



**CITY OF INDEPENDENCE  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2001**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**CITY OF INDEPENDENCE  
CUYAHOGA COUNTY**

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**INDEPENDENT ACCOUNTANTS' REPORT**

City of Independence  
Cuyahoga County  
6800 Brecksville Road  
Independence, Ohio 44131

To the Members of City Council:

We have audited the accompanying general-purpose financial statements of the City of Independence, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2001, as listed in the table of contents. 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 auditing standards generally accepted in the United States of America 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 of Independence, Cuyahoga County, Ohio, as of December 31, 2001, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2002 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

**Jim Petro**  
Auditor of State

July 29, 2002

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**City of Independence, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups*  
*December 31, 2001*

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Assets and Other Debits</b>				
<b>Assets</b>				
Cash and Cash Equivalents	\$2,926,659	\$841,199	\$423,804	\$1,864,670
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0
Cash and Cash Equivalents with Fiscal Agents	0	0	8,044	0
Receivables:				
Taxes	5,154,047	146,419	488,063	0
Accounts	76,734	0	0	0
Special Assessments	0	0	170	0
Intergovernmental	439,133	142,711	25,965	0
Materials and Supplies Inventory	105,421	64,638	0	0
Prepaid Items	25,358	0	0	0
Fixed Assets	0	0	0	0
<b>Other Debits</b>				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
<i>Total Assets and Other Debits</i>	<b>\$8,727,352</b>	<b>\$1,194,967</b>	<b>\$946,046</b>	<b>\$1,864,670</b>



Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	
\$2,925,819	\$342,214	\$0	\$0	\$9,324,365
0	19,858	0	0	19,858
0	0	0	0	8,044
0	0	0	0	5,788,529
0	0	0	0	76,734
0	0	0	0	170
0	0	0	0	607,809
0	0	0	0	170,059
0	0	0	0	25,358
0	0	47,545,011	0	47,545,011
0	0	0	423,804	423,804
0	0	0	14,796,972	14,796,972
<u>\$2,925,819</u>	<u>\$362,072</u>	<u>\$47,545,011</u>	<u>\$15,220,776</u>	<u>\$78,786,713</u>

(continued)

**City of Independence, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups (continued)*  
*December 31, 2001*

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Liabilities</b>				
<b>Fund Equity and Other Credits</b>				
<b>Liabilities</b>				
Accounts Payable	\$141,646	\$14,638	\$0	\$134,134
Contracts Payable	17,273	0	0	287,713
Retainage Payable	0	0	0	368,429
Accrued Wages and Benefits	206,545	12,768	0	0
Compensated Absences Payable	5,400	0	0	0
Intergovernmental Payable	57,346	71	0	0
Deferred Revenue	2,486,347	248,659	514,198	0
Undistributed Monies	0	0	0	0
Deposits Held and Due to Others	0	0	0	0
Matured Bonds and Interest Payable	0	0	8,044	0
Notes Payable	0	0	0	0
OPWC Loan Payable	0	0	0	0
Police and Fire Pension Liability	0	0	0	0
Capital Leases Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
<i>Total Liabilities</i>	<i>2,914,557</i>	<i>276,136</i>	<i>522,242</i>	<i>790,276</i>
<b>Fund Equity and Other Credits</b>				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	246,224	21,244	0	1,273,971
Reserved for Inventory	105,421	64,638	0	0
Unreserved, Undesignated (Deficit)	5,461,150	832,949	423,804	(199,577)
<i>Total Fund Equity and Other Credits</i>	<i>5,812,795</i>	<i>918,831</i>	<i>423,804</i>	<i>1,074,394</i>
<i>Total Liabilities, Fund Equity and Other Credits</i>	<i>\$8,727,352</i>	<i>\$1,194,967</i>	<i>\$946,046</i>	<i>\$1,864,670</i>

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	
\$0	\$0	\$0	\$0	\$290,418
0	0	0	0	304,986
0	0	0	0	368,429
0	0	0	0	219,313
0	0	0	225,619	231,019
0	0	0	416,596	474,013
0	0	0	0	3,249,204
0	45,942	0	0	45,942
0	316,130	0	0	316,130
0	0	0	0	8,044
0	0	0	11,400,000	11,400,000
0	0	0	84,588	84,588
0	0	0	88,849	88,849
0	0	0	5,124	5,124
0	0	0	3,000,000	3,000,000
<u>0</u>	<u>362,072</u>	<u>0</u>	<u>15,220,776</u>	<u>20,086,059</u>
0	0	47,545,011	0	47,545,011
2,925,819	0	0	0	2,925,819
0	0	0	0	1,541,439
0	0	0	0	170,059
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,518,326</u>
<u>2,925,819</u>	<u>0</u>	<u>47,545,011</u>	<u>0</u>	<u>58,700,654</u>
<u>\$2,925,819</u>	<u>\$362,072</u>	<u>\$47,545,011</u>	<u>\$15,220,776</u>	<u>\$78,786,713</u>

