

CITY OF NORTON, OHIO

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 1997

Charles E. Harris & Associates, Inc.
Certified Public Accountants

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CITY OF NORTON, OHIO

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CITY OF NORTON, OHIO

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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Honorable Mayor and Members of City Council
City of Norton
Norton, Ohio 44203-5708

We have reviewed the Independent Auditor's Report of the City of Norton, Summit County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 1997 through December 31, 1998. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Norton is responsible for compliance with these laws and regulations.



JIM PETRO
Auditor of State

January 5, 2000

INDEPENDENT ACCOUNTANT'S REPORT

The Honorable Mayor and Members of Council
City of Norton
Norton, Ohio

We have audited the accompanying general purpose financial statements of City of Norton (the City), as of and for the year ended December 31, 1997. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of December 31, 1997, for the years then ended in conformity with generally accepted accounting principles.

As described in Note 2 to the general purpose financial statements, in 1997 the City changed its financial statement presentation from the cash basis to generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 13, 1999 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Charles E. Harris & Associates
Charles E. Harris & Associates
September 13, 1999

CITY OF NORTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 1997

| | GOVERNMENTAL FUND TYPES | | | | FIDUCIARY FUND TYPE ACCOUNT GROUPS | | | | TOTALS | |
|---|-------------------------|---------------------|------------------|------------------|------------------------------------|--------------------|----------------------|---------------------|-------------------|--|
| | General | Special Revenue | Capital Projects | Debt Service | Agency | General | General Fixed Assets | Long-Term Debt | (Memorandum Only) | |
| ASSETS | | | | | | | | | | |
| Cash & Cash Equivalents (Note 4) | \$ 301,745 | \$ 592,497 | \$708,945 | \$ 15,181 | \$ 622,722 | \$ 0 | \$ 0 | 0 | \$ 2,241,090 | |
| Receivables: | | | | | | | | | | |
| Taxes | 275,250 | 1,053,255 | 0 | 0 | 0 | 0 | 0 | 0 | 1,328,505 | |
| Accounts | 16,431 | 6,384 | 330 | 0 | 0 | 0 | 0 | 0 | 23,145 | |
| Intergovernmental | 198,258 | 51,026 | 0 | 0 | 0 | 0 | 0 | 0 | 249,284 | |
| Prepaid Expenses | 12,746 | 4,536 | 0 | 0 | 0 | 0 | 0 | 0 | 17,282 | |
| Supplies Inventory | 2,714 | 4,105 | 0 | 0 | 0 | 0 | 0 | 0 | 6,819 | |
| Fixed Assets | 0 | 0 | 0 | 0 | 0 | 7,210,427 | 0 | 0 | 7,210,427 | |
| Amount Available in the Debt Service Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 15,181 | 15,181 | |
| Amount to be Provided for Retirement of General Long-Term Obligations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 565,311 | 565,311 | |
| Total Assets | <u>\$ 807,144</u> | <u>\$ 1,711,803</u> | <u>\$709,275</u> | <u>\$ 15,181</u> | <u>\$ 622,722</u> | <u>\$7,210,427</u> | <u>\$ 580,492</u> | <u>\$11,657,044</u> | | |

The notes to the general purpose financial statements are an integral part of these statements.

CITY OF NORTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 1997
 (CONTINUED)

| | GOVERNMENTAL FUND TYPES | | | | FIDUCIARY FUND TYPE | ACCOUNT GROUPS | | | TOTALS | |
|------------------------------------|-------------------------|---------------------|------------------|------------------|------------------------|--------------------|-------------------|------------------|--------------|----------------------|
| | General | | Special Revenue | Capital Projects | | General | General | Long-Term Assets | Fixed Assets | (Memorandum Only) |
| | General | Revenue | Projects | Service | | Agency | | | | |
| ABILITIES | | | | | | | | | | |
| Accounts Payable | \$ 46,798 | \$ 32,523 | \$ 17,399 | \$ 0 | \$ 28,189 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 124,909 |
| Accrued Wages & Benefits | 64,788 | 31,913 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 96,701 |
| Expenditures | 121,989 | 38,939 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 160,928 |
| Contracts Payable | 0 | 0 | 93,399 | 0 | 0 | 0 | 0 | 0 | 0 | 93,399 |
| Deferred Revenues | 291,181 | 718,227 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,009,408 |
| Deposits on Deposit | 0 | 0 | 0 | 0 | 43,941 | 0 | 0 | 0 | 0 | 43,941 |
| Interest Payable | 0 | 0 | 40,193 | 0 | 0 | 0 | 0 | 0 | 0 | 40,193 |
| Claims Payable | 6,337 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6,337 |
| Notes Payable | 0 | 0 | 461,000 | 0 | 0 | 0 | 0 | 0 | 0 | 461,000 |
| Special Assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bonds Payable | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 115,000 | 0 | 115,000 |
| Impensated Absences Payable | 21,739 | 975 | 0 | 0 | 0 | 0 | 0 | 465,492 | 0 | 488,206 |
| Deferred Compensation Payable | 0 | 0 | 0 | 0 | 550,592 | 0 | 0 | 0 | 0 | 550,592 |
| Total Liabilities | <u>552,832</u> | <u>822,577</u> | <u>611,991</u> | <u>0</u> | <u>622,722</u> | <u>0</u> | <u>0</u> | <u>580,492</u> | <u>0</u> | <u>3,190,614</u> |
| UND EQUITY | | | | | | | | | | |
| Investment in General Fixed Assets | 0 | 0 | 0 | 0 | 0 | 7,210,427 | 0 | 0 | 0 | 7,210,427 |
| End Balance: | | | | | | | | | | |
| Reserved for Encumbrances | 0 | 0 | 179,426 | 0 | 0 | 0 | 0 | 0 | 0 | 179,426 |
| Reserved for Inventory of Supplies | 2,714 | 4,105 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6,819 |
| Reserved for Prepaid Items | 12,746 | 4,536 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 17,282 |
| Reserved for Debt Service | 0 | 0 | 0 | 15,181 | 0 | 0 | 0 | 0 | 0 | 15,181 |
| Unreserved | 238,852 | 880,585 | (82,142) | 0 | 0 | 0 | 0 | 0 | 0 | 1,037,295 |
| Total Fund Equity | <u>254,312</u> | <u>889,226</u> | <u>97,284</u> | <u>15,181</u> | <u>0</u> | <u>7,210,427</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>8,466,430</u> |
| Total Liabilities & Fund Equity | <u>\$ 807,144</u> | <u>\$ 1,711,803</u> | <u>\$709,275</u> | <u>\$ 15,181</u> | <u>\$ 622,722</u> | <u>\$7,210,427</u> | <u>\$ 580,492</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$11,657,044</u> |

These notes to the general purpose financial statements are an integral part of these statements.

CITY OF NORTON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1997

| | GOVERNMENTAL FUND TYPES | | | | Totals (Memorandum Only) |
|--|--------------------------------|----------------------------|-----------------------------|---------------------|---|
| | General | Special Revenue | Capital Projects | Debt Service | |
| REVENUES | | | | | |
| Taxes | \$ 287,362 | \$ 2,600,957 | \$ 0 | \$ 0 | \$ 2,888,319 |
| Intergovernmental | 892,362 | 500,341 | 334,706 | 0 | 1,727,409 |
| Special Assessment | 0 | 0 | 0 | 11,650 | 11,650 |
| Charges for Services | 15,091 | 4,170 | 0 | 0 | 19,261 |
| Fines, Licenses, & Permits | 245,382 | 30,242 | 0 | 0 | 275,624 |
| Interest | 78,261 | 7,955 | 0 | 0 | 86,216 |
| Miscellaneous | 2,351 | 23,077 | 385 | 0 | 25,813 |
| Total Revenues | 1,520,809 | 3,166,742 | 335,091 | 11,650 | 5,034,292 |
| EXPENDITURES | | | | | |
| Current Operations & Maintenance | | | | | |
| Security of Persons & Property | 1,285,825 | 285,655 | 0 | 0 | 1,571,480 |
| Public Health & Welfare | 0 | 246,791 | 0 | 0 | 246,791 |
| Leisure Time Activities | 70,628 | 0 | 0 | 0 | 70,628 |
| Community Development | 67,493 | 17,570 | 0 | 0 | 85,063 |
| Basic Utility Services | 0 | 623 | 0 | 0 | 623 |
| Transportation | 2,240 | 581,116 | 0 | 0 | 583,356 |
| General Government | 940,177 | 22,282 | 459 | 0 | 962,918 |
| Capital Outlay | 6,132 | 74,762 | 884,120 | 0 | 965,014 |
| Debt Service: | | | | | |
| Principal | 0 | 0 | 0 | 7,000 | 7,000 |
| Interest & Fiscal Charges | 0 | 0 | 44,554 | 8,052 | 52,606 |
| Total Expenditures | 2,372,495 | 1,228,799 | 929,133 | 15,052 | 4,545,479 |
| Excess Revenue Over(Under) Expenditures | (851,686) | 1,937,943 | (594,042) | (3,402) | 488,813 |
| OTHER FINANCING SOURCES (Uses) | | | | | |
| Sale of Fixed Assets | 2,521 | 0 | 0 | 0 | 2,521 |
| Transfers In | 1,685,000 | 283,000 | 1,107,641 | 1,791 | 3,077,432 |
| Transfers Out | (653,040) | (1,925,791) | (498,601) | 0 | (3,077,432) |
| Other Sources | 65,873 | 16,172 | 257,021 | 14,000 | 353,066 |
| Other Uses | (9,487) | (201,302) | 0 | 0 | (210,789) |
| Total Other Financing Sources (Uses) | 1,090,867 | (1,827,921) | 866,061 | 15,791 | 144,798 |
| Excess of Revenues and Other Sources Over (Under)Expenditures and Other Uses | | | | | |
| | 239,181 | 110,022 | 272,019 | 12,389 | 633,611 |
| Fund Balance - Beginning of Year, Restated | 15,131 | 779,204 | (174,735) | 2,792 | 622,392 |
| Fund Balance - End of Year | \$ 254,312 | \$ 889,226 | \$ 97,284 | \$ 15,181 | \$ 1,256,003 |

The notes to the general purpose financial statements are an integral part of these statements.

CITY OF NORTON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1997

| | GENERAL FUND | | | SPECIAL REVENUE FUNDS | | |
|--|-------------------|------------|---|-----------------------|--------------|---|
| | Revised Budget | Actual | Variance- Favorable (Unfavorable) | Revised Budget | Actual | Variance- Favorable (Unfavorable) |
| REVENUES | | | | | | |
| Local Taxes | \$ 287,362 | \$ 287,362 | \$ 0 | \$ 2,572,261 | \$ 2,562,481 | \$ (9,780) |
| Intergovernmental Revenue | 841,602 | 841,602 | 0 | 545,769 | 495,629 | (50,140) |
| Special Assessments | 0 | 0 | 0 | 0 | 0 | 0 |
| Charges for Services | 13,815 | 13,815 | 0 | 4,170 | 4,170 | 0 |
| Fines, Licenses, & Permits | 241,569 | 241,569 | 0 | 36,133 | 29,682 | (6,451) |
| Interest | 78,261 | 78,261 | 0 | 11,695 | 7,955 | (3,740) |
| Miscellaneous | 966 | 966 | 0 | 23,343 | 17,370 | (5,973) |
| Total Revenues | 1,463,575 | 1,463,575 | 0 | 3,193,371 | 3,117,287 | (76,084) |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| Security of Persons & Property | 1,297,029 | 1,254,028 | 43,001 | 356,533 | 265,923 | 90,610 |
| Public Health Services | 0 | 0 | 0 | 282,930 | 270,910 | 12,020 |
| Leisure Time Activities | 79,169 | 79,169 | 0 | 13,028 | 17,012 | (3,984) |
| Community Environment | 69,800 | 65,814 | 3,986 | 917 | 630 | 287 |
| Basic Utility Service | 0 | 0 | 0 | 623 | 623 | 0 |
| Transportation | 0 | 0 | 0 | 640,665 | 577,397 | 63,268 |
| General Government | 988,455 | 896,423 | 92,032 | 19,322 | 19,322 | 0 |
| Capital Outlay | 14,351 | 6,131 | 8,220 | 126,235 | 74,762 | 51,473 |
| Debt Service: | | | | | | |
| Principal Retirement | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest & Other Charges | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Expenditures | 2,448,804 | 2,301,565 | 147,239 | 1,440,253 | 1,226,579 | 213,674 |
| Excess Revenues Over (Under) Expenditures | (985,229) | (837,990) | 147,239 | 1,753,118 | 1,890,708 | 137,590 |
| OTHER FINANCING SOURCES (Uses) | | | | | | |
| Sale of Fixed Assets | 2,521 | 2,521 | 0 | 0 | 0 | 0 |
| Sale of Notes | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers In | 1,685,000 | 1,685,000 | 0 | 283,000 | 283,000 | 0 |
| Transfers Out | (653,190) | (653,040) | 150 | (1,925,947) | (1,925,791) | 156 |
| Other Sources | 65,873 | 65,873 | 0 | 209,517 | 16,172 | (193,345) |
| Other Uses | (9,486) | (9,486) | 0 | (406,277) | (201,301) | 204,976 |
| Total Other Financing Sources(Uses) | 1,090,718 | 1,090,868 | 150 | (1,839,707) | (1,827,920) | 11,787 |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures | 105,489 | 252,878 | 147,389 | (86,589) | 62,788 | 149,377 |
| Fund Balance-January 1, 1997 | 48,867 | 48,867 | 0 | 529,709 | 529,709 | 0 |
| Fund Balance - December 31, 1997 | \$ 154,356 | \$ 301,745 | \$ 147,389 | \$ 443,120 | \$ 592,497 | \$ 149,377 |

