



**Auditor of State  
Betty Montgomery**



**CITY OF NORWOOD  
HAMILTON COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Norwood, Hamilton County, Ohio (the City), as of and for the year ended December 31, 2003, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Government'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.

Ohio Administrative Code § 117-2-03 (B) requires the Government to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Notes 2 and 13, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Norwood, Hamilton County, Ohio, as of December 31, 2003, and the respective changes in modified cash financial position and the respective budgetary comparison for the General fund and the Permissive Tax and Economic Development major special revenue funds thereof for the year(s) then ended in conformity with the basis of accounting Note 2 describes.

As discussed in Note 12 to the financial statements, the Auditor of the State of Ohio placed the City in fiscal watch on October 7, 2004, and as of December 31, 2005, the City's general fund is estimated to have a deficit fund balance of \$1,960,055. Management has not disclosed their plans in regard to these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

For the year ended December 31, 2003, the Government revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2006, on our consideration of the Government'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 the Governmental Accounting Standards Board 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 9, 2006

**CITY OF NORWOOD  
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Norwood's, Hamilton County, Ohio (City), discussion and analysis of the annual financial reports provides a review of the financial performance for the fiscal year ending December 31, 2003. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the transmittal letter and the City's financial statements.

**FINANCIAL HIGHLIGHTS**

- The City's total governmental activities' net assets decreased \$971,752, which represents a 5.2 percent increase from 2002. Business-type activities net assets decreased \$268,302, which represents a 9.2 percent decrease from 2002.
- For governmental activities, general receipts accounted for \$15,696,643 or 81.4 percent of all receipts. Program receipts in the form of charges for services, operating and capital grants, contributions, or interest accounted for \$3,591,764 or 18.6 percent of total receipts of \$19,288,407.
- Total assets of governmental activities decreased by \$971,752, as cash and cash equivalents decreased by \$323,085 and capital assets decreased by \$648,667.
- The City had \$20,260,159 in disbursements related to governmental activities; only \$3,591,764 of these disbursements were offset by program specific charges for services, operating and capital grants, contributions, or interest. General receipts (primarily property and municipal income taxes) were \$15,696,643.
- Among major funds, the General Fund had \$16,282,829 in receipts and \$16,013,867 in disbursements. The General Fund's balance decreased \$503,091 over 2003.
- The water operation, the City's lone business-type activity, decreased in net assets by \$268,302.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the City's modified cash basis of accounting.

**Report Components**

The Statement of Net Assets and the Statement of Activities provide information about the cash activities of the City as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the City as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the basic financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanations and details regarding the information reported in the statements.

**CITY OF NORWOOD  
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited  
(Continued)**

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The City has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the City's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**Reporting the City as a Whole**

*Statement of Net Assets and Statement of Activities – Modified Cash Basis*

The Statement of Net Assets and the Statement of Activities reflect how the City did financially during 2003, within the limitations of modified cash basis accounting. The Statement of Net Assets presents the cash balances and investments of the governmental and business-type activities of the City at fiscal year-end. The Statement of Activities compares cash disbursements with program cash receipts for each governmental program and business-type activities. Program cash receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program cash receipts. The comparison of cash disbursements with program cash receipts identifies how each governmental program or business-type activities draws from the City's general receipts.

These statements report the City's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the City's financial health. Over time, increases or decreases in the City's cash position is one indicator of whether the City's financial health is improving or deteriorating. When evaluating the City's financial condition, you should also consider other nonfinancial factors as well such as the City's property tax base, the condition of the City's capital assets and infrastructure, the extent of the City's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes and income taxes.

In the statement of net assets and statement of activities, we divide the city into two types of activities:

*Governmental activities:* Most of the City's basic services are reported here, including police, fire, streets and parks. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

*Business-type activity:* The City has one business-type activity, the provisions of water. Business type activities are financed by a fee charged to the customers receiving the service.

**CITY OF NORWOOD  
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited  
(Continued)**

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

**Fund Financial Statements**

Fund financial statements provide detailed information about the City's major funds, not the City as a whole. The City establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the City are split into three categories: governmental, proprietary, and fiduciary.

*Governmental Funds* – Most of the City's services are reported in governmental funds which are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The City maintains forty-one individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, , the Permissive Tax Fund, and the Economic Development Fund. Data from the other governmental funds are combined into a single aggregated presentation.

*Proprietary Fund* – When the City charges citizens for the services it provides, with the intent of recapturing operating costs, these services are generally reported in a proprietary fund. Proprietary funds use the same basis of accounting as business-type activities in the government-wide financial statements. The City has only one Proprietary Fund which is an Enterprise Fund used to finance and account for the acquisitions, operations and maintenance of City facilities and services designated to be entirely, or predominantly, self-supported from user charges. Operations are accounted for in such a manner to show a profit or loss on a basis comparable with industries in the private sector. The City's sole Enterprise Fund is the Water Fund. The Service Director can adjust the water rates with prior notice to council. The most recent rate of increase of 6% took effect on February 3, 2003 (the City of Norwood passed along the City of Cincinnati's rate increase to its customers). This increase in water rates was needed in order to continue the process of upgrading the City's antiquated water system and just to keep even with the ever increasing cost of water. The current rate was not sufficient to operate the system above break-even. This rate will not allow for the much needed extensive capital improvements to the system. Any significant increases in expenses or rate increases from the City of Cincinnati not passed along to the City of Norwood customers would quickly have the water fund operating with a larger annual deficit, necessitating additional subsidies from the General Fund.

*Fiduciary Funds* – These funds are used to account for assets held by the City in a fiduciary capacity. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Assets and Liabilities. They are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The City has one such Agency Fund, the Sewer Fund. It is used to account for moneys collected from Norwood citizens, businesses and industries for sewer service and to account for the payment of sewer bills.

**CITY OF NORWOOD  
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited  
(Continued)**

**THE CITY AS A WHOLE**

Table 1 provides a summary of the City's net assets at for 2003 compared to 2002 on a modified cash basis:

Table 1  
Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2002	2003	2002	2003	2002	2003
Assets:						
Equity in Pooled Cash and Cash Equivalents	\$2,653,003	\$2,329,918	\$1,173,592	\$925,684	\$3,826,595	\$3,255,602
Capital Assets	15,986,631	15,337,964	1,737,878	1,717,484	17,724,509	17,055,448
Total Assets	18,639,634	17,667,882	2,911,470	2,643,168	21,551,104	20,311,050
Net Assets:						
Invested in Capital Assets, Net of Related Debt	15,986,631	15,337,964	1,737,878	1,717,484	17,724,509	17,055,448
Restricted	1,492,509	1,672,515	0	0	1,492,509	1,672,515
Unrestricted	1,160,494	657,403	1,173,592	925,684	2,334,086	1,583,087
Total Net Assets	\$18,639,634	\$17,667,882	\$2,911,470	\$2,643,168	\$21,551,104	\$20,311,050