**City of Independence, Ohio**  
*Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances  
All Governmental Fund Types  
For the Year Ended December 31, 2001*

	Governmental	
	General	Special Revenue
<b>Revenues</b>		
Municipal Income Tax	\$18,714,234	\$0
Property and Other Taxes	2,736,331	137,063
Charges for Services	496,034	0
Licenses and Permits	414,814	276,890
Fines and Forfeitures	275,310	33,735
Intergovernmental	136,232	381,020
Special Assessments	0	0
Interest	401,590	0
Rentals	90,019	0
	<u>23,264,564</u>	<u>828,708</u>
<b>Expenditures</b>		
Current:		
General Government	4,360,115	0
Security of Persons and Property	6,149,635	430,600
Public Health and Welfare	115,192	0
Transportation	779,690	940,676
Community Environment	3,389,729	0
Basic Utility Services	457,337	0
Leisure Time Activities	1,402,335	276,746
Capital Outlay	0	0
Debt Service:		
Principal Retirement	9,523	2,594
Interest and Fiscal Charges	697	3,859
	<u>16,664,253</u>	<u>1,654,475</u>
<i>Total Expenditures</i>		
	<u>16,664,253</u>	<u>1,654,475</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>6,600,311</u>	<u>(825,767)</u>
<b>Other Financing Sources (Uses)</b>		
Proceeds of Notes	0	0
Sale of Fixed Assets	15,328	0
Operating Transfers In	0	1,025,000
Operating Transfers Out	(9,015,500)	0
	<u>(9,000,172)</u>	<u>1,025,000</u>
<i>Total Other Financing Sources (Uses)</i>		
	<u>(9,000,172)</u>	<u>1,025,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(2,399,861)</u>	<u>199,233</u>
<i>Fund Balances Beginning of Year</i>	8,228,299	719,848
Decrease in Reserve for Inventory	(15,643)	(250)
<i>Fund Balances End of Year</i>	<u>\$5,812,795</u>	<u>\$918,831</u>

See accompanying notes to the general purpose financial statements

Fund Types		Totals (Memorandum Only)
Debt Service	Capital Projects	
\$0	\$0	\$18,714,234
502,567	0	3,375,961
0	0	496,034
0	0	691,704
0	0	309,045
55,417	277,721	850,390
44,580	0	44,580
0	144,305	545,895
0	0	90,019
<u>602,564</u>	<u>422,026</u>	<u>25,117,862</u>
0	0	4,360,115
0	0	6,580,235
0	0	115,192
0	0	1,720,366
0	0	3,389,729
0	0	457,337
0	0	1,679,081
0	10,359,863	10,359,863
300,000	13,356,767	13,668,884
186,146	509,915	700,617
<u>486,146</u>	<u>24,226,545</u>	<u>43,031,419</u>
<u>116,418</u>	<u>(23,804,519)</u>	<u>(17,913,557)</u>
0	11,400,000	11,400,000
0	0	15,328
0	9,400,500	10,425,500
0	(1,510,000)	(10,525,500)
<u>0</u>	<u>19,290,500</u>	<u>11,315,328</u>
116,418	(4,514,019)	(6,598,229)
307,386	5,588,413	14,843,946
<u>0</u>	<u>0</u>	<u>(15,893)</u>
<u>\$423,804</u>	<u>\$1,074,394</u>	<u>\$8,229,824</u>

**City of Independence, Ohio**  
*Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual  
All Governmental Fund Types  
For the Year Ended December 31, 2001*