(Continued)

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

CITY OF NORTON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

| | <u>DEBT SERVICE FUNDS</u> | | | <u>CAPITAL PROJECTS FUNDS</u> | | |
|--|---------------------------|---------------|---|-------------------------------|---------------|---|
| | <u>Revised Budget</u> | <u>Actual</u> | <u>Variance-Favorable (Unfavorable)</u> | <u>Revised Budget</u> | <u>Actual</u> | <u>Variance-Favorable (Unfavorable)</u> |
| REVENUES | | | | | | |
| Local Taxes | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Intergovernmental Revenue | 0 | 0 | 0 | 300,000 | 334,706 | 34,706 |
| Special Assessments | 11,641 | 11,650 | 9 | 0 | 0 | 0 |
| Charges for Services | 0 | 0 | 0 | 0 | 0 | 0 |
| Fines, Licenses, & Permits | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest | 0 | 0 | 0 | 0 | 0 | 0 |
| Miscellaneous | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Revenues | 11,641 | 11,650 | 9 | 300,000 | 334,706 | 34,706 |
| EXPENDITURES | | | | | | |
| <u>Current</u> | | | | | | |
| Security of Persons & Property | 0 | 0 | 0 | 0 | 0 | 0 |
| Public Health Services | 0 | 0 | 0 | 0 | 0 | 0 |
| Leisure Time Activities | 0 | 0 | 0 | 0 | 0 | 0 |
| Community Environment | 0 | 0 | 0 | 0 | 0 | 0 |
| Basic Utility Service | 0 | 0 | 0 | 0 | 0 | 0 |
| Transportation | 0 | 0 | 0 | 0 | 0 | 0 |
| General Government | 0 | 0 | 0 | 1,222 | 1,222 | 0 |
| Capital Outlay | 0 | 0 | 0 | 1,890,180 | 944,785 | 945,395 |
| Debt Service: | | | | | | |
| Principal Retirement | 617,000 | 978,000 | (361,000) | 0 | 0 | 0 |
| Interest & Other Charges | 53,996 | 52,606 | 1,390 | 0 | 0 | 0 |
| Total Expenditures | 670,996 | 1,030,606 | (362,390) | 1,891,402 | 946,007 | 945,395 |
| Excess Revenues Over (Under) Expenditures | (659,355) | (1,018,956) | (359,601) | (1,591,402) | (611,301) | 980,101 |
| OTHER FINANCING SOURCES (Uses) | | | | | | |
| Sale of Fixed Assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Sale of Notes | 0 | 361,000 | 361,000 | 0 | 100,000 | 100,000 |
| Transfers In | 763,016 | 656,345 | (106,671) | 291,857 | 453,087 | 161,230 |
| Transfers Out | 0 | 0 | 0 | (498,601) | (498,601) | 0 |
| Other Sources | 14,000 | 14,000 | 0 | 837,441 | 257,021 | (580,420) |
| Other Uses | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Other Financing Sources(Uses) | 777,016 | 1,031,345 | 254,329 | 630,697 | 311,507 | (319,190) |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures | 117,661 | 12,389 | (105,272) | (960,705) | (299,794) | 660,911 |
| Fund Balance-January 1, 1997 | 2,792 | 2,792 | 0 | 1,008,739 | 1,008,739 | 0 |
| Fund Balance - December 31, 1997 | \$ 120,453 | \$ 15,181 | \$ (105,272) | \$ 48,034 | \$ 708,945 | \$ 660,911 |

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

CITY OF NORTON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

| | <u>TOTAL (MEMORANDUM ONLY)</u> | | |
|---|--------------------------------|---------------------|---|
| | Revised Budget | Actual | Variance- Favorable (Unfavorable) |
| REVENUES | | | |
| Local Taxes | \$ 2,859,623 | \$ 2,849,843 | \$ (9,780) |
| Intergovernmental Revenue | 1,687,371 | 1,671,937 | (15,434) |
| Special Assessments | 11,641 | 11,650 | 9 |
| Charges for Services | 17,985 | 17,985 | 0 |
| Fines, Licenses, & Permits | 277,702 | 271,251 | (6,451) |
| Interest | 89,956 | 86,216 | (3,740) |
| Miscellaneous | 24,309 | 18,336 | (5,973) |
| Total Revenues | <u>4,968,587</u> | <u>4,927,218</u> | <u>(41,369)</u> |
| EXPENDITURES | | | |
| <u>Current</u> | | | |
| Security of Persons & | | | |
| Property | 1,653,562 | 1,519,951 | 133,611 |
| Public Health Services | 282,930 | 270,910 | 12,020 |
| Leisure Time Activities | 92,197 | 96,181 | (3,984) |
| Community Environment | 70,717 | 66,444 | 4,273 |
| Basic Utility Service | 623 | 623 | 0 |
| Transportation | 640,665 | 577,397 | 63,268 |
| General Government | 1,008,999 | 916,967 | 92,032 |
| Capital Outlay | 2,030,766 | 1,025,678 | 1,005,088 |
| Debt Service: | | | |
| Principal Retirement | 617,000 | 978,000 | (361,000) |
| Interest & Other Charges | 53,996 | 52,606 | 1,390 |
| Total Expenditures | <u>6,451,455</u> | <u>5,504,757</u> | <u>946,698</u> |
| Excess Revenues Over (Under) Expenditures | <u>(1,482,868)</u> | <u>(577,539)</u> | <u>905,329</u> |
| OTHER FINANCING SOURCES (Uses) | | | |
| Sale of Fixed Assets | 2,521 | 2,521 | 0 |
| Sale of Notes | 0 | 461,000 | 461,000 |
| Transfers In | 3,022,873 | 3,077,432 | 54,559 |
| Transfers Out | (3,077,738) | (3,077,432) | 306 |
| Other Sources | 1,126,831 | 353,066 | (773,765) |
| Other Uses | (415,763) | (210,787) | 204,976 |
| Total Other Financing Sources(Uses) | <u>658,724</u> | <u>605,800</u> | <u>(52,924)</u> |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures | <u>(824,144)</u> | <u>28,261</u> | <u>852,405</u> |
| Fund Balance - January 1, 1997 | <u>1,590,107</u> | <u>1,590,107</u> | <u>0</u> |
| Fund Balance - December 31, 1997 | <u>\$ 765,963</u> | <u>\$ 1,618,368</u> | <u>\$ 852,405</u> |

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

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Norton, Ohio is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The City operates under a council-mayor form of government and provides the following services: public safety, public services, health, recreation and community development.

The accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups and the results of operations of the various fund types. The financial statements are presented as of December 31, 1997, and for the year then ended, and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

In evaluating how to define the governmental reporting entity, the City adopted the provision of GASB Statement No. 14, *The Financial Reporting Entity*, under which the financial statements include all the organizations, activities, functions, and component units for which the City (primary government) is financial accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the City's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

On this basis, the City's financial reporting entity has no component units but includes all funds, account groups, agencies, boards, and commissions that are part of the primary government, including police and fire protection, waste collection, parks and recreation, health, certain social services, and general administrative services.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Basis of Presentation**

The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to governments.

The financial transactions of the City are recorded in individual funds and account groups. The various funds and account groups are reported by type in the general purpose financial statements. Amounts in the "Total - (Memorandum Only)" columns in the general purpose financial statements represent a summation of the combined groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different bases of accounting, both restricted and unrestricted amounts, interfund transactions that have not been eliminated, and the caption "Amount to be Provided", which does not represent an asset. Consequently, amounts shown in the "Total - (Memorandum Only)" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the City. The City uses the following fund categories, fund types, and account groups:

Governmental Funds

Governmental funds are accounted for on a spending measurement focus. Only current assets and current liabilities are generally included on their balance sheet. Their operating statements present sources (revenue and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during a period.

General Fund - To account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available for any purpose, provided it is expended or transferred in accordance with the Charter and legislation of the City of Norton and or the general laws of the State of Ohio.

Special Revenue Funds - To account for the revenues derived from specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - To account for the accumulation of resources for, and the payment of, general and special assessment long-term debt principal and interest.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Basis of Presentation** (Continued)

Governmental Funds (Continued)

Capital Projects Funds - To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

Fiduciary Funds

Agency Funds - To account for assets held by the City as an agency for others and including the Deferred Compensation and payroll deductions withheld and awaiting payment. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt.

General Fixed Assets Account Group - To account for all fixed assets of the City.

General Long-Term Obligations Account Group - To account for all unmatured long-term obligations of the City.

C. **Basis of Accounting**

All governmental fund types are accounted for on the modified accrual basis of accounting and the flow of financial resources measurement focus. Governmental revenues are recognized when they become measurable and available to financial expenditures of the current period. Expenditures are recognized when the related fund liability is incurred, if measurable, with the exception of accumulated unpaid employee compensation which is not payable from expendable financial resources. Agency funds are purely custodial (assets equal liabilities), do not involve measurement of results of operations and are accounted for on the modified accrual basis of accounting.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Basis of Accounting** (Continued)

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available, as they are collectible within the current period or soon enough thereafter to be used to pay obligations of the current period: investment earnings, special assessments due in the current year, income taxes withheld by employers, and state-levied locally shared taxes (including motor vehicle fees). Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made.

Property taxes and special assessments (in the debt service funds), though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property tax and special assessment receivables are recorded and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, income taxes other than those withheld by employers, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related liability is incurred except for unmatured principal and interest on general long-term debt which are recognized when paid. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

D. **Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. Budgetary Process (Continued)

All funds other than the agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department of the City. Budgetary modifications may only be made by ordinance of the City Council.

The City's budgetary process is as follows:

1. Tax Budget

A tax budget of estimated revenues and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. All funds, except for Agency funds, are legally required to be budgeted.

2. Estimated Resources

The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include January 1, 1997 unencumbered fund balances. However, those fund balances are available for appropriation.

3. Appropriations

A temporary appropriation measure to control the level of expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year to the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Process** (Continued)

4. **Encumbrances**

As part of formal budgetary control, contracts and other commitments for the expenditures of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriations and determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent expenditures for governmental funds.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. At the close of each fiscal year, encumbered appropriation balances lapse and are reencumbered and reappropriated to the subsequent fiscal year with the exception of contract commitments in the capital project fund.

5. **Governmental Fund Budgets**

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types, are presented on the budgetary basis to provide a comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- a. Revenues are recorded when received in cash (Budget Basis) as opposed to when susceptible to accrual (GAAP Basis).
- b. Expenditures are recorded when paid in cash (Budget Basis) as opposed to when the liability is incurred (GAAP Basis).

CITY OF NORTON, OHIO
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1997
 (CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. Budgetary Process (Continued)

5. Governmental Fund Budgets (Continued)

c. Short-term note proceeds and note principal retirement for governmental funds are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The adjustments necessary to convert the results of operations for the year from the GAAP basis to the budget basis for the governmental funds are as follows

**Excess of Revenues and Other Financing Sources Over (Under)
 Expenditures and Other Financing Uses -
 All Governmental Fund Types**

| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> |
|-----------------------------|-------------------|------------------------|---------------------|-------------------------|
| GAAP Basis | \$ 239,181 | \$ 110,022 | \$ 12,389 | \$ 272,019 |
| Increase (Decrease) due to: | | | | |
| Revenue Accruals | (57,234) | (49,454) | 0 | (654,939) |
| Expenditure Accruals | 70,931 | 2,220 | 617,000 | (16,874) |
| Debt Proceeds | 0 | 0 | 0 | 100,000 |
| Debt Retirement | 0 | 0 | (617,000) | 0 |
| Budget Basis | <u>\$ 252,878</u> | <u>\$ 62,788</u> | <u>\$ 12,389</u> | <u>\$ (299,794)</u> |

E. Cash and Cash Equivalents

For investment purposes, the City pools all individual cash balances in a bank account and short-term cash equivalents. These balances are stated at cost or amortized cost, except for investments in the deferred compensation agency fund, which are reported at market value. For presentation on the combined balance sheet, investments with original maturities of three months or less are considered to be cash equivalents.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. Cash and Cash Equivalents (Continued)

Interest allocation is determined by the Ohio Constitution, state statutes, and local ordinances adopted under City Charter. Under these provisions, City funds required to receive interest allocations are: 1) those which receive proceeds from the sale of notes and/or bonds; and 2) those which receive distributions of state gasoline tax and motor vehicle license fees (street maintenance and state highway special revenue funds). All remaining interest is allocated to the general fund.

