



**CITY OF MUNROE FALLS
SUMMIT COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Balance Sheet All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances All Governmental Fund Types and Expendable Trust Funds	6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) All Governmental Fund Types and Expendable Trust Funds	7
Statement of Revenues, Expenses and Changes in Fund Equity - Proprietary Fund Type	10
Statement of Cash Flows Proprietary Fund Type	11
Notes to the Combined Financial Statements.....	13
Report of Independent Accountants on Compliance and on Internal Control Required By <i>Government Auditing Standards</i>	33
Schedule of Findings.....	35

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REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Mayor and Members of City Council
City of Munroe Falls
Summit County
43 Munroe Falls Avenue
Munroe Falls, Ohio 44262

To the City Council:

We have audited the accompanying general purpose financial statements of the City of Munroe Falls, Summit County, (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 Munroe Falls 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.

As discussed in Note 1 to the general purpose financial statements, effective January 1, 2001, the City changed its method of accounting and reporting for nonexchange transactions, as required by Governmental Accounting Standards Board Statements No. 33 and 36.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 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", with a stylized, cursive script.

Jim Petro
Auditor of State

September 13, 2002

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**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2001**

	Governmental Fund Types			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Assets and Other Debits:				
Assets:				
Equity in pooled cash and cash equivalents	\$821,425	\$713,531	\$6,061	\$810,888
Receivables	381,489	307,934	202,083	81,627
Due from other governments	173,701	106,081	14,351	0
Inventory of supplies	31,510	2,155	0	1,511
Prepays	16,419	3,009	0	3,424
Fixed assets (net, where applicable, of accumulated depreciation)	0	0	0	0
Other Debits:				
Amount available in debt service fund for retirement of general L/T obligations	0	0	0	0
Amount available in compensated absences				
Amount to be provided for general L/T obligations from general gov't resources	0	0	0	0
Total Assets and Other Debits	\$1,424,544	\$1,132,710	\$222,495	\$897,450
Liabilities, Fund Equity and Other Credits:				
Liabilities:				
Accounts payable	\$12,850	\$123	\$0	\$28,025
Accrued wages and benefits	85,177	27,798	0	1,155
Deferred revenue	339,326	382,450	216,434	18,278
Interest Payable	0	0	0	11,302
General obligation bonds payable (net of issue costs)	0	0	0	0
Total Liabilities	437,353	410,371	216,434	58,760
Fund Equity and Other Credits:				
Investment in general fixed assets	0	0	0	0
Contributed capital	0	0	0	0
Retained earnings:				
Unreserved, undesignated	0	0	0	0
Fund balances:				
Reserved for encumbrances	29,520	67,239	0	122,682
Reserved for debt service	0	0	6,061	0
Reserved for compensated absence	0	165,000	0	0
Reserved for inventory	31,510	2,155	0	1,511
Reserved for prepays	16,419	3,009	0	3,424
Unreserved, undesignated	909,742	484,936	0	711,073
Total Fund Equity and Other Credits	987,191	722,339	6,061	838,690
Total Liabilities, Fund Equity & Other Credits	\$1,424,544	\$1,132,710	\$222,495	\$897,450

See accompanying notes and accountant's report.

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-term Obligations	
<u>Enterprise</u>	<u>Expendable Trust</u>			
\$1,065,237	\$151,896	\$0	\$0	\$3,569,038
209,248	0	0	0	1,182,381
0	0	0	0	294,133
1,338	217	0	0	36,731
6,281	4,155	0	0	33,288
2,036,317	0	6,065,735	0	8,102,052
0	0	0	6,061	6,061
			165,000	165,000
0	0	0	2,274,192	2,274,192
<u>\$3,318,421</u>	<u>\$156,268</u>	<u>\$6,065,735</u>	<u>\$2,445,253</u>	<u>\$15,662,876</u>
\$24,343	\$27,942	\$0	\$0	\$93,283
20,786	0	0	130,328	265,244
0	0	0	0	956,488
5,667	0	0	0	16,969
880,000	0	0	2,314,925	3,194,925
930,796	27,942	0	2,445,253	4,526,909
0	0	6,065,735	0	6,065,735
1,000	0	0	0	1,000
2,327,899	0	0	0	2,327,899
51,107	10,496	0	0	281,044
0	0	0	0	6,061
0	0	0	0	165,000
1,338	217	0	0	36,731
6,281	4,155	0	0	33,288
0	113,458	0	0	2,219,209
2,387,625	128,326	6,065,735	0	11,135,967
<u>\$3,318,421</u>	<u>\$156,268</u>	<u>\$6,065,735</u>	<u>\$2,445,253</u>	<u>\$15,662,876</u>

CITY OF MUNROE FALLS
SUMMIT COUNTY

Combined Statement of Revenues, Expenditures
And Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
For the Year Ended December 31, 2001

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	<u>Totals (Memorandum Only)</u>
Revenues:						
Local Taxes	\$1,005,594	\$276,462	\$210,356	\$350,496	\$0	\$1,842,908
Intergovernmental	366,877	220,359	27,871	0	0	615,107
Charges for services	3,820	10,000	0	0	3,872	17,692
Fines, licenses, permits	56,896	430	0	0	0	57,326
Interest	153,494	10,151	0	0	0	163,645
Special assessments	0	0	0	17,277	0	17,277
Miscellaneous	1,802	779	0	6,243	116,865	125,689
Total revenues	1,588,483	518,181	238,227	374,016	120,737	2,839,644
Expenditures:						
Current:						
Security of persons and property	935,651	302,600	0	78,530	104,450	1,421,231
Public health and welfare	33,388	0	0	0	0	33,388
Leisure time activities	41,552	0	0	22,500	0	64,052
Community environment	238	0	0	0	0	238
Transportation	166,190	162,710	0	84,419	0	413,319
General government	629,162	3,996	2,645	364,047	0	999,850
Debt Service:						
Redemption of principal	0	36,800	2,325,000	0	0	2,361,800
Interest	0	7,301	147,426	(2,621)	0	152,106
Total expenditures	1,806,181	513,407	2,475,071	546,875	104,450	5,445,984
Excess of revenue over (under) expenditures	(217,698)	4,774	(2,236,844)	(172,859)	16,287	(2,606,340)
Other Financing Sources (Uses):						
Proceeds of refunding bonds	0	0	2,204,525	0	0	2,204,525
Sale of fixed assets	205	0	0	0	0	205
Transfers-in	0	5,090	45,423	149,999	0	200,512
Transfers-out	(162,801)	0	0	(37,711)	0	(200,512)
Payment of refunding bond issuance costs	0	0	(29,525)	0	0	(29,525)
Refund of prior year expenditures	49	13,035	0	3,076	0	16,160
Refund of prior year receipts	(20,899)	0	0	(8,958)	(11,684)	(41,541)
Total Other Financing Sources (Uses)	(183,446)	18,125	2,220,423	106,406	(11,684)	2,149,824
Excess of revenue and other financing sources over (under) expenditures and other financing uses	(401,144)	22,899	(16,421)	(66,453)	4,603	(456,516)
Fund Balances at the beginning of the year as restated (Note 1)	1,388,335	699,440	22,482	905,143	123,723	3,139,123
Fund Balances at the end of the year.	\$987,191	\$722,339	\$6,061	\$838,690	\$128,326	\$2,682,607