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Municipal Income Tax	\$17,300,000	\$18,562,898	\$1,262,898
Property and Other Taxes	2,872,762	2,740,154	(132,608)
Charges for Services	473,992	489,320	15,328
Licenses and Permits	414,814	414,814	0
Fines and Forfeitures	275,310	275,310	0
Intergovernmental	207,444	207,444	0
Special Assessments	0	0	0
Interest	404,642	404,642	0
Rentals	90,019	90,019	0
Other	0	0	0
<i>Total Revenues</i>	<u>22,038,983</u>	<u>23,184,601</u>	<u>1,145,618</u>
<b>Expenditures</b>			
Current:			
General Government	5,058,998	4,624,841	434,157
Security of Persons and Property	6,516,775	6,219,068	297,707
Public Health and Welfare	112,000	106,958	5,042
Transportation	878,283	819,804	58,479
Community Environment	3,808,564	3,549,609	258,955
Basic Utility Services	540,952	478,887	62,065
Leisure Time Activities	1,506,932	1,436,875	70,057
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>18,422,504</u>	<u>17,236,042</u>	<u>1,186,462</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,616,479</u>	<u>5,948,559</u>	<u>2,332,080</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds of Notes	0	0	0
Sale of Fixed Assets	15,328	15,328	0
Operating Transfers In	0	0	0
Operating Transfers Out	(9,015,500)	(9,015,500)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(9,000,172)</u>	<u>(9,000,172)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(5,383,693)</u>	<u>(3,051,613)</u>	<u>2,332,080</u>
<i>Fund Balances Beginning of Year</i>	4,668,709	4,668,709	0
Prior Year Encumbrances Appropriated	962,904	962,904	0
<i>Fund Balances End of Year</i>	<u>\$247,920</u>	<u>\$2,580,000</u>	<u>\$2,332,080</u>

Special Revenue Funds			Debt Service Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0
133,605	137,063	3,458	489,887	502,567	12,680
0	0	0	0	0	0
260,000	276,890	16,890	0	0	0
14,000	34,303	20,303	0	0	0
159,114	361,799	202,685	55,417	55,417	0
0	0	0	0	44,580	44,580
0	0	0	0	0	0
0	0	0	0	0	0
1,000	0	(1,000)	0	0	0
<u>567,719</u>	<u>810,055</u>	<u>242,336</u>	<u>545,304</u>	<u>602,564</u>	<u>57,260</u>
0	0	0	0	0	0
465,078	438,969	26,109	0	0	0
0	0	0	0	0	0
1,059,739	1,000,752	58,987	0	0	0
1,000	0	1,000	0	0	0
0	0	0	0	0	0
284,881	280,618	4,263	0	0	0
0	0	0	0	0	0
0	0	0	300,000	300,000	0
0	0	0	226,000	186,146	39,854
<u>1,810,698</u>	<u>1,720,339</u>	<u>90,359</u>	<u>526,000</u>	<u>486,146</u>	<u>39,854</u>
<u>(1,242,979)</u>	<u>(910,284)</u>	<u>332,695</u>	<u>19,304</u>	<u>116,418</u>	<u>97,114</u>
0	0	0	0	0	0
0	0	0	0	0	0
1,025,000	1,025,000	0	0	0	0
0	0	0	0	0	0
<u>1,025,000</u>	<u>1,025,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(217,979)	114,716	332,695	19,304	116,418	97,114
628,717	628,717	0	307,386	307,386	0
63,998	63,998	0	0	0	0
<u>\$474,736</u>	<u>\$807,431</u>	<u>\$332,695</u>	<u>\$326,690</u>	<u>\$423,804</u>	<u>\$97,114</u>

(continued)

**City of Independence, Ohio**  
*Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual  
All Governmental Fund Types (continued)  
For the Year Ended December 31, 2001*

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Municipal Income Tax	\$0	\$0	\$0
Property and Other Taxes	0	0	0
Charges for Services	0	0	0
Licenses and Permits	0	0	0
Fines and Forfeitures	0	0	0
Intergovernmental	275,000	277,721	2,721
Special Assessments	0	0	0
Interest	500,000	144,305	(355,695)
Rentals	0	0	0
Other	0	0	0
<i>Total Revenues</i>	<u>775,000</u>	<u>422,026</u>	<u>(352,974)</u>
<b>Expenditures</b>			
Current:			
General Government	0	0	0
Security of Persons and Property	0	0	0
Public Health and Welfare	0	0	0
Transportation	0	0	0
Community Environment	0	0	0
Basic Utility Services	0	0	0
Leisure Time Activities	0	0	0
Capital Outlay	12,176,834	11,825,577	351,257
Debt Service:			
Principal Retirement	13,356,767	13,356,767	0
Interest and Fiscal Charges	518,233	509,915	8,318
<i>Total Expenditures</i>	<u>26,051,834</u>	<u>25,692,259</u>	<u>359,575</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(25,276,834)</u>	<u>(25,270,233)</u>	<u>6,601</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds of Notes	11,400,000	11,400,000	0
Sale of Fixed Assets	0	0	0
Operating Transfers In	9,400,500	9,400,500	0
Operating Transfers Out	(1,510,000)	(1,510,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>19,290,500</u>	<u>19,290,500</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(5,986,334)</u>	<u>(5,979,733)</u>	<u>6,601</u>
<i>Fund Balances Beginning of Year</i>	4,466,390	4,466,390	0
Prior Year Encumbrances Appropriated	1,809,934	1,809,934	0
<i>Fund Balances End of Year</i>	<u>\$289,990</u>	<u>\$296,591</u>	<u>\$6,601</u>

