



**Auditor of State  
Betty Montgomery**



**CITY OF MUNROE FALLS  
SUMMIT COUNTY**

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**Auditor of State  
Betty Montgomery**

**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, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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, 2004, and the respective changes in financial position and cash flows, where applicable, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2005, 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.

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

**Betty Montgomery**  
Auditor of State

August 12, 2005

**City of Munroe Falls, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2004*  
*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, 2004. 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 to enhance their understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are:

- City income tax totaled \$1,021,742 in governmental activities, a decrease of 14.32 percent from the prior year.
- Total assets increased by \$324,596 over 2003, or 2.68 percent.
- Total net assets increased by \$359,517 over 2003, or 4.29 percent.
- Total capital assets increased by \$29,841 over 2003, or .41 percent.
- Total outstanding long-term liabilities decreased by \$22,008 over 2003, or .78 percent.

**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 2004?" 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.

These two statements report the City's net assets and the changes in those 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.

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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, facilities and infrastructure 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 water.

***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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**The City as a Whole**

The *Statement of Net Assets* looks at the City as a whole. Table I provides a summary of the City's net assets for 2004 compared to 2003.

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Assets</b>						
Current and Other Assets	\$3,468,982	\$3,326,791	\$1,696,581	\$1,544,017	\$5,165,563	\$4,870,808
Capital Assets, Net	4,779,738	4,659,669	2,495,647	2,585,875	7,275,385	7,245,544
<i>Total Assets</i>	<u>8,248,720</u>	<u>7,986,460</u>	<u>4,192,228</u>	<u>4,129,892</u>	<u>12,440,948</u>	<u>12,116,352</u>
<b>Liabilities</b>						
Current and Other Liabilities	841,948	896,684	57,258	15,435	899,206	912,119
Long-Term Liabilities:						
Due Within One Year	249,178	299,902	67,692	67,229	316,870	367,131
Due in More than One Year	1,738,227	1,626,899	740,720	823,795	2,478,947	2,450,694
<i>Total Liabilities</i>	<u>2,829,353</u>	<u>2,823,485</u>	<u>865,670</u>	<u>906,459</u>	<u>3,695,023</u>	<u>3,729,944</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	2,980,219	2,852,618	1,776,061	1,813,835	4,756,280	4,666,453
Restricted:						
Capital Projects	584,051	575,458	0	0	584,051	575,458
Debt Service	70,920	55,489	0	0	70,920	55,489
Street Maintenance and Repair	346,996	317,557	0	0	346,996	317,557
Fire Department	129,459	111,913	0	0	129,459	111,913
EMS	254,609	159,810	0	0	254,609	159,810
Other Purposes	164,067	77,364	0	0	164,067	77,364
Unrestricted	889,046	1,012,766	1,550,497	1,409,598	2,439,543	2,422,364
<i>Total Net Assets</i>	<u>\$5,419,367</u>	<u>\$5,162,975</u>	<u>\$3,326,558</u>	<u>\$3,223,433</u>	<u>\$8,745,925</u>	<u>\$8,386,408</u>

Total assets increased by \$324,596 from 2003 to 2004 mainly from increases in cash and cash equivalents.

Total liabilities only had a net decrease of \$34,921. This decrease is primarily due to the reduction of the City's long-term liabilities in 2004.

Total net assets increased \$359,517 with governmental net assets comprising \$256,392 and business-type activities comprising \$103,125 of that amount. The water fund increase in net assets is due to a reduction in long-term liabilities and an increase in current assets.

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Table 2 shows the changes in net assets for the years ended December 31, 2004 and December 31, 2003.

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for Services and Sales	\$243,809	\$202,327	\$819,377	\$829,118	\$1,063,186	\$1,031,445
Operating Grants and Contributions	539,154	612,036	0	0	539,154	612,036
Capital Grants	29,206	25,185	0	57,520	29,206	82,705
<i>Total Program Revenues</i>	<u>812,169</u>	<u>839,548</u>	<u>819,377</u>	<u>886,638</u>	<u>1,631,546</u>	<u>1,726,186</u>
<i>General Revenues:</i>						
Property and Other Local Taxes	837,073	712,871	0	0	837,073	712,871
Income Tax	1,021,742	1,192,526	0	0	1,021,742	1,192,526
Grants and Entitlements not Restricted to Specific Programs	74,227	102,611	0	0	74,227	102,611
Gain on Sale of Capital Asset	0	5,199	0	0	0	5,199
Interest	31,373	36,787	0	0	31,373	36,787
Other	24,016	59,067	562	576	24,578	59,643
<i>Total General Revenues</i>	<u>1,988,431</u>	<u>2,109,061</u>	<u>562</u>	<u>576</u>	<u>1,988,993</u>	<u>2,109,637</u>
<i>Total Revenues</i>	<u>2,800,600</u>	<u>2,948,609</u>	<u>819,939</u>	<u>887,214</u>	<u>3,620,539</u>	<u>3,835,823</u>
<i>Program Expenses:</i>						
General Government	666,053	705,785	0	0	666,053	705,785
Security of Persons and Property	1,339,165	1,340,891	0	0	1,339,165	1,340,891
Transportation	360,037	387,799	0	0	360,037	387,799
Public Health and Welfare	36,589	35,362	0	0	36,589	35,362
Leisure Time Activities	26,115	41,606	0	0	26,115	41,606
Water Operations	0	0	710,561	713,498	710,561	713,498
Interest and Fiscal Charges	122,502	66,883	0	0	122,502	66,883
<i>Total Program Expenses</i>	<u>2,550,461</u>	<u>2,578,326</u>	<u>710,561</u>	<u>713,498</u>	<u>3,261,022</u>	<u>3,291,824</u>
Excess Revenues over Expenses	250,139	370,283	109,378	173,716	359,517	543,999
Transfers	6,253	0	(6,253)	0	0	0
Increase in Net Assets	256,392	370,283	103,125	173,716	359,517	543,999
Net Assets Beginning of Year	<u>5,162,975</u>	<u>4,792,692</u>	<u>3,223,433</u>	<u>3,049,717</u>	<u>8,386,408</u>	<u>7,842,409</u>
Net Assets End of Year	<u>\$5,419,367</u>	<u>\$5,162,975</u>	<u>\$3,326,558</u>	<u>\$3,223,433</u>	<u>\$8,745,925</u>	<u>\$8,386,408</u>

**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

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income taxes paid to other municipalities and to the Joint Economic Development District up to 100 percent of the City's current tax rate. The income tax revenue amount for 2004 was \$1,021,742, a decrease of \$170,784 from 2003. This decrease is due to lower gross earnings being reported in 2004.