As mentioned previously, net assets of governmental activities decreased \$971,752 or 5.2 percent during 2003. The primary reasons contributing to the decrease in cash balances are as follows:

Table 2 reflects the changes in net assets in 2003. Since the City did not prepare financial statements in this format for 2002, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**CITY OF NORWOOD  
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited  
(Continued)**

Table 2  
Changes in Net Assets

	Governmental Activities	Business-Type Activities
Receipts:		
Program Receipts:		
Charges for Services	\$2,044,191	\$2,523,228
Operating Grants and Contributions	1,168,069	0
Capital Grants	379,504	0
Total Program Receipts	<u>3,591,764</u>	<u>2,523,228</u>
General Receipts:		
Property Taxes Levied for:		
General Purposes	3,153,570	0
Income Tax	10,408,106	0
Grants and Entitlements not Restricted to Specific Programs	1,256,549	0
Gifts and Donations	1,283	0
Investment Earnings	29,572	0
Miscellaneous	66,835	1,000
Special Assessments	369,848	0
General Obligation Bonds Issued	7,006,632	0
Total General Receipts	<u>22,292,395</u>	<u>1,000</u>
Total Receipts	<u>25,884,159</u>	<u>2,524,228</u>
Program Disbursements:		
General Government:		
Legislative and Executive	2,503,977	0
Judicial	546,793	0
Security of Persons and Property:		
Police	6,101,030	0
Fire	5,466,801	0
Public Health	446,551	0
Lesiure Time Activities	1,767,809	0
Community and Economic Development	267,487	0
Public Works	942,779	0
Basic Utility Services	788,168	0
Transportation	193,610	0
Intergovernmental	90,531	0
Capital Outlay	512,275	0
Debt Service	7,228,100	0
Water	0	2,792,530
Total Disbursements	<u>26,855,911</u>	<u>2,792,530</u>
Increase(Decrease) in Net Assets	<u>(\$971,752)</u>	<u>(\$268,302)</u>

**CITY OF NORWOOD  
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited  
(Continued)**

Program receipts represent only 18.6 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits, and grants.

General revenues represent 81.4 percent of the City's total receipts, and over 86.4% percent of general revenue are local taxes. Property taxes make up 20.1 percent of the City's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Security of Persons and Property are the costs of police and fire protection; Public Health Services is the health department, Lesuire Time Activities are the cost of maintaing the parks and playing fields; the economic development department promotes the City to industry and commerce; and Transportation is the cost of maintaining roads.

**Governmental Activities**

The 2.0% earnings tax is the largest source of revenue for the City. Revenues generated by the earnings tax represent more than 50% of the City's governmental activities revenue. The second largest source of revenue for the City is property tax. Property taxes increased by nearly 13% during 2003.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Two noteworthy exceptions, however, were the City's highways and streets function and its public safety function. In the highways and streets function, the growth in expenses reflects the cost of additional road repairs to Williams Avenue and Montgomery Road coupled with increased salaries. In the public safety function, the growth in expenses reflects an increase in personnel and an increase in salary.

The Statement of Activities shows the cost of program services and the charges for services and grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted State entitlements.

**CITY OF NORWOOD  
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited  
(Continued)**

Table 3  
Governmental Activities

	<u>Total Cost of Services 2003</u>	<u>Net Cost of Services 2003</u>
General Government:		
Legislative and Executive	\$2,503,977	(\$1,450,997)
Judicial	546,793	226,589
Security of Persons and Property:		
Police	6,101,030	(5,981,456)
Fire	5,466,801	(5,411,928)
Public Health	446,551	(334,184)
Lesiure Time Activities	1,767,809	(1,245,800)
Community and Economic Development	267,487	52,708
Public Works	942,779	(341,331)
Basic Utility Services	788,168	(788,168)
Transportation	193,610	(193,610)
Intergovernmental	90,531	(90,531)
Capital Outlay	512,275	(477,339)
Debt Service	7,228,100	(7,228,100)
<i>Total Expenses</i>	<u>\$26,855,911</u>	<u>(\$23,264,147)</u>

**Business-Type Activities**

The City's business-type activities include only the City's water utility. The water utility provides public water service to businesses and residents. The Service Director can adjust the water rates with prior notice to council. The most recent increase of 6% took effect February 3, 2003. This increase in water rates was needed in order to continue the process of upgrading the City's antiquated water system and to reflect the ever increasing cost of water. Even with the rate increase, the Water Fund showed an operating loss of \$227,497.

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS**

Information about the City's major governmental funds is presented in the Fund Financial statements (see the Table of Contents). These funds are reported using the modified cash basis of accounting. In total, all governmental funds reported revenues of \$18.9 million and expenses of \$19.6 million. Within the General Fund disbursements exceeded receipts by \$503,091.

**Governmental Fund Budgeting Highlights**

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

**CITY OF NORWOOD  
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited  
(Continued)**

The levels of appropriation control that may not be exceeded for the General Fund and certain other Special Revenue Funds (including the Street Maintenance and Repair Fund, the Permissive Tax Fund, and the Economic Development Fund) is at the expenditure classification level for Personal Services, Contractual Services, Material and Supplies and Other. The level of appropriation control that may not be exceeded for the Debt Service Fund is Principal Retirement and Interest. All other funds are appropriated in total. Any revisions that alter the budgeted expenditure classification of any division within a City department must be approved by City Council. During the year, several supplementary appropriations were necessary. Encumbrances do not lapse at year end and are included as expenditures in the current year budget (Non-GAAP Budgetary Basis).

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2003 amounts to \$18.1 million (net of accumulated depreciation). This investment in capital assets includes, land; roads, highways, and bridges; buildings and system; improvement; equipment; and vehicles.

	Governmental Activities		Business Type Activity		Total	
	2002	2003	2002	2003	2002	2003
Land	\$4,077,513	\$4,077,513	\$0	\$0	\$4,077,513	\$4,077,513
Land Improvements	1,062,292	1,002,962	0	0	1,062,292	1,002,962
Buildings	2,176,333	2,117,403	0	0	2,176,333	2,117,403
Equipment	591,215	536,755	24,502	21,265	615,717	558,020
Vehicles	1,874,238	1,679,177	58,927	41,770	1,933,165	1,720,947
Infrastructure	6,205,040	5,924,154	1,654,449	1,654,449	7,859,489	7,578,603
<b>Totals</b>	<b>\$15,986,631</b>	<b>\$15,337,964</b>	<b>\$1,737,878</b>	<b>\$1,717,484</b>	<b>\$17,724,509</b>	<b>\$17,055,448</b>

**Debt**

At year end, the City had \$9.6 million in unvoted loans, general obligation bonds and special assessment bonds.