F. Fixed Assets

The accounting and reporting treatment applied to the fixed assets associated with a fund are determined by its measurement focus. General fixed assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental type funds and capitalized (recorded and accounted for) in the General Fixed Asset Account Group. Infrastructure fixed assets such as water lines and storm sewers are capitalized and are reported as part of the General Fixed Asset Account Group.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available.

G. Compensated Absences

In conformity with GASB Statement No. 16, the City accrues vacation and compensatory time benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Likewise, the City accrues for sick pay benefits as earned by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future. These compensated absences are measured using the pay rates in effect at December 31, 1997. Additionally, certain salary related payments associated with the payment of compensated absences have been accrued.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

G. Compensated Absences (Continued)

For governmental funds, the City provides a liability for unpaid accumulated sick leave and vacation time for eligible employees in the period the employees become eligible to receive payment. The current portion of unpaid compensated absences is the amount to be paid using expendable available compensated absences and is reported as an accrued liability in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the General Long-Term Obligations Account Group.

H. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

Under Ohio law, a debt retirement fund must be created and used for the payment of all debt principal and interest. Generally accepted accounting principles require the allocation of the debt liability among the capital projects funds and the general long-term obligations account group, with principal and interest payments on matured general obligation long-term debt being reported in the debt service fund. To comply with GAAP reporting requirements, the City's debt retirement fund has been split among the appropriate funds and account groups. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

I. Deferred Revenue

Deferred revenue consists of property taxes. Although property taxes receivable are measurable, they are recorded and deferred until they become available because the revenue is not available soon enough in the subsequent year to finance current period obligations.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

J. **Inventory**

Inventory is stated at cost on a first-in, first-out basis. The cost is recorded as an expenditure at the time inventory is consumed (consumption method). In the governmental funds, reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

K. **Prepaid Expenses**

Payments made to vendors for services that will benefit periods beyond December 31, 1997 are recorded as prepaid items. A portion of the relevant funds balances equal to the prepaid items has been reserved to indicate that is not available for appropriation.

L. **Reservations of Fund Balance**

Reservations of fund balance of retained earnings indicate that a portion of the balance is not available for expenditure or is legally segregated for specific future use. Balances are reserved for inventories of materials and supplies, prepaid expenses, encumbrances (for governmental funds), and debt service.

M. **Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

NOTE 2: **RESTATEMENT OF FUND BALANCES**

The accounting policies and financial reporting practices of the City followed during the preparation of the accompanying financial statements conform to the generally accepted accounting principles as applicable to governmental units. Accordingly, the accompanying financial statements are prepared on the modified accrual basis, whereas the City maintains its accounting systems on the cash basis. The following balances were restated to cover cash basis to accrual basis.

CITY OF NORTON, OHIO
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED DECEMBER 31, 1997
 (CONTINUED)

NOTE 2: RESTATEMENT OF FUND BALANCES (Continued)

| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> |
|---------------------------------|------------------|------------------------|---------------------|-------------------------|
| December 31, 1996 | \$ 48,871 | \$ 529,709 | \$ 2,792 | \$ 1,008,685 |
| GAAP Adjustment from Cash Basis | (33,740) | 249,495 | 0 | (1,183,420) |
| January 1, 1997 | <u>\$ 15,131</u> | <u>\$ 779,204</u> | <u>\$ 2,792</u> | <u>\$ (174,735)</u> |

NOTE 3: PROPERTY TAXES

Real property taxes were levied on assessed values which equal 35% of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last appraisal was completed for tax year 1995.

Real property taxes become a lien on all non-exempt real property located in the County on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the fiscal year ended December 31, 1997 was \$6.50 per \$1000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$5.19 per \$1000 of assessed valuation of real property classified as residential/agricultural and \$5.59 per \$1000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 1997 was \$6.50 per \$1000 of assessed valuation.

Real Estate - 1996 Valuation

| | |
|---|-----------------------|
| Residential/Agricultural | \$ 126,276,670 |
| Commercial/Industrial | 25,099,750 |
| Public Utilities | 10,137,420 |
| General Tangible Personal Property - 1997 Valuation | 19,752,706 |
| | <u>\$ 181,266,546</u> |

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 3: **PROPERTY TAXES** (Continued)

The Summit County Treasurer collects property tax on behalf of all taxing districts within the County. The Summit County Auditor periodically remits to the taxing districts their portions of the taxes collected. Such collections are available only to pay current period liabilities.

NOTE 4: **MUNICIPAL INCOME TAXES**

The City levies a municipal income tax of 1.5% on all salaries, wages, commissions, and other compensation, and net profits earned within the City, as well as incomes of residents earned outside the City. In the later case, the City allows a credit of 100% of the tax paid to another municipality.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly. Corporations and other individual taxpayers are also required to pay their estimated taxes at least quarterly and file a final return annually.

Ohio law requires all municipal income tax rates above 1% to be voted by the residents of the municipality.

NOTE 5: **DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

The classification of cash and cash equivalents on the combined financial statements is based on criteria set forth in GASB Statement No. 9. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3. The captions on the combined balance sheet related to cash and cash equivalents as follows:

| | <u>Cash/Cash Equivalents</u> | <u>Investments</u> |
|-----------------------|----------------------------------|---------------------|
| GASB Statement No. 9 | \$ 1,690,498 | \$ 550,592 |
| Investments: | | |
| Repurchase Agreements | (1,415,000) | 1,415,000 |
| GASB Statement No. 3 | <u>\$ 275,498</u> | <u>\$ 1,965,592</u> |

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 5: **DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**
(Continued)

The City maintains a separate cash and investment pool that is available for use by all funds and accounts except the Deferred Compensation Agency fund and Payroll Clearance Agency fund, which are maintained separately. Each fund type's portion of this pool is displayed on the combined balance sheet as Cash and Cash Equivalents.

Legal Requirements - Statutes require the classifications of monies held by the City into three categories:

Category 1 - consists of "active" monies, those monies required to be kept in a "cash" or a "near-cash" status for immediate use by the City. Such monies must be maintained either as cash in the City's treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 - consists of "inactive" monies, those monies not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 - consists of "interim" monies, those monies which are not needed for immediate use but which will be needed before the end of the current period of depositories.

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be directly issuances of federal government agencies or instrumentalities;

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 5: **DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**
(Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds or other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreement secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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

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

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

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

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 5: **DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**
(Continued)

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states.

Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Deposits

The Governmental Accounting Standards Board has established risk categories for deposits as follows:

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name

Category 3 - Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging institution or its trust department or agent but not in the City's name.

| <u>Insured</u> | <u>Financial Institution</u> | <u>Book Balance</u> | <u>Bank Balance</u> |
|----------------|------------------------------|---------------------|---------------------|
| FDIC | First Merit | \$ 109,746 | \$ 117,088 |
| FDIC | Bank One | 165,752 | 165,752 |
| Total Deposits | | \$ 275,498 | \$ 282,840 |

All deposits are carried at cost. At year end, the carrying amount of the City's cash and deposits was \$275,498 and the bank balance was \$282,840. Of the bank balance, \$200,000 was insured by the FDIC and \$82,840 was classified as Risk Category 3.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 5: **DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**
(Continued)

Investments

The Governmental Accounting Standards Board has established risk categories for investments as follows:

Category 1 - Investments that are insured or registered or for which the securities are held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

The City's categorized investments at December 31, 1997 were as follows:

| <u>Investment</u> | <u>Financial Institution</u> | <u>Cost</u> | <u>Market Value</u> |
|---|------------------------------|------------------|---------------------|
| Repurchase Agreement (Risk Category 3) | First Merit | \$1,415,000 | \$1,415,000 |
| Total Categorized Investments | | <u>1,415,000</u> | <u>1,415,000</u> |

The City's uncategorized investments
at December 31, 1997 were as follows:

| | | |
|---|---------------------------|---------------------------|
| Ohio Public Employees Deferred Compensation | 532,706 | 532,706 |
| Aetna Life Insurance & Annuity Company | 17,886 | 17,886 |
| Total Uncategorized Investments | <u>550,592</u> | <u>550,592</u> |
| Total Investments | <u><u>\$1,965,592</u></u> | <u><u>\$1,965,592</u></u> |

Statutes establishing the deferred compensation plan discussed in Note 9 authorize the City to enter into agreements with specific third parties to administer the plans on behalf of the City and its employees. As of December 31, 1997, the variable and fixed annuity contracts with the Ohio Public Employees Deferred Compensation Program had a market value of \$532,706, which is reported in the Agency funds. The contracts are uninsured and uncollateralized, but are held by the third party or their agent, in the name of the City. The Agency Funds also include guaranteed investment contracts with Aetna, which had a market value of \$17,886 at December 31, 1997. The investments are group annuity contracts.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 5: **DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**
(Continued)

Investments (Continued)

The City maintains control over cash balances by funds through its accounting system. Certain cash is commingled for investment purposes to maximize the rate of interest that can be earned on investment funds. Cash balances and investments by fund types are as follows:

| Governmental Fund Types | |
|-------------------------|--------------------------|
| General Fund | \$ 301,745 |
| Special Revenue Fund | 592,497 |
| Debt Service Fund | 15,181 |
| Capital Projects Fund | 708,945 |
| Fiduciary Fund Types | |
| Agency Funds | 622,722 |
| | <hr/> <u>\$2,241,090</u> |

CITY OF NORTON, OHIO
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1997
 (CONTINUED).

NOTE 6: **RECEIVABLES**

The receivables at December 31, 1997 consist of taxes, intergovernmental receivables arising from grants, entitlements, or shared revenues. All receivables are considered fully collectible.

A summary of the principal items of intergovernmental receivables follows:

| <u>FUND TYPE/FUND</u> | <u>AMOUNTS</u> |
|-------------------------------------|------------------|
| <u>General Fund</u> | |
| Estate Tax | \$ 63,725 |
| Local Government Support | 109,624 |
| Local Government Revenue Assistance | 13,597 |
| Franchise Fee | 9,175 |
| Liquor Permits | 2,137 |
| | <hr/> |
| Total General Fund | <hr/> 198,258 |
| <u>Special Revenue Funds</u> | |
| Street Maintenance | 25,238 |
| Gasoline Tax | 20,222 |
| Motor Vehicle License Tax | <hr/> 45,460 |
| | <hr/> |
| State Highway | 2,046 |
| Gasoline Tax | 1,639 |
| Motor Vehicle License Tax | <hr/> 3,685 |
| | <hr/> |
| Permissive | |
| Permissive Tax | 1,846 |
| | <hr/> 1,846 |
| | <hr/> |
| DWI Education & Enforcement | |
| Immobilization Fee | 35 |
| | <hr/> 35 |
| | <hr/> |
| Total Special Revenue Funds | <hr/> 51,026 |
| | <hr/> |
| Total All Funds | <hr/> \$ 249,284 |

CITY OF NORTON, OHIO
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1997
 (CONTINUED)

NOTE 7: FIXED ASSETS

The general fixed assets in 1997 were as follows:

| <u>Description</u> | <u>December 31, 1997</u> |
|---|------------------------------|
| Land | \$ 176,350 |
| Buildings & Improvements | 1,502,540 |
| Furniture, Fixtures, Machinery & Equipment | 1,243,234 |
| Infrastructure | 3,287,111 |
| Vehicle | 1,001,192 |
| Total | <u>\$ 7,210,427</u> |

During 1998 the City had an appraisal performed due to the conversion from cash basis of accounting to the GAAP basis of accounting. In prior years, fixed assets were not recorded on a cash basis.

NOTE 8: PENSION AND RETIREMENT

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Public Employees Retirement System (the PERS of Ohio)

The PERS of Ohio adopted GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans* in 1994 and have applied the provisions of these statements retroactively to January 1, 1993. The following information was provided by the PERS of Ohio to assist the City in complying with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

1. Pension Benefit Obligations

All employees of the City, except non-administrative full-time uniformed police officers and full-time firefighters, participate in the PERS of Ohio, a cost-sharing multiple-employer defined benefit pension plan. The PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 8: **PENSION AND RETIREMENT** (Continued)

A. **Public Employees Retirement System (the PERS of Ohio)** (Continued)

1. **Pension Benefit Obligations** (Continued)

Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 466-2085.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 1997 employer rate for local government employer units was 13.55% of covered payroll, 8.44% to fund pension benefit obligation and 5.11% to fund health care. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the PERS of Ohio for the years ending December 31, 1997, 1996, and 1995 were \$156,753, \$150,205, and \$150,619, respectively, which were equal to the required contributions for each year. The full amount has been contributed for 1997 and 1996, 73% has been contributed for 1998 with the remainder being reported as a liability within the respective funds.

