



**CITY OF INDEPENDENCE
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2003



**Auditor of State
Betty Montgomery**

**CITY OF INDEPENDENCE
CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Independence, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Independence, Cuyahoga County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial Statement Note Disclosure", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

February 13, 2005

City of Independence, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The discussion and analysis of the City of Independence's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements and the accompanying notes to those financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- ❑ The City's total net assets increased by \$6,603,972 or 10.61 percent as a result of this year's operations.
- ❑ Total current assets increased by \$25,986,089 or 177.27 percent over 2002 current assets. The increase is largely due to an increase in cash and cash equivalents which is the result of the issuance of \$26,320,000 in general obligation bonds.
- ❑ Total current liabilities decreased by \$181,209 or 6.25 percent from 2002.
- ❑ The City began construction on two of the largest projects in its history. The Rockside Road Widening Project and the Shared Use Facility. The City borrowed \$15,000,000 for its portion of the Shared Use Facility along with the purchase of the Middle School property. The City also borrowed \$8,800,000 for the Rockside Widening Project.
- ❑ The general fund transferred \$3,000,000 to the capital improvements fund in order to fund capital improvement projects.

Using this Annual Financial Report

This annual report consists of a series of financial statements some of which focus on the City as a whole (government-wide) and some of which focus on the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the City's accountability.

The Statement of Net Assets and Statement of Activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

City of Independence, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
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Reporting the City of Independence as a Whole

Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

From the Statement of Net Assets, you can determine what the City's current financial position is by subtracting total liabilities (what the City owes) from total assets (what the City owns). Over time, increases or decreases in the City's net assets are one indicator of whether the City's financial health is improving or deteriorating. From the Statement of Activities, you can determine what the cost of governmental services are and how much of that cost is financed by taxpayers, where the City gets its money from and how it is used, whether the City is better or worse off financially and why, and will the City be able to finance services in the future. Other non-financial factors such as changes in the City's property tax base, income tax base, and the condition of the City's capital assets to assess the overall health of the City also should be considered.

Reporting on the Most Significant Funds of the City of Independence

Fund Financial Statements

The fund financial statements, which begin on page 14, provide detailed information about the City's major funds and include the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances. These statements tell how City services charged to major funds were financed in the short-term as well as what remains for future spending. For the City of Independence, the most significant governmental funds are the general fund and the capital improvements, street resurfacing and oak tree capital projects funds.

All of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds is reconciled in the fund financial statements.

City of Independence, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The City of Independence as a Whole

Statement of Net Assets

As noted earlier, the Statement of Net Assets looks at the City as a whole and can prove to be a useful indicator of the City's financial position. Table 1 provides a summary of the City's net assets for 2003 and 2002.

(Table 1)
Net Assets

	Governmental Activities	
	2003	2002
Assets		
Current and Other Assets	\$40,644,748	\$14,658,659
Capital Assets, Net	69,775,285	64,120,788
<i>Total Assets</i>	<u>110,420,033</u>	<u>78,779,447</u>
Liabilities		
Current Liabilities	2,717,796	2,899,005
Long-term Liabilities		
Due within one Year	1,223,120	315,091
Due in More than one Year	37,633,367	13,323,573
<i>Total Liabilities</i>	<u>41,574,283</u>	<u>16,537,669</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	58,556,027	61,331,593
Restricted for:		
Capital Projects	9,520,534	728,423
Debt Service	0	486,769
State Highway	147,633	129,306
Federal Forfeiture	100,677	109,569
Street, Construction, Maintenance and Repair	204,126	378,547
Other Purposes	76,757	0
Unrestricted	239,996	(922,429)
<i>Total Net Assets</i>	<u>\$68,845,750</u>	<u>\$62,241,778</u>

Total assets increased by \$31,640,586, which can be attributed to a significant increase in cash and cash equivalents of \$20,949,286 and an increase in capital assets of \$5,654,497.