<i>Description</i>	<i>Rate</i>	<i>Final Maturity</i>	<i>Amount Outstanding</i>
Loans:			
OPWC – Williams Avenue Resurfacing	0%	January 1, 2024	\$ 247,089
OPWC – Improvement Water	3%	January 1, 2010	222,538
OPWC – Montgomery Road Phase II	0%	January 1, 2024	171,790
Special Assessment Debt:			
Central Parke Project	8.5%	March 1, 2015	2,716,422
General Obligation Bonds:			
Various Purpose Bonds	3.38%	April 1, 2015	6,595,752
<b>Total</b>			<b>\$9,731,053</b>

**CITY OF NORWOOD  
HAMILTON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited  
(Continued)**

The Loans are with the Ohio Public Works Commission. One is to help resurface Williams Avenue and the second phase of work on Montgomery Road. These are interest free, twenty year loan. The other is to improve the water distribution system.

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

The general obligation debt is tax-supported. Annually, City Council authorizes a transfer from the General Fund to the Debt Service Fund to service the tax-supported debt. During 2003, the City combined its capital lease obligations and general obligation bonds and refinanced them as general obligation bonds.

**ECONOMIC AND OTHER POTENTIALLY SIGNIFICANT MATTERS**

During 2004, the City of Norwood refinanced their General Obligations Bonds. The purpose of this refinancing was to move the first five years of the existing General Obligations Bond and extend the life of the bonds by five years.

Based on the results of a fiscal analysis performed by the Auditor of State's Local Government Services division the City was placed in fiscal watch on October 7, 2004 and remains in fiscal watch today.

At December 31, 2005 the general fund had a balance of \$947,893. However, the City has an unpaid employer contribution obligation to the Ohio Police and Fire Pension Fund in the amount of \$2,722,285, plus accumulated interest and penalties, and outstanding encumbrances of \$185,663, which if paid would result in a \$1,960,055 deficit balance in the City's general fund.

On October 7, 2005 the The Ohio Police and Fire Pension Fund certified that the City had past due amounts of \$2,425,410 and requested Hamilton County to withhold funds for the City that are under the County's control and forward them to the Ohio Police and Fire Pension Fund. As of December 31, 2005 the County had forwarded \$233,658 to the Ohio Police and Fire Pension Fund, and an additional \$1,905,704 has been forwarded to the Ohio Police and Fire Pension Fund as of August 2, 2006. In a letter dated July 19, 2006 the balance owed on all certifications of amounts due the Ohio Police and Fire Pension Fund was \$1,504,431. This amount does not include \$79,172 that was sent by the County on August 2, 2006.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Auditor's Office, City of Norwood, Ohio, 4645 Montgomery Road, Norwood, Ohio 45212.

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**CITY OF NORWOOD  
HAMILTON COUNTY**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2003**

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS:</b>			
<b>Current Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 2,329,918	\$ 925,684	\$ 3,255,602
<b>Noncurrent Assets:</b>			
Land	4,077,513		4,077,513
<b>Capital Assets:</b>			
Land Improvements	1,488,519		1,488,519
Building and Building Improvements	4,032,174	54,890	4,087,064
Equipment	1,310,926	65,387	1,376,313
Vehicles	2,973,529	163,198	3,136,727
Infrastructure	12,755,682	2,660,957	15,416,639
<b>Accumulated Depreciation:</b>			
Land Improvements	(485,557)		(485,557)
Buildings & Building Improvements	(1,914,771)	(54,890)	(1,969,661)
Equipments	(774,171)	(44,122)	(818,293)
Vehicles	(1,294,352)	(121,428)	(1,415,780)
Infrastructure	(6,831,528)	(1,006,508)	(7,838,036)
<i>Total Assets</i>	<u>17,667,882</u>	<u>2,643,168</u>	<u>20,311,050</u>
<b>NET ASSETS:</b>			
Invested in Capital Assets	15,337,964	1,717,484	17,055,448
Restricted for Debt Service	2,578		2,578
Restricted for Capital Outlay	120,690		120,690
Restricted for Other Purposes	1,549,247		1,549,247
Unrestricted	657,403	925,684	1,583,087
<i>Total Net Assets</i>	<u>\$ 17,667,882</u>	<u>\$ 2,643,168</u>	<u>\$ 20,311,050</u>

CITY OF NORWOOD  
HAMILTON COUNTY

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Program Revenues</u>			<u>Net(Expense)Revenue and Changes in Net</u>			
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Governmental Activities:							
General Government:							
Legislative and Executive	\$ 2,503,977	\$ 980,627	\$ 72,353		\$ (1,450,997)		\$ (1,450,997)
Judicial System	546,793	773,382			226,589		226,589
Security of Persons and Property:							
Police	6,101,030	67,955	51,619		(5,981,456)		(5,981,456)
Fire	5,466,801		30,500	24,373	(5,411,928)		(5,411,928)
Public Health	446,551	54,018	58,349		(334,184)		(334,184)
Lesiure Time Services	1,767,809	157,763	364,246		(1,245,800)		(1,245,800)
Community and Economic Development	267,487			320,195	52,708		52,708
Public Works:							
Streets	942,779	10,446	591,002		(341,331)		(341,331)
Basic Utilty Services:							
Sanitation Services	788,168				(788,168)		(788,168)
Transportation	193,610				(193,610)		(193,610)
Intergovernmental	90,531				(90,531)		(90,531)
Capital Outlay	512,275			34,936	(477,339)		(477,339)
Debt Service	7,228,100				(7,228,100)		(7,228,100)
<i>Total Governmental Activities</i>	<u>26,855,911</u>	<u>2,044,191</u>	<u>1,168,069</u>	<u>379,504</u>	<u>(23,264,147)</u>		<u>(23,264,147)</u>
Business-Type Activities:							
Water Fund	2,792,530	2,523,228				(269,302)	(269,302)
<i>Total Business-Type Activities</i>	<u>2,792,530</u>	<u>2,523,228</u>				<u>(269,302)</u>	<u>(269,302)</u>
<i>Totals</i>	<u>\$ 23,052,689</u>	<u>\$ 4,567,419</u>	<u>\$ 1,168,069</u>	<u>\$ 379,504</u>	<u>(23,264,147)</u>	<u>(269,302)</u>	<u>(23,533,449)</u>
General Revenues:							
Taxes:							
Property Taxes					3,130,547		3,130,547
Income Taxes					10,408,106		10,408,106
Other Taxes					23,023		23,023
Grants and Entitlements not Restricted to Specific Programs					1,256,549		1,256,549
Unrestricted Contributions					1,283		1,283
Investment Earnings					29,572		29,572
Miscellaneous					66,835	1,000	67,835
Special Assessments					369,848		369,848
General Obligation Bonds Issued					7,006,632		7,006,632
<i>Total General Revenues</i>					<u>22,292,395</u>	<u>1,000</u>	<u>22,293,395</u>
<i>Change in Net Assets</i>					(971,752)	(268,302)	(1,240,054)
<i>Net Assets Beginning of Year</i>					18,639,634	2,911,470	21,551,104
<i>Net Assets End of Year</i>					<u>\$ 17,667,882</u>	<u>\$ 2,643,168</u>	<u>\$ 20,311,050</u>