2. **Other Postemployment Benefits**

In addition to the pension benefit obligation described above, the PERS of Ohio provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefits (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 1997 employer contribution

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 8: **PENSION AND RETIREMENT** (Continued)

A. **Public Employees Retirement System (the PERS of Ohio)** (Continued)

2. **Other Postemployment Benefits** (Continued)

rate for local government employers was 13.55% of covered payroll; 5.11% was the portion that was used to fund health care for 1997, which amounted to \$59,112 of covered payroll.

The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

Other Postemployment Benefits are financed through employer contributions and investments earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. Expenditures for Other Postemployment Benefits during 1997 were \$393,559,827. As of December 31, 1997, the unaudited estimated net assets available for future Other Postemployment Benefits payments were \$8,292,570,002. The number of benefit recipients for Other Postemployment Benefits at December 31, 1997 was 113,906. During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

B. **Police and Firemen's Disability and Pension Fund (the PFDPF System of Ohio)**

The PFDPF System of Ohio continues to report pursuant to GASB Statement No. 5, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Government Employers* and GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Government Employers*. The PFDPF System of Ohio has indicated that they will report pursuant to GASB Statements No. 25 and No. 26 in a future reporting period. The following information was provided by the PFDPF System of Ohio to assist the City in complying with GASB Statement No. 27.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 8: PENSION AND RETIREMENT (Continued)

B. Police and Firemen's Disability and Pension Fund (the PFDPF System of Ohio)

1. Pension Benefit Obligations

All City full-time police officers and full-time firefighters participate in the Police and Firemen's Disability and Pension Fund of Ohio (the "PFDPF System of Ohio"), a cost-sharing multiple-employer defined benefit pension plan. The PFDPF System of Ohio 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. The Police and Firemen's Disability and Pension Fund of Ohio issues a publicly available financial report that includes financial statements and required supplementary information for the PFDPF System of Ohio. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the PFDPF System of Ohio for the years ending December 31, 1997, 1996, and 1995 were \$146,313, \$134,292, and \$136,874, respectively, which were equal to the required contributions for each year. The full amount has been contributed for 1997 and 1996, 73% has been contributed for 1998 with the remainder being reported as a liability within the respective funds.

2. Other Postemployment Benefits

The PFDPF System of Ohio provides postretirement health care coverage to any person who receives a monthly 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 on a full-time or two-thirds basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 8: **PENSION AND RETIREMENT** (Continued)

B. **Police and Firemen's Disability and Pension Fund (the PFDPF System of Ohio)**
(Continued)

2. **Other Postemployment Benefits** (Continued)

covered payroll and the total firefighter employer contribution rate is 24% of covered payroll. The Ohio Revised Code provides statutory authority for employer contributions and allows the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals.

Health care funding and accounting is on a pay-as-you-go basis. Currently, 6.5% of covered payroll, the Board-defined allocation, is used to pay retiree health care expenses. 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.

The number of participants eligible to receive health care benefits as of December 31, 1996, the latest information available, is 17,493 for police and 14,120 for firefighters. Employer contributions used to pay postemployment benefits were \$53,991 for police and \$6,878 for firefighters. The Fund's total health care expense for the year ending December 31, 1996, the latest information available, was \$71,674,335.

NOTE 9: **ACCUMULATED UNPAID EMPLOYEE BENEFITS**

In accordance with Government Accounting Standards Board (GASB) Statement 16, the City of Norton, Ohio has accrued a liability for compensated absences (vacation and sick leave) at December 31, 1997 along with any salary-related payments associated with the payment of compensated absences.

Sick leave for City employees is accrued at rates of 4.6 for every 80 hours. Employees who retire or terminate service after 10 years may convert 25 percent of accumulated sick leave days into a lump-sum payment within certain limitations. For governmental funds, the City recognized the current portion of this liability at December 31, 1997 that is expected to be liquidated with expendable available financial resources. As of

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 9: ACCUMULATED UNPAID EMPLOYEE BENEFITS (Continued)

December 31, 1997, the General Fund and Special Revenue Funds were \$14,581 and \$455, respectively. The remainder of the compensated absences liability for governmental funds is reported in the general long-term debt account group. The balance at December 31, 1997 is \$465,492.

City employees generally earn vacation leave ranging from 5 to 25 days per year based on length of service. No more than the amount of vacation accrued in the previous twelve-month period can be carried forward into the next calendar year without written consent of the City Mayor. For governmental fund types, accumulated vacation leave is recorded as a liability within the respective fund types since it has to be used in the following year or be forfeited. The accumulated vacation leave at December 31, 1997 for the General Fund and Special Revenue Fund was \$7,158 and \$520, respectively.

NOTE 10: OTHER EMPLOYEE BENEFITS

Deferred Compensation Plan

Employees of the City may elect to participate in the Ohio Public Employees Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this program, employees elect to defer a portion of their pay. The deferred pay and any income earned on it are not subject to federal and state income taxation until actually received by the employee.

All property and rights purchased with the amounts of compensation deferred under the plan and deposited with the program, and all income attributable to the amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provision of benefits under the plan), subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant. The plan agreement states that the City, as part of its fiduciary role, and the Ohio Public Employees Deferred Compensation Board have no liability for losses under the plan with the exception of fraud or wrongful taking.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 10: **OTHER EMPLOYEE BENEFITS** (Continued)

Deferred Compensation Plan (Continued)

An agency fund has been established to account for these monies as prescribed by Governmental Accounting Standards Board Statement No. 2, *Financial Reporting of Deferred Compensation Plans Adopted Under the Provisions of Internal Revenue Code Section 457*. As of December 31, 1997, the amount on deposit with the Ohio Public Employees Deferred Compensation Board was \$532,706 valued at market and \$17,886 on deposit with Aetna Life Insurance and Annuity Company.

NOTE 11: **SHORT-TERM DEBT**

Short-term debt outstanding at December 31, 1997 consisted of the following:

| <u>Description</u> | <u>January 1, 1997</u> | <u>Additions</u> | <u>Deletions</u> | <u>December 31, 1997</u> |
|---|------------------------|------------------|------------------|--------------------------|
| Bond Anticipation Note - | | | | |
| - Betz Run Storm Sewer (Renewal) | \$ 100,000 | \$ 50,000 | \$ 100,000 | \$ 50,000 |
| - Wooster Road Sanitary Sewer (Waterline portion) | 520,000 | 111,000 | 520,000 | 111,000 |
| - 1997 Streets Program | 0 | 100,000 | 0 | 100,000 |
| - Multi-Purpose Equipment | 166,000 | 100,000 | 166,000 | 100,000 |
| - Municipal Sanitary Sewer System (Wooster Road Sanitary Sewer Project) | 185,000 | 100,000 | 185,000 | 100,000 |
| Total | \$ 971,000 | \$ 461,000 | \$ 971,000 | \$ 461,000 |

CITY OF NORTON, OHIO
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1997
 (CONTINUED)

NOTE 12: LONG-TERM DEBT

Long-term obligations of the City at December 31, 1997 are as follows:

| <u>Description</u> | <u>Balance at 01/01/97</u> | <u>Additions/ (Reductions)</u> | <u>Balance at 12/31/97</u> |
|--|--------------------------------|------------------------------------|--------------------------------|
| Special Assessment Bonds | \$ 122,000 | \$ (7,000) | \$ 115,000 |
| Total Bond Indebtness | <u>\$ 122,000</u> | <u>\$ (7,000)</u> | <u>\$ 115,000</u> |
| <u>Other Long-Term Obligations:</u> | | | |
| Accrued Compensated Absences | \$ 424,324 | \$ 41,168 | \$ 465,492 |
| Total Other Long-Term Obligations | <u>424,324</u> | <u>41,168</u> | <u>465,492</u> |
| TOTAL LONG-TERM DEBT | <u>\$ 546,324</u> | <u>\$ 34,168</u> | <u>\$ 580,492</u> |

Principal and interest requirements to retire long-term obligations outstanding at December 31, 1997 are:

| | <u>Obligation Bonds</u> |
|------------------------------|-----------------------------|
| 1998 | \$ 12,590 |
| 1999 | 12,260 |
| 2000 | 11,930 |
| 2001 | 11,600 |
| 2002 | 11,270 |
| 2003-2007 | 51,400 |
| 2008-2012 | 43,150 |
| 2013-2016 | 46,600 |
| Total | 200,800 |
| Less Interest | (85,800) |
| Outstanding Principal | <u>\$ 115,000</u> |

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 13: CLAIMS AND JUDGMENTS

There are several lawsuits pending in which the City is involved. City management estimates that the potential claims against the City not covered by insurance resulting from litigation would not materially affect the financial statements of the City.

The City has received federal and state grants for specific purposes which are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based upon our experience, the City's management believes such disallowances, if any, will be immaterial.

NOTE 14: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 1997, the City contracted with several companies for various types of insurance as follows:

| <u>Company</u> | <u>Description</u> | <u>Deductible</u> |
|------------------------|----------------------------|-------------------|
| Ohio Casualty Ins. Co. | Bond-Public Employees | \$ 0 |
| National Casualty Co. | Public Officials Liability | \$ 10,000 |
| National Casualty Co. | Law Enforcement Liability | \$ 10,000 |
| Wichert Insurance | Commercial Property | \$ 1,000 |
| Wichert Insurance | Inland Marine | \$ 1,000 |
| Wichert Insurance | Automobile Liability | \$ 250 |
| Wichert Insurance | Automobile Collision | \$ 500 |
| Wichert Insurance | General Liability | \$ 2,500 |
| | \$1,000,000 per occurrence | |
| | \$2,000,000 aggregate | |
| Wichert Insurance | Umbrella Liability | \$ 10,000 |
| Ohio Casualty Ins. Co. | Bond-Finance Director | \$ 0 |
| Ohio Casualty Ins. Co. | Bond - Mayor | \$ 0 |
| Ohio Casualty Ins. Co. | Bond - Administrator | \$ 0 |
| Wichert Insurance | Commercial Crime | \$ 0 |

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1997
(CONTINUED)

NOTE 14: **RISK MANAGEMENT** (Continued)

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

The City also purchases insurance coverage to provide employee health benefits and pays unemployment claims to the State of Ohio as incurred.

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. Settled claims, resulting from these risks, have not exceeded commercial insurance coverages in any of the past three fiscal years.

The City reports all of its risks management activities for health insurance in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

At December 31, 1997, the amount of these liabilities was \$6,337. The liability is the City's best estimate based on available information. Changes in the reported liability since December 31, 1995 resulted from the following:

| | Beginning-of-Fiscal-Year Liability | Current-Year | | Balance at Fiscal Year-End |
|------|------------------------------------|---------------------------------|-----------------|----------------------------|
| | | Claims and Changes in Estimates | Claims Payments | |
| 1996 | \$ 21,752 | \$134,101 | \$145,521 | \$ 10,332 |
| 1997 | 10,332 | 139,267 | 143,262 | 6,337 |

There has been no significant reduction in insurance coverage as compared to the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members
of City Council
City of Norton
Norton, Ohio

We have audited the general purpose financial statements of the City of Norton as of and for the year ended December 31, 1997 and have issued our report thereon dated September 13, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated September 13, 1999.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated September 13, 1999.

This report is intended for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates

Charles E. Harris & Associates

September 13, 1999

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of December 31, 1996 did not include any material citations or recommendations.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

CITY OF NORTON

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

By: Susan Babbitt

Date: JAN 13 2000

CITY OF NORTON, OHIO

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 1998

Charles E. Harris & Associates, Inc.
Certified Public Accountants

CITY OF NORTON, OHIO

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 1998

Charles E. Harris & Associates, Inc.
Certified Public Accountants

CITY OF NORTON, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 1998

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CITY OF NORTON, OHIO

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CITY OF NORTON, OHIO

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GENERAL ACCOUNT GROUPS

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street, 1st Floor
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800-282-0370
Facsimile 614-728-7398

Honorable Mayor and Members of City Council
City of Norton
Norton, Ohio 44203-5708

We have reviewed the Independent Auditor's Report of the City of Norton, Summit County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 1997 through December 31, 1998. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Norton is responsible for compliance with these laws and regulations.