General revenues from property taxes and local government funds are also significant revenue generators. Property taxes include amounts levied against all real, public utility and tangible personal property 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.

Tangible personal property taxes (for tangible property other than public utility property) attach as a lien and are levied on January 1 of the current calendar year. Tangible personal property used in business (except public utilities) is currently assessed for ad valorem taxation purpose at 25 percent of its true value for capital assets and 23 percent of its true value for inventory.

The County Fiscal Officer collects property taxes on behalf of all taxing districts within the County. The Fiscal Officer periodically remits to the City its portion of the taxes collected with final settlement for taxes payable in the first and second halves of the year, respectively.

The operating grants and contributions program revenues decreased by \$72,882 from \$612,036 in 2003 to \$539,154 in 2004. This was due mainly to the decrease of grant revenue in 2004 for police and fire.

The City has made aggressive efforts at reducing costs and continues to do so. 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 and street and sewer infrastructures. The City monitors its sources of revenue very closely for any changes or fluctuations.

The City is embarking on an aggressive economic development effort for the limited land that is available. Primary emphasis is in the Town Center and the Route 91 corridor where there is opportunity to capitalize on the natural beauty of the Cuyahoga River.

Total governmental activities revenues for 2004 were \$2,800,600. Income tax made up 36.48 percent of total revenues for governmental activities for the City. Charges for services accounted for 8.71 percent, operating grants and contributions accounted for 19.25 percent, property taxes accounted for 29.89 percent, and the remaining 5.67 percent consisted of capital grants and contributions, grants and entitlements, investments, and miscellaneous revenues. Charges for services revenue represents receipts from such items as building and zoning permits, emergency rescue fees, and rental fees.

Total governmental activities expenses for 2004 were \$2,550,461. Security of persons and property represents the highest program expense at \$1,339,165 or 52.51 percent, followed by general government expenses at \$666,053 or 26.11 percent and transportation expenses at \$360,037 or 14.12 percent. These three, being the major City expense categories, cover the City's police and fire departments, general administration and street repair and maintenance operations. Public health and welfare, leisure time activities, and interest and fiscal charges make up the remaining 7.26 percent of expenses.

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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. Capital needs for police and fire come from the City's Capital Improvement Fund.

General government costs of \$666,053 or 26.11 percent of the 2004 program expenses include such services as planning, zoning, administration, finance, legal, legislature, lands and buildings, engineering and state auditing. General government expenses decreased by \$39,732 from 2003 due to the City's continuing efforts to reduce expenditures. The majority of cost savings were in police, planning and zoning, administration, and engineering.

Table 3 presents a summary for governmental activities, the total cost of services and the net cost of providing these services.

**Table 3**  
**Cost of Services**

	Governmental Activities			
	Total Cost of Services	Total Cost of Services	Net Cost of Services	Net Cost of Services
	2004	2003	2004	2003
General Government	\$666,053	\$705,785	(\$541,257)	(\$464,097)
Security of Persons and Property	1,339,165	1,340,891	(947,631)	(1,045,150)
Transportation	360,037	387,799	(74,935)	(85,680)
Public Health Services	36,589	35,362	(29,112)	(35,362)
Leisure Time Activities	26,115	41,606	(22,855)	(41,606)
Debt Service:				
Interest and Fiscal Charges	122,502	66,883	(122,502)	(66,883)
<b>Total</b>	<b>\$2,550,461</b>	<b>\$2,578,326</b>	<b>(\$1,738,292)</b>	<b>(\$1,738,778)</b>

Departments rely mainly on the general revenues of the City to cover their yearly expenses. Some revenues from property taxes are available to cover general debt obligations.

**The City's Funds**

The City of Munroe Falls uses fund accounting as mandated by governmental legal requirements. The importance 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 \$2,909,405 and expenditures of \$2,920,052. The most significant fund is the general fund with a year-end balance of \$764,523, which included an unreserved fund balance of \$746,869, compared to annual expenditures of

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\$1,596,826. 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, 2004. The information provided is useful to determine the City's available balances. One balance in particular that the City has focused on maintaining is the unreserved fund balances that demonstrate the City's solid cash reserves. At December 31, 2004 the City's combined ending cash and cash equivalents balance was \$2,000,317. Along those same lines, the City's 2004 ending combined governmental fund balance is \$2,286,814. Of this balance, \$2,260,398 is classified as unreserved fund balances whose use is not limited as to how they may be spent. The reserved portions are not spendable because they are committed to satisfy carry-forward purchase order encumbrances of \$26,416.

***Business-Type Funds***

As mentioned earlier, the City's lone business-type activity is the water fund. Total assets increased by \$62,336, or 1.51 percent, from 2003 to 2004, while total liabilities decreased by \$40,789, or 4.49 percent, from 2003 to 2004. Ending net assets increased 3.20 percent from \$3,223,433 in 2003 to \$3,326,558 in 2004.

The City continues with 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 type 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 is at the fund, function, and object level. The City's policy allows the finance director to authorize object level appropriation changes. These object level categories are personal services, travel and professional meetings, contractual services, material and supplies, and capital outlay.

The most significant budgeted fund is the general fund. The general fund supports many major activities such as the police department, building and planning departments as well as the legislative and most executive activities. Some major capital projects are funded with general fund dollars. By Ordinance, 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 \$1,808,513 and the final budgeted amount was \$1,703,038. The majority of this \$105,475 difference is due to a reduction of anticipated income tax revenues. Although the original appropriations were slightly increased during the year, 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 4**  
**Capital Assets**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$232,060	\$232,060	\$17,000	\$17,000	\$249,060	\$249,060
Land Improvements	186,462	196,355	0	0	186,462	196,355
Buildings and Improvements	3,230,955	3,303,814	578,583	592,854	3,809,538	3,896,668
Equipment	735,376	589,331	273,453	305,403	1,008,829	894,734
Infrastructure	394,885	338,109	0	0	394,885	338,109
Waterlines	0	0	1,626,611	1,670,618	1,626,611	1,670,618
Totals	<u>\$4,779,738</u>	<u>\$4,659,669</u>	<u>\$2,495,647</u>	<u>\$2,585,875</u>	<u>\$7,275,385</u>	<u>\$7,245,544</u>

Total governmental capital assets for the City of Munroe Falls as of December 31, 2004 were \$4,779,738. The most significant increase in capital assets came from the acquisition of a new fire truck. For additional information see Note 8 to the basic financial statements.