See accompanying notes to the general purpose financial statements



Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$17,300,000	\$18,562,898	\$1,262,898
3,496,254	3,379,784	(116,470)
473,992	489,320	15,328
674,814	691,704	16,890
289,310	309,613	20,303
696,975	902,381	205,406
0	44,580	44,580
904,642	548,947	(355,695)
90,019	90,019	0
1,000	0	(1,000)
<u>23,927,006</u>	<u>25,019,246</u>	<u>1,092,240</u>
5,058,998	4,624,841	434,157
6,981,853	6,658,037	323,816
112,000	106,958	5,042
1,938,022	1,820,556	117,466
3,809,564	3,549,609	259,955
540,952	478,887	62,065
1,791,813	1,717,493	74,320
12,176,834	11,825,577	351,257
13,656,767	13,656,767	0
744,233	696,061	48,172
<u>46,811,036</u>	<u>45,134,786</u>	<u>1,676,250</u>
<u>(22,884,030)</u>	<u>(20,115,540)</u>	<u>2,768,490</u>
11,400,000	11,400,000	0
15,328	15,328	0
10,425,500	10,425,500	0
<u>(10,525,500)</u>	<u>(10,525,500)</u>	<u>0</u>
<u>11,315,328</u>	<u>11,315,328</u>	<u>0</u>
(11,568,702)	(8,800,212)	2,768,490
10,071,202	10,071,202	0
2,836,836	2,836,836	0
<u>\$1,339,336</u>	<u>\$4,107,826</u>	<u>\$2,768,490</u>

**City of Independence, Ohio**  
*Statement of Revenues,  
Expenses and Changes in Retained Earnings  
Internal Service Fund  
For the Year Ended December 31, 2001*

	Self Insurance
<b>Operating Revenues</b>	
Charges for Services	\$115,421
<b>Operating Expenses</b>	
Contractual Services	8,375
Claims	75,757
Total Operating Expenses	84,132
<i>Operating Income</i>	31,289
<b>Non-Operating Revenues</b>	
Interest	95,444
<i>Income Before Operating Transfers</i>	126,733
Operating Transfers In	100,000
<i>Net Income</i>	226,733
<i>Retained Earnings Beginning of Year</i>	2,699,086
<i>Retained Earnings End of Year</i>	\$2,925,819

See accompanying notes to the general purpose financial statements

**City of Independence, Ohio**  
*Statement of Cash Flows*  
*Internal Service Fund*  
For the Year Ended December 31, 2001

	<u>Self Insurance</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Quasi-External Transactions with Other Funds	\$115,421
Cash Payments for Contractual Services	(8,375)
Cash Payments for Claims	(78,957)
<i>Net Cash Provided by Operating Activities</i>	28,089
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers In	100,000
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	95,444
<i>Net Increase in Cash and Cash Equivalents</i>	223,533
<i>Cash and Cash Equivalents Beginning of Year</i>	2,702,286
<i>Cash and Cash Equivalents End of Year</i>	\$2,925,819
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
<i>Operating Income</i>	\$31,289
<i>Adjustments:</i>	
Decrease in Claims Payable	(3,200)
Net Cash Provided by Operating Activities	\$28,089

See accompanying notes to general purpose financial statements

**City of Independence, Ohio**  
*Statement of Revenues, Expenses and  
Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual  
Internal Service Fund  
For the Year Ended December 31, 2001*

	Self Insurance Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Charges for Services	\$0	\$115,421	\$115,421
Interest Income	0	88,880	88,880
<i>Total Revenues</i>	<u>0</u>	<u>204,301</u>	<u>204,301</u>
<b>Expenses</b>			
Contractual Services	8,375	8,375	0
Claims	91,625	78,957	12,668
<i>Total Expenses</i>	<u>100,000</u>	<u>87,332</u>	<u>12,668</u>
<i>Excess of Revenues Over (Under) Expenses</i>	(100,000)	116,969	216,969
Operating Transfers In	<u>100,000</u>	<u>100,000</u>	<u>0</u>
<i>Excess of Revenues Over Expenses and Operating Transfers</i>	0	216,969	216,969
<i>Fund Equity Beginning of Year</i>	<u>2,624,300</u>	<u>2,624,300</u>	<u>0</u>
<i>Fund Equity End of Year</i>	<u><u>\$2,624,300</u></u>	<u><u>\$2,841,269</u></u>	<u><u>\$216,969</u></u>

See accompanying notes to the general purpose financial statements

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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**Note 1 - Reporting Entity and Basis of Presentation**

The City of Independence (the City) is a home rule municipal corporation formed under the laws of the State of Ohio. The City operates under its own Charter made effective November 4, 1958. The Charter, as amended, provides for a Council-Mayor form of government.