JIM PETRO
Auditor of State

January 5, 2000

Charles E. Harris & Associates
Certified Public Accountants

614 Superior Avenue, N.W.
Rockefeller Building, Suite 1242
Cleveland, Ohio 44113
Office phone - (216) 575-1630
Fax - (216) 436-2411

INDEPENDENT ACCOUNTANT'S REPORT

The Honorable Mayor and Members of Council
City of Norton
Norton, Ohio

We have audited the accompanying general purpose financial statements of City of Norton (the City), as of and for the year ended December 31, 1998. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of December 31, 1998, for the years then ended in conformity with generally accepted accounting principles.

As described in Note 2 to the combined financial statements, in 1998 the City changed its method of accounting for investments and its deferred compensation plans.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 13, 1999 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Charles E. Harris & Associates
Charles E. Harris & Associates
September 13, 1999

CITY OF NORTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 1998

| | GOVERNMENTAL FUND TYPES | | | | | FIDUCIARY FUND TYPE ACCOUNT GROUPS | | | | TOTAL | |
|---|-------------------------|---------------------|-------------------|------------------|------------------|------------------------------------|-------------------|----------------------|----------------|-------------------|--|
| | General | | Special Revenue | Capital Projects | Debt Service | General | | General Fixed Assets | Long-Term Debt | (Memorandum Only) | |
| | General | Revenue | | | Agency | | | | | Only | |
| ASSETS | | | | | | | | | | | |
| Cash & Cash Equivalents | \$ 202,983 | \$ 700,077 | \$ 905,729 | \$ 16,233 | \$ 71,735 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 1,896. | |
| Receivables: | | | | | | | | | | | |
| Taxes | 298,882 | 1,113,622 | 0 | 2,527 | 0 | 0 | 0 | 0 | 0 | 1,415. | |
| Accounts | 21,637 | 1,750 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 23. | |
| Intergovernmental | 215,363 | 48,024 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 263. | |
| Prepaid Expenses | 13,065 | 4,751 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 17. | |
| Supplies Inventory | 2,714 | 24,777 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 27. | |
| Fixed Assets | 0 | 0 | 0 | 0 | 0 | 7,732,830 | 0 | 0 | 0 | 7,732. | |
| Amount Available for Retirement of General Long-Term Obligations - Debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 16,233 | 0 | 16 | |
| Amount to be Provided for Retirement of General Long-Term Obligations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 671,349 | 0 | 671. | |
| Total Assets | \$ 754,644 | \$ 1,893,001 | \$ 905,729 | \$ 18,760 | \$ 71,735 | \$ 7,732,830 | \$ 687,582 | \$ 12,064 | | | |

The notes to the general purpose financial statements are an integral part of these statements.

CITY OF NORTON, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 1998
 (CONTINUED)

| | GOVERNMENTAL FUND TYPES | | | | FIDUCIARY FUND TYPE ACCOUNT GROUPS | | | | TOTALS | |
|--|-------------------------|---------------------|-------------------|------------------|------------------------------------|---------------------|----------------------|----------------------|-------------------|----------------|
| | Special Revenue | | Capital Projects | Debt Service | General | | General Fixed Assets | Long-Term Debt | (Memorandum Only) | |
| | General | General | | | Agency | | | | General | Long-Term Debt |
| LIABILITIES | | | | | | | | | | |
| Accounts Payable | \$ 20,715 | \$ 27,007 | \$ 2,680 | \$ 0 | \$ 22,855 | \$ 0 | \$ 0 | \$ 0 | \$ 73,257 | |
| Accrued Wages & Benefits | 63,303 | 31,230 | 0 | 0 | 0 | 0 | 0 | 0 | 94,533 | |
| Refundable Deposits | 0 | 0 | 0 | 0 | 48,880 | 0 | 0 | 0 | 48,880 | |
| Deferred Revenues | 321,698 | 728,242 | 0 | 2,527 | 0 | 0 | 0 | 0 | 1,052,467 | |
| Contracts Payable | 0 | 0 | 116,806 | 0 | 0 | 0 | 0 | 0 | 116,806 | |
| Notes Payable | 0 | 0 | 206,000 | 0 | 0 | 0 | 0 | 0 | 206,000 | |
| Claims Payable | 14,409 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 14,409 | |
| Special Assessment Bonds Payable | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 110,000 | 110,000 | |
| Compensated Absences Payable | 34,014 | 7,888 | 0 | 0 | 0 | 0 | 0 | 483,854 | 525,756 | |
| Accrued Pension Liability | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 93,728 | 93,728 | |
| Total Liabilities | 454,139 | 794,367 | 325,486 | 2,527 | 71,735 | 0 | 687,582 | 2,335,836 | | |
| FUND EQUITY | | | | | | | | | | |
| Investment in General Fixed Assets | 0 | 0 | 0 | 0 | 0 | 7,732,830 | 0 | 0 | 7,732,830 | |
| und Balance: | | | | | | | | | | |
| Reserved for Encumbrances | 0 | 0 | 37,753 | 0 | 0 | 0 | 0 | 0 | 37,753 | |
| Reserved for Inventory of Supplies | 2,714 | 24,777 | 0 | 0 | 0 | 0 | 0 | 0 | 27,491 | |
| Reserved for Prepaid Items | 13,065 | 4,751 | 0 | 0 | 0 | 0 | 0 | 0 | 17,816 | |
| Reserved for Debt Service | 0 | 0 | 0 | 16,233 | 0 | 0 | 0 | 0 | 16,233 | |
| Inreserved: | | | | | | | | | | |
| Undesignated | 284,726 | 1,069,106 | 542,490 | 0 | 0 | 0 | 0 | 0 | 1,896,322 | |
| Total Fund Equity | 300,505 | 1,098,634 | 580,243 | 16,233 | 0 | 7,732,830 | 0 | 0 | 9,728,445 | |
| Total Liabilities & Fund Equity | \$ 754,644 | \$ 1,893,001 | \$ 905,729 | \$ 18,760 | \$ 71,735 | \$ 7,732,830 | \$ 687,582 | \$ 12,064,281 | | |

The notes to the general purpose financial statements are an integral part of these statements.

CITY OF NORTON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998

| | GOVERNMENTAL FUND TYPES | | | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|-----------------------------|---------------------|---|
| | General | Special Revenue | Capital Projects | Debt Service | |
| REVENUES | | | | | |
| Taxes | \$ 308,441 | \$ 2,875,515 | \$ 0 | \$ 0 | \$ 3,183,956 |
| Intergovernmental | 934,966 | 636,150 | 68,170 | 0 | 1,639,286 |
| Special Assessments | 0 | 0 | 0 | 11,416 | 11,416 |
| Charges for Services | 19,393 | 1,860 | 0 | 0 | 21,253 |
| Fines, Licenses, & Permits | 287,126 | 35,468 | 0 | 0 | 322,594 |
| Interest Earnings | 80,732 | 14,165 | 0 | 0 | 94,897 |
| Miscellaneous | 9,047 | 13,131 | 0 | 0 | 22,178 |
| Total Revenues | 1,639,705 | 3,576,289 | 68,170 | 11,416 | 5,295,580 |
| EXPENDITURES | | | | | |
| Current Operations & Maintenance | | | | | |
| Security of Persons & Property | 1,407,960 | 254,571 | 91,513 | 0 | 1,754,044 |
| Public Health Service | 0 | 328,758 | 0 | 0 | 328,758 |
| Leisure Time Activities | 66,580 | 15,007 | 0 | 0 | 81,587 |
| Community Environment | 90,637 | 3,314 | 0 | 0 | 93,951 |
| Basic Utility Services | 2,564 | 0 | 28,605 | 0 | 31,169 |
| Transportation | 0 | 551,879 | 0 | 0 | 551,879 |
| General Government | 1,005,294 | 0 | 3,704 | 0 | 1,008,998 |
| Capital Outlay | 589 | 72,130 | 809,514 | 0 | 882,233 |
| Debt Service: | | | | | |
| Principal | 0 | 0 | 0 | 5,000 | 5,000 |
| Interest & Fiscal Charges | 0 | 0 | 17,551 | 7,590 | 25,141 |
| Total Expenditures | 2,573,624 | 1,225,639 | 950,887 | 12,590 | 4,762,760 |
| Excess Revenue Over(Under) Expenditures | (933,919) | 2,350,630 | (882,717) | (1,174) | 532,820 |
| OTHER FINANCING SOURCES (Uses) | | | | | |
| Sale of Fixed Assets | 0 | 3,006 | 0 | 0 | 3,006 |
| Transfers from Other Funds | 1,750,590 | 285,000 | 1,023,533 | 2,226 | 3,061,349 |
| Transfers to Other Funds | (904,759) | (2,156,000) | 0 | 0 | (3,060,759) |
| Other Sources | 139,619 | 85,801 | 342,143 | 0 | 567,563 |
| Other Uses | (5,338) | (379,701) | 0 | 0 | (385,039) |
| Total Other Financing Sources (Uses) | 980,112 | (2,161,894) | 1,365,676 | 2,226 | 186,120 |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | 46,193 | 188,736 | 482,959 | 1,052 | 718,940 |
| Fund Balance - Beginning of Year | 254,312 | 889,226 | 97,284 | 15,181 | 1,256,003 |
| Increase (Decrease) in Reserved for Inventory | 0 | 20,672 | 0 | 0 | 20,672 |
| Fund Balance - End of Year | \$ 300,505 | \$ 1,098,634 | \$ 580,243 | \$ 16,233 | \$ 1,995,615 |

The notes to the general purpose financial statements are an integral part of these statements.

CITY OF NORTON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998

| | <u>GENERAL FUND</u> | | | <u>SPECIAL REVENUE FUND</u> | | |
|--|---------------------|-------------|---|-----------------------------|--------------|---|
| | Revised Budget | Actual | Variance- Favorable (Unfavorable) | Revised Budget | Actual | Variance- Favorable (Unfavorable) |
| REVENUES | | | | | | |
| Local Taxes | \$ 300,110 | \$ 298,222 | \$ (1,888) | \$ 2,856,414 | \$ 2,825,163 | \$ (31,251) |
| Intergovernmental Revenues | 843,207 | 924,746 | 81,539 | 626,524 | 639,152 | 12,628 |
| Special Assessments | 0 | 0 | 0 | 0 | 0 | 0 |
| Charges for Services | 1,629 | 19,393 | 17,764 | 1,377 | 1,860 | 483 |
| Fines, Licenses, & Permits | 284,430 | 289,586 | 5,156 | 33,275 | 34,395 | 1,120 |
| Interest | 50,000 | 80,732 | 30,732 | 16,000 | 14,165 | (1,835) |
| Miscellaneous | 20,194 | 11,904 | (8,290) | 40,902 | 18,838 | (22,064) |
| Total Revenues | 1,499,570 | 1,624,583 | 125,013 | 3,574,492 | 3,533,573 | (40,919) |
| EXPENDITURES | | | | | | |
| <i>Current</i> | | | | | | |
| Security of Persons & Property | 1,487,407 | 1,487,399 | 8 | 328,750 | 275,396 | 53,354 |
| Public Health Services | 0 | 0 | 0 | 320,700 | 322,295 | (1,595) |
| Leisure Time Activities | 67,874 | 67,743 | 131 | 21,500 | 14,722 | 6,778 |
| Community Environment | 94,540 | 94,326 | 214 | 6,639 | 4,139 | 2,500 |
| Basic Utility Services | 0 | 0 | 0 | 0 | 0 | 0 |
| Transportation | 0 | 0 | 0 | 669,689 | 569,216 | 100,473 |
| General Government | 1,055,589 | 1,053,097 | 2,492 | 38,765 | 6,201 | 32,564 |
| Capital Outlay | 589 | 589 | 0 | 162,120 | 72,130 | 89,990 |
| Debt Service: | | | | | | |
| Principal Retirement | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest & Other Charges | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Expenditures | 2,705,999 | 2,703,154 | 2,845 | 1,548,163 | 1,264,099 | 284,064 |
| Excess Revenues Over (Under) Expenditures | (1,206,429) | (1,078,571) | 127,858 | 2,026,329 | 2,269,474 | 243,145 |
| OTHER FINANCING SOURCES (Uses) | | | | | | |
| Proceeds from Sale of Debt | | | | | | |
| Sale of Notes | 0 | 0 | 0 | 0 | 0 | 0 |
| Sale of Fixed Assets | 0 | 0 | 0 | 5,071 | 3,006 | (2,065) |
| Transfers In | 1,802,500 | 1,750,590 | (51,910) | 285,000 | 285,000 | 0 |
| Transfers Out | (905,260) | (904,759) | 501 | (2,181,000) | (2,156,000) | 25,000 |
| Other Sources | 17,900 | 139,316 | 121,416 | 228,258 | 85,801 | (142,457) |
| Other Uses | (5,376) | (5,338) | 38 | (593,898) | (379,701) | 214,197 |
| Total Other Financing Sources(Uses) | 909,764 | 979,809 | 70,045 | (2,256,569) | (2,161,894) | 94,675 |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditure and Other Uses | (296,665) | (98,762) | 197,903 | (230,240) | 107,580 | 337,820 |
| Fund Cash Balance-January 1, 1998 | 301,745 | 301,745 | 0 | 592,497 | 592,497 | 0 |
| Fund Cash Balance - December 31, 1998 | \$ 5,080 | \$ 202,983 | \$ 197,903 | \$ 362,257 | \$ 700,077 | \$ 337,820 |