See accompanying notes and accountant's report.

CITY OF MUNROE FALLS
SUMMIT COUNTY

Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types and Expendable Trust Funds
For the Year Ended December 31, 2001

	General Fund			Special Revenue Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Local taxes	\$1,101,532	\$1,007,847	(\$93,685)	\$286,268	\$284,427	(\$1,841)
Intergovernmental	328,261	371,233	42,972	246,011	229,674	(16,337)
Charges for services	5,200	3,820	(1,380)	0	10,000	10,000
Fines, licenses and permits	55,914	55,162	(752)	7,480	430	(7,050)
Interest	186,000	181,425	(4,575)	15,094	10,151	(4,943)
Special assessments	0	0	0	0	0	0
Miscellaneous	2,782	1,802	(980)	1,485	779	(706)
Total revenues	1,679,689	1,621,289	(58,400)	556,338	535,461	(20,877)
Expenditures:						
Current:						
Security of persons & property	1,006,164	916,436	89,728	456,853	360,796	96,057
Public health & welfare	36,700	33,388	3,312	0	0	0
Leisure time activities	49,258	41,207	8,051	0	0	0
Community development	1,050	419	631	0	0	0
Transportation	224,831	204,047	20,784	214,000	163,765	50,235
General government	737,242	645,813	91,429	4,710	3,996	714
Debt service:						
Principal retirement	0	0	0	36,800	36,800	0
Interest	0	0	0	7,301	7,301	0
Total expenditures	2,055,245	1,841,310	213,935	719,664	572,658	147,006
Excess of revenue over (under) expenditures	(375,556)	(220,021)	155,535	(163,326)	(37,197)	126,129
Other financing sources (uses):						
Operating transfers-in	52,202	0	(52,202)	0	5,090	5,090
Operating transfers-out	(179,378)	(162,801)	16,577	(25,000)	0	25,000
Other financing sources (uses)	(48,970)	(20,406)	28,564	0	0	0
Total other sources (uses)	(176,146)	(183,207)	(7,061)	(25,000)	5,090	30,090
Excess of revenue and other financing sources over (under) expenditures and other uses	(551,702)	(403,228)	148,474	(188,326)	(32,107)	156,219
Fund balances at the beginning of year	817,789	1,118,239	300,450	550,185	674,713	124,528
Prior year encumbrances appropriated	48,660	48,660	0	2,942	2,942	0
Fund balances at end of year	\$314,747	\$763,671	\$448,924	\$364,801	\$645,548	\$280,747

See accompanying notes and accountant's report.

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types and Expendable Trust Funds
For the Year Ended December 31, 2001**

	<u>Debt Service Fund</u>			<u>Capital Projects Fund</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	\$183,340	\$211,383	\$28,043	\$380,070	\$351,039	(\$29,031)
Intergovernmental	28,276	27,871	(405)	0	0	0
Charges for services	0	0	0	0	0	0
Fines, licenses and permits	0	0	0	0	0	0
Interest	0	0	0	0	0	0
Special assessments	0	0	0	8,755	17,277	8,522
Miscellaneous	0	0	0	0	6,241	6,241
Total revenues	<u>211,616</u>	<u>239,254</u>	<u>27,638</u>	<u>388,825</u>	<u>374,557</u>	<u>(14,268)</u>
Expenditures:						
Current:						
Security of persons & property	0	0	0	158,979	139,193	19,786
Public health & welfare	0	0	0	0	0	0
Leisure time activities	0	0	0	22,500	22,500	0
Community development	0	0	0	0	0	0
Transportation	0	0	0	142,726	127,373	15,353
General government	2,645	2,645	0	546,160	386,609	159,551
Debt service:						
Principal retirement	150,000	150,000	0	0	0	0
Interest	147,426	147,426	0	0	0	0
Total expenditures	<u>300,071</u>	<u>300,071</u>	<u>0</u>	<u>870,365</u>	<u>675,675</u>	<u>194,690</u>
Excess of revenue over (under) expenditures	<u>(88,455)</u>	<u>(60,817)</u>	<u>27,638</u>	<u>(481,540)</u>	<u>(301,118)</u>	<u>180,422</u>
Other financing sources (uses):						
Operating transfers-in	92,897	45,423	(47,474)	46,623	149,999	103,376
Operating transfers-out	0	0	0	(51,314)	(37,711)	13,603
Other financing sources (uses)	0	0	0	(21,030)	10,749	31,779
Total other sources (uses)	<u>92,897</u>	<u>45,423</u>	<u>(47,474)</u>	<u>(25,721)</u>	<u>123,037</u>	<u>148,758</u>
Excess of revenue and other financing sources over (under) expenditures and other uses	<u>4,442</u>	<u>(15,394)</u>	<u>(19,836)</u>	<u>(507,261)</u>	<u>(178,081)</u>	<u>329,180</u>
Fund balances at the beginning of year	29,424	15,393	(14,031)	399,763	734,352	334,589
Prior year encumbrances appropriated	0	0	0	56,416	56,416	0
Fund balances at end of year	<u>\$33,866</u>	<u>(\$1)</u>	<u>(\$33,867)</u>	<u>(\$51,082)</u>	<u>\$612,687</u>	<u>\$663,769</u>