**CITY OF NORWOOD  
HAMILTON COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2003**

	<u>General Fund</u>	<u>Permissive Tax Fund</u>	<u>Economic Development Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 657,403	\$ 590,550	\$ 317,821	\$ 764,144	\$ 2,329,918
<i>Total Assets</i>	<u>\$ 657,403</u>	<u>\$ 590,550</u>	<u>\$ 317,821</u>	<u>\$ 764,144</u>	<u>\$ 2,329,918</u>
<b>FUND BALANCES:</b>					
Unreserved, Undesignated, Reported in:					
General Fund	657,403	0	0	0	657,403
Special Revenue Funds	0	590,550	317,821	640,876	1,549,247
Debt Service Funds	0	0	0	2,578	2,578
Capital Projects Funds	0	0	0	120,690	120,690
<i>Total Fund Balances</i>	<u>657,403</u>	<u>590,550</u>	<u>317,821</u>	<u>764,144</u>	<u>2,329,918</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 657,403</u>	<u>\$ 590,550</u>	<u>\$ 317,821</u>	<u>\$ 764,144</u>	<u>\$ 2,329,918</u>

CITY OF NORWOOD  
HAMILTON COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES - MODIFIED CASH BASIS  
DECEMBER 31, 2003

Total Governmental Fund Balances \$2,329,918

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

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds. These assets  
consist of:

Land	4,077,513	
Land Improvements	1,488,519	
Building and Improvements	4,032,174	
Equipment	1,310,926	
Vehicles	2,973,529	
Infrastructure	12,755,682	
Accumulated Depreciation	(11,300,379)	
Total Capital Assets		<u>15,337,964</u>

*Net Assets of Governmental Activities* \$17,667,882

See Accompanying Notes to the Basic Financial Statements  
See Accountants' Compilation Report

**CITY OF NORWOOD  
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>General Fund</u>	<u>Permissive Tax Fund</u>	<u>Economic Development Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>					
Property Taxes	\$ 3,130,547				\$ 3,130,547
Income Taxes	10,408,106				10,408,106
Other Local Taxes	23,023				23,023
Special Assessments				369,848	369,848
Charges for Services	1,040,256			291,809	1,332,065
Licenses and Permits	274,029			15,817	289,846
Fines and Forfeitures	315,716			89,455	405,171
Intergovernmental	929,492	333,591		778,288	2,361,566
Interest	21,924			8,889	30,813
Rent	17,109				17,109
Contributions and Donations	65,819			376,779	442,598
Other	56,808		320,870	9,352	66,835
	<u>16,282,829</u>	<u>333,591</u>	<u>320,870</u>	<u>1,940,237</u>	<u>18,877,527</u>
<i>Total Revenues</i>					
<b>EXPENDITURES:</b>					
<b>Current:</b>					
<b>General Government:</b>					
Legislative and Executive	2,051,951			450,958	2,502,909
Judicial System	534,169			12,624	546,793
<b>Security of Persons and Property:</b>					
Police	5,865,902			102,844	5,968,746
Fire	5,189,717			166,578	5,356,295
Public Health	396,370			91,619	487,989
Lesiure Time Services	788,374			566,863	1,355,237
Community and Economic Development			267,487		267,487
<b>Public Works:</b>					
Streets	122,527	169,970		624,059	916,556
<b>Basic Utilty Services:</b>					
Sanitation Services	780,716				780,716
Transportation	193,610				193,610
Intergovernmental	90,531				90,531
Capital Outlay				512,275	512,275
Debt Service				7,228,100	7,228,100
	<u>16,013,867</u>	<u>169,970</u>	<u>267,487</u>	<u>9,755,920</u>	<u>26,207,244</u>
<i>Total Expenditures</i>					
<i>Excess of Revenues Over(Under) Expenditures</i>	<u>268,962</u>	<u>163,621</u>	<u>53,383</u>	<u>(7,815,683)</u>	<u>(7,329,717)</u>
<b>OTHER FINANCING SOURCES AND USES:</b>					
Transfers In				772,053	772,053
General Obligation Bonds Issued				7,006,632	7,006,632
Transfers Out	(772,053)			-	(772,053)
	<u>(772,053)</u>			<u>7,778,685</u>	<u>7,006,632</u>
<i>Total Other Financing Sources and Uses</i>					
<i>Net Change in Fund Balance</i>	(503,091)	163,621	53,383	(36,998)	(323,085)
<i>Fund Balance (Deficit) at Beginning of Year</i>	1,160,494	426,929	264,438	801,142	2,653,003
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 657,403</u>	<u>\$ 590,550</u>	<u>\$ 317,821</u>	<u>\$ 764,144</u>	<u>\$ 2,329,918</u>

CITY OF NORWOOD  
HAMILTON COUNTY

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

Net Change in Fund Balances - Total Governmental Funds (\$323,085)

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

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

Capital Outlay	49,109	
Depreciation Expense	<u>(697,776)</u>	
Excess of Capital Outlay over Depreciation Expense		<u>(648,667)</u>

Change in Net Assets of Governmental Activities (\$971,752)

See Accompanying Notes to the Basic Financial Statements  
See Accountants' Compilation Report

**CITY OF NORWOOD  
HAMILTON COUNTY**

**STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUND  
DECEMBER 31, 2003**

	<u>Water Fund</u>
<b>ASSETS:</b>	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 925,684
<i>Total Current Assets</i>	<u>925,684</u>
Noncurrent Assets:	
Capital Assets:	
Building and Building Improvements	54,890
Equipment	65,387
Vehicles	163,198
Infrastructure	2,660,957
Accumulated Depreciation:	
Buildings & Building Improvements	(54,890)
Equipments	(44,122)
Vehicles	(121,428)
Infrastructure	(1,006,508)
<i>Total Noncurrent Assets</i>	<u>1,717,484</u>
<i>Total Assets</i>	<u>2,643,168</u>
<b>NET ASSETS:</b>	
Invested in Capital Assets	1,717,484
Unrestricted	925,684
<i>Total Net Assets</i>	<u>\$ 2,643,168</u>