(Continued)

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

CITY OF NORTON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

| | DEBT SERVICE FUNDS | | | CAPITAL PROJECTS FUNDS | | |
|---|--------------------|-----------|-------------------------------------|------------------------|------------|-------------------------------------|
| | Revised Budget | Actual | Variance-Favorable (Unfavorable) | Revised Budget | Actual | Variance-Favorable (Unfavorable) |
| REVENUES | | | | | | |
| Local Taxes | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Intergovernmental Revenues | 0 | 0 | 0 | 0 | 68,500 | 68,500 |
| Special Assessments | 12,791 | 11,416 | (1,375) | 0 | 0 | 0 |
| Charges for Services | 0 | 0 | 0 | 0 | 0 | 0 |
| Fines, Licenses, & Permits | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest | 0 | 0 | 0 | 0 | 0 | 0 |
| Miscellaneous | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Revenues | 12,791 | 11,416 | (1,375) | 0 | 68,500 | 68,500 |
| EXPENDITURES | | | | | | |
| <i>Current</i> | | | | | | |
| Security of Persons & Property | 0 | 0 | 0 | 0 | 0 | 0 |
| Public Health Services | 0 | 0 | 0 | 0 | 0 | 0 |
| Leisure Time Activities | 0 | 0 | 0 | 0 | 0 | 0 |
| Community Environment | 0 | 0 | 0 | 0 | 0 | 0 |
| Basic Utility Services | 0 | 0 | 0 | 932 | 932 | 0 |
| Transportation | 0 | 0 | 0 | 0 | 0 | 0 |
| General Government | 0 | 0 | 0 | 258,572 | 3,404 | 255,168 |
| Capital Outlay | 0 | 0 | 0 | 1,733,885 | 960,505 | 773,380 |
| Debt Service: | | | | | | |
| Principal Retirement | 467,000 | 466,000 | 1,000 | 0 | 0 | 0 |
| Interest & Other Charges | 32,000 | 25,151 | 6,849 | 0 | 0 | 0 |
| Total Expenditures | 499,000 | 491,151 | 7,849 | 1,993,389 | 964,841 | 1,028,548 |
| Excess Revenues Over (Under) Expenditures | (486,209) | (479,735) | 6,474 | (1,993,389) | (896,341) | 1,097,048 |
| OTHER FINANCING SOURCES (Uses) | | | | | | |
| Proceeds from Sale of Debt: | | | | | | |
| Sale of Notes | 0 | 206,000 | 206,000 | 430,000 | 0 | (430,000) |
| Sale of Fixed Assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers In | 481,617 | 274,777 | (206,840) | 599,384 | 854,466 | 255,082 |
| Transfers Out | 0 | 0 | 0 | (103,484) | (103,484) | 0 |
| Other Sources | 0 | 0 | 0 | 430,236 | 342,143 | (88,093) |
| Other Uses | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Other Financing Sources(Uses) | 481,617 | 480,777 | (840) | 1,356,136 | 1,093,125 | (263,011) |
| Excess of Receipts and Other Financing Sources Over (Under) Expenditures and Other Uses | (4,592) | 1,042 | 5,634 | (637,253) | 196,784 | 834,037 |
| Fund Cash Balance-January 1, 1998 | 15,181 | 15,181 | 0 | 708,945 | 708,945 | 0 |
| Fund Cash Balance - December 31, 1998 | \$ 10,589 | \$ 16,223 | \$ 5,634 | \$ 71,692 | \$ 905,729 | \$ 834,037 |

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

CITY OF NORTON, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) -
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 1998
 (CONTINUED)

| | <u>TOTAL (MEMORANDUM ONLY)</u> | | |
|--|--------------------------------|---------------------|---|
| | <u>Revised Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
| REVENUES | | | |
| Local Taxes | \$ 3,156,524 | \$ 3,123,385 | \$ (33,139) |
| Intergovernmental Revenue | 1,469,731 | 1,632,398 | 162,667 |
| Special Assessments | 12,791 | 11,416 | (1,375) |
| Charges for Services | 3,006 | 21,253 | 18,247 |
| Fines, Licenses, & Permits | 317,705 | 323,981 | 6,276 |
| Interest | 66,000 | 94,897 | 28,897 |
| Miscellaneous | 61,096 | 30,742 | (30,354) |
| Total Revenues | <u>5,086,853</u> | <u>5,238,072</u> | <u>151,219</u> |
| EXPENDITURES | | | |
| <u>Current</u> | | | |
| Security of Persons & Property | 1,816,157 | 1,762,795 | 53,362 |
| Public Health Services | 320,700 | 322,295 | (1,595) |
| Leisure Time Activities | 89,374 | 82,465 | 6,909 |
| Community Environment | 101,179 | 98,465 | 2,714 |
| Basic Utility Services | 932 | 932 | 0 |
| Transportation | 669,689 | 569,216 | 100,473 |
| General Government | 1,352,926 | 1,062,702 | 290,224 |
| Capital Outlay | 1,896,594 | 1,033,224 | 863,370 |
| Debt Service: | | | |
| Principal Retirement | 467,000 | 466,000 | 1,000 |
| Interest & Other Charges | 32,000 | 25,151 | 6,849 |
| Total Expenditures | <u>6,746,551</u> | <u>5,423,245</u> | <u>1,323,306</u> |
| Total Revenues Over (Under) Expenditures | <u>(1,659,698)</u> | <u>(185,173)</u> | <u>1,474,525</u> |
| OTHER FINANCING SOURCES (Uses) | | | |
| Proceeds from Sale of Debt | | | |
| Sale of Notes | 430,000 | 206,000 | (224,000) |
| Sale of Fixed Assets | 5,071 | 3,006 | (2,065) |
| Transfers In | 3,168,501 | 3,164,833 | (3,668) |
| Transfers Out | (3,189,744) | (3,164,243) | 25,501 |
| Other Sources | 676,394 | 567,260 | (109,134) |
| Other Uses | (599,274) | (385,039) | 214,235 |
| Total Other Financing Sources(Uses) | <u>490,948</u> | <u>391,817</u> | <u>(99,131)</u> |
| Excess of Receipts and Other Financing Sources Over (Under) Expenditures and Other Uses | <u>(1,168,750)</u> | <u>206,644</u> | <u>1,375,394</u> |
| Fund Cash Balance - January 1, 1998 | 1,618,368 | 1,618,368 | 0 |
| Fund Cash Balance - December 31, 1998 | <u>\$ 449,618</u> | <u>\$ 1,825,012</u> | <u>\$ 1,375,394</u> |

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

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The City of Norton, Ohio is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The City operates under a council-mayor form of government and provides the following services: public safety, public services, health, recreation and community development.

The accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups and the results of operations of the various fund types. The financial statements are presented as of December 31, 1998, and for the year then ended, and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

In evaluating how to define the governmental reporting entity, the City adopted the provision of GASB Statement No. 14, *The Financial Reporting Entity*, under which the financial statements include all the organizations, activities, functions, and component units for which the City (primary government) is financial accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the City's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the City.

On this basis, the City's financial reporting entity has no component units but includes all funds, account groups, agencies, boards, and commissions that are part of the primary government, including police and fire protection, waste collection, parks and recreation, health, certain social services, and general administrative services.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Basis of Presentation**

The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to governments.

The financial transactions of the City are recorded in individual funds and account groups. The various funds and account groups are reported by type in the general purpose financial statements. Amounts in the "Total - (Memorandum Only)" columns in the general purpose financial statements represent a summation of the combined groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different bases of accounting, both restricted and unrestricted amounts, interfund transactions that have not been eliminated, and the caption "Amounts to be Provided", which does not represent an asset. Consequently, amounts shown in the "Total - (Memorandum Only)" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the City. The City uses the following fund categories, fund types, and account groups:

Governmental Funds

Governmental funds are accounted for on a spending measurement focus. Only current assets and current liabilities are generally included on their balance sheet. Their operating statements present sources (revenue and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during a period.

General Fund - To account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose, provided it is expended or transferred in accordance with the Charter and legislation of the City of Norton and or the general laws of the State of Ohio.

Special Revenue Funds - To account for the revenues derived from specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - To account for the accumulation of resources for, and the payment of, general and special assessment long-term debt principal and interest.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Basis of Presentation** (Continued)

Governmental Funds (Continued)

Capital Projects Funds - To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Fiduciary Funds

Agency Funds - To account for assets held by the City as an agency for others and payroll deductions withheld and awaiting payment. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt.

General Fixed Assets Account Group - To account for all fixed assets of the City.

General Long-Term Obligations Account Group - To account for all unmatured long-term obligations of the City.

C. **Basis of Accounting**

All governmental fund types are accounted for on the modified accrual basis of accounting and the flow of financial resources measurement focus. Governmental revenues are recognized when they become measurable and available to financial expenditures of the current period. Expenditures are recognized when the related fund liability is incurred, if measurable, with the exception of accumulated unpaid employee compensation which is not payable from expendable financial resources. Agency funds are purely custodial (assets equal liabilities), do not involve measurement of results of operations, and are accounted for on the modified accrual basis of accounting.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. Basis of Accounting (Continued)

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available, as they are collectible within the current period or soon enough thereafter to be used to pay obligations of the current period: investment earnings, special assessments due in the current year, income taxes withheld by employers, and state-levied locally shared taxes (including motor vehicle fees). Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made.

Property taxes and special assessments (in the debt service funds), though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property tax and special assessment receivables are recorded and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, income taxes other than those withheld by employers, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related liability is incurred except for unmatured principal and interest on general long-term debt which are recognized when paid. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Process** (Continued)

All funds other than the agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department of the City. Budgetary modifications may only be made by ordinance of the City Council.

The City's budgetary process is as follows:

1. **Tax Budget**

A tax budget of estimated revenues and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. All funds, except for Agency funds, are legally required to be budgeted.

2. **Estimated Resources**

The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include January 1, 1998 unencumbered fund balances. However, those fund balances are available for appropriation.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Process** (Continued)

3. **Appropriations**

A temporary appropriation measure to control the level of expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year to the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

4. **Encumbrances**

As part of formal budgetary control, contracts and other commitments for the expenditures of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriations and determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent expenditures for governmental funds.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. At the close of each fiscal year, encumbered appropriation balances lapse and are reencumbered and reappropriated to the subsequent fiscal year, with the exception of contract commitments in the capital projects fund.

5. **Governmental Fund Budgets**

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

CITY OF NORTON, OHIO
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1998
 (CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Process** (Continued)

5. **Governmental Fund Budgets** (Continued)

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types, are presented on the budgetary basis to provide a comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- c. Short-term note proceeds and note principal retirement for governmental funds are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The adjustments necessary to convert the results of operations for the year from the GAAP basis to the budget basis for the governmental funds are as follows:

**Excess of Revenues and Other Financing Sources Over (Under)
 Expenditures and Other Financing Uses -
 All Governmental Fund Types**

| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> |
|------------------------------------|--------------------|------------------------|---------------------|-------------------------|
| GAAP Basis | \$ 46,193 | \$ 188,736 | \$ 1,052 | \$ 482,959 |
| Increase (Decrease) due to: | | | | |
| Revenue Accruals | (15,122) | (42,716) | 270,562 | (166,748) |
| Expenditure Accruals | (129,833) | (38,440) | (15,572) | (119,427) |
| Debt Proceeds | 0 | 0 | 0 | 0 |
| Debt Retirement | 0 | 0 | (255,000) | 0 |
| Budget Basis | <u>\$ (98,762)</u> | <u>\$ 107,580</u> | <u>\$ 1,042</u> | <u>\$ 196,784</u> |

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. **Investments**

The City has elected to implement GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* as of December 31, 1997. As a governmental entity other than an external investment pool in accordance with GASB 31, the City's investments are stated at market value, except for interest-earnings investment contracts and external investment pools (see Note 5).

In applying GASB 31, the City utilized the following methods and assumptions as of December 31, 1997:

The portfolio was limited to a sweep account in First National Bank of Ohio;

Market value is based on quoted market prices as of the valuation date. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as non-negotiable certificates of deposit and sweep accounts are reported at cost;

Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss resulting from the valuation will be recognized within the general fund to the extent its cash and investment balances exceeds the cumulative value of those investments subject to GASB 31;

The City's policy is to hold investments until maturity, or until market values equal or exceed cost.