The Mayor, elected by the voters for a two-year term, is the head of the municipal government for ceremonial, administrative, and executive purposes, performs the judicial functions of the City and presides at Council meetings. The chief conservator of the peace, he oversees the enforcement of all laws and ordinances. He also appoints all department heads and executes all contracts, conveyances, and evidences of indebtedness of the City.

Legislative authority is vested in a seven member council with all seven members elected at large for a term of two years. Council enacts ordinances and resolutions relating to tax levies, appropriates and borrows money, and accepts bids for materials and services and other municipal purposes.

***A. Reporting Entity***

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading.

The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. For the City of Independence this includes all City departments and agencies that provide the following services: police and fire protection, emergency medical, parks, recreation, a cemetery, street maintenance, and Mayor's court.

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

The City participates in two jointly governed organizations, the Southwest Council of Governments and the Northeast Ohio Public Energy Council. These organizations are presented in Note 13 of the general purpose financial statements.

***B. Basis of Presentation - Fund Accounting***

The City's accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operation of each fund is accounted for within a set of self-balancing accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types." The City uses the following fund types and account groups.

**Governmental Fund Types** Governmental funds are those through which most governmental functions typically are financed. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The following are the City's governmental fund types:

**General Fund** This fund is the operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Special Revenue Funds** These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

**Debt Service Funds** These funds are used to account for the accumulation of resources for, and the payment of, general and special assessment long-term debt principal and interest.

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

**Proprietary Fund Type** Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The City's only proprietary fund is an Internal Service Fund.

**Internal Service Fund** The Internal Service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

**Fiduciary Fund Type** Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City's only fiduciary fund types are agency funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

**Account Groups** To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

**General Fixed Assets Account Group** This account group is used to account for all general fixed assets of the City.

**General Long-Term Obligations Account Group** This account group is used to account for all unmatured long-term indebtedness of the City.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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

The financial statements of the City of Independence have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989, to its proprietary activities to the extent they do not contradict or conflict with GASB pronouncements. The more significant of the City's accounting policies are described below.

***A. Measurement Focus and Basis of Accounting***

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing sources) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund types operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 8) Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: income tax, state-levied locally shared taxes, interest, grants, fees and rentals.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2001, but which were levied to finance year 2002 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

***B. 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 prepared 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 appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department in the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the City Council.

***Tax Budget*** At the first Council meeting in July, the Mayor presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget 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.

***Estimated Resources*** The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2001.

***Appropriations*** A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be



**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may only be modified during the year only by an ordinance of Council. During the year, several supplemental appropriation measures were passed; however, none were significant in amount. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

***Encumbrances*** As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the legal level of control. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

***Lapsing of Appropriations*** At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

***C. Cash and Cash Equivalents***

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "cash and cash equivalents" on the combined balance sheet.

During 2001, investments were limited to repurchase agreements, U. S. Treasury Notes, Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, and Certificates of Deposit.

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2001 amounted to \$401,590, which includes \$201,298 assigned from other City funds.

The City utilizes a financial institution to service bonded debt as principal and interest payments come due. These monies are presented on the combined balance sheet as "cash and cash equivalents with fiscal agents." The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented in the Combined Balance Sheet as "cash and cash equivalents in segregated accounts."

For purposes of 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 with an initial maturity of more than three months not purchased from the pool are reported as investments.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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***D. Inventory***

Inventory is stated at cost for governmental funds on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds when purchased.

***E. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2001 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which it was consumed. Prepaid items consist primarily of insurance premiums and equipment maintenance contracts.

***F. Fixed Assets and Depreciation***

General fixed assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the general fixed assets account group. Infrastructure fixed assets such as streets, storm sewers and drains, and traffic signals and signs are not capitalized by the City and are not reported as part of the general fixed assets account group.

Fixed asset values were initially determined at December 31, 1986 by assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized. Improvements are capitalized.

The City has elected not to record depreciation in the general fixed assets account group.

***G. Compensated Absences***

The City has implemented the provisions of Governmental Accounting Standards Board Statement No.16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

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***H. Accrued Liabilities and Long Term Obligations***

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences and contractually required pension contributions are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than thirty-one days after year end are generally considered not to have been paid with current available resources. Bonds, long-term loans and capital leases are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

***I. Fund Equity***

Reservations of fund balance are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure including amounts that are legally segregated for a specific future use. Fund balances are reserved for encumbrances and inventories of supplies and materials.