CITY OF NORWOOD  
HAMILTON COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Water Fund</u>
OPERATING REVENUES:	
Charges for Services	\$ 2,523,228
Other	<u>1,000</u>
<i>Total Operating Revenues</i>	<u>2,524,228</u>
OPERATING EXPENSES:	
Personal Services	2,730,448
Depreciation	20,394
Other	<u>883</u>
<i>Total Operating Expenses</i>	<u>2,751,725</u>
<i>Operating Income (Loss)</i>	<u>(227,497)</u>
NON-OPERATING REVENUES (EXPENSES):	
Principal Retirement	<u>(40,805)</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(40,805)</u>
<i>Change in Net Assets</i>	(268,302)
<i>Net Assets (Deficit) at Beginning of Year</i>	<u>2,911,470</u>
<i>Net Assets (Deficit) at End of Year</i>	<u>\$ 2,643,168</u>

CITY OF NORWOOD  
HAMILTON COUNTY

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
DECEMBER 31, 2003

	<u>Agency Fund</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 323,542
<i>Total Current Assets</i>	<u>323,542</u>
<i>Total Assets</i>	<u>323,542</u>
LIABILITIES:	
Current Liabilities:	
Undistributed Monies	(24,678)
<i>Total Current Liabilities</i>	<u>(24,678)</u>
<i>Total Liabilities</i>	<u>(24,678)</u>
NET ASSETS:	
Unrestricted	348,220
<i>Total Net Assets</i>	<u>\$ 348,220</u>

**CITY OF NORWOOD  
HAMILTON COUNTY**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET (NON-GAAP) AND ACTUAL  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Actual w/Final Budget Positive (Negative)
<b>Revenue</b>				
Property Taxes	\$ 3,382,521	\$ 3,130,547	\$ 3,130,547	\$ -
Income Taxes	10,324,096	10,374,100	10,408,106	34,006
Other Taxes	21,755	23,184	23,023	(161)
License and Permits	226,190	258,445	270,624	12,179
Non-business License and Permits	3,100	3,405	3,405	-
State Grants or Aid	6,931	6,534	6,534	-
State Shared Revenues	287,534	134,813	134,813	-
Local Government Unit Shared Revenue	795,000	748,468	788,145	39,677
Charges for Services	612,880	588,104	1,040,256	452,152
Fines	311,482	304,150	311,977	7,827
Forfeits	52,042	3,589	3,739	150
Investment Earnings	16,550	19,500	21,924	2,424
Rents and Royalties	17,330	17,330	17,109	(221)
Contributions and Donations from Private Sources	48,265	65,819	65,819	-
Miscellaneous	85,930	56,720	55,882	(838)
<b>Total Revenues</b>	<u>16,191,606</u>	<u>15,734,708</u>	<u>16,281,903</u>	<u>547,195</u>
<b>Expenditures</b>				
Transfer Out	1,086,280	772,053	772,053	
General Government	691,290	690,197	675,415	14,782
Legislative	148,302	154,084	151,498	2,586
Judicial	111,817	103,859	534,169	(430,310)
Executive	154,720	137,238	135,434	1,804
Financial Administration	702,538	689,493	677,302	12,191
Other Department Expense	424,962	410,585	409,376	1,209
Public Safety	416,951	463,975	439,411	24,564
Police	5,414,812	5,570,345	5,426,251	144,094
Fire	5,687,051	5,352,693	5,189,687	163,006
Highways and Streets	124,603	123,911	122,527	1,384
Sanitation	828,324	858,766	780,716	78,050
City Garage	197,089	195,100	192,610	2,490
City Bus	992	992	992	
Health and Welfare	420,282	401,229	396,370	4,859
Culture-Recreation	774,929	813,912	788,374	25,538
Intergovernmental Expenditures	139,696	153,007	90,531	62,476
Special Items	26,398	2,839	2,839	-
<b>Total Expenditures</b>	<u>17,351,036</u>	<u>16,894,278</u>	<u>16,785,555</u>	<u>108,723</u>
<b>Excess (deficiency) over (under) Expenditures</b>	(1,159,430)	(1,159,570)	(503,651)	<u>\$ 438,472</u>
<b>(Increase)/Decrease in Reserve for Encumbrances</b>	710,946	710,946	183,021	
<b>Net Change in Unreserved Fund Balance for Year</b>	(925)		(320,630)	
<b>Fund Balance, January 1, 2003</b>	<u>449,409</u>	<u>449,409</u>	<u>450,035</u>	
<b>Fund Balance, December 31, 2003</b>	<u>\$ 0</u>	<u>\$ 785</u>	<u>\$ 129,405</u>	

The notes to the financial statements are an integral part of this statement.

**CITY OF NORWOOD  
HAMILTON COUNTY**

**PERMISSIVE TAX FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET (NON-GAAP) AND ACTUAL  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Actual w/Final Budget Positive (Negative)
<b>Revenue</b>				
Intergovernmental	\$ 146,592	\$ 338,900	\$ 333,591	\$ (5,309)
<b>Total Revenues</b>	<u>146,592</u>	<u>338,900</u>	<u>333,591</u>	<u>(5,309)</u>
<b>Expenditures</b>				
Highways and Streets	573,521	765,829	169,970	595,859
<b>Total Expenditures</b>	<u>573,521</u>	<u>765,829</u>	<u>169,970</u>	<u>595,859</u>
<b>Excess (deficiency) over (under) Expenditures</b>	(426,929)	(426,929)	163,621	<u><u>\$ (601,168)</u></u>
<b>(Increase)/Decrease in Reserve for Encumbrances</b>	46,419	46,419	(107,786)	
<b>Net Change in Unreserved Fund Balance for Year</b>			55,835	
<b>Fund Balance, January 1, 2003</b>	<u>380,510</u>	<u>380,510</u>	<u>380,510</u>	
<b>Fund Balance, December 31, 2003</b>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 436,345</u></u>	

The notes to the financial statements are an integral part of this statement.

**CITY OF NORWOOD  
HAMILTON COUNTY**

**ECONOMIC DEVELOPMENT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET (NON-GAAP) AND ACTUAL  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance Actual w/Final Budget Positive (Negative)
<b>Revenue</b>				
Miscellaneous	\$ 204,220	\$ 285,200	\$ 320,870	\$ 35,670
<b>Total Revenues</b>	<u>204,220</u>	<u>285,200</u>	<u>320,870</u>	<u>35,670</u>
<b>Expenditures</b>				
Economic Development And Assistance	<u>468,658</u>	<u>507,904</u>	<u>267,487</u>	240,417
<b>Total Expenditures</b>	<u>468,658</u>	<u>507,904</u>	<u>267,487</u>	<u>240,417</u>
<b>Excess (deficiency) over (under) Expenditures</b>	(264,438)	(222,704)	53,383	<u>\$ (204,747)</u>
<b>(Increase)/Decrease in Reserve for Encumbrances</b>	45,761	45,761	23,018	
<b>Net Change in Unreserved Fund Balance for Year</b>			76,401	
<b>Fund Balance, January 1, 2003</b>	<u>218,677</u>	<u>218,677</u>	<u>218,677</u>	
<b>Fund Balance, December 31, 2003</b>	<u>\$ (0)</u>	<u>\$ 41,734</u>	<u>\$ 295,078</u>	

The notes to the financial statements are an integral part of this statement.