The cumulative effect of applying GASB 31 had no effect on the beginning fund balance for the fiscal year ended December 31, 1998.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1998 amounted to \$80,732, which includes \$71,851 assigned from other City funds.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. Investments (Continued)

For purposes of the presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments within an initial maturity of more than three months are reported as investments.

F. Cash and Cash Equivalents

The City considers highly liquid investments with original maturities of three months or less to be cash equivalents.

G. Fixed Assets

The accounting and reporting treatment applied to the fixed assets associated with a fund are determined by its measurement focus. General fixed assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental type funds and capitalized (recorded and accounted for) in the general fixed asset account group. Infrastructure fixed assets such as water lines and storm sewers are capitalized and are reported as part of the general fixed asset account group.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are recorded at fair market value at the date received.

H. Compensated Absences

In conformity with GASB Statement No. 16, the City accrues vacation and compensatory time benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Likewise, the City accrues for sick pay benefits as earned by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future. These compensated absences are measured using the pay rates in effect at December 31, 1998. Additionally, certain salary related payments associated with the payment of compensated absences have been accrued.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

H. Compensated Absences (Continued)

For governmental funds, the City provides a liability for unpaid accumulated sick leave and vacation time for eligible employees in the period the employees become eligible to receive payment. The current portion of unpaid compensated absences is the amount to be paid using expendable available compensated absences and is reported as an accrued liability in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the general long-term obligations account group.

I. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations are reported in the general long-term debt account group.

Under Ohio law, a debt retirement fund must be created and used for the payment of all long-term debt principal and interest. Generally accepted accounting principles require the allocation of the debt liability among the capital projects funds and the general long-term obligations account group, with principal and interest payments on matured general obligation long-term debt being reported in the debt service fund. To comply with GAAP reporting requirements, the City's debt retirement fund has been split among the appropriate funds and account groups. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

J. Deferred Revenue

Deferred revenue consists of property taxes. Although property taxes receivables are measurable, they are recorded and deferred until they become available because the revenue is not available soon enough in the subsequent year to finance current period obligations.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

K. Inventory

Inventory is stated at cost on a first-in, first-out basis. The cost is recorded as an expenditure at the time inventory is consumed (consumption method). In the governmental funds, reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

L. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 1998 are recorded as prepaid items. A portion of the relevant funds balances equal to the prepaid items has been reserved to indicate that is not available for appropriation.

M. Reserves of Fund Equity

Reserves of fund equity in governmental funds indicate that a portion of fund balance is not available for expenditures or is legally segregated for a specific use. Fund balances are reserved for encumbrances, supplies inventory, prepaids, and debt service.

N. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

NOTE 2: **ACCOUNTABILITY AND COMPLIANCE**

Changes in Accounting Principle

For December 31, 1998, the City has adopted two accounting provisions: GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB Statement 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 2: **ACCOUNTABILITY AND COMPLIANCE** (Continued)

Changes in Accounting Principle (Continued)

Statement 31 was required for the current year while Statement 32 was not required to be implemented until fiscal year 1999, but was implemented early. Under GASB 32, the City is not required to report its Section 457 Deferred Compensation Plan. As required by the Internal Revenue Code, the City established a trust for the assets and income of the Plan with an independent trustee for the exclusive benefit of participants and their beneficiaries and no longer holds the assets in a trustee capacity. Restatements of prior balances were required to remove the Deferred Compensation Plan for implementation of Statement 32. The Deferred Compensation restatement removed the assets and fund balance of the plan from the City's financial statements. The implementation of GASB Statement 31 had no effect on fund balance as it was previously reported as of December 31, 1997. The restatements for the funds affected are as follows:

| | Fiduciary Fund Type |
|--|------------------------|
| | <u>Agency Funds</u> |
| Asset/Liability Balance - December 31, 1997 (as reported) | \$ 622,722 |
| Adjustment Due to Change in Accounting Principle (GASB 32) | (550,592) |
| <hr/> | |
| Assets/Liability Balance - December 31, 1997 (Restated) | <hr/> \$ 72,130 |

NOTE 3: **PROPERTY TAXES**

Real property taxes were levied on assessed values which equal 35% of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last appraisal was completed for tax year 1995.

Real property taxes become a lien on all non-exempt real property located in the County on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 3: **PROPERTY TAXES** (Continued)

The full tax rate applied to real property for the fiscal year ended December 31, 1998 was \$6.50 per \$1000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$5.19 per \$1000 of assessed valuation of real property classified as residential/agricultural and \$5.61 per \$1000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 1998 was \$6.50 per \$1000 of assessed valuation.

Real Estate - 1997 Valuation

| | |
|---|-----------------------------|
| Residential/Agricultural | \$ 127,867,910 |
| Commercial/Industrial | 25,737,460 |
| Public Utilities | 10,181,020 |
| General Tangible Personal Property - 1998 Valuation | 21,891,389 |
| | <hr/> <u>\$ 185,677,779</u> |

The Summit County Treasurer collects property tax on behalf of all taxing districts within the County. The Summit County Auditor periodically remits to the taxing districts their portions of the taxes collected. Such collections are available only to pay current period liabilities.

NOTE 4: **MUNICIPAL INCOME TAXES**

The City levies a municipal income tax of 1.5% on all salaries, wages, commissions, and other compensation, and net profits earned within the City, as well as incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 4: **MUNICIPAL INCOME TAXES** (Continued)

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly. Corporations and other individual taxpayers are also required to pay their estimated taxes at least quarterly and file a final return annually.

Ohio law requires all municipal income tax rates above 1% to be voted by the residents of the municipality.

NOTE 5: **DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

The City maintains a separate cash and investment pool that is available for use by all funds and accounts. Each fund type's portion of this pool is displayed on the combined balance sheet as Cash and Cash Equivalents.

Legal Requirements - Statutes require the classifications of monies held by the City into three categories:

Category 1 - consists of "active" monies, those monies required to be kept in a "cash" or a "near-cash" status for immediate use by the City. Such monies must be maintained either as cash in the City's treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 - consists of "inactive" monies, those monies not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 - consists of "interim" monies, those monies which are not needed for immediate use but which will be needed before the end of the current period of depositories.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 5: **DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**
(Continued)

New legislation now permits interim monies to be invested or deposited in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be directly issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Interim deposits in eligible institutions applying for interim funds;
5. Bonds or other obligations of the State of Ohio;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreement secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAROhio).

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

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

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 5: **DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**
(Continued)

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 110% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation, or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

Deposits

The Governmental Accounting Standards Board has established risk categories for deposits as follows:

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging institution or its trust department or agent but not in the City's name.

| <u>Insured</u> | <u>Financial Institution</u> | <u>Book Balance</u> | <u>Bank Balance</u> |
|----------------|------------------------------|---------------------|---------------------|
| FDIC | First Merit | \$ 44,158 | \$ 177,651 |
| FDIC | Bank One | 174,708 | 174,708 |
| Total Deposits | | <u>\$ 218,866</u> | <u>\$ 352,359</u> |

All deposits are carried at cost. At year end, the carrying amount of the City's cash and deposits was \$218,866 and the bank balance was \$352,359. Of the bank balance, \$200,000 was insured by the FDIC and \$152,359 was classified as Risk Category 3.

Investments

The Governmental Accounting Standards Board has established risk categories for investments as follows:

CITY OF NORTON, OHIO
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1998
 (CONTINUED)

NOTE 5: **DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**
 (Continued)

Category 1 - Investments that are insured or registered or for which the securities are held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

The City's categorized investments at December 31, 1998 were as follows:

| | <u>Financial Institution</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
|---|------------------------------|------------------------|--------------------|
| Repurchase Agreement (Risk Category 3) | First Merit | \$ 1,675,000 | \$1,675,000 |
| Total Investments | | <u>\$ 1,675,000</u> | <u>\$1,675,000</u> |

Cash balances and investments of fund types are as follows:

| | | | |
|-------------------------|--|---------------------|--|
| Governmental Fund Types | | | |
| General Fund | | \$ 202,983 | |
| Special Revenue Fund | | 700,077 | |
| Debt Service Fund | | 16,233 | |
| Capital Projects Fund | | 905,729 | |
| Fiduciary Fund Types | | | |
| Agency Funds | | 68,844 | |
| | | <u>\$ 1,893,866</u> | |

The classification of cash and cash equivalents on the combined financial statements is based on criteria set forth in GASB Statement No. 9. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3. The captions on the combined balance sheet related to cash and cash equivalents as follows:

CITY OF NORTON, OHIO
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1998
 (CONTINUED)

NOTE 5: **DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**
 (Continued)

| | Cash/Cash Equivalents | Investments |
|-----------------------|--------------------------|---------------------|
| GASB Statement No. 9 | \$ 1,893,866 | \$ 0 |
| Investments: | | |
| Repurchase Agreements | (1,675,000) | 1,675,000 |
| GASB Statement No. 3 | <u>\$ 218,866</u> | <u>\$ 1,675,000</u> |

NOTE 6: **RECEIVABLES**

The receivables at December 31, 1998 consist of taxes, intergovernmental receivables arising from grants, entitlements, or shared revenues. All receivables are considered fully collectible.

A summary of the principal items of intergovernmental receivables follows:

| <u>FUND TYPE/FUND</u> | <u>AMOUNTS</u> |
|-------------------------------------|----------------|
| <u>General Fund</u> | |
| Estate Tax | \$ 91,263 |
| Local Government Support | 6,621 |
| Local Government Revenue Assistance | 114,717 |
| Liquor Permits | 2,762 |
| Total General Fund | <u>215,363</u> |
| <u>Special Revenue Funds</u> | |
| Street Maintenance | |
| Gasoline Tax | 37,178 |
| Motor Vehicle License Tax | 5,355 |
| Total | <u>42,533</u> |
| State Highway | |
| Gasoline Tax | 434 |
| Motor Vehicle License Tax | 3,014 |
| Total | <u>3,448</u> |
| Permissive | |
| Permissive Tax | 1,903 |
| Total | <u>1,903</u> |

CITY OF NORTON, OHIO
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1998
 (CONTINUED)

NOTE 6: **RECEIVABLES** (Continued)

| <u>FUND TYPE/FUND</u> | <u>AMOUNTS</u> |
|-----------------------------|--------------------------|
| DWI Education & Enforcement | |
| Immobilization Fee | \$ 140 |
| Total | <u>140</u> |
| Total Special Revenue Funds | <u>48,024</u> |
| Total All Funds | <u><u>\$ 263,387</u></u> |

NOTE 7: **FIXED ASSETS**

The general fixed assets in 1998 were as follows:

| <u>Description</u> | <u>January 1, 1998</u> | <u>Additions</u> | <u>Deletions</u> | <u>December 31, 1998</u> |
|---|----------------------------|-------------------|------------------|------------------------------|
| Land | \$ 176,350 | \$ 0 | \$ 0 | \$ 176,350 |
| Buildings & Improvements | 1,502,540 | 0 | 0 | 1,502,540 |
| Furniture, Fixtures, Machinery & Equipment | 1,243,234 | 175,004 | 0 | 1,418,238 |
| Infrastructure | 3,287,111 | 68,152 | 0 | 3,355,263 |
| Vehicle | 1,001,192 | 279,247 | 0 | 1,280,439 |
| Total | <u>\$ 7,210,427</u> | <u>\$ 522,403</u> | <u>\$ 0</u> | <u>\$ 7,732,830</u> |

NOTE 8: **PENSION AND RETIREMENT**

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Public Employees Retirement System (the PERS of Ohio)

The following information was provided by the PERS of Ohio to assist the City in complying with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 8: **PENSION AND RETIREMENT** (Continued)

A. **Public Employees Retirement System (the PERS of Ohio)** (Continued)

1. **Pension Benefit Obligations**

All employees of the City, except non-administrative full-time uniformed police officers and full-time firefighters, participate in the PERS of Ohio, a cost-sharing multiple-employer defined benefit pension plan. The PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 466-2085.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 1998 employer rate for local government employer units was 13.55% of covered payroll, 9.35% to fund pension benefit obligation and 4.20% to fund health care. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the PERS of Ohio for the years ending December 31, 1998, 1997, and 1996 were \$158,961, \$156,753, and \$150,205. The full amount has been contributed for 1997 and 1996, 73% has been contributed for 1998 with the remainder reported in the general long term debt account group.

2. **Other Postemployment Benefits**

In addition to the pension benefit obligation described above, the PERS of Ohio provides postretirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefits (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS of Ohio is set aside for the

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 8: **PENSION AND RETIREMENT** (Continued)

A. **Public Employees Retirement System (the PERS of Ohio)** (Continued)

2. **Other Postemployment Benefits** (Continued)

funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 1998 employer contribution rate for local government employers was 13.55% of covered payroll; 4.20% was the portion that was used to fund health care for 1998, which amounted to \$49,962 of covered payroll.