***Debt***

On December 31, 2004, the City of Munroe Falls had \$2,671,729 in outstanding debt from general obligation bonds, a capital appreciation bond, and a capital lease. This represents obligations backed by the full faith and credit of the government. Table 5 summarizes bonds and loans outstanding as of December 31, 2004.

**Table 5**  
**Outstanding Debt at Year End**

	Governmental Activities		Business-Type Activity		Total	
	2004	2003	2004	2003	2004	2003
EMS Vehicle Note	\$0	\$36,800	\$0	\$0	\$0	\$36,800
Refunding Bond - Series A						
General Obligation Bond	1,280,000	1,465,000	0	0	1,280,000	1,465,000
Capital Appreciation Bond	130,000	130,000	0	0	130,000	130,000
Accretion on Capital Appreciation Bond	63,798	0	0	0	63,798	0
Refunding Bond - Series B						
General Obligation Bond	136,588	175,251	808,412	869,749	945,000	1,045,000
Fire Truck Capital Lease	252,931	0	0	0	252,931	0
Totals	<u>\$1,863,317</u>	<u>\$1,807,051</u>	<u>\$808,412</u>	<u>\$869,749</u>	<u>\$2,671,729</u>	<u>\$2,676,800</u>

The EMS vehicle note represents a note obtained to finance an emergency medical ambulance. This note was paid off in 2004.

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The general obligation bonds and capital appreciation bond were for the City Hall, Safety Building Expansion and Water Improvements and are paid from property tax levies and the Water Fund.

The capital lease was for the lease-purchase of a new fire truck that will start being paid in 2005.

For additional information see Note 13 to the basic financial statements.

**Current Financial Related Activities**

The City of Munroe Falls has been challenged over the past several years with slowing revenue growth as a result of limited industrial, commercial and residential development and a slowing economy. The City Council endeavors to keep debt obligations low. We plan finances so that we can pay cash for many of the facility improvements and acquisitions as possible without jeopardizing liquidity and reserve balance needs. Our leadership is committed to reducing the cost of government operations while still providing the services the citizens need. Efforts are made to enhance the revenue side of the equation as well.

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) 689-7491, or the website at [www.munroefalls.com](http://www.munroefalls.com).

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**City of Munroe Falls, Ohio**

*Statement of Net Assets*

December 31, 2004

	Governmental Activities	Business-Type Activity	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,000,317	\$1,385,536	\$3,385,853
Accrued Interest Receivable	1,886	0	1,886
Accounts Receivable	58,926	205,579	264,505
Internal Balances	6,000	(6,000)	0
Intergovernmental Receivable	324,813	0	324,813
Prepaid Items	28,756	22,640	51,396
Income Taxes Receivable	231,770	0	231,770
Property Taxes Receivable	795,310	0	795,310
Permissive Motor Vehicle License Tax Receivable	21,204	0	21,204
Deferred Charges	0	88,826	88,826
Nondepreciable Capital Assets	232,060	17,000	249,060
Depreciable Capital Assets, Net	4,547,678	2,478,647	7,026,325
<i>Total Assets</i>	<u>8,248,720</u>	<u>4,192,228</u>	<u>12,440,948</u>
<b>Liabilities</b>			
Accounts Payable	21,487	47,494	68,981
Accrued Wages	23,136	1,350	24,486
Intergovernmental Payable	61,676	4,365	66,041
Accrued Interest Payable	4,286	2,562	6,848
Compensated Absences Payable	0	1,487	1,487
Deferred Revenue	731,363	0	731,363
Long-Term Liabilities:			
Due Within One Year	249,178	67,692	316,870
Due In More Than One Year	1,738,227	740,720	2,478,947
<i>Total Liabilities</i>	<u>2,829,353</u>	<u>865,670</u>	<u>3,695,023</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	2,980,219	1,776,061	4,756,280
Restricted for:			
Capital Projects	584,051	0	584,051
Debt Service	70,920	0	70,920
Street Maintenance and Repair	346,996	0	346,996
Fire Department	129,459	0	129,459
EMS	254,609	0	254,609
Other Purposes	164,067	0	164,067
Unrestricted	889,046	1,550,497	2,439,543
<i>Total Net Assets</i>	<u>\$5,419,367</u>	<u>\$3,326,558</u>	<u>\$8,745,925</u>

See accompanying notes to the basic financial statements

**City of Munroe Falls, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2004

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$666,053	\$32,157	\$92,639	\$0
Security of Persons and Property	1,339,165	203,918	158,410	29,206
Transportation	360,037	5,851	279,251	0
Public Health and Welfare	36,589	1,311	6,166	0
Leisure Time Activities	26,115	572	2,688	0
Interest and Fiscal Charges	122,502	0	0	0
<i>Total Governmental Activities</i>	2,550,461	243,809	539,154	29,206
<b>Business-Type Activity:</b>				
Water	710,561	819,377	0	0
<i>Total - Primary Government</i>	<u>\$3,261,022</u>	<u>\$1,063,186</u>	<u>\$539,154</u>	<u>\$29,206</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*

Transfers

*Total General Revenues and Transfers*

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		
Governmental Activities	Business-Type Activity	Total
(\$541,257)	\$0	(\$541,257)
(947,631)	0	(947,631)
(74,935)	0	(74,935)
(29,112)	0	(29,112)
(22,855)	0	(22,855)
(122,502)	0	(122,502)
(1,738,292)	0	(1,738,292)
0	108,816	108,816
(1,738,292)	108,816	(1,629,476)
259,654	0	259,654
166,711	0	166,711
171,272	0	171,272
239,436	0	239,436
899,134	0	899,134
122,608	0	122,608
74,227	0	74,227
31,373	0	31,373
24,016	562	24,578
1,988,431	562	1,988,993
6,253	(6,253)	0
1,994,684	(5,691)	1,988,993
256,392	103,125	359,517
5,162,975	3,223,433	8,386,408
<u>\$5,419,367</u>	<u>\$3,326,558</u>	<u>\$8,745,925</u>

