<u><u>\$707,786</u></u>	<u><u>\$3,819,599</u></u>

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# Dave Yost • Auditor of State

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

City of Munroe Falls  
Summit County  
43 Munroe Falls Avenue  
Munroe Falls, Ohio 44262

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Munroe Falls, Summit County, Ohio, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 20, 2012, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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

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

### **Compliance and Other Matters**

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

We noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated July 20, 2012.

We intend this report solely for the information and use of management, City Council and others within the City. We intend it for no one other than these specified parties.

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

**Dave Yost**  
Auditor of State

July 20, 2012

**CITY OF MUNROE FALLS  
SUMMIT COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
Finding 2010-01	<b>Significant Deficiency – Financial Statement Adjustments:</b> Several financial statement errors were identified and adjusted during the audit.	Yes	Finding no longer valid.

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# Dave Yost • Auditor of State

**CITY OF MUNROE FALLS**

**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  
AUGUST 14, 2012**