The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

Other Postemployment Benefits are financed through employer contributions and investments earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. Expenditures for Other Postemployment Benefits during 1998 were \$440,596,663. As of December 31, 1998, the unaudited estimated net assets available for future Other Postemployment Benefits payments were \$9,447,325,318. The number of benefit recipients for Other Postemployment Benefits at December 31, 1998 was 115,579. During 1998, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

B. **Police and Firemen's Disability and Pension Fund (the PFDPF System of Ohio)**

The following information was provided by the PFDPF System of Ohio to assist the City in complying with GASB Statement No. 27.

1. **Pension Benefit Obligations**

All City full-time police officers and full-time firefighters participate in the Police and Firemen's Disability and Pension Fund of Ohio (the "PFDPF System of Ohio"), a cost-sharing multiple-employer defined benefit pension plan. The PFDPF System of Ohio 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

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 8: **PENSION AND RETIREMENT** (Continued)

B. **Police and Firemen's Disability and Pension Fund (the PFDPF System of Ohio)**
(Continued)

1. **Pension Benefit Obligations** (Continued)

Chapter 742 of the Ohio Revised Code. The Police and Firemen's Disability and Pension Fund of Ohio issues a publicly available financial report that includes financial statements and required supplementary information for the PFDPF System of Ohio. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the PFDPF System of Ohio for the years ending December 31, 1998, 1997, and 1996 were \$162,685, \$146,313, and \$134,292, respectively. The full amount has been contributed for 1997 and 1996, 73% has been contributed for 1998 with the remainder reported in the general long term debt account group.

2. **Other Postemployment Benefits**

The PFDPF System of Ohio provides postretirement health care coverage to any person who receives a monthly 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 on a full-time or two-thirds basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll. The Ohio Revised Code provides statutory authority for employer contributions and allows the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 8: **PENSION AND RETIREMENT** (Continued)

B. **Police and Firemen's Disability and Pension Fund (the PFDPP System of Ohio)**
(Continued)

2. **Other Postemployment Benefits** (Continued)

Health care funding and accounting is on a pay-as-you-go basis. Currently, 6.5% of covered payroll, the Board-defined allocation, is used to pay retiree health care expenses. 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.

The number of participants eligible to receive health care benefits as of December 31, 1997 is 11,239 for police and 9,025 for firefighters. Employer contributions used to pay postemployment benefits were \$46,941 for police and \$5,921 for firefighters. The Fund's total health care expense for the year ending December 31, 1997 was \$76,459,832.

NOTE 9: **COMPENSATED ABSENCES**

In accordance with Government Accounting Standards Board (GASB) Statement 16, the City of Norton, Ohio has accrued a liability for compensated absences (vacation and sick leave) at December 31, 1998 along with any salary-related payments associated with the payment of compensated absences.

Sick leave for City employees is accrued at rates of 4.6 for every 80 hours. Employees who retire or terminate service after 10 years may convert 25 percent of accumulated sick leave days into a lump-sum payment within certain limitations. For governmental funds, the City recognized the current portion of this liability at December 31, 1998 that is expected to be liquidated with expendable available financial resources.

City employees generally earn vacation leave ranging from 5 to 25 days per year based on length of service. No more than the amount of vacation accrued in the previous twelve-month period can be carried forward into the next calendar year without written consent of the City Mayor. For governmental fund types, accumulated vacation leave is recorded as a liability within the respective fund types since it has to be used in the following year or be forfeited.

CITY OF NORTON, OHIO
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1998
 (CONTINUED)

NOTE 9: **COMPENSATED ABSENCES** (Continued)

The following is a summary of compensated absences payable by funds and groups.

| | General Fund | Special Revenue Fund | Long-Term Account Group |
|----------------|------------------|-------------------------|----------------------------|
| Sick Leave | \$ 12,644 | \$ 2,543 | \$ 398,227 |
| Holiday | 4,187 | 0 | 4,167 |
| Vacation Leave | 13,848 | 4,078 | 70,775 |
| Comp | 3,335 | 1,267 | 10,685 |
| Totals | \$ 34,014 | \$ 7,888 | \$ 483,854 |

NOTE 10: **SHORT-TERM DEBT**

Short-term debt outstanding at December 31, 1998 consisted of the following:

| <u>Description</u> | <u>December 31,</u> | | | |
|---|------------------------|-------------------|-------------------|-------------------|
| | <u>January 1, 1998</u> | <u>Additions</u> | <u>Deletions</u> | <u>1998</u> |
| Bond Anticipation Note - | | | | |
| - Betz Run Storm Sewer (Renewal) | \$ 50,000 | \$ 0 | \$ 50,000 | \$ 0 |
| - Wooster Road Sanitary Sewer (Waterline portion) | 111,000 | 56,000 | 111,000 | 56,000 |
| - 1998 Streets Program | 100,000 | 50,000 | 100,000 | 50,000 |
| - Multi-Purpose Equipment | 100,000 | 50,000 | 100,000 | 50,000 |
| - Municipal Sanitary Sewer System (Wooster Road Sanitary Sewer Project) | 100,000 | 50,000 | 100,000 | 50,000 |
| Total | \$ 461,000 | \$ 206,000 | \$ 461,000 | \$ 206,000 |

CITY OF NORTON, OHIO
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1998
 (CONTINUED)

NOTE 11: LONG-TERM DEBT

Long-term obligations of the City at December 31, 1998 are as follows:

| <u>Description</u> | <u>Balance at 01/01/98</u> | <u>Additions/ (Reductions)</u> | <u>Balance at 12/31/98</u> |
|-------------------------------------|--------------------------------|------------------------------------|--------------------------------|
| Special Assessment Bonds | \$ 115,000 | \$ (5,000) | \$ 110,000 |
| Total Bond Indebtness | <u>\$ 115,000</u> | <u>\$ (5,000)</u> | <u>\$ 110,000</u> |
| Other Long-Term Obligations: | | | |
| Accrued Compensated Absences | \$ 465,492 | \$ 18,362 | \$ 483,854 |
| Accrued Pension Liability | 0 | 93,728 | 93,728 |
| Total Other Long-Term Obligations | <u>465,492</u> | <u>112,090</u> | <u>577,582</u> |
| TOTAL LONG-TERM DEBT | <u>\$ 580,492</u> | <u>\$ 107,090</u> | <u>\$ 687,582</u> |

Principal and interest requirements to retire long-term obligations outstanding at December 31, 1998 are:

| | <u>Obligation Bonds</u> |
|------------------------------|-----------------------------|
| 1999 | \$ 12,260 |
| 2000 | 11,930 |
| 2001 | 11,600 |
| 2002 | 11,270 |
| 2003 | 10,940 |
| 2004-2008 | 49,750 |
| 2009-2013 | 46,500 |
| 2014-2016 | 33,960 |
| Total | 188,210 |
| Less Interest | (78,210) |
| Outstanding Principal | <u>\$ 110,000</u> |

CITY OF NORTON, OHIO
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1998
 (CONTINUED)

NOTE 12: CLAIMS AND JUDGMENTS

There are a few lawsuits pending in which the City is involved. City management estimates that the potential claims against the City not covered by insurance resulting from litigation would not materially affect the financial statements of the City.

The City has received federal and state grants for specific purposes which are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based upon our experience, the City's management believes such disallowances, if any, will be immaterial.

NOTE 13: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 1998, the City contracted with several companies for various types of insurance as follows:

| <u>Company</u> | <u>Description</u> | <u>Deductible</u> |
|------------------------|-------------------------------|-------------------|
| Ohio Casualty Ins. Co. | Bond-Public Employees | \$ 0 |
| National Casualty Co. | Public Officials Liability | \$ 10,000 |
| National Casualty Co. | Law Enforcement Liability | \$ 10,000 |
| Wichert Insurance | Commercial Property | \$ 1,000 |
| Wichert Insurance | Inland Marine | \$ 1,000 |
| Wichert Insurance | Automobile Liability | \$ 250 |
| Wichert Insurance | Automobile Collision | \$ 500 |
| Wichert Insurance | General Liability | \$ 2,500 |
| | \$1,000,000 per occurrence | |
| | \$2,000,000 aggregate | |
| Wichert Insurance | Umbrella Liability | \$ 10,000 |
| Ohio Casualty Ins. Co. | Bond-Finance Director | \$ 0 |
| Ohio Casualty Ins. Co. | Bond - Mayor | \$ 0 |
| Ohio Casualty Ins. Co. | Bond - Administrator | \$ 0 |
| Ohio Casualty Ins. Co. | Bond - Clerk of Mayor's Court | \$ 0 |
| Wichert Insurance | Commercial Crime | \$ 0 |

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 13: RISK MANAGEMENT

The City decided to stop carrying commercial insurance for health insurance because of its prohibitive cost and began covering all claim settlements and judgments out of its general fund resources. The City currently reports all of its risk management activities in the general fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

At December 31, the amount of these liabilities was \$14,409. This liability is the City's best estimate based on available information. Changes in the reported liability since December 31, 1998 resulted from the following:

| | Beginning of Fiscal Year | Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year-End |
|------|-----------------------------|--|-------------------|----------------------------------|
| | <u>Liability</u> | <u>in Estimates</u> | <u>Payments</u> | <u>Year-End</u> |
| 1997 | \$ 10,332 | \$ 139,267 | \$ 143,262 | \$ 6,337 |
| 1998 | \$ 6,337 | \$ 390,771 | \$ 382,699 | \$ 14,409 |

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

There has been no significant reduction in insurance coverage as compared to the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 14: OPERATING TRANSFERS

The City's Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types, display operating transfers-in and transfers-out for the year ended December 31, 1998. These totals are not in agreement as the agency fund is not included. It transferred \$590 during the reporting period. A reconciliation of operating transfers, including the agency fund, is as follows:

CITY OF NORTON, OHIO
 NOTES TO THE COMBINED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 1998
 (CONTINUED)

NOTE 14: **OPERATING TRANSFERS** (Continued)

| <u>Fund</u> | <u>Transfers-In</u> | <u>Transfers-Out</u> |
|------------------|---------------------|----------------------|
| General Fund | \$1,750,590 | \$ 904,759 |
| Special Revenue | 285,000 | 2,156,000 |
| Capital Projects | 1,021,544 | 0 |
| Debt Service | 4,215 | 0 |
| Agency | 0 | 590 |
| | <u>\$3,061,349</u> | <u>\$3,061,349</u> |

NOTE 15: **SUBSEQUENT EVENT**

The City anticipates the issuance of \$500,000 general obligation note for purposes of a street repair and maintenance program.

NOTE 16: **YEAR 2000 ISSUE**

The Year 2000 Issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the government's operations as early as fiscal 1999.

The City has completed an inventory of its computer systems and other equipment necessary to conducting City operations and has identified the following systems requiring Year 2000 remediation: financial reporting, tax collection, payroll, and employee benefit systems.

The City is currently remediating its financial reporting, tax collection, payroll, and employee benefit systems. Validation and testing of these systems were yet to be completed as of December 31, 1998; however, validation and testing was completed January, 1999. Remaining contracted amounts of \$3,000 were committed to this project as of December 31, 1998. This amount was not spent by May, 1999.

Summit County provides the 911 police and fire emergency reporting system. The 911 police and fire reporting system has data interchanges with several other such systems, some of which had not been tested and validated as of December 31, 1998. As of May, 1999, these systems are in process to be tested and validated.

CITY OF NORTON, OHIO
NOTES TO THE COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998
(CONTINUED)

NOTE 16: YEAR 2000 ISSUE (Continued)

A vendor of the City was remediating the traffic control system at December 31, 1998. Validation and testing of this system was yet to be completed as of December 31, 1998. As of May, 1999 the system has been tested and validated and found to be Y2K ready.

The Ohio Edison Company provides the electricity to the City. Ohio Edison is responsible for remediating this system, and is solely responsible for any costs associated with this project.

Because of the unprecedented nature of the Year 2000 Issue, its effects and success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City is or will be Year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that the parties with whom the City does business will be Year 2000 ready.

Charles E. Harris & Associates
Certified Public Accountants

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Cleveland, Ohio 44113
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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members
of City Council
City of Norton
Norton, Ohio

We have audited the general purpose financial statements of the City of Norton as of and for the year ended December 31, 1998 and have issued our report thereon dated September 13, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated September 13, 1999.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated September 13, 1999.

This report is intended for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

C. Harris & Associates

Charles E. Harris & Associates

September 13, 1999

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of December 31, 1997 did not include any material citations or recommendations.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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CITY OF NORTON

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

By: *Susan Babbitt*

Date: **JANUARY 18, 2000**