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**1. DESCRIPTION OF THE CITY AND REPORTING ENTITY**

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

**Reporting Entity**

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Presentation**

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

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The government-wide statements usually distinguish between those activities that are governmental in nature and those that are considered business-type.

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Fund financial statements are designed to present financial information of the City at a more detailed level. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated in a single column. Fiduciary funds are reported by type.

**Fund Accounting**

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

Governmental Funds

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

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

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

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

Proprietary Fund

Proprietary fund reporting is focused on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has only one proprietary fund, which is an enterprise fund.

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

Fiduciary Funds

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

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

**Basis of Accounting**

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

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

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Budgetary Data**

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

The levels of appropriation control for the General Fund, and certain other Special Revenue Funds, including the Street Maintenance and Repair Fund, State Highway Fund, Economic Development Fund, and Paramedic Fund, for each budgeted expenditure classification that may not be exceeded are: personal services, contractual, materials & supplies, and other. The levels of appropriation control for the budgeted expenditures that may not be exceeded in the Debt Service Fund are principal retirement and interest. All other city funds are appropriated in total by fund. Any revisions that alter the budgeted expenditure classification of any division within a City department must be approved by City Council. During the year, several supplementary appropriations were necessary.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**Cash**

For purposes of the statement of cash flows, the City of Norwood considers all highly liquid investments, including restricted assets, with an original maturity of three months or less to be cash equivalents.

**Investments**

The investments of the City of Norwood are comprised primarily of time deposits.

**Capital Assets**

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

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

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

**Fund Balance Reserves**

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 expenditure. As a result, encumbrances and inventories are recorded as a reservation of fund balance.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation.

**Net Assets**

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

**Inter-Fund Transactions**

During the course of normal operations, the City has numerous transactions between funds including transfers of resources to provide services, purchase assets, and pay debt service. The governmental and proprietary fund type financial statements generally reflect such transactions as operating transfers. The General Fund absorbs the costs of providing administrative services to enterprise funds.

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**3. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

The City of Norwood combines the cash balances of individual funds to form a pool of cash and investments. Each fund reports its respective equity in cash as an element of its resources. In addition, several funds separately hold cash and investments. Earnings from the pooled cash and investments are allocated on a monthly basis to each participating fund based on month-end equity balances. The cash account of the Mayor's Court is held separately from those of other City funds.

**Deposits**

Cash deposits of the City as of December 31, 2003, are comprised of the following:

Demand Deposit Accounts	\$3,179,689
Certificates of Deposit	<u>399,455</u>
	<u>\$3,579,144</u>

The bank balance for all City deposits at December 31, 2003 was \$3,733,415. The difference between the bank balance and the amounts recorded by the City is caused by outstanding checks and returned checks.

The GASB has established credit risk categories for deposits:

- Category 1 - Deposits that are insured or collateralized with securities held by the City or its agent(s) in the City's name.
- Category 2 - Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent(s) in the City's name.
- Category 3 - Deposits that are uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent(s) but not in the City's name.

Based on the foregoing criteria, at December 31, 2003, \$100,000 of the City's deposits was insured by the FDIC and the remaining \$3,633,415 was collateralized with securities held by the pledging financial institution, or by its trust department, but not in the City's name as defined by the GASB. These deposits were, however, collateralized with securities held by a financial institution, but not in the City's name.

**Investments**

The State of Ohio statutes authorize the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities of the U. S. Government, and repurchase agreements. The City held no investments at December 31, 2003.

**4. TAXES**

**City Earnings Tax**

The locally levied 2.0% earnings tax applies to gross salaries, wages and other personal service compensation earned by residents both in and out of the City and to earnings of nonresidents (except certain transients) earned in the City. It also applies to net income of business organizations for business conducted in the City. The tax is the largest single source of General Fund revenue. Actual collections in 2003 were \$10,408,106.

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**4. TAXES (Continued)**

**Property Taxes**

The assessed valuation of property within the City subject to the levy of ad valorem taxes includes real property, public utilities property and tangible personal property. The assessed value upon which the 2003 levy was based was \$295,613,500, \$21,592,210 and \$57,779,690 for real property, public utility property and tangible personal property, respectively (per Hamilton County Auditor). The City's property taxes are collected by the Hamilton County Auditor and are remitted to the City on a periodic basis. Real property taxes collected in any calendar year are generally levied on assessed values as of January 1 of the preceding year according to the following calendar:

**Property Tax Calendar - 2004**

Lien date	January 1, 2003
Levy date - first half	December 31, 2003
First installment payment due	February 2, 2004
Second installment payment due	June 28, 2004

Assessed values are established by the County Auditor, at no more than 35% of appraised market value. The laws of the State of Ohio presently require that all property be revalued no less than every six years, at any time the County Auditor finds that true or taxable value thereof has changed, and in the third calendar year following the year in which a sexennial reappraisal is completed if ordered by the State Commissioner of Tax Equalization. Real property was reappraised during 1999 with the results affecting collections beginning in 2000. The City recognized the property taxes due to be paid in 2004 (levied in 2003) as deferred revenue because they are intended to finance the 2004 fiscal year.

Public utilities property taxes in any calendar year are those levied on assessed values as of December 31 of the preceding year. Tangible personal property of public utilities is generally assessed at 100% of true value. Tangible personal property used in business, other than public utilities, is assessed at 25% of true value.

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**5. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2003 was as follows:

**Governmental Activities**

	Balance at 12/31/02	Additions	Deletions	Balance at 12/31/03
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$4,077,513	\$0	\$0	\$4,077,513
Depreciable Capital Assets:				
Land Improvements	1,488,519	0	0	1,488,519
Buildings	4,032,174	0	0	4,032,174
Vehicles	3,041,073	31,280	(98,824)	2,973,529
Equipment	1,293,097	17,829	0	1,310,926
Infrastructure	12,755,682	0	0	12,755,682
Total Depreciable Capital Assets	22,610,545	49,109	(98,824)	22,560,830
Less Accumulated Depreciation:				
Land Improvements	426,227	59,330	0	485,557
Buildings	1,855,841	58,930	0	1,914,771
Vehicles	1,166,835	191,842	(64,325)	1,294,352
Equipment	701,882	72,289	0	774,171
Infrastructure	6,550,642	280,886	0	6,831,528
Total Accumulated Depreciation	10,701,427	663,277	(64,325)	11,300,379
Depreciable Capital Assets, Net	11,909,118	(614,168)	(34,499)	11,260,451
Governmental Activities Capital Assets, Net	\$15,986,631	(\$614,168)	(\$34,499)	\$15,337,964
	Balance at 12/31/02	Additions	Deletions	Balance at 12/31/03
Business-Type Activity				
Depreciable Capital Assets:				
Buildings	\$54,890	\$0	\$0	\$54,890
Equipments	65,387	0	0	65,387
Vehicles	163,198	0	0	163,198
Infrastructure	2,660,957	0	0	2,660,957
Total Depreciable Capital Assets	2,944,432	0	0	2,944,432
Less Accumulated Depreciation:				
Buildings	54,890	0	0	54,890
Equipments	40,885	3,237	0	44,122
Vehicles	104,271	17,157	0	121,428
Infrastructure	1,006,508	0	0	1,006,508
Total Accumulated Depreciation	1,206,554	20,394	0	1,226,948
Business-Type Activity Capital Assets, Net	\$1,737,878	(\$20,394)	\$0	\$1,717,484

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**6. LONG-TERM DEBT**

Bonds and loans payable at December 31, 2003, are comprised of the following individual issues:

<i>Description</i>	<i>Rate</i>	<i>Final Maturity</i>	<i>Amount Outstanding</i>
Loans:			
OPWC – Williams Avenue Resurfacing	0%	January 1, 2024	\$ 247,089
OPWC – Improvement Water	3%	January 1, 2010	222,538
OPWC – Montgomery Road Phase II	0%	January 1 2024	171,790
Special Assessment Debt: Central Parke Project	8.5%	March 1, 2015	2,716,422
General Obligation Bonds: Various Purpose Bonds	3.38%	April 1, 2015	6,595,752
<b>Total</b>			<b>\$9,731,053</b>

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

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

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

The general obligation debt is tax-supported. Annually, City Council authorizes a transfer from the General Fund to the Debt Service Fund to service the tax-supported debt. During 2003, the City combined its capital lease obligations and general obligation bonds and refinanced them as general obligation bonds. The first payment on these new general obligation bonds is not due until April 1, 2004.

A schedule of changes in bonds and other long-term obligations of the City during the current year are as follows:

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**6. LONG-TERM DEBT (Continued)**

**Governmental Activities**

<i>Description</i>	<i>Balance 1/1/03</i>	<i>Additions</i>	<i>Principal Retirement</i>	<i>Balance 12/31/03</i>	<i>Due Within One Year</i>
General Obligations Bonds	\$5,890,105	\$6,595,752	\$5,890,105	\$6,595,752	\$1,046,069
Special Assessment Debt	2,844,489		128,067	2,716,422	138,953
Obligations under Capital Leases	412,987		412,987		
OPWC Loan – Resurface Williams Avenue		247,089		247,089	6,177
OPWC Loan – Montgomery Road Phase II		171,790		171,790	4,295
Estimated Liability for Compensated Absences	3,257,949	2,119,282	1,989,225	3,388,006	1,059,706
Estimated Liability for Unpaid Claims (Note 8)	20,000			20,000	
Underpaid Employer Contributions (Note 9)	1,415,580		210,000	1,205,580	210,000
Pension Liability (Note 9)	2,650,238	111,425	150,496	2,611,167	150,496
<b>Total</b>	<b>\$16,491,348</b>	<b>\$9,245,338</b>	<b>\$8,780,880</b>	<b>\$16,955,806</b>	<b>\$2,615,696</b>

**Business-Type Activities**

<i>Description</i>	<i>Balance 1/1/03</i>	<i>Additions</i>	<i>Principal Retirement</i>	<i>Balance 12/31/03</i>	<i>Due Within One Year</i>
OPWC Loan – Improve Water Distribution System	\$255,913		\$33,375	\$222,538	\$17,064
Estimated Liability for Compensated Absences	8,159	30,365	23,129	15,395	15,395
<b>Total</b>	<b>\$264,072</b>	<b>\$30,365</b>	<b>\$56,504</b>	<b>\$237,933</b>	<b>\$17,064</b>

Revenues from all sources have been sufficient to meet all of the City's debt service requirements through December 31, 2003.

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**6. LONG-TERM DEBT (Continued)**

**Annual Long-Term Debt Requirements**

Principal and interest requirements to retire the City's long-term obligations outstanding at year end are as follows:

<i>Year Ending December 31</i>	<i>General Obligation Bonds</i>		<i>Special Assessment Bonds</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2004	\$1,046,069	\$ 332,423	\$ 138,953	\$ 230,896
2005	715,800	182,491	150,764	219,085
2006	515,270	169,250	163,579	206,270
2007	501,572	155,594	177,483	192,366
2008	499,152	140,064	192,569	177,280
Thereafter	3,317,889	398,899	1,893,074	695,867
<b>Total</b>	<b>\$6,595,752</b>	<b>\$1,378,721</b>	<b>\$2,716,422</b>	<b>\$1,721,764</b>

<i>Year Ending December 31</i>	<i>Loans</i>		<i>Total</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2004	\$27,536	\$ 6,928	\$1,212,558	\$570,247
2005	51,549	5,904	918,113	407,480
2006	52,604	4,850	731,453	380,370
2007	53,691	3,763	732,746	351,723
2008	54,810	2,643	746,531	319,987
Thereafter	401,226	1,490	5,612,189	1,096,256
<b>Total</b>	<b>\$641,416</b>	<b>\$25,578</b>	<b>\$9,953,590</b>	<b>\$3,126,063</b>

The Ohio Revised Code provides that the net debt of a municipal corporation, when approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxable value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuations and expressed in terms of a percentage. At December 31, 2003, the City had \$6,842,841 of "total net debt." Special assessment bonds are excluded in calculating the total net indebtedness of the City.

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

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

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

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**7. CONTINGENCIES**

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

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

**8. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health claims; unemployment compensation claims; a certain portion of retiree health claims and environmental damage. The City maintains a comprehensive all risk property insurance program administered by the Ohio Municipal League that provides insurance coverage for all City property. This insurance program is to cover losses due to theft of, damage to, or destruction of assets, purchases general liability insurance for specific operations and professional liability insurance for certain operations. The City also participates in the State of Ohio Workers Compensation program for on-duty injuries to employees. There has been no reduction in insurance coverage from 2002. Insurance settlements for claims resulting from the risks covered by commercial insurance have not exceeded the insurance coverage in any of the past three years. State law authorizes the issuance of judgment bonds to settle claims. The City's available legal debt margin of \$18,392,764 at December 31, 2003, is considered adequate for catastrophic loss coverage.

Changes in the balances of claims liabilities during 2003 are as follows:

	<i>2003</i>
Balance beginning of the year	\$ 20,000
Claims and changes in estimates	1,829
Claim payments	(1,829)
<b>Balance at year end</b>	<b>\$ 20,000</b>

The \$20,000 is an estimate of potential liability as a result of pending claims against the City, which would not be covered by insurance companies

**9. DEFINED BENEFIT PENSION PLANS**

The City of Norwood 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 NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS (Continued)**

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 E. Town St., Columbus, OH 43215-4642 or by calling OPERS at (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The City of Norwood's contribution rate for pension benefits for 2003 was 13.55 percent of annual covered salaries. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City of Norwood's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$ 460,726, \$467,967, and \$476,459 respectively; 91 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$6,434 made by the City of Norwood and \$4,036 made by the plan members.