**City of Munroe Falls, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2004*

	General	Fire Department Special Levy	EMS Special Levy	General Obligation Bond Retirement	Capital Improvement
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$613,792	\$114,115	\$182,355	\$34,858	\$483,072
Accrued Interest Receivable	1,886	0	0	0	0
Accounts Receivable	7,341	23	51,562	0	0
Interfund Receivable	6,000	0	0	0	0
Intergovernmental Receivable	168,671	9,889	11,208	14,900	12,057
Prepaid Items	24,130	0	0	0	2,523
Income Taxes Receivable	203,958	0	0	0	27,812
Property Taxes Receivable	242,843	151,777	172,013	228,677	0
Permissive Motor Vehicle License Tax Receivable	0	0	0	0	0
<i>Total Assets</i>	<u>\$1,268,621</u>	<u>\$275,804</u>	<u>\$417,138</u>	<u>\$278,435</u>	<u>\$525,464</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$18,730	\$0	\$450	\$0	\$2,307
Accrued Wages	16,403	2,475	3,251	0	0
Intergovernmental Payable	47,324	5,709	5,913	0	0
Deferred Revenue	421,641	151,666	168,221	223,577	21,258
<i>Total Liabilities</i>	<u>504,098</u>	<u>159,850</u>	<u>177,835</u>	<u>223,577</u>	<u>23,565</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	17,654	0	2,348	0	6,317
Unreserved, Undesignated, Reported in:					
General Fund	746,869	0	0	0	0
Special Revenue Funds	0	115,954	236,955	0	0
Debt Service Funds	0	0	0	54,858	0
Capital Projects Funds	0	0	0	0	495,582
<i>Total Fund Balances</i>	<u>764,523</u>	<u>115,954</u>	<u>239,303</u>	<u>54,858</u>	<u>501,899</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,268,621</u>	<u>\$275,804</u>	<u>\$417,138</u>	<u>\$278,435</u>	<u>\$525,464</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, 2004*

Other Governmental Funds	Total Governmental Funds		
		<b>Total Governmental Fund Balances</b>	\$2,286,814
		<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.	4,779,738
\$572,125	\$2,000,317	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
0	1,886	Property Taxes	18,947
0	58,926	Income Taxes	87,543
0	6,000	Permissive Motor Vehicle License Taxes	15,280
108,088	324,813	Grants	222,736
2,103	28,756		
0	231,770	Total	344,506
0	795,310		
21,204	21,204	Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(4,286)
\$703,520	\$3,468,982	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
		General Obligation Bonds	(1,416,588)
\$0	\$21,487	Capital Appreciation Bonds	(193,798)
1,007	23,136	Capital Leases	(252,931)
2,730	61,676	Compensated Absences	(124,088)
89,506	1,075,869		
93,243	1,182,168	Total	(1,987,405)
		<i>Net Assets of Governmental Activities</i>	\$5,419,367
97	26,416		
0	746,869		
549,286	902,195		
0	54,858		
60,894	556,476		
610,277	2,286,814		
\$703,520	\$3,468,982		

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

	General	Fire Department Special Levy	EMS Special Levy	General Obligation Bond Retirement	Capital Improvement
<b>Revenues</b>					
Property and Other Local Taxes	\$261,374	\$157,785	\$157,490	\$217,060	\$0
Income Taxes	998,272	0	0	0	136,127
Permissive Motor Vehicle License Tax	0	0	0	0	0
Special Assessments	0	0	0	0	0
Intergovernmental	319,280	19,267	28,960	29,027	18,453
Interest	28,188	0	0	0	0
Fines, Licenses and Permits	45,214	0	0	0	0
Charges for Services	10,668	0	150,321	0	0
Contributions and Donations	330	0	0	0	0
Other	18,084	333	333	0	5,266
<i>Total Revenues</i>	<u>1,681,410</u>	<u>177,385</u>	<u>337,104</u>	<u>246,087</u>	<u>159,846</u>
<b>Expenditures</b>					
Current:					
General Government	569,865	2,091	2,370	3,148	0
Security of Persons and Property	810,396	161,956	208,424	0	0
Transportation	163,896	0	0	0	0
Public Health and Welfare	36,589	0	0	0	0
Leisure Time Activities	16,080	0	0	0	0
Capital Outlay	0	0	0	0	355,504
Debt Service:					
Principal Retirement	0	0	36,800	223,663	0
Interest and Fiscal Charges	0	0	1,417	58,317	0
<i>Total Expenditures</i>	<u>1,596,826</u>	<u>164,047</u>	<u>249,011</u>	<u>285,128</u>	<u>355,504</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>84,584</u>	<u>13,338</u>	<u>88,093</u>	<u>(39,041)</u>	<u>(195,658)</u>
<b>Other Financing Sources (Uses)</b>					
Inception of Capital Lease	0	0	0	0	252,931
Transfers In	0	0	0	45,193	0
Transfers Out	(31,225)	0	0	0	(45,193)
<i>Total Other Financing Sources (Uses)</i>	<u>(31,225)</u>	<u>0</u>	<u>0</u>	<u>45,193</u>	<u>207,738</u>
<i>Net Change in Fund Balances</i>	53,359	13,338	88,093	6,152	12,080
<i>Fund Balances Beginning of Year</i>	<u>711,164</u>	<u>102,616</u>	<u>151,210</u>	<u>48,706</u>	<u>489,819</u>
<i>Fund Balances End of Year</i>	<u>\$764,523</u>	<u>\$115,954</u>	<u>\$239,303</u>	<u>\$54,858</u>	<u>\$501,899</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, 2004*

Other Governmental Funds	Total Governmental Funds
\$0	\$793,709
0	1,134,399
37,683	37,683
12,456	12,456
228,383	643,370
3,185	31,373
150	45,364
25,000	185,989
716	1,046
0	24,016
<u>307,573</u>	<u>2,909,405</u>
30,771	608,245
62,916	1,243,692
162,672	326,568
0	36,589
0	16,080
13,177	368,681
0	260,463
0	59,734
<u>269,536</u>	<u>2,920,052</u>
38,037	(10,647)
0	252,931
37,478	82,671
0	(76,418)
<u>37,478</u>	<u>259,184</u>
75,515	248,537
<u>534,762</u>	<u>2,038,277</u>
<u>\$610,277</u>	<u>\$2,286,814</u>

**Net Change in Fund Balances - Total Governmental Funds** \$248,537

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

Governmental funds report capital outlays as expenditures.