Current liabilities decreased by \$181,209 or 6.25 percent largely from a decrease in deferred revenue of \$349,873.

Unrestricted net assets which are the part of net assets that can be used to finance day-to-day operations without constraints established by covenants, enabling legislation or other legal requirements, increased by \$1,162,425 or 126.02 percent.

City of Independence, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
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The City's financial position improved from 2002 to 2003 as indicated by the increase in total net assets for governmental activities of \$6,603,972.

Table 2 shows the changes in net assets for fiscal year 2003 and corresponds to the Statement of Activities. Table 2 indicates that total revenues exceeded total expenses by \$6,603,972. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

(Table 2)
Changes in Net Assets

	Governmental Activities
Program Revenues	
Charges for Services and Sales	\$1,256,994
Operating Grants and Contributions	265,923
Capital Grants and Contributions	5,262,736
<i>Total Program Revenues</i>	6,785,653
General Revenues	
Property Taxes	2,537,189
Municipal Income Taxes	18,142,284
Grants and Entitlements	1,140,063
Investment Income	361,782
Miscellaneous	362,688
<i>Total General Revenues</i>	22,544,006
<i>Total Revenues</i>	29,329,659
Program Expenses	
General Government	4,326,525
Security of Persons and Property	7,590,926
Public Health and Welfare	124,341
Leisure Time Activities	2,823,516
Community Environment	2,399,740
Basic Utility Services	967,790
Transportation	3,607,364
Interest and Fiscal Charges	885,485
<i>Total Program Expenses</i>	22,725,687
<i>Change in Net Assets</i>	6,603,972
<i>Net Assets Beginning of Year</i>	62,241,778
<i>Net Assets End of Year</i>	\$68,845,750

City of Independence, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Governmental Activities

Several revenue sources fund our governmental activities with income tax revenue being the largest source. The City levies a municipal income tax of 2.00 percent on all income earned within the City as well as on income of residents earned outside of the City. In the latter case, the City allows a credit of 100 percent on the income earned outside of the City and paid to another municipality. On a full accrual basis, the City received \$18,142,284 in income tax collections or 61.86 percent of total 2003 revenue. The second most significant source of revenue is intergovernmental revenue. The City received \$2,537,189 in property taxes for 2003, or 8.65 percent.

The City's strong commercial employment tax base has provided for a consistent level of withholding tax collections. This strong base has enabled the City to enjoy increased collections during economically strong periods, while at the same time maintaining fairly level collections during economic downturns. In an effort to maintain and increase the commercial tax base, the City has begun the Rockside Road Widening project, which will improve the infrastructure to allow for future growth in the area.

The following schedule presents a summary of governmental activity expenses and the net cost of providing these services (excluding general revenues).

(Table 3)
Cost of Services

	Total Cost of Services 2003	Net Cost of Services 2003
General Government	\$4,326,525	\$4,147,855
Security of Persons and Property	7,590,926	7,126,870
Public Health and Welfare	124,341	118,230
Leisure Time Activities	2,823,516	2,398,151
Community Environment	2,399,740	2,284,207
Basic Utility Services	967,790	944,210
Transportation	3,607,364	(1,964,974)
Interest and Fiscal Charges	885,485	885,485
Total	\$22,725,687	\$15,940,034

In future years, this information will be more meaningful as prior year data will allow an assessment of whether a particular program is relying more or less on general revenues. Also, the City will be able to use the information to determine if citizens are receiving a good value in public services in return for tax dollars and user fees.

Security of persons and property expenses totaled \$7,590,926 or 33.40 percent of total 2003 expenses. A significant portion of these expenses can be attributed to salaries, wages and employee benefits. As of December 31, 2003, the City employed 35 full-time police officers and 24 full-time firefighters.