***J. Interfund Transactions***

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

***K. Estimates***

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

***L. Total Columns on Combined Financial Statements***

The "Totals" columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 3 – Change in Accounting Principles**

For 2001, the City has implemented GASB Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions” and GASB Statement No. 36, “Recipient Reporting for Certain Shared Nonexchange Revenues.” The implementation of these statements did not result in any change in fund balance from the prior year.

**Note 4 - Budgetary Basis of Accounting**

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

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and the Combined Statement of Revenues, Expenses, and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - Internal Service Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis (generally accepted accounting principles) are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/Expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures/expenses for all funds (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure for proprietary funds.

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	(\$2,399,861)	\$199,233	\$116,418	(\$4,514,019)
Net Adjustment for Revenue Accruals	(79,963)	(18,653)	0	0
Net Adjustment for Expenditure Accruals	(225,130)	(32,096)	0	102,365
Encumbrances	(346,659)	(33,768)	0	(1,568,079)
Budget Basis	(\$3,051,613)	\$114,716	\$116,418	(\$5,979,733)

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 2001

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Net Income/Excess of Revenues Over Expenses  
and Operating Transfers  
Internal Service Fund

GAAP Basis	\$226,733
Net Adjustment for Revenue Accruals	77,986
Fair Value Adjustment for Investments	(84,550)
Net Adjustment for Expense Accruals	<u>(3,200)</u>
Budget Basis	<u><u>\$216,969</u></u>

**Note 5 - Deposits and Investments**

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

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

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

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

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

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

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

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 2001

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

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

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is not default of principal, interest or coupons; and
3. Obligations of the City.

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

***Cash on Hand.*** At year end, the City had \$750 in undeposited cash on hand which is included on the balance sheet as part of "equity in pooled cash and cash equivalents."

***A. Deposits***

At year-end, the carrying amount of the City's deposits was \$6,590,340 and the bank balance was \$6,407,354. Of the bank balance:

1. \$340,479 was covered by federal depository insurance.

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 2001

2. \$6,086,733 was uncollateralized and uninsured. Although the pledging bank has an investment and securities pool used to collateralize all public deposits which are held in the financial institution's name, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

***B. Investments***

The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes 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 includes 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.

	Category 3	Carrying Amount	Fair Value
U. S. Treasury Notes	1,444,502	1,444,502	1,444,502
Federal Home Loan Bank Bonds	1,045,300	1,045,300	1,045,300
Federal National Mortgage Association Bonds	271,375	271,375	271,375
Total	<u>\$2,761,177</u>	<u>\$2,761,177</u>	<u>\$2,761,177</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$9,352,267	\$0
Cash on Hand	(750)	0
Investments:		
U. S. Treasury Notes	(1,444,502)	1,444,502
Federal Home Loan Bank Bonds	(1,045,300)	1,045,300
Federal National Mortgage Association Bonds	(271,375)	271,375
GASB Statement No. 3	<u>\$6,590,340</u>	<u>\$2,761,177</u>

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 2001

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**Note 6 - Receivables**

Receivables at December 31, 2001 consist primarily of taxes, intergovernmental receivables, special assessments, and accrued interest on investments. All receivables are considered fully collectible.

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2001 for real and public utility property taxes represents collections of 2000 taxes. Property tax payments received during 2001 for tangible personal property (other than public utility property) is for 2001 taxes.

2001 real property taxes are levied after October 1, 2001 on the assessed value as of January 1, 2001, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2001 real property taxes are collected in and intended to finance 2002.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2001 public utility property taxes became a lien December 31, 2000, are levied after October 1, 2001, and are collected in 2002 with real property taxes.

2001 tangible personal property taxes are levied after October 1, 2000, on the value as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 2001 was \$3.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2001 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$189,810,990
Other Real Estate	240,430,230
Tangible Personal Property	
Public Utility	18,026,050
General Tangible Personal Property	63,851,343
Total	\$512,118,613

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Independence. The County Auditor periodically remits to the City its portion of the taxes.



**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 2001

Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2001 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor were they levied to finance 2001 operations. The receivable is offset by deferred revenue.

***B. Income Taxes***

The City levies and collects an income tax of two percent on all income earned within the City as well on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

***C. Intergovernmental Receivables***

A summary of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
<i>General Fund:</i>	
Local Government	\$335,150
Homestead and Rollback	44,850
Estate Tax	59,133
<i>Total General Fund</i>	\$439,133
Intergovernmental Receivables	Amount
<i>Special Revenue Funds:</i>	
State Highway	\$8,427
Permissive Motor Vehicle	9,003
Street, Construction, Maintenance and Repair	103,983
Police Pension	21,298
<i>Total Special Revenue Funds</i>	142,711
<i>Debt Service – GO Bond Retirement Fund</i>	25,965
<b>Total</b>	<b>\$607,809</b>

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 2001

**Note 7 - Contingencies**

**A. Grants**

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2001.