Expendable Trust Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$1,951,210	\$1,854,696	(\$96,514)
0	0	0	602,548	628,778	26,230
0	0	0	5,200	13,820	8,620
0	0	0	63,394	55,592	(7,802)
0	0	0	201,094	191,576	(9,518)
0	0	0	8,755	17,277	8,522
121,549	116,925	(4,624)	125,816	125,747	(69)
121,549	116,925	(4,624)	2,958,017	2,887,486	(70,531)
123,261	109,510	13,751	1,745,257	1,525,935	219,322
0	0	0	36,700	33,388	3,312
0	0	0	71,758	63,707	8,051
0	0	0	1,050	419	631
0	0	0	581,557	495,185	86,372
0	0	0	1,290,757	1,039,063	251,694
0	0	0	186,800	186,800	0
0	0	0	154,727	154,727	0
123,261	109,510	13,751	4,068,606	3,499,224	569,382
(1,712)	7,415	9,127	(1,110,589)	(611,738)	498,851
600	0	(600)	192,322	200,512	8,190
(3,549)	0	3,549	(259,241)	(200,512)	58,729
(700)	0	700	(70,700)	(9,657)	61,043
(3,649)	0	3,649	(137,619)	(9,657)	127,962
(5,361)	7,415	12,776	(1,248,208)	(621,395)	626,813
55,854	85,001	29,147	1,853,015	2,627,698	774,683
4,261	4,261	0	112,279	112,279	0
\$54,754	\$96,677	\$41,923	\$717,086	\$2,118,582	\$1,401,496

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**Statement of Revenues, Expenses and Changes in
Fund Equity - Proprietary Fund Type
For the Year Ended December 31, 2001**

	Enterprise Fund
Revenues:	
Charges for services	\$854,214
Total revenues	854,214
Operating expenses:	
Personal services	136,070
Contractual services	307,002
Material and supplies	34,440
Other operating expenses	1,060
Depreciation	108,822
Total operating expenses	587,394
Operating income	266,820
Non-operating revenues (expenses):	
Interest expense	(60,274)
Refund of prior year expenditures	(383)
Refund of prior year receipts	(820)
Total non-operating revenues (expenses)	(61,477)
Income before Operating Transfers	205,343
Operating transfers in	338,345
Operating transfers out	(338,345)
Net income	205,343
Retained earnings at beginning of year	2,182,282
Retained earnings at end of year	\$2,387,625

See accompanying notes and accountant's report.

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**Statement of Cash Flows
Proprietary Fund Type
For the Year Ended December 31, 2001**

	Enterprise Fund
Cash flows from operating activities:	
Operating income	\$266,820
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	108,822
Changes in assets and liabilities that increase (decrease) cash flow from operations:	
Receivables	(28,798)
Inventory of supplies	(340)
Prepays	22
Accounts payable	6,750
Accrued wages and benefits	(6,130)
	347,146
Cash flows from non-capital financing activities:	
Other non-operating revenues (expenses)	(1,203)
	(1,203)
Cash flows provided by (used in) capital financing activities:	
Acquisition of capital assets	(203,755)
Proceeds from refinanced general obligation bonds payable	880,000
Reduction in debt principal due to refinancing	(880,000)
Payments of debt principal	(45,000)
Interest paid on bonds	(59,483)
	(308,238)
Net increase in cash and cash equivalents	37,705
Cash and cash equivalents at beginning of year	1,027,532
Cash and cash equivalents at end of year	\$1,065,237
Noncash transaction:	
Refinancing costs of \$115,475 were incurred in exchange for the same amount of long-term debt	

See accompanying notes and accountant's report.

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**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The criteria for including entities and funds in the combined financial statements comply with the Governmental Accounting Standards Board (GASB) Statement Number 14, *The Financial Reporting Entity*. The primary government has an elected governing board and is legally separate as a body politic with its own name. It is capable of suing and being sued in its own name without recourse and is capable of buying, selling, leasing and holding title to property. The general purpose financial statements include all funds and account groups of governmental operations that are controlled by or dependent upon the City as determined on the basis of budgetary overview, obligations to fund deficits or control the use of surplus funds, taxing authority and fiscal management responsibilities. Component units are legally separate organizations for which the primary government is financially accountable or legally separate organizations that are fiscally dependent on the primary government. As such, the City does not have any component units.

The Stow-Munroe Falls School District conducts a portion of their activities within the boundaries of the City. However, this organization is not considered part of the reporting entity because the City does not exercise significant influence over their daily operations, approve their budgets, or maintain their accounting records. In addition, the City is not responsible for this organization's debt or funding any operating deficits.

B. BASIS OF ACCOUNTING AND BASIS FOR PRESENTATION - FUND ACCOUNTING

Basis of Accounting - The financial statements of the governmental fund types and the expendable trust funds are prepared using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period in which they become measurable and available to finance current City operations. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current period or within 60 days thereafter): interest earnings, income taxes, fines, licenses and permits, and state levied locally shared taxes (including motor vehicle fees).

Property taxes, though measurable, are not intended to finance current period obligations; therefore, property taxes receivable are recorded and deferred. The revenue will be recognized in the year in which it is collected.

Levied special assessments are measurable and have therefore been recorded as a receivable. Since the amounts recognized as a receivable will not be available to pay obligations of the current period, equal amounts are also recorded as deferred revenue. Other revenues, including certain charges for services and other miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF ACCOUNTING AND BASIS FOR PRESENTATION - FUND ACCOUNTING (Continued)

Basis of Presentation - The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal accounting entity with a self-balancing set of 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.

The City uses the following fund types and account groups:

Governmental Fund Types - Governmental funds are those through which most governmental functions are typically financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position. The following are the City's governmental fund types:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for revenue derived from specific taxes, grants or other restricted revenue sources (other than expendable trusts or capital projects that are legally restricted to expenditures for specified purposes).

Debt Service Funds - The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, certain general long-term debt principal, interest and related costs.

Capital Projects 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 Types - Proprietary Funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to achieve sound financial administration. The measurement focus is based upon determination of net income, financial position and cash flows.

The proprietary fund types have elected to not follow the Financial Accounting Standards Board's (FASB) pronouncements issued subsequent to November 30, 1989 in accordance with GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The following is the City's proprietary fund type:

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF ACCOUNTING AND BASIS FOR PRESENTATION - FUND ACCOUNTING (Continued)

Enterprise Funds - Enterprise Funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Types - Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These funds include Expendable Trust Funds.

Expendable Trust Funds - The Expendable Trust Funds account for assets held by the City in a trustee capacity. The funds' measurement focus is based upon determination of financial position and changes in financial position.

Account Groups - The following account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term obligations:

General Fixed Assets Account Group - to account for fixed assets other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - to account for all unmatured long-term obligations of the City that are not a specific liability of any proprietary fund.

C. BUDGET REQUIREMENTS AND BUDGETARY ACCOUNTING

Tax Budget - The City's Director of Finance prepares a budget of estimated cash receipts and disbursements with the assistance and approval of the Mayor. This budget is presented to City Council which holds a public hearing before approving the budget. The budget is then 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 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 each 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. Estimated revenue as shown in the combined financial statements does not include January 1, 2001, unencumbered fund balances; however, those fund balances were available for appropriation.

Appropriation - A temporary appropriation measure to control expenditures must 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 for the period of 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, as certified by the Commission.

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BUDGET REQUIREMENTS AND BUDGETARY ACCOUNTING (Continued)

At the close of each fiscal 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 fiscal year and need not be reappropriated.

The City maintains budgetary control by not permitting expenditures plus encumbrances to exceed appropriations at the fund, function and object level of control.

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-Generally Accepted Accounting Principles (GAAP) budgetary basis statements in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent year expenditures.

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 fiscal year and need not be re-appropriated.

D. BASIS OF ACCOUNTING

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types and Expendable Trust Funds is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts and disbursements. The major differences between the budget basis and GAAP are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP);
2. Expenditures are recorded when spent in cash (budget) as opposed to when the liability is incurred (GAAP);
3. Encumbrances are recorded as expenditures (budget) as opposed to a reservation of a fund balance (GAAP) for governmental fund types and expendable trust fund.

A reconciliation of the results of operations for the year from the GAAP basis to the budget basis is shown below:

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BASIS OF ACCOUNTING (Continued)

Excess of Revenue And Other Financing Sources
Over (Under) Expenditures and Other Financing Uses

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUNDS</u>	<u>DEBT SERVICE FUNDS</u>	<u>CAPITAL PROJECTS FUNDS</u>	<u>EXPENDABLE TRUST FUNDS</u>	<u>TOTAL</u>
GAAP BASIS	\$(401,144)	\$22,899	\$(16,421)	\$(66,453)	\$4,603	\$(456,516)
Adjustments						
Revenue Accruals	32,552	4,245	(253,498)	8,214	(3,813)	(212,300)
Expenditure Accruals	7,732	8,111	254,525	30,865	14,808	316,041
Encumbrances	<u>(42,368)</u>	<u>(67,362)</u>	<u>0</u>	<u>(150,707)</u>	<u>(8,183)</u>	<u>(268,620)</u>
BUDGET BASIS	<u>\$(403,228)</u>	<u>\$(32,107)</u>	<u>\$(15,394)</u>	<u>\$(178,081)</u>	<u>\$7,415</u>	<u>\$(621,395)</u>

E. POOLED CASH AND CASH EQUIVALENTS

Cash balances of substantially all funds of the City are pooled and invested in a common group of bank accounts and in short-term investments. The cash flow statement for proprietary funds considers all cash and investments with a maturity of three months or less when purchased to be cash and cash equivalents.

F. INVESTMENT POLICY

The City adheres to GASB Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes accounting and reporting guidelines for government investments and investment pools. Certain investments which were reported at cost in previous years are now reported at fair value.

G. FIXED ASSETS AND DEPRECIATION

The accounting and reporting treatment applied to the fixed assets associated with a fund is 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 fund types 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 assets used in proprietary fund type operations are capitalized in the fund in which they are utilized. All fixed assets are recorded at historical cost or, if donated, at fair market value at the date received.

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. FIXED ASSETS AND DEPRECIATION (Continued)

Maintenance and repairs are normally expended or expensed except for expenditures which materially add to the value or life expectancy of an asset, which are capitalized at cost.

The City has elected not to record depreciation in the General Fixed Assets Account Group. Depreciation for proprietary funds is determined by allocating the cost of the fixed assets over their estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

	<u>Years</u>
Buildings	25
Land and Land Improvements	25
Equipment	2 - 25
Water Infrastructure	40

H. INVENTORY OF SUPPLIES

Inventories are stated at cost on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased and as an expense in the proprietary fund types when used. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute "available spendable resources" even though it is a component of net current assets.

I. INTERFUND TRANSACTIONS

Funds are transferred from one fund to support expenditures of other funds in accordance with the authority established for the individual funds. During 2001, transfers between funds were authorized by City Council. The accompanying financial statements reflect such transactions as operating transfers.

J. COMPENSATED ABSENCES

The City utilizes the vesting method for calculating compensated absences.

K. CONTRIBUTED CAPITAL

Contributed capital represents resources from other funds that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. There was no change in contributed capital during 2001.

L. FUND BALANCES (GOVERNMENTAL FUNDS AND EXPENDABLE TRUST FUND TYPES)

Fund balances are reserved for encumbrances, prepaid items, and inventories of supplies. The fund balance in the debt service fund is restricted for the retirement of general obligation and special assessment long-term debt.

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. TOTALS MEMORANDUM ONLY

Amounts in the "Totals Memorandum Only" columns in the financial statements represent a summation of the combined financial statement line items of the fund types and account groups and are presented only for analytical purposes. The data in these columns does not present financial information in accordance with U.S. generally accepted accounting principles. The summation includes fund types and account groups that use different bases of accounting, and include interfund transactions that have not been eliminated. Consequently, amounts shown in the "Totals Memorandum Only" columns are not comparable to a consolidation.

N. ACCOUNTING CHANGES

Effective January 1, 2001, the City implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues* (an amendment of GASB Statement No. 33). In general, GASB Statements Nos. 33 and 36 establish accounting and financial reporting standards, which address when to report the results of nonexchange transactions involving financial or capital resources. In a nonexchange transaction, an entity gives (or receives) value without directly receiving or giving equal value in return. These statements required retroactive application and, accordingly, the City's financial statements as of and for the year ending December 31, 2000 have been restated. The implementation had the following effect on fund balance and excess as of December 31, 2000, as previously reported.

	<u>General</u>	<u>Special Revenue</u>
Previously reported Fund Balance December 31, 2000	\$1,320,246	\$ 682,715
GASB Statements Nos. 33 and 36	<u>68,089</u>	<u>16,725</u>
Restated Fund Balance, January 1, 2001	<u>\$1,388,335</u>	<u>\$ 699,440</u>
Excess of Revenue Over Expenditures previously recorded	\$ 242,158	\$ 21,355
Restatement	<u>68,089</u>	<u>16,725</u>
Excess of Revenues Over Expenditures	<u>\$ 310,247</u>	<u>\$ 38,080</u>

2. DEPOSITS AND INVESTMENTS

Policies and Practices - The investment and deposit of City monies are governed by the Ohio Revised Code and provisions of the Codified Ordinances of the City. In accordance with these provisions, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The provisions also permit the City to invest its monies in certificates of deposit, savings accounts, money market accounts, the State Treasury Asset Reserve (STAR Ohio), obligations of the United States Government, or certain agencies thereof, and certain industrial revenue bonds issued by other governmental entities. The City may also enter into repurchase agreements with any eligible depository for a period not exceeding 30 days.

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

2. DEPOSITS AND INVESTMENTS (Continued)

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Insurance Corporation (FDIC) or may pledge a pool of government securities, the face value of which is at least 110% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement.

During 2001 the City complied with the provisions of these statutes pertaining to the types of investments held and institutions in which deposits were made. The City was also in compliance with the provisions of the statutes concerning security requirements. The City will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Deposits - At year end, the carrying amount of the City's deposits was \$506,805 and the bank balance was \$603,204. Of the bank balance, \$265,882 was covered by federal depository insurance. \$337,322 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

Investment - The City invested \$2,007,233 with the State Asset Reserve of Ohio (STAR Ohio) as of December 31, 2001. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2001. The Investment in STAR Ohio is not categorized as to custodial credit risk, as required by GASB Statement Number 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, because the investment is not evidenced by securities that exist in physical or book entry form.

As required by GASB Statement No. 3, the City's investments at December 31, 2001, are categorized below to give an indication of the level of custodial credit risk assumed by the City at year end. The categories are described as follows:

- | | |
|------------|--|
| Category 1 | Insured or registered, or for which the securities are held by the City of its agent in the City's name. |
| Category 2 | Uninsured or unregistered, with securities held by the counterparty's trust department or agent in the City's name. |
| Category 3 | Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name. |

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

2. DEPOSITS AND INVESTMENTS (Continued)

	<u>1</u>	<u>2</u>	<u>3</u>	<u>Carrying Amount (Fair Value)</u>
	Risk Category			
Categorized Investments:				
Repurchase Agreements	<u>\$0</u>	<u>\$0</u>	<u>\$1,055,000</u>	<u>\$1,055,000</u>
Total Categorized Investments	<u>\$0</u>	<u>\$0</u>	<u>\$1,055,000</u>	\$1,055,000
Non-Categorized Investments				
STAR Ohio				<u>2,007,233</u>
Total Investments				<u>\$3,062,233</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 Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

	<u>Cash and Cash Equivalent Deposits</u>	<u>Investments</u>
GASB Statement 9	\$3,569,038	\$0
Investments:		
Investment Sweep Account	(1,055,000)	1,055,000
State Treasury Asset Reserve	<u>(2,007,233)</u>	<u>2,007,233</u>
GASB Statement 3	<u>\$506,805</u>	<u>\$3,062,233</u>

3. COMPLIANCE AND ACCOUNTABILITY

A. Fund Deficit

The Water Distribution Fund in the Enterprise Fund type had a deficit fund balance at December 31, 2001 of \$198,801. The City plans to eliminate this deficit as future financial resources are applied to liquidate obligations. The General Fund is liable for deficits in any fund and provides operating transfers when cash is required, not when accruals occur.

B. Non Certification of Expenditures

Contrary to Ohio Revised Code Section 5705.41(D), the City did not certify the availability of funds prior to entering into the commitment for 25% of the expenditures tested.

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

4. RECEIVABLES

The City's receivables by fund type consist of the following:

	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>ENTERPRISE</u>
Property taxes	\$230,951	\$307,934	\$202,083	\$0	\$0
City income taxes	139,949	0	0	59,978	0
Utility billings	0	0	0	0	209,248
Special	0	0	0	18,278	0
Interest	2,462	0	0	0	0
Fines	8,127	0	0	0	0
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,371</u>	<u>0</u>
TOTALS	<u>\$381,489</u>	<u>\$307,934</u>	<u>\$202,083</u>	<u>\$81,627</u>	<u>\$209,248</u>

5. FIXED ASSETS

General Fixed Assets - A summary of changes in the General Fixed Assets Account Group follows:

	<u>BALANCE JANUARY 1</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>BALANCE DECEMBER 31</u>
Land, land improvements, and infrastructure	\$811,025	\$25,221	\$0	\$836,246
Buildings, structures and improvements	3,348,628	273,240	0	3,621,868
Furniture, fixtures, equipment and vehicles	1,441,061	180,174	53,245	1,567,990
Construction in Progress	<u>46,098</u>	<u>2,931</u>	<u>9,398</u>	<u>39,631</u>
TOTALS	<u>\$5,646,812</u>	<u>\$481,566</u>	<u>\$ 62,643</u>	<u>\$6,065,735</u>

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

5. FIXED ASSETS (Continued)

Proprietary Fund Type Fixed Assets - A summary of propriety fund fixed assets at December 31, 2001 follows:

Enterprise	
Land and land improvements	\$ 17,000
Buildings	314,907
Equipment	371,779
Water infrastructure	<u>2,143,441</u>
TOTAL	2,847,127
Less accumulated depreciation	<u>810,810</u>
NET	<u>\$2,036,317</u>

6. LONG-TERM OBLIGATIONS

A summary of the changes in the City's long-term obligations for the year ended December 31, 2001 is as follows:

	<u>January 1</u>	<u>Additions</u>	<u>Retired</u>	<u>December 31</u>
ENTERPRISE FUND OBLIGATIONS:				
Water Improvement Bonds 1994 B	\$ 925,000	\$ 0	\$ (925,000)	\$ 0
Series 2001B	0	995,475	0	995,475
Refinancing Costs	0	(115,475)	0	(115,475)
Compensated Absences	<u>17,202</u>	<u>0</u>	<u>(3,779)</u>	<u>13,423</u>
Total	<u>\$ 942,202</u>	<u>\$ 880,000</u>	<u>\$ (928,779)</u>	<u>\$ 893,423</u>
GENERAL LONG TERM OBLIGATIONS ACCOUNT GROUP:				
Safety and Service Bonds 1994A	\$1,970,000	\$ 0	\$(1,970,000)	\$ 0
City Hall Bonds 1994A	100,000	0	(100,000)	0
Fire Engine Bonds 1994B	90,000	0	(90,000)	0
Storm Water bonds 1994B	165,000	0	(165,000)	0
EMS Vehicle Note – 4.96%	147,200	0	(36,800)	110,400
Series 2001A	0	1,950,000	0	1,950,000
Series 2001B	0	254,525	0	254,525
Compensated Absences	<u>157,093</u>	<u>0</u>	<u>(26,765)</u>	<u>130,328</u>
Total	<u>\$2,629,923</u>	<u>\$2,204,525</u>	<u>\$(2,388,565)</u>	<u>\$2,445,253</u>

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

6. LONG-TERM OBLIGATIONS (Continued)

The Series 1994A Bonds were voted general obligations of the City. The Series 1994A Bonds were approved by the voters of the City at an election held on May 3, 1994. The voters approved, as part of that ballot issue, a tax to pay the debt service charges on the Series 1994A Bonds, without limitation as to amount or rate. Accordingly, principal and interest on the Series 1994A Bonds, unless paid from other sources and subject to the provisions of federal bankruptcy law and other laws affecting creditors' rights, were to be paid from the proceeds of the levy by the City of ad valorem property taxes on all applicable property in the City, which taxes are not subject to the ten-mill limit provided by Ohio law.

The Series 1994B Bonds were unvoted general obligations of the City. Principal and interest on the Series 1994B Bonds, unless paid from other sources and subject to the provisions of federal bankruptcy law and other laws affecting creditors' rights, were to be paid from the proceeds of the levy by the City of ad valorem property taxes on all taxable property in the City, which taxes are subject to the ten-mill limit provided by Ohio law.

All obligations are backed by the full faith and credit of the City. Although the obligations of the Enterprise Funds are general obligations of the City, the practice has been to have the debt serviced by the revenues of the Enterprise Fund.

On November 1, 2001, the City issued \$1,950,000 Series A and \$1,250,000 Series B in General Obligation Bonds with an average interest rate of 4.34 percent to advance refund \$1,950,000 of 1994A Series bonds with an average interest rate of 6.30 percent and \$1,105,000 of 1994B Series bonds with an average interest rate 6.49 percent. The net proceeds of \$3,055,000 (after deduction of \$145,000 in underwriting fees, insurance and other issuance costs) were used to pay the 1994 A&B Series Bonds. As a result, the 1994A and 1994B Series bonds are considered to be defeased and the liability removed from the general long-term debt account group and the enterprise fund.

The City advance refunded the 1994A and 1994B Series bonds to obtain an economic gain (the difference between the present value of debt service payment on the old and new debt) of approximately \$306,000.

Payment of the principal and interest on the refinanced bonds is insured by a municipal bond insurance policy issued by Financial Guaranty Insurance Company.

The City utilizes the vesting method of calculating compensated absences. Full-time employees are entitled to vacations with pay based upon the term of employment as follows:

<u>Years of Employment</u>	<u>Week(s)</u>
After one year	2
After five years	3
After ten years	4
After twenty years	5
After twenty-four years	6

Unused vacation for all full-time employees, except full-time patrolmen and police sergeants, is cumulative. The maximum accumulated vacation is 320 hours.

Each full-time employee is entitled to sick leave of one and one-quarter days each month. Unused sick leave is cumulative up to 2,080 hours.

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

6. LONG-TERM OBLIGATIONS (Continued)

City's debt service requirements, including interest of \$277,395 and \$947,348 for the Enterprise Fund Obligations and the General Obligations, respectively, subsequent to December 31, 2001 are:

	<u>Enterprise Fund Obligations</u>			<u>General Obligations</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 79,638	\$ 38,901	\$ 118,539	\$ 232,162	\$ 83,060	\$ 315,222
2003	83,620	33,520	117,140	238,180	69,406	307,586
2004	79,638	31,011	110,649	242,162	61,539	303,701
2005	63,710	28,622	92,332	186,290	53,553	239,843
2006	67,692	26,711	94,403	187,308	47,964	235,272
2007-2012	449,955	107,630	557,585	1,104,853	299,237	1,404,090
2013-2014	<u>171,222</u>	<u>11,000</u>	<u>182,222</u>	<u>123,970</u>	<u>332,621</u>	<u>456,591</u>
Total	<u>\$995,475</u>	<u>\$277,395</u>	<u>\$1,272,870</u>	<u>\$2,314,925</u>	<u>\$947,380</u>	<u>\$3,262,305</u>

7. LOCAL TAX REVENUES

Income Taxes - An income tax of 2% is levied on substantially all income earned within the City. In addition, residents of the City are required to pay City income taxes on income earned outside the City; however, credit is allowed for income taxes paid to other municipalities and Joint Economic Development Districts up to 100% of the City's current tax rate.

Employers within the City are required to withhold income tax on employee compensation and remit this tax to the City at least quarterly. Major employers are required to remit withholdings to the City at least monthly. Corporations and self-employed individual taxpayers are required to pay estimated taxes quarterly and file a declaration annually with the City.

Total income tax revenue for the year ended December 31, 2001 was \$1,170,130. As required by Resolution #09-2000, this amount was recognized 70% in the General Fund and 30% in the Capital Projects Fund in the accompanying financial statements.

Property Taxes - Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January of that preceding year, the lien date. Assessed values are established by the County Auditor at 35% of the appraised market value. All property is required to be revalued every six years with a triennial update. Real property taxes received by the City in 2001 were based upon 2000 property values which were last updated in 2000. Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20, with the remainder payable by June 20. In certain circumstances, state statute permits earlier or later payment dates to be established.

Tangible personal property taxes (for tangible property other than public utility property) attach as a lien and are levied on January 1 of the current calendar year. Tax collections for the current year are therefore based upon assessed values as of January 1 of the current year. Tangible property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25% of its true value.

Amounts 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 by September 20.

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

7. LOCAL TAX REVENUES (Continued)

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year based on assessed values as of December 31 of the second year preceding the tax collection year, the lien date. The majority of public utility tangible personal property currently is assessed at 35% of its true value. Public Utility property taxes are payable on the same dates as real property taxes described previously.

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

The City records property taxes receivable as of the levy date.

The assessed values of real and tangible personal property upon which 2001 property tax receipts were based are shown as follows:

Real Property - 2000 Tax Valuation	\$ 94,008,070
Public Utility Personal Property - 2000 Tax Valuation	1,731,920
Tangible Personal Property - 2000 Tax Valuation	<u>5,029,517</u>
Total Valuation	<u>\$100,769,507</u>

Total property tax revenue recognized by fund type for the year ended December 31, 2001 is as follows:

General Fund	\$188,756
Special Revenue Fund	284,427
Debt Service Fund	<u>211,383</u>
Total	<u>\$684,566</u>

8. DEFINED BENEFIT PENSION PLANS

A. Employees and Plans - The City contributes to the Public Employees Retirement System (PERS) and the Ohio Police and Fire Pension Fund (OP&F), which are both cost-sharing multiple-employer defined benefit pension plans. Non-uniformed and part-time uniformed employees are members of PERS. Full-time police and fire personnel are members of OP&F. The authority to establish and amend benefits is established by the Ohio State Legislature and are codified in Chapters 145 and 742 of the Ohio Revised Code for PERS and OP&F, respectively. PERS and OP&F issue publicly available financial reports that include financial information and required supplementary information for the plans. PERS and OP&F provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Interested parties may obtain a copy of these financial reports by making a written request to the Public Employees Retirement System of Ohio at 277 East Town Street, Columbus, Ohio 43215-4642 and OP&F at 140 East Town Street, Columbus, Ohio 43215-5164.

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

8. DEFINIED BENEFIT PENSION PLANS (Continued)

B. Public Employee Retirement System of Ohio (PERS)

Under PERS, the Ohio Revised Code provides statutory authority for employee and employer contributions. Employees other than law enforcement are required to contribute 8.5% of covered payroll. The employer contribution rate is 13.55% of covered payroll. The employer contributions from the City to PERS for the years ended 2001, 2000, and 1999 were \$81,479, \$79,324, and \$86,269, respectively, equal to the required contributions for each year.

C. Ohio Police and Fire Pension Fund of Ohio (OP&F)

Under OP&F, plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% and 24% , respectively, for police officers and firefighters. The City's contributions to OP&F for the years ending December 31, 2001, 2000 and 1999 were \$91,403, \$78,957, and \$70,323, respectively, equal to the required contributions for each year.

9. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

A. Public Employees Retirement System (PERS)

1. Public Employees Retirement System of Ohio provides postretirement health care coverage to age and service retirees with 10 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 (OPEB) as described in GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer and employee contributions. The PERS law enforcement program was separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2001 employer contribution rate for state employers was 13.31% of covered payroll; 4.3% was the portion used to fund health care for the year. For local government employer units the rate was 13.55% of covered payroll; 4.3% was the portion used to fund health care for the year. The total police employer contribution is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.5% of covered payroll was applied to the postemployment health care program during 2001.

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

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

9. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

3. Summary of Assumptions:

Actuarial Review. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2000.

Funding Method. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

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

Investment Return. The investment assumption rate for 2001 was 7.75%.

Active Employee Total Payroll. An annual increase of 4.75% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%.

Health Care. Health care costs were assumed to increase 4.75% annually.

4. OPEBs are advance-funded on an actuarially determined basis.

a. The number of active contributing participants was 411,076.

1. The contribution rates stated above are the actuarially determined contribution requirements for PERS. Included in the City's total employer contributions to PERS was \$25,853 for the purpose of funding postemployment benefits.

b. \$11,735.9 million represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2000 (the most recent actuarial report available).

c. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

5. Legislative changes separated the law enforcement division.

In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continue to contribute at 9%. The employer contribution rate for both the law enforcement and public safety divisions is 16.7%.

Law enforcement officer benefits permit age and service retirement at an earlier age with a different formula than for PERS members not covered under this division.

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

9. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

B. Ohio Police and Fire Pension Fund of Ohio (OP&F)

1. The fund provides postretirement health care coverage to any person who received 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 an individual under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of Ohio Police and Fire 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.
2. The Ohio Revised Code also provides the statutory authority allowing the Fund's Board of Trustees to provide health care coverage to all eligible individuals.
3. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.25% and 7.5% of covered payroll in 2000 and 2001, respectively. The allocation is 7.75% in 2002. 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.
4. The City's actual contributions for 2001 that were used to fund postemployment benefits were \$29,684 for police and \$4,477 for fire. OP&F's total health care expense statewide for the year ended December 31, 2000, the date of the last actuarial valuation available, was \$106,160,054, which was net of the member contributions of \$5,657,431.
5. The number of OP&F participants eligible to receive health care benefits statewide as of December 31, 2000, the date of the last actuarial valuation available, is 12,853 for police and 10,037 for firefighters.

10. COMPENSATED ABSENCES

The portion of estimated vacation and vested sick leave for Governmental Fund employees that is payable at year end is recognized as a liability and expenditure in the respective governmental fund, and the portion not payable at year end is recognized in the General Long-Term Obligation Account Group.

Vacation leave is accumulated based upon length of service. Unused leave for all full-time employees shall be cumulative. The maximum accumulated vacation shall be 320 hours.

Each full-time employee is entitled to sick leave of 1¼ days each month. Unused sick leave is cumulative up to 2,080 hours. Each full-time employee, except full-time patrolmen and police sergeants, may elect to convert four hours of sick leave to one hour of vacation. Upon retirement, the first 960 hours of accumulated sick leave will be compensated at 50% and all hours over 960 will be compensated at 25%.

A summary of long-term accrued vacation and sick leave activity for the year ended December 31, 2001, is as follows:

	<u>BALANCE JANUARY 1</u>	<u>NET REDUCTIONS</u>	<u>BALANCE DECEMBER 31</u>
Compensated absences	<u>\$157,093</u>	<u>\$(26,765)</u>	<u>\$130,328</u>

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains several enterprise funds which provide water services. Segment information as of December 31, 2001, and for the year then ended for the enterprise funds, is summarized as follows:

	Water Revenue	Water Distribution	Utility Improvement	Harry Avenue Waterline	Northmore- land Avenue Waterline	Other	Total
Operating revenues	\$853,044	\$0	\$0	\$0	\$0	\$1,170	\$854,214
Operating expense							
Depreciation	0	24,136	70,794	6,175	7,341	376	108,822
Other operating expenses	463,427	0	14,795	0	0	350	478,572
Total operating expenses	463,427	24,136	85,589	6,175	7,341	726	\$ 587,394
Operating income (loss)	389,617	(24,136)	(85,589)	(6,175)	(7,341)	444	266,820
Other non-operating revenues (expenses)							
Transfers In/(Out)	(338,345)	40,000	195,783	0	0	102,562	0
Interest	0	0	(791)	0	0	(59,483)	(60,274)
Other non-operating	(383)	45,000	0	0	0	(45,820)	(1,203)
Net income (loss)	50,889	60,864	109,403	(6,175)	(7,341)	(2,297)	205,343
Property, plant and equipment additions	0	0	203,755	0	0	0	203,755
Property, plant and equipment disposals	0	0	(10,761)	0	0	0	(10,761)
Contributed capital	0	0	1,000	0	0	0	1,000
Net working capital	768,587	0	462,721	0	0	0	1,231,308
Total assets	803,238	681,200	1,339,252	216,431	259,548	18,752	3,318,421
Bonds and other long term liabilities	0	880,000	0	0	0	0	880,000
Total equity	\$768,588	(\$198,801)	\$1,328,706	\$216,431	\$259,548	\$13,153	\$2,387,625

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001
(Continued)**

12. CONTINGENT LIABILITIES

There are certain pending and threatened lawsuits against the City. The City's management, after consultation with the City's Law Director, is of the opinion that the ultimate outcome of the pending and threatened litigation will not materially affect the City's financial position.

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

13. RISK MANAGEMENT

The City is exposed to various risks of loss during the normal course of its operations including, but not limited to, loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The City generally purchases commercial insurance to reduce its exposure to risk of loss.

The City carries insurance for General Liability, Auto Liability and Law Enforcement Liability with limits of \$5,000,000 per occurrence. The City also carries \$5,000,000 of Public Officials Liability coverage. The City also purchases insurance for the buildings and contents of all City locations and physical damage to vehicles with various deductibles. The City is insured through the State of Ohio for workers' compensation and provides employee health care benefits through a commercial insurance carrier.

Settled claims have not exceeded the City's insurance coverage in any of the past three years.

14. LOSS OF CONCENTRATED REVENUE

On April 2, 2001, a local corporate entity vacated its premises. Management estimates that this entity accounted for approximately 10% of local income tax revenues in previous years.

15. SUBSEQUENT EVENT

Subsequent to December 31, 2001, the City received certain donated property which may require environmental remediation. As of the date of these financial statements, management has not assessed the potential dollar amount that the potential environmental remediation, if any, would require.

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

The Honorable Mayor and Members of City Council
City of Munroe Falls
Summit County
43 Munroe Falls Avenue
Munroe Falls, Ohio 44262

To the City Council:

We have audited the financial statements of the City of Munroe Falls, Summit County, (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated September 13, 2002, in which we noted the City adopted Governmental Accounting Standards Board Statements No. 33 and 36. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2001-20977-001.

We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated September 13, 2002.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2001-20977-002.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

We also noted other matters involving internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated September 13, 2002.

This report is intended for the information and use of the audit committee, 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", with a stylized flourish at the end.

Jim Petro
Auditor of State

September 13, 2002

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2001-20977-001

Noncompliance Citation

Ohio Rev. Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two exceptions to the above requirements:

1. Then and Now Certificates- If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the City Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
2. If the amount involved is less than \$1,000 dollars, the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the City Council, if such expenditure is otherwise valid. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Of the transactions tested, 25% were not certified by the Clerk prior to the invoice date of the expenditure, nor were the two exceptions described above utilized. Failure to certify the availability of funds prior to entering into the commitment could result in making commitments in excess of available funds. The City should establish procedures to ensure that all expenditures are certified prior to their obligation.

A similar matter was reported in our audit of the December 31, 2000 financial statements.

FINDING NUMBER 2001-20977-002

Reportable Condition

During testing of Fixed Assets we noted the following conditions:

- The City does not maintain a current official fixed asset policy which defines the City's fixed asset accounting system, useful life and capitalization threshold
- The Fixed Asset Master Listing is completed by the GAAP converters and does not list fixed asset tag numbers
- Asset additions are booked by the GAAP converters, who are only given funds 403 and 409. Additions to any other funds are not booked to the fixed asset listing
- The City does not have a deletions listing. Deletions are marked on the Master List which does not contain tag numbers and makes it difficult to trace deletions
- Fixed assets listings from the previous year were not maintained

FINDING NUMBER 2001-20977-002
(Continued)

We recommend City Council and management develop and implement procedures that will ensure that all fixed assets are capitalized in the financial statements of the City. This fixed asset plan should include guidance regarding, but not be limited to, the following:

- Capitalization Threshold - This threshold should specify a minimum amount for the recording of an acquisition as a fixed asset. The City should clarify if the threshold is a per-item cost or an aggregate purchase cost
- Fixed Asset Master List - This list should serve as an accurate record of the location, tag number, acquisition date, and historical cost of each fixed asset
- Fixed Asset Additions/Deletions/Transfers Sheet - This sheet should be filled out by the department head at the time of the acquisition, disposition, or transfer of a fixed asset to or from the respective department
- Retention of all documents supporting the fixed asset listing, including invoices, location and other information related to movements of assets and disposals

Implementation of a comprehensive fixed asset plan will reduce the likelihood that material misstatements will occur in the financial statements.

A similar matter was reported in our audit of the December 31, 2000 financial statements.



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CITY OF MUNROE FALLS

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 7, 2002**