City of Independence, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The City's Funds

Information about the City's major government funds begins on page 14. Total revenue and expenditures for the general fund (on a modified accrual basis) are \$22,328,744 and \$16,543,097. The general fund balance increased \$1,375,647. This increase indicates that the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole. The capital improvements and street resurfacing capital projects funds had significant increases in fund balance of \$14,261,593 and \$7,709,551, respectively. These increases are the result of increased cash in the funds from the issuance of general obligation bonds to fund City projects and from transfers from the general fund and the quadrant TIF capital projects fund.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. The legal level of budgetary control for the City is at the object level for the general fund and street, construction, maintenance and repair special revenue fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by ordinance of City Council. City policy permits fund transfers within control levels with the approval of the City Council. During the course of 2003, the City amended its general fund budget several times. In addition to day-to-day budget monitoring, the Director of Finance closely examines the budget with the preparation of the monthly financial statements and quarterly budget analysis reports.

For the general fund, original budgeted revenues were \$21,788,944; final budget amounts were \$21,974,693; and actual revenue collections were \$22,258,970. The majority of the increase in actual revenue over the original and final budgeted amounts is due to municipal income taxes. The original budget included a conservative estimate of \$17,500,000 while actual municipal income tax revenue was \$18,102,684.

The City revises its budget throughout the fiscal year. During 2003, the significant increases were made to the general government allocations due to the conservative initial salary projections. Modifications to the original budget also included increases in the security of persons and property, basic utility services and transportation accounts.

Capital Assets and Debt Administration

Capital Assets

Table 4 compares capital assets as of December 31, 2003 to balances at December 31, 2002.

City of Independence, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

(Table 4)
 Capital Assets at December 31
 (Net of Accumulated Depreciation)

	Governmental Activities	
	2003	2002
Land	\$11,001,283	\$11,001,283
Construction in Progress	3,708,862	0
Buildings and Improvements	19,964,088	20,334,106
Machinery and Equipment	1,304,501	1,300,721
Furniture and Fixtures	661,698	738,924
Vehicles	2,140,458	2,285,765
Infrastructure	30,994,395	28,459,989
Total Capital Assets	\$69,775,285	\$64,120,788

Total capital assets as of December 31, 2003 were \$69,775,285, which is an increase of \$5,654,497 over 2002 capital assets. The most significant increase was in construction in progress, which largely represent the improvements being made to the shared use facility.

Each year the Mayor and Engineer review the condition of the City's infrastructure and determine what work needs to be completed. The projects are then prioritized and submitted to Council. During the budget process, the Mayor, Council and Director of Finance determine which projects will be budgeted for the following year.

See Note 9 in the financial statements for more information regarding the City's capital assets.

Debt

Table 5 summarizes outstanding debt at December 31, 2003 compared to December 31, 2002.

(Table 5)
 Outstanding Obligations at Year End

	Governmental Activities	
	2003	2002
General Obligation Bonds	\$27,136,353	\$2,700,000
Special Assessment Bonds	735,186	0
Notes	10,400,000	10,400,000
OPWC Loans	71,054	77,821
Capital Leases	5,871	11,374
Police and Fire Pension	83,323	86,144
Compensated Absences	424,700	363,325
Total	\$38,856,487	\$13,638,664

City of Independence, Ohio
Management's Discussion and Analysis
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The special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. The various improvement notes will be paid out of the bond retirement fund and the fire note will be paid out of the capital improvement fund. See Note 16 in the financial statements for more information regarding the City's outstanding debt.

Current Financial Related Activities

The City's budget for 2004 anticipates the current economic downturn will continue throughout 2004. Most of the major revenue sources for the City have been budgeted at an amount less than what was actually received in 2003. When preparing the 2004 budget, the Mayor asked department directors to request minimal increases, excluding salaries and benefits, from the 2003 budget. Excluding salaries and benefits, total general fund 2004 appropriations decreased by 10.04 percent. The majority of the decrease can be attributed to the departments keeping a tighter control on the supplies and other categories during 2004. Because of the City's strong financial position and the City's commitment to protecting the level of services afforded all citizens, the current economic downturn has had and will continue to have little or no impact to the services provided to residents.