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

Capital Asset Additions	368,802
Current Year Depreciation	<u>(248,733)</u>

Total 120,069

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

Property Taxes	43,364
Income Taxes	(112,657)
Permissive Motor Vehicle License Tax	2,462
Grants	<u>(41,974)</u>

Total (108,805)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

260,463

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

Accrued Interest	1,030
Bond Accretion	<u>(63,798)</u>

Total (62,768)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(4,338)
Pension Obligation	<u>56,165</u>

Total 51,827

Inception of a capital lease is an other financing source in the governmental funds, but increases liabilities in governmental activities.

(252,931)

*Change in Net Assets of Governmental Activities*

\$256,392

**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, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property and Other Local Taxes	\$232,105	\$233,446	\$261,374	\$27,928
Income Taxes	1,132,750	1,025,588	985,690	(39,898)
Intergovernmental	280,558	280,904	317,104	36,200
Interest	0	0	32,027	32,027
Fines, Licenses and Permits	0	0	45,214	45,214
Charges for Services	0	163,100	10,801	(152,299)
Contributions and Donations	0	0	330	330
Other	163,100	0	17,342	17,342
<i>Total Revenues</i>	<u>1,808,513</u>	<u>1,703,038</u>	<u>1,669,882</u>	<u>(33,156)</u>
<b>Expenditures</b>				
Current:				
General Government	698,499	702,869	595,667	107,202
Security of Persons and Property	891,812	886,986	808,947	78,039
Transportation	172,708	174,558	164,620	9,938
Public Health and Welfare	36,000	36,589	36,589	0
Leisure Time Activities	35,907	35,907	14,865	21,042
<i>Total Expenditures</i>	<u>1,834,926</u>	<u>1,836,909</u>	<u>1,620,688</u>	<u>216,221</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(26,413)</u>	<u>(133,871)</u>	<u>49,194</u>	<u>183,065</u>
<b>Other Financing Sources (Uses)</b>				
Advances Out	0	(6,000)	(6,000)	0
Transfers Out	(155,595)	(31,225)	(31,225)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(155,595)</u>	<u>(37,225)</u>	<u>(37,225)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(182,008)	(171,096)	11,969	183,065
<i>Fund Balance Beginning of Year</i>	558,206	558,206	558,206	0
Prior Year Encumbrances Appropriated	11,390	11,390	11,390	0
<i>Fund Balance End of Year</i>	<u>\$387,588</u>	<u>\$398,500</u>	<u>\$581,565</u>	<u>\$183,065</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, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$145,066	\$145,903	\$157,785	\$11,882
Intergovernmental	19,236	19,453	19,267	(186)
Other	0	0	310	310
<i>Total Revenues</i>	164,302	165,356	177,362	12,006
<b>Expenditures</b>				
Current:				
General Government	2,500	2,500	2,091	409
Security of Persons and Property	169,642	170,142	159,108	11,034
<i>Total Expenditures</i>	172,142	172,642	161,199	11,443
<i>Net Change in Fund Balance</i>	(7,840)	(7,286)	16,163	23,449
<i>Fund Balance Beginning of Year</i>	97,952	97,952	97,952	0
<i>Fund Balance End of Year</i>	\$90,112	\$90,666	\$114,115	\$23,449

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, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$164,408	\$165,356	\$157,490	(\$7,866)
Intergovernmental	21,801	22,047	31,960	9,913
Charges for Services	0	70,016	98,782	28,766
Other	0	0	310	310
<i>Total Revenues</i>	186,209	257,419	288,542	31,123
<b>Expenditures</b>				
Current:				
General Government	2,500	2,500	2,370	130
Security of Persons and Property	208,672	230,247	210,047	20,200
Debt Service:				
Principal Retirement	36,800	36,800	36,800	0
Interest and Fiscal Charges	1,500	1,500	1,417	83
<i>Total Expenditures</i>	249,472	271,047	250,634	20,413
<i>Net Change in Fund Balance</i>	(63,263)	(13,628)	37,908	51,536
<i>Fund Balance Beginning of Year</i>	141,513	141,513	141,513	0
Prior Year Encumbrances Appropriated	136	136	136	0
<i>Fund Balance End of Year</i>	\$78,386	\$128,021	\$179,557	\$51,536

See accompanying notes to the basic financial statements

**City of Munroe Falls, Ohio**

*Statement of Fund Net Assets*

*Proprietary Fund*

*December 31, 2004*

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	<u>Water</u>
<b>Assets</b>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$1,385,536
Accounts Receivable	205,579
Prepaid Items	<u>22,640</u>
<i>Total Current Assets</i>	<u>1,613,755</u>
<i>Non-Current Assets:</i>	
Deferred Charges	88,826
Land	17,000
Depreciable Capital Assets, Net	<u>2,478,647</u>
<i>Total Non-Current Assets</i>	<u>2,584,473</u>
<i>Total Assets</i>	<u>4,198,228</u>
<b>Liabilities</b>	
<i>Current Liabilities:</i>	
Accounts Payable	47,494
Accrued Wages	1,350
Intergovernmental Payable	4,365
Interfund Payable	6,000
Compensated Absences Payable	1,487
Accrued Interest Payable	2,562
General Obligation Bonds Payable	<u>67,692</u>
<i>Total Current Liabilities</i>	130,950
<i>Long-Term Liabilities:</i>	
General Obligation Bonds Payable (net of current portion)	<u>740,720</u>
<i>Total Liabilities</i>	<u>871,670</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	1,776,061
Unrestricted	<u>1,550,497</u>
<i>Total Net Assets</i>	<u><u>\$3,326,558</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  
Proprietary Fund  
For the Year Ended December 31, 2004*

	Water
<b>Operating Revenues</b>	
Charges for Services	\$819,377
Other	562
<i>Total Operating Revenues</i>	819,939
<b>Operating Expenses</b>	
Personal Services	177,434
Contractual Services	345,229
Materials and Supplies	28,452
Depreciation	118,292
<i>Total Operating Expenses</i>	669,407
<i>Operating Income</i>	150,532
<b>Non-Operating Expenses</b>	
Interest and Fiscal Charges	(41,154)
<i>Income before Transfers</i>	109,378
Transfers Out	(6,253)
<i>Change in Net Assets</i>	103,125
<i>Net Assets Beginning of Year</i>	3,223,433
<i>Net Assets End of Year</i>	\$3,326,558

See accompanying notes to the basic financial statements

**City of Munroe Falls, Ohio**  
*Statement of Cash Flows*  
*Proprietary Fund*  
For the Year Ended December 31, 2004

	Water
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Customers	\$834,337
Other Cash Receipts	562
Cash Payments to Employees for Services	(156,747)
Cash Payments for Goods and Services	(387,367)
<i>Net Cash Provided by Operating Activities</i>	290,785
<b>Cash Flows from Noncapital Financing Activities</b>	
Avances In	6,000
Transfers Out	(6,253)
<i>Net Cash Used in Noncapital Financing Activities</i>	(253)
<b>Cash Flows from Capital and Related Financing Activities</b>	
Principal Paid on General Obligation Bonds	(61,337)
Interest Paid on General Obligation Bonds	(32,410)
Payments for Capital Acquisitions	(28,064)
<i>Net Cash Used in Capital and Related Financing Activities</i>	(121,811)
<i>Net Increase in Cash and Cash Equivalents</i>	168,721
<i>Cash and Cash Equivalents Beginning of Year</i>	1,216,815
<i>Cash and Cash Equivalents End of Year</i>	\$1,385,536

(continued)

**City of Munroe Falls, Ohio**  
*Statement of Cash Flows*  
*Proprietary Fund (continued)*  
*For the Year Ended December 31, 2004*

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	<u>Water</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income	\$150,532
Adjustments:	
Depreciation	118,292
(Increase) Decrease in Assets:	
Accounts Receivable	14,960
Prepaid Items	(13,686)
Increase (Decrease) in Liabilities:	
Accounts Payable	47,494
Accrued Wages	(5,649)
Compensated Absences Payable	(19,788)
Intergovernmental Payable	<u>(1,370)</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$290,785</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, 2004*

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**Assets**

Equity Pooled in Cash and Cash Equivalents	<u>\$124,659</u>
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**Liabilities**

Undistributed Monies	<u>\$124,659</u>
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See accompanying notes to the basic financial statements

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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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 service, 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 City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activity and enterprise fund. The more significant of the City's accounting policies are described below.

***A. Basis of Presentation***

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

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

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

***B. Fund Accounting***

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. 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 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 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 supplies, training and other major items 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 general obligation long-term debt principal and interest payments.

***Capital Improvement Fund*** The capital improvements capital projects fund accounts for various capital projects financed by City income tax revenue.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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

**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. 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 only fiduciary funds are agency funds. The agency funds are used to account for the return of deposits made by builders engaged in construction projects within the City, and activity related to the Summit County Critical Response and Rescue Team.

### **C. 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.

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

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

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
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use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues - Exchange and Non-exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. 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, 2004, but which were levied to finance year 2005 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.

**E. Cash and Cash Equivalents**

To improve cash management, cash received by the City is pooled. Monies for all funds, including the proprietary fund, 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".

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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During fiscal year 2004, investments were limited to STAROhio, certificates of deposit, repurchase agreements, Federal Home Loan Bank Notes and U.S. Treasury Notes.

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.

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2004 amounted to \$28,188, which includes \$9,627 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.

***F. Prepaid Items***

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

***G. 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.

***H. 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 and construction in progress 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**  
*Notes to the Basic Financial Statements*  
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<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activity Estimated Lives</u>
Land Improvements	25 years	25 years
Buildings and Improvements	25 years	20-50 years
Equipment	5-25 years	2-25 years
Infrastructure	40-50 years	40 years

The City's infrastructure consists of street paving, 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. The City plans to present the prior year amounts from 1999 on in future years.

***I. Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

***J. 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.

***K. 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, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and notes are recognized as a liability on the governmental fund financial statements when due.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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***L. Fund Balance Reserve***

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditures. As a result, encumbrances are recorded as a reservation of fund balance.

***M. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$1,550,102 of restricted net assets, of which \$1,110,257 is restricted by enabling legislation. 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.

***N. 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.

***O. Interfund Activity***

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

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

***P. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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***Q. Estimates***

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

***R. Budgetary Process***

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The 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 resolution 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 control has been established by Council at the fund, function, and object level for all funds.

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 budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed 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 - 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 fund, the fire department special levy and the EMS special levy 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 a reservation of fund balance (GAAP).

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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4. Investments are reported at fair value (GAAP) rather than cost (budget).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general, fire department special levy, and EMS special levy 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	\$53,359	\$13,338	\$88,093
Adjustment for Revenue Accruals	(8,071)	(23)	(48,562)
Beginning Fair Value Adjustment for Investments	702	0	0
Ending Fair Value Adjustment for Investments	(4,159)	0	0
Adjustment for Expenditure Accruals	12,524	2,848	1,175
Advances Out	(6,000)	0	0
Adjustment for Encumbrances	(36,386)	0	(2,798)
Budget Basis	<u>\$11,969</u>	<u>\$16,163</u>	<u>\$37,908</u>

**Note 4 – Changes in Accounting Principles and Fund Balances**

For 2004, the City has implemented GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units” and GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation” and GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers.”

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

GASB Statement No. 46 clarifies when net assets should be restricted based upon enabling legislation.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 39, GASB Statement No. 46 and GASB Technical Bulletin No. 2004-2 did not materially affect the presentation of the financial statements of the City.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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**Note 5 - Deposits and Investments**

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

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

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

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

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

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

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2004

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The City may also invest any monies not required to be used for a 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 not 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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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

**Cash on Hand** At year end, the City had \$1,925 in petty cash on hand which is included on the financial statements of the City as part of "equity in pooled cash and cash equivalents."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

**Deposits.** At year-end, the carrying amount of the City's deposits was \$1,286,321 and the bank balance was \$1,014,564. \$169,545 of the bank balance was covered by federal depository insurance. \$845,019 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**Investments.** The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value	Fair Value
Repurchase Agreements	\$340,000	\$340,000	\$340,000
Federal Home Loan Bank Notes	250,000	250,000	250,000
U.S. Treasury Notes	500,204	500,204	500,204
STAROhio		1,132,062	1,132,062
<b>Total</b>	<b>\$1,090,204</b>	<b>\$2,222,266</b>	<b>\$2,222,266</b>

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
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The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include investments with original maturities of three months or less and cash and investments of the cash management pool.

A reconciliation between the classification of cash and investments on the financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$3,510,512	\$0
Repurchase Agreements	(340,000)	340,000
Federal Home Loan Bank	(250,000)	250,000
U.S. Treasury Notes	(500,204)	500,204
STAROhio	(1,132,062)	1,132,062
Cash on Hand	(1,925)	0
GASB Statement 3	\$1,286,321	\$2,222,266

**Note 6 - Receivables**

Receivables at December 31, 2004, consisted primarily of municipal income taxes, property and other taxes, accounts, interest, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are deemed collectible in full.

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utility property taxes represents collections of 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004 on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

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. 2004 public utility property taxes which became a lien December 31, 2003, are levied after October 1, 2004, and collected in 2005 real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003 on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

The tax rate for all City operations for the year ended December 31, 2004, was \$7.86 per 1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

**City of Munroe Falls, Ohio**  
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Real Property	\$106,191,030
Tangible Personal Property	3,860,390
Public Utility	1,527,900
Total Valuation	\$111,579,320

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

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, 2004 and for which there is an enforceable legal claim. In the general, fire department special levy, EMS special levy and general obligation bond retirement funds the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2004 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.

***B. 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, 88 percent to the General Fund and 12 percent to the Capital Improvements Capital Projects Fund. The City's total income tax revenues amounted to \$1,021,742 in 2004.

***C. Intergovernmental Receivable***

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

<b>Governmental Activities</b>	
Local Government Tax Distribution	\$150,120
Gas Tax Distribution	106,263
Homestead and Rollback	51,207
Grants	14,955
Personal Property Tax Exemption	613
Miscellaneous	1,655
Total	\$324,813

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2004

**Note 7 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2004, 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 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 \$5,000, and the equipment, inland marine, and crime deductibles are all \$500. Auto liability has a \$1,000,000 combined single limit of liability with a \$500 collision deductible. No claims have ever exceeded these limits.

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.

**Note 8 – Capital Assets**

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

	Balance 12/31/2003	Additions	Deductions	Balance 12/31/2004
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$232,060	\$0	\$0	\$232,060
<i>Capital Assets, being depreciated</i>				
Land Improvements	247,338	0	0	247,338
Buildings and Improvements	3,922,861	8,002	0	3,930,863
Equipment	1,794,529	295,571	0	2,090,100
Infrastructure	338,109	65,229	0	403,338
<i>Total Capital Assets, being depreciated</i>	<u>6,302,837</u>	<u>368,802</u>	<u>0</u>	<u>6,671,639</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(50,983)	(9,893)	0	(60,876)
Buildings and Improvements	(619,047)	(80,861)	0	(699,908)
Equipment	(1,205,198)	(149,526)	0	(1,354,724)
Infrastructure	0	(8,453)	0	(8,453)
<i>Total Accumulated Depreciation</i>	<u>(1,875,228)</u>	<u>(248,733) *</u>	<u>0</u>	<u>(2,123,961)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>4,427,609</u>	<u>120,069</u>	<u>0</u>	<u>4,547,678</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$4,659,669</u>	<u>\$120,069</u>	<u>\$0</u>	<u>\$4,779,738</u>

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

Depreciation expense was charged to governmental activities as follows:

General Government	\$46,108
Security of Persons and Property	126,062
Transportation	66,400
Leisure Time Activities	<u>10,163</u>
Total Depreciation Expense	<u><u>\$248,733</u></u>

Capital asset activity for business-type activities for the year ended December 31, 2004, was as follows:

	Balance 12/31/2003	Additions	Deductions	Balance 12/31/2004
<b>Business-Type Activities</b>				
<i>Capital Assets, not being depreciated</i>				
Land	\$17,000	\$0	\$0	\$17,000
<i>Capital Assets, being depreciated</i>				
Buildings	845,221	0	0	845,221
Equipment	469,672	28,064	0	497,736
Waterlines	2,046,569	0	0	2,046,569
<i>Total Capital Assets, being depreciated</i>	<u>3,361,462</u>	<u>28,064</u>	<u>0</u>	<u>3,389,526</u>
<i>Less Accumulated Depreciation:</i>				
Buildings	(252,367)	(14,271)	0	(266,638)
Equipment	(164,269)	(60,014)	0	(224,283)
Waterlines	(375,951)	(44,007)	0	(419,958)
<i>Total Accumulated Depreciation</i>	<u>(792,587)</u>	<u>(118,292)</u>	<u>0</u>	<u>(910,879)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>2,568,875</u>	<u>(90,228)</u>	<u>0</u>	<u>2,478,647</u>
<i>Business-Type Activities Capital Assets, Net</i>	<u>\$2,585,875</u>	<u>(\$90,228)</u>	<u>\$0</u>	<u>\$2,495,647</u>

**Note 9 - Defined Benefit Pension Plans**

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

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

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$64,292, \$50,977, and \$99,720 respectively; 99.25 percent has been contributed for 2004 and 100 percent for 2003 and 2002. Contributions to the member-directed plan for 2004 were \$7,100 made by the City and \$4,454 made by the plan members.

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

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$47,855 and \$22,368 for the year ended December 31, 2004, \$65,398 and \$38,265 for the year ended December 31, 2003 and \$79,624, and \$18,375 for the year ended December 31, 2002 equal to the required contributions for each year. The full amount has been contributed for 2003 and 2002. 98.48 percent and 97.51 percent, respectively, have been contributed for 2004.

**Note 10 - Postemployment Benefits**

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

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 to 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$26,929. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

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

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

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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The City's actual contributions for 2004 that were used to fund postemployment benefits were \$31,564 for police and \$10,668 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003, (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

**Note 11 – Other Employee Benefits**

***A. Compensated Absences***

Vacation leave is earned at rates which vary depending upon length of service. Current policy credits vacation leave on January 1 of each year for all full time employees. Unused vacation for all full time employees, except full time patrolmen and police sergeants, is cumulative and may not exceed 200 hours. Full time patrolmen and the police sergeants have no limit of unused vacation which may be accumulated due to their contracted positions. 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 is cumulative up to 2,080 hours. Upon retirement, the first 960 hours accumulated is compensated at 50 percent and the remaining hours at 25 percent.

***B. Insurance***

The City provides health and life insurance to its employees through Aetna. Employees have the option to opt out of the health program and receive a 25 percent premium payout, saving the City 75 percent of premium costs.

**Note 12 – Contingencies**

***A. 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.

***B. Litigation***

Several claims and lawsuits are pending against the City. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material adverse effect on the overall financial position of the City at December 31, 2004.

***C. Environmental Issues***

In prior years, the City received donated property that required environmental remediation. Exxon has now accepted responsibility for this remediation.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2004

**Note 13 - Long-Term Obligations**

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

	Balance 12/31/2003	Issued	Retired	Balance 12/31/2004	Amounts Due In One Year
<b>Governmental Activities</b>					
EMS Vehicle Note	\$36,800	\$0	(\$36,800)	\$0	\$0
Refunding Bond - Series A					
General Obligation Bond	1,465,000	0	(185,000)	1,280,000	170,000
Capital Appreciation Bond	130,000	0	0	130,000	0
Accretion on Capital Appreciation Bond	0	63,798	0	63,798	0
Refunding Bond - Series B					
General Obligation Bond	175,251	0	(38,663)	136,588	12,308
Fire Truck Capital Lease	0	252,931	0	252,931	16,641
Compensated Absences	119,750	43,777	(39,439)	124,088	50,229
Total Governmental Activities	<u>\$1,926,801</u>	<u>\$360,506</u>	<u>(\$299,902)</u>	<u>\$1,987,405</u>	<u>\$249,178</u>
<b>Business-Type Activity</b>					
Refunding Bond - Series B					
General Obligation Bond	\$869,749	\$0	(\$61,337)	\$808,412	\$67,692
Compensated Absences	21,275	0	(21,275)	0	0
Total Business-Type Activities	<u>\$891,024</u>	<u>\$0</u>	<u>(\$82,612)</u>	<u>\$808,412</u>	<u>\$67,692</u>

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 the City's Capital Improvement Fund.

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 with an average interest rate of 4.34 percent and a \$130,000 Series A Capital Appreciation Bond with an average interest rate of 13.43 percent to advance refund \$1,950,000 of 1994 Series A bonds with an average interest rate of 6.30 percent and \$1,105,000 of 1994 Series B bonds with an average interest rate 6.49 percent. The 2001 Series A General Obligation Bond matures in 2011, and the 2001 Series A Capital Appreciation Bond and Series B General Obligation Bond mature in 2014. The net proceeds of \$3,055,000 (after deduction of \$145,000 in underwriting fees, insurance and other issuance costs) were used to advance refund the 1994 A and B Series Bonds. As a result, the 1994A and 1994B Series bonds are considered defeased and the liability has been removed from the City's financial statements.

For the Capital Appreciation Bond, the additions for 2004 were \$63,798 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.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

On September 30, 1999 the City issued an \$184,000 EMS Vehicle Note with an interest rate of 4.96 percent to purchase a life support vehicle and equipment. The note matured in 2004.

The compensated absences liability will be paid out of the City's Compensated Absence Reserve Fund.

The City's overall legal debt margin was \$3,946,721 at December 31, 2004. Principal and interest requirements to retire the outstanding debt at December 31, 2004, are as follows:

	Governmental Activities					
	General Obligation Refunding Bond - Series A		Capital Appreciation Bond - Series A		General Obligation Refunding Bond - Series B	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$170,000	\$46,235	\$0	\$0	\$12,308	\$5,194
2006	170,000	41,135	0	0	12,143	4,819
2007	175,000	35,610	0	0	12,143	4,425
2008	180,000	29,485	0	0	11,333	4,000
2009	190,000	22,825	0	0	11,250	3,584
2010-2014	395,000	23,605	130,000	490,000	77,411	9,388
Totals	<u>\$1,280,000</u>	<u>\$198,895</u>	<u>\$130,000</u>	<u>\$490,000</u>	<u>\$136,588</u>	<u>\$31,410</u>

	Business-Type Activities	
	General Obligation Refunding Bond - Series B	
	Principal	Interest
2005	\$67,692	\$30,745
2006	72,857	28,721
2007	72,857	26,353
2008	73,667	23,802
2009	78,750	21,074
2010-2014	442,589	56,337
Totals	<u>\$808,412</u>	<u>\$187,032</u>

**Note 14 - Capital Leases**

During 2004, the City entered into a capital lease for a fire truck. This 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 leases were entered into.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Equipment	\$252,931
Less: Accumulated depreciation	0
Total	\$252,931

Such agreements provide for minimum, annual lease payments as follows:

	Governmental Activities
2005	\$27,264
2006	27,264
2007	27,264
2008	27,264
2009	27,264
2010 - 2014	136,320
2015 - 2016	54,528
Total Minimum Lease Payment	327,168
Less: Amount Representing Interest	(74,237)
Present Value of Minimum Lease Payments	\$252,931

**Note 15 – Interfund Transfers**

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

Transfer to	Transfer From			Total
	General Fund	Capital Improvement Fund	Water Fund	
Nonmajor Funds	\$31,225	\$0	\$6,253	\$37,478
General Obligation Bond Retirement Fund	0	45,193	0	45,193
	\$31,225	\$45,193	\$6,253	\$82,671

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to provide additional resources for current operations or debt service; reclassification of prior year distributed monies, to segregate money for anticipated capital projects; and to return money to the fund from which it was originally provided once a project is completed. In 2004, the Water fund transferred \$6,253 to the Compensated Absences Reserve fund.

**City of Munroe Falls, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2004*

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**Note 16 - Subsequent Event**

In May 2005, the City entered into an agreement to obtain property in its Town Center for the purpose of future economic development. The purchase price was \$150,000.

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**Auditor of State  
Betty Montgomery**

**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 City of Munroe Falls, Summit County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated August 12, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*. In a separate letter to the City's management dated August 12, 2005, we reported other matters related to noncompliance we deemed immaterial.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702  
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

City of Munroe Falls  
Summit County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management, and City Council. It is not intended for anyone other than these specified parties.

**Betty Montgomery**  
Auditor of State

August 12, 2005