**B. Litigation**

The City of Independence is a party to legal proceedings seeking damages. The City management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**Note 8 - Fixed Assets**

Changes in general fixed assets during 2001 were as follows:

	Balance January 1, 2001	Additions	Deletions	Balance December 31, 2001
Land	\$7,627,620	\$353,260	\$0	\$7,980,880
Buildings	23,164,485	457,884	0	23,622,369
Machinery and Equipment	4,624,545	341,087	0	4,965,632
Furniture and Fixtures	1,758,929	11,258	0	1,770,187
Vehicles	4,898,149	1,027,217	20,375	5,904,991
Construction In Progress	0	3,300,952	0	3,300,952
<b>Total</b>	<b>\$42,073,728</b>	<b>\$5,491,658</b>	<b>\$20,375</b>	<b>\$47,545,011</b>

**Note 9 - Defined Benefit Pension Plans**

**A. Public Employees Retirement System**

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2001 employer pension contribution rate for the City was 9.25 percent of covered

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 2001

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payroll, increased from 6.54 percent in 2000. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 2001, 2000, and 1999 were \$542,723, \$375,588, and \$400,209 respectively. The full amount has been contributed for 2000 and 1999. 73.87 percent has been contributed for 2001 with the remainder being reported as a liability in the general long-term obligations account group.

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

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

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 12 percent for police and 16.5 percent for firefighters. For 2000, the City contributions were 12.25 percent for police and 16.75 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$246,077 and \$219,950 for the year ended December 31, 2001, \$316,171 and \$229,468 for the year ended December 31, 2000, and \$221,854 and \$218,488 for the year ended December 31, 1999. The full amount has been contributed for 2000 and 1999. 70.09 and 71.34 percent, respectively, have been contributed for 2001 with the remainder being reported as a liability in the general long-term obligations account group.

In addition to the current contribution, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 2001, the unfunded liability of the City was \$88,849 payable in semiannual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported in the general long-term obligations account group.

**Note 10 - Postemployment Benefits**

***A. Public Employees Retirement System (PERS)***

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2001 employer contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2001. For 2000, the contribution rate was 10.84 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 2001

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investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

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

The number of active contributing participants was 411,076. The City's actual contributions for 2001 which were used to fund postemployment benefits were \$252,293. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.6 million and \$2,628.7 million, respectively.

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

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employers' contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.5 percent of covered payroll was applied to the postemployment health care program during 2001. For 2000, the percent used to fund healthcare was 7.25 percent. 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 City's actual contributions for 2001 that were used to fund postemployment benefits were \$187,122 for police and \$99,322 for fire. The OP&F's total health care expenses for the year ended December 31, 2000, (the latest information available) were \$106,160,054 which was net of member contributions of \$5,657,431. The number of OP&F participants eligible to receive health care benefits as of December 31, 2000, was 12,853 for police and 10,037 for firefighters.

**Note 11 - Compensated Absences**

Employees earn ten to thirty days of vacation per year, depending upon length of service. Vacation time cannot be carried forward to the next year. At fiscal year end and upon termination employees are paid for accrued unused vacation up to five days, all other vacation time is lost. Employees earn sick leave at different rates depending upon length of service and type of employment. Sick leave accrual is continuous, without limit. Upon retirement, an employee can be paid a maximum of one fourth of 960 hours of accumulated, unused sick leave.

As of December 31, 2001, the liability for unpaid compensated absences was \$231,019 for the entire City.

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 2001

**Note 12 - Risk Management**

The City of Independence 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 disaster. During 2001, the City contracted with CNA Insurance Company of Hartford for various types of insurance as follows:

Company	Type	Coverage	Deductible
CNA Insurance Company	Inland Marine		
	Contractors Equipment	\$458,418	\$1,000
	Property	33,041,353	250
	Electric Data Processing	375,000	250
	Fleet Vehicle	500,000	500

Settled claims have not exceeded this coverage in any of the last three years. There has not been significant reduction in coverage from the prior year.

The City accounts for extraordinary liability insurance for all lawsuits in the Self Insurance internal service fund. There were no outstanding claims at December 31, 2001. Changes in the fund's claims liability amount for 1999 through 2001 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
1999	\$3,000	\$1,365	\$1,365	\$3,000
2000	3,000	122,638	122,438	3,200
2001	3,200	75,757	78,957	0

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

**Note 13 - Jointly Governed Organizations**

***A. Southwest Council of Governments***

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The board is comprised of one member from each of the sixteen participating entities. The board exercises total control over the operation of the Council including budgeting, appropriating, contracting and designating management. Budgets are adopted by the board. Each City's degree of control is limited to its representation on the board. In 2001, the City contributed \$7,500 which represents 5.26 percent of total contributions.

The Council has established two subsidiary organizations, the Hazardous Material Response Team ("HAZ MAT") which provides hazardous material protection and assistance and the Southwest Enforcement Bureau which provides extra assistance to cities in the form of a Swat Team. The Council's financial statements may be obtained by contacting the Southwest Council of Governments, Parma Heights, Ohio 44130.

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 2001

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***B. Northeast Ohio Public Energy Council (NOPEC)***

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 93 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program.

The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Independence did not contribute to NOPEC during 2001. Financial information can be obtained by contacting Dan DiLiberto, Treasurer, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

**Note 14 - Contractual Commitments**

The City had the following contractual commitments outstanding at December 31, 2001:

Project	Contract Amount	Amount Paid to Date	Amount Remaining on Contract
Elmwood Park Phase II	\$3,839,671	\$3,079,339	\$760,332
Roadway Improvement - Dora	2,689,923	2,349,245	340,678

**Note 15 - Capital Leases**

In prior years, the City has entered into lease agreements for copiers. These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, "Accounting for Leases" and have been recorded in the general long-term obligations account group.

Fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$58,131 which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2001 totaled \$9,523 in the general fund.

Future long-term annual minimum lease payments amount to one payment of \$5,281. This payment represents \$157 in interest and \$5,124 representing the present value of minimum lease payments required at December 31, 2001.

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 2001

**Note 16 - Long-term Obligations**

Changes in long-term obligations of the City during 2001 were as follows:

	Outstanding 01/01/01	Additions	(Reductions)	Outstanding 12/31/01
<b>General Long-term Obligations</b>				
General Obligations Bond				
1991 5.60% Civic Center	\$3,300,000	\$0	(\$300,000)	\$3,000,000
Notes Payable	13,350,000	11,400,000	(13,350,000)	11,400,000
0% OPWC Loan	91,355	0	(6,767)	84,588
Compensated Absences	220,710	50,638	(45,729)	225,619
Capital Lease Obligations	14,647	0	(9,523)	5,124
Intergovernmental Payables	425,434	416,596	(425,434)	416,596
Police and Fire Pension	91,443	0	(2,594)	88,849
<b>Total General Long-Term Obligations</b>	<u>\$17,493,589</u>	<u>\$11,867,234</u>	<u>(\$14,140,047)</u>	<u>\$15,220,776</u>

General obligation bonds will be paid from the general bond retirement debt service fund from property taxes. The Ohio Public Works Commission loan will be repaid with interest earned in the capital projects fund.

The capital lease obligation is paid from the general fund. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid. Intergovernmental payables (long-term pension obligations) will be paid from the fund from which the employees' salaries are paid. The police and fire pension liability will be paid from taxes received in the police and fire pension special revenue funds.

Bond anticipation notes that were rolled over prior to the issuance of the financial statements and have a new maturity beyond the end of the year in which the report is issued, have been reported in the general long-term obligations account group. The notes are backed by the full faith of the City of Independence.

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 2001

The City's overall legal debt margin was \$39,796,258 with an unvoted debt margin of \$28,166,524 at December 31, 2001. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2001 are as follows:

	General Obligation Bonds	Ohio Public Works Loan	Police and Fire Pension
2002	\$468,000	\$6,767	\$6,453
2003	451,200	6,767	6,453
2004	434,400	6,767	6,453
2005	417,600	6,767	6,453
2006-2010	650,400	33,835	32,265
2011-2015	1,502,400	23,685	32,265
2016 – 2020	0	0	32,265
2021-2022	0	0	12,906
Total Principal and Interest	3,924,000	84,588	135,513
Less: Interest	(924,000)	0	(46,664)
Total Principal	<u>\$3,000,000</u>	<u>\$84,588</u>	<u>\$88,849</u>

**Note 17 – Subsequent Event**

On May 9, 2001, the City issued bond anticipation notes in the aggregate amount of \$13,350,000 with an interest rate of 3.10 percent for various improvement projects. These notes mature February 1, 2002.





**STATE OF OHIO  
OFFICE OF THE AUDITOR**

**JIM PETRO, AUDITOR OF STATE**

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

City of Independence  
Cuyahoga County  
6800 Brecksville Road  
Independence, Ohio 44131

To the Members of City Council:

We have audited the financial statements of the City of Independence, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated July 29, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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*.

**Internal Control 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 matters involving the internal control over financial reporting that did not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 29, 2002.

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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

**Jim Petro**  
Auditor of State

July 29, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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

**CITY OF INDEPENDENCE**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 20, 2002**