In order to maintain services provided to citizens and improve the economic and operational efficiency of the City, the City has been focused on facility expansion issues. In 2003, the City began the Rockside Road Widening project as well as the Shared Use Facility. This widening project, once complete, will accommodate future growth to the City's most vital commercial district which is estimated to be one-third undeveloped at this time.

Contacting the City's Finance Department

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact John M. Veres, CPA, Director of Finance at the City of Independence, 6800 Brecksville Road, Independence, Ohio 44131, 216-524-4131, or email at Veresj@independenceohio.org.

City of Independence, Ohio

Statement of Net Assets

December 31, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$29,146,428
Cash and Cash Equivalents:	
In Segregated Accounts	81,254
With Fiscal Agents	8,044
Materials and Supplies Inventory	133,827
Accrued Interest Receivable	2,578
Accounts Receivable	78,430
Intergovernmental Receivable	4,929,573
Prepaid Items	55,790
Municipal Income Taxes Receivable	3,732,271
Property Taxes Receivable	1,462,845
Special Assessments Receivable	700,000
Unamortized Bond Issue Costs	313,708
Nondepreciable Capital Assets	14,710,145
Depreciable Capital Assets, Net	<u>55,065,140</u>
 <i>Total Assets</i>	 <u>110,420,033</u>
 Liabilities	
Accounts Payable	214,012
Accrued Wages	120,094
Contracts Payable	194,099
Intergovernmental Payable	467,325
Matured Bonds and Interest Payable	8,044
Accrued Interest Payable	133,408
Deferred Revenue	1,343,251
Retainage Payable	237,563
Long-Term Liabilities:	
Due Within One Year	1,223,120
Due In More Than One Year	<u>37,633,367</u>
 <i>Total Liabilities</i>	 <u>41,574,283</u>
 Net Assets	
Invested in Capital Assets, Net of Related Debt	58,556,027
Restricted for:	
Capital Projects	9,520,534
State Highway	147,633
Federal Forfeiture	100,677
Street Construction Maintenance and Repair	204,126
Other Purposes	76,757
Unrestricted	<u>239,996</u>
 <i>Total Net Assets</i>	 <u><u>\$68,845,750</u></u>

See accompanying notes to the basic financial statements

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City of Independence, Ohio
Statement of Activities
For the Year Ended December 31, 2003

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General Government	\$4,326,525	\$178,670	\$0	\$0	(\$4,147,855)
Security of Persons and Property	7,590,926	463,883	173	0	(7,126,870)
Public Health and Welfare	124,341	6,111	0	0	(118,230)
Leisure Time Activities	2,823,516	425,365	0	0	(2,398,151)
Community Environment	2,399,740	115,533	0	0	(2,284,207)
Basic Utility Services	967,790	23,580	0	0	(944,210)
Transportation	3,607,364	43,852	265,750	5,262,736	1,964,974
Interest and Fiscal Charges	885,485	0	0	0	(885,485)
<i>Totals</i>	\$22,725,687	\$1,256,994	\$265,923	\$5,262,736	(15,940,034)
General Revenues					
Property and Other Local Taxes Levied for:					
					1,872,814
					522,549
					141,826
Municipal Income Tax					
					18,142,284
Grants and Entitlements not Restricted to Specific Programs					
					1,140,063
Investment Income					
					361,782
Miscellaneous					
					362,688
<i>Total General Revenues</i>					
					22,544,006
Change in Net Assets					
					6,603,972
<i>Net Assets Beginning of Year - See Note 3</i>					
					62,241,778
<i>Net Assets End of Year</i>					
					\$68,845,750