**Ohio Police and Fire Pension Fund**

The City of Norwood 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 of Norwood is required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City of Norwood's contributions to the Fund for police and firefighters were \$701,160 and \$903,777 for the year ended December 31, 2003, \$661,662 and \$875,169 for the year ended December 31, 2002, and \$637,263 and \$883,700 for the year ended December 31, 2001, respectively. The full amount has been contributed for 2002 and 2001. 30 percent for police and 28.5 percent for firefighters has been contributed for 2003 with the remainder being reported as a liability.

The OP&F has also allocated to the city a portion of the unfunded prior service cost of the fund which is the deficiency existing at the time the fund was established in 1967 as determined by actuarial evaluation. The City also owes an underpaid employer contributions of \$1,205,580. Minimum payment of \$17,500 is being paid monthly to repay the delinquent employer contributions. The unpaid contribution should be fully paid in approximately 6 years. The following table reflects the unfunded prior service cost for police officers and fire fighters at December 31, 2003:

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS (Continued)**

	<i>2003</i>
Police	\$1,369,747
Fire	1,241,421
<b>Total unfunded prior service cost</b>	<b>\$2,611,168</b>

As prescribed by Section 742.30 of the Ohio Revised Code, this accrued liability has and will continue to be paid over a term of sixty-two years in annual installments which began in 1973 and which will end in 2035. At December 31, 2003, 31 years remain in which semi-annual installments fixed by the fund's Board of Trustees at \$39,479 and \$35,769 will be paid for police and fire fighters, respectively.

**10. POST-EMPLOYMENT BENEFITS**

**Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Post-employment 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 granted by State statute. The 2003 local government employer contribution rate was 13.31 percent of covered payroll; 5 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, 2002, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 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 4 percent annually.

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 364,881. Actual employer contributions for 2003 which were used to fund post-employment benefits were \$170,008 and \$2,374. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

**CITY OF NORWOOD  
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**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**10. POST-EMPLOYMENT BENEFITS (Continued)**

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

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

**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 Post-employment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the OP&F'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 post-employment health care program during 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.

The City's actual contributions for 2003 that were used to fund post-employment benefits were \$235081 for police and \$264875 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

**11. C-9 TRUST**

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

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**12. SUBSEQUENT EVENT/FISCAL WATCH**

During 2004, the City of Norwood refinanced their General Obligations Bonds. The purpose of this refinancing was to move the first five years of the existing General Obligations Bond and extend the life of the bonds by five years.

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

The ending cash balance in the General Fund for the year ending December 31, 2005 was \$947,893. However, the City had outstanding encumbrances of \$185,663, and an unpaid employer contribution obligation to the Ohio Police and Fire Pension Fund in the amount of \$2,722,285, plus accumulated interest and penalties. Therefore, the General Fund had a deficit balance of \$1,960,055 as of December 31, 2005.

On October 7, 2005 the Ohio Police and Fire Pension Fund certified that the City had past due amounts of \$2,425,410 and requested Hamilton County to withhold funds for the City that are under the County's control and forward them to the Ohio Police and Fire Pension Fund. As of December 31, 2005 the County had forwarded \$233,658 to the Ohio Police and Fire Pension Fund, and an additional \$1,905,704 has been forwarded to the Ohio Police and Fire Pension Fund as of August 2, 2006. In a letter dated July 19, 2006 the balance owed on all certifications of amounts due the Ohio Police and Fire Pension Fund was \$1,504,431. This amount does not include \$79,172 that was sent by the County on August 2, 2006.

**13. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY**

**Changes in Accounting Principles**

For 2005, the City ceased to report using generally accepted accounting principles and reported on the modified cash basis as described in Note 2 Basis of Accounting.

**Restatement of Fund Equity**

The implementation of this change had the following effects on fund equity of the major and nonmajor funds of the City as they were previously reported. The effects on net assets of governmental and business-type activities are also presented.

	General	Permissive Tax	Economic Development	Other Governmental	Total Governmental
Fund Balance December 31, 2002	\$1,149,575	\$388,789	\$243,253	\$619,990	\$2,401,607
Eliminate Asset Accruals	(5,198,171)	(7,135)	0	(5,780,280)	(10,985,586)
Eliminate Prepaid Items	0	0	0	0	0
Eliminate Interfund Receivable (Payables)	0	0	0	0	0
Eliminate Liability Accruals	5,209,090	45,275	21,185	5,961,432	11,236,982
Adjusted Fund Balance December 31, 2002	<u>\$1,160,494</u>	<u>\$426,929</u>	<u>\$264,438</u>	<u>\$801,142</u>	<u>\$2,653,003</u>
Capital Assets					<u>15,986,631</u>
Governmental Activities Net Assets, December 31, 2002					<u>\$18,639,634</u>

**CITY OF NORWOOD  
HAMILTON COUNTY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**14. COMPLIANCE**

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

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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 Norwood  
Hamilton County  
4645 Montgomery Road  
Norwood, Ohio 45212

To City Council:

We have audited the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Norwood, Hamilton County, Ohio (the City), as of and for the year ended December 31, 2003, which collectively comprise the Government's basic financial statements and have issued our report thereon dated August 9, 2006, wherein, we noted the Government uses a comprehensive basis of accounting other than generally accepted accounting principles, and described the City's viability as a going concern. 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 Government's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Government's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as items 2003-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the City's management dated August 9, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Government'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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. In a separate letter to the City's management dated August 9, 2006, we reported another matter related to noncompliance we deemed immaterial.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

August 9, 2006

**CITY OF NORWOOD  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003**

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

**FINDING NUMBER 2003-001**

**Material Noncompliance/Reportable Condition**

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

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

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

**Officials' Response**

Because of the precarious financial condition of the City of Norwood, the City elected to forgo the completion of a CAFR and to issue O.C.B.O.A. (Other Comprehensive Basis of Accounting) statements for the years 2003, 2004 and 2005. These steps were taken with the full knowledge and in consultation with State Auditor's Office. In combination with the issuance of the O.C.B.O.A. statements for 2003, 2004, and 2005, the City has elected to have a combined multi year audit for the years 2004 and 2005. These steps while causing a non-compliance/reportable condition to exist and will perhaps generate a small fine from the State of Ohio will save the City of Norwood approximately \$65,000 in audit and other fees over this three year period. The City will consider the issuance of a CAFR in 2006 depending on the City's financial condition at that time.





**Auditor of State  
Betty Montgomery**

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**CITY OF NORWOOD**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 21, 2006**