See accompanying notes to the basic financial statements

City of Independence, Ohio

Balance Sheet

Governmental Funds

December 31, 2003

	General	Capital Improvements	Street Resurfacing	Oak Tree
Assets				
Equity in Pooled Cash and				
Cash Equivalents	\$2,563,138	\$14,726,652	\$5,435,627	\$665,432
Cash and Cash Equivalents:				
In Segregated Accounts	81,254	0	0	0
With Fiscal Agents	0	0	0	0
Materials and Supplies Inventory	133,827	0	0	0
Accrued Interest Receivable	2,578	0	0	0
Accounts Receivable	78,430	0	0	0
Interfund Receivable	1,344,500	0	227,500	0
Intergovernmental Receivable	549,021	0	4,200,000	0
Prepaid Items	55,790	0	0	0
Special Assessments Receivable	0	0	0	700,000
Property Taxes Receivable	992,646	0	0	0
Municipal Income Taxes Receivable	3,732,271	0	0	0
<i>Total Assets</i>	<u>\$9,533,455</u>	<u>\$14,726,652</u>	<u>\$9,863,127</u>	<u>\$1,365,432</u>
Liabilities				
Accounts Payable	\$136,057	\$0	\$39,131	\$0
Accrued Wages	111,046	0	0	0
Contracts Payable	0	46,362	0	113,421
Intergovernmental Payable	23,756	0	0	0
Retainage Payable	0	4,127	0	226,614
Interfund Payable	0	0	900,000	361,000
Matured Bonds and Interest Payable	0	0	0	0
Deferred Revenue	1,982,157	0	0	700,000
<i>Total Liabilities</i>	<u>2,253,016</u>	<u>50,489</u>	<u>939,131</u>	<u>1,401,035</u>
Fund Balances				
Reserved for Encumbrances	355,631	10,201,289	448,484	1,264,176
Undesignated, Reported in:				
General Fund	6,924,808	0	0	0
Special Revenue Funds	0	0	0	0
Debt Service Fund	0	0	0	0
Capital Projects Funds (Deficit)	0	4,474,874	8,475,512	(1,299,779)
<i>Total Fund Balances</i>	<u>7,280,439</u>	<u>14,676,163</u>	<u>8,923,996</u>	<u>(35,603)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$9,533,455</u>	<u>\$14,726,652</u>	<u>\$9,863,127</u>	<u>\$1,365,432</u>

City of Independence, Ohio
*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2003*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Funds Balances	\$33,115,579
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$2,622,063	\$26,012,912	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	69,775,285
0	81,254	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
8,044	8,044	Property Taxes	119,594
0	133,827	Municipal Income Taxes	708,917
0	2,578	Intergovernmental	411,389
0	78,430	Special Assessments	<u>700,000</u>
0	1,572,000		
180,552	4,929,573	Total	1,939,900
0	55,790		
0	700,000	Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds	(442,343)
470,199	1,462,845	An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	3,133,516
0	3,732,271	In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	313,708
<u>\$3,280,858</u>	<u>\$38,769,524</u>	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(133,408)
\$38,824	\$214,012	Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:	
9,048	120,094	Compensated Absences	(424,700)
34,316	194,099	General Obligation Bonds	(27,136,353)
1,226	24,982	Special Assessment Bonds	(735,186)
6,822	237,563	OPWC Loan Payable	(71,054)
311,000	1,572,000	Police and Fire Liability	(83,323)
8,044	8,044	Notes Payable	(10,400,000)
600,994	3,283,151	Capital Leases	<u>(5,871)</u>
<u>1,010,274</u>	<u>5,653,945</u>	Total	<u>(38,856,487)</u>
99,696	12,369,276	<i>Net Assets of Governmental Activities</i>	<u><u>\$68,845,750</u></u>
0	6,924,808		
591,485	591,485		
996,507	996,507		
582,896	12,233,503		
<u>2,270,584</u>	<u>33,115,579</u>		
<u>\$3,280,858</u>	<u>\$38,769,524</u>		

See accompanying notes to the basic financial statements

City of Independence, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2003

	General	Capital Improvements	Street Resurfacing	Oak Tree
Revenues				
Property and Other Local Taxes	\$1,835,544	\$0	\$0	\$0
Municipal Income Taxes	18,261,085	0	0	0
Special Assessments	0	0	0	362,736
Intergovernmental	1,045,493	0	4,200,000	0
Investment Income	72,294	197,962	80,567	0
Fees, Licenses and Permits	408,552	0	0	0
Fines and Forfeitures	367,654	0	0	0
Charges for Services	41,648	0	0	0
Miscellaneous	296,474	49,375	0	0
<i>Total Revenues</i>	<u>22,328,744</u>	<u>247,337</u>	<u>4,280,567</u>	<u>362,736</u>
Expenditures				
Current:				
General Government	3,673,197	0	0	0
Security of Persons and Property	6,778,496	0	0	0
Public Health and Welfare	94,848	0	0	0
Leisure Time Activities	2,349,400	0	0	0
Community Environment	2,378,175	0	0	0
Basic Utility Services	473,105	0	0	0
Transportation	795,876	0	0	0
Capital Outlay	0	3,870,995	2,775,578	1,863,365
Debt Service:				
Principal Retirement	0	6,800,000	2,100,000	0
Interest and Fiscal Charges	0	114,749	35,438	0
Bond Issuance Costs	0	179,405	0	8,372
<i>Total Expenditures</i>	<u>16,543,097</u>	<u>10,965,149</u>	<u>4,911,016</u>	<u>1,871,737</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>5,785,647</u>	<u>(10,717,812)</u>	<u>(630,449)</u>	<u>(1,509,001)</u>
Other Financing Sources (Uses)				
General Obligation Bonds Issued	0	15,000,000	0	0
Special Assessment Bonds Issued	0	0	0	700,000
General Obligation Notes Issued	0	6,800,000	2,100,000	0
Premium on Bonds Issued	0	179,405	0	8,372
Payment to Refunded Bond Escrow Agent	0	0	0	0
Transfers In	0	3,000,000	6,240,000	150,000
Transfers Out	(4,410,000)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(4,410,000)</u>	<u>24,979,405</u>	<u>8,340,000</u>	<u>858,372</u>
<i>Net Change in Fund Balances</i>	1,375,647	14,261,593	7,709,551	(650,629)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>5,904,792</u>	<u>414,570</u>	<u>1,214,445</u>	<u>615,026</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$7,280,439</u>	<u>\$14,676,163</u>	<u>\$8,923,996</u>	<u>(\$35,603)</u>

City of Independence, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2003*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	\$25,472,259
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$655,960	\$2,491,504	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
0	18,261,085	This is the amount by which capital outlays exceeded depreciation in the current period.	
0	362,736	Capital Outlay	8,127,169
447,635	5,693,128	Depreciation	<u>(2,456,885)</u>
10,959	361,782	Total	5,670,284
310,053	718,605	Governmental funds only report the disposal of fixed assets to the extent from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(15,787)
129,087	496,741	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
0	41,648	Property and Other Local Taxes	45,685
16,839	362,688	Municipal Income Tax	(118,801)
1,570,533	28,789,917	Intergovernmental	(87,142)
		Special Assessments	<u>700,000</u>
		Total	539,742
		Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	13,298,091
37,394	3,710,591	In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.	331,409
449,857	7,228,353	Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
0	94,848	Accrued Interest on Bonds	(119,408)
409,508	2,758,908	Amortization of Issuance Costs	(17,701)
0	2,378,175	Amortization of Bond Premium	52,327
0	473,105	Amortization of Accounting Loss	<u>(5,333)</u>
1,252,120	2,047,996	Total	(90,115)
192,407	8,702,345	Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable (which represents contractually required pension contributions) do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
4,780,192	39,071,191	Compensated Absences	(61,375)
		Pension Obligation	<u>(76,088)</u>
(3,209,659)	(10,281,274)	Total	(137,463)
11,320,000	26,320,000	Other financing sources in the governmental funds increase long-term liabilities in the statement of net assets.	
0	700,000	General Obligation Bonds Issued	(26,320,000)
1,500,000	10,400,000	Special Assessment Bonds Issued	(700,000)
893,756	1,081,533	Bond Anticipation Notes Issued	(10,400,000)
(2,748,000)	(2,748,000)	Bond Premium	<u>(1,081,533)</u>
1,410,000	10,800,000	Total	(38,501,533)
(6,390,000)	(10,800,000)	The internal service fund used to charge costs of insurance to individual funds is not reported in the City-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.	37,085
5,985,756	35,753,533		
2,776,097	25,472,259	<i>Change in Net Assets of Governmental Activities</i>	<u>\$6,603,972</u>
(505,513)	7,643,320		
\$2,270,584	\$33,115,579		

See accompanying notes to the basic financial statements

City of Independence, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Revenues				
Property and Other Local Taxes	\$1,966,958	\$1,966,958	\$1,842,485	(\$124,473)
Municipal Income Taxes	17,500,000	17,500,000	18,102,684	602,684
Intergovernmental	1,211,986	1,211,986	969,500	(242,486)
Investment Income	75,000	75,000	259,850	184,850
Fees, Licenses and Permits	450,000	450,000	408,552	(41,448)
Fines and Forfeitures	375,000	375,000	346,062	(28,938)
Charges for Services	40,000	40,000	33,363	(6,637)
Miscellaneous	170,000	355,749	296,474	(59,275)
<i>Total Revenues</i>	<u>21,788,944</u>	<u>21,974,693</u>	<u>22,258,970</u>	<u>284,277</u>
Expenditures				
Current:				
General Government	4,102,030	4,360,030	3,932,846	427,184
Security of Persons and Property	7,052,793	7,088,993	6,929,334	159,659
Public Health and Welfare	98,884	98,884	95,314	3,570
Leisure Time Activities	2,568,257	2,530,557	2,415,655	114,902
Community Environment	2,625,198	2,631,798	2,494,463	137,335
Basic Utility Services	498,970	508,470	487,420	21,050
Transportation	808,779	812,779	797,619	15,160
<i>Total Expenditures</i>	<u>17,754,911</u>	<u>18,031,511</u>	<u>17,152,651</u>	<u>878,860</u>
<i>Excess of Revenues Over Expenditures</i>	<u>4,034,033</u>	<u>3,943,182</u>	<u>5,106,319</u>	<u>1,163,137</u>
Other Financing Sources (Uses)				
Advances In	1,500,000	1,500,000	1,500,000	0
Advances Out	(952,500)	(1,344,500)	(1,344,500)	0
Transfers Out	(3,985,000)	(4,410,000)	(4,410,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(3,437,500)</u>	<u>(4,254,500)</u>	<u>(4,254,500)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	596,533	(311,318)	851,819	1,163,137
<i>Fund Balance Beginning of Year</i>	1,086,456	1,086,456	1,086,456	0
Prior Year Encumbrances Appropriated	430,111	430,111	430,111	0
<i>Fund Balance End of Year</i>	<u>\$2,113,100</u>	<u>\$1,205,249</u>	<u>\$2,368,386</u>	<u>\$1,163,137</u>

See accompanying notes to the basic financial statements

City of Independence, Ohio

Statement of Fund Net Assets

Internal Service Fund

December 31, 2003

	<u>Insurance</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,133,516
Liabilities	
	<u>0</u>
Net Assets	
Unrestricted	<u><u>\$3,133,516</u></u>

See accompanying notes to the basic financial statements

City of Independence, Ohio
*Statement of Revenues,
 Expenses and Changes in Fund Net Assets
 Internal Service Fund
 For the Year Ended December 31, 2003*

	Insurance
Operating Revenues	\$0
Operating Expenses	
Purchased Services	9,294
Claims	24,672
<i>Total Operating Expenses</i>	33,966
<i>Operating Loss</i>	(33,966)
Non-Operating Revenues	
Interest	71,051
<i>Change in Net Assets</i>	37,085
<i>Net Assets Beginning of Year</i>	3,096,431
<i>Net Assets End of Year</i>	\$3,133,516

See accompanying notes to the basic financial statements

City of Independence, Ohio
Statement of Cash Flows
Internal Service Fund
For the Year Ended December 31, 2003

	<u>Insurance</u>
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Payments for Contractual Services	(\$9,294)
Cash Payments for Claims	<u>(24,672)</u>
<i>Net Cash Used in Operating Activities</i>	(33,966)
Cash Flows from Investing Activities	
Interest on Investments	<u>71,051</u>
<i>Net Increase in Cash and Cash Equivalents</i>	37,085
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>3,096,431</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$3,133,516</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
<i>Operating Loss/Net Cash Used in Operating Activities</i>	<u><u>(\$33,966)</u></u>

See accompanying notes to the basic financial statements

City of Independence, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2003

Assets

Equity in Pooled Cash and Cash Equivalents	<u>\$182,885</u>
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Liabilities

Undistributed Monies	<u>\$182,885</u>
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See accompanying notes to the basic financial statements

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 1 - Reporting Entity

The City of Independence 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 four-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 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 the 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 17 of the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

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

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

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

Capital Improvements Fund The capital improvements fund is used to account for general obligation bond proceeds for departmental capital improvements such as machinery and equipment, furniture, fixtures and equipment and vehicles.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Street Resurfacing Fund The street resurfacing fund accounts for general obligation bond proceeds and grant monies for infrastructure improvements made within the City including roads, water lines, storm sewers and sanitary sewers.

Oak Tree Fund The oak tree fund accounts for special assessment monies used for improvements to Oak Tree North.

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no enterprise funds. The following is a description of the City's internal service fund.

Internal Service Funds Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports on the City's extraordinary liability insurance for all lawsuits.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City only utilizes the agency fund type. The agency funds accounts for deposits from various contractors, developers or individuals to insure compliance with various City ordinances.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements presented for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes and grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fees, fines and forfeitures, interest and grants and entitlements.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

E. 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 City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During 2003, investments were limited to STAROhio, business money market mutual funds, U.S. treasury notes, federal home loan bank bonds, federal farm credit bonds, federal national mortgage association bonds and federal national mortgage corporation bonds.

Investments are reported at fair value which is based on quoted market prices. The fair value of the mutual funds is based on current share prices.

STAROhio is an investment pool managed by the State Treasurers Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2003.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2003 amounted to \$72,294, which includes \$39,774 assigned from other City funds.

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 presented on the financial statements as cash equivalents.

The City utilizes a financial institution to service bonded debt as principal and interest payments come due. These monies are presented on the 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 on the balance sheet as "cash and cash equivalents in segregated accounts."

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

H. Capital Assets

The City's only capital assets are general assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of one thousand dollars with the exception of land as land was listed regardless of cost. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Buildings and Improvements	50 Years
Machinery and Equipment	10 Years
Furniture and Fixtures	20 Years
Vehicles	8-20 Years
Infrastructure	20-100 years

The City's infrastructure consists of roadways, water lines, sanitary sewers and storm sewers.

I. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. These amounts are eliminated in the governmental columns of the statement of net assets.

J. 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 employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is based on the City's past experience of making termination payments.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and contractually required pension contributions that will be

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due.

L. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include drug enforcement and education and recreation.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definition of operating are reported as nonoperating.

O. Interfund Activity

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

P. Extraordinary and Special Items

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

Q. Estimates

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

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

R. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the City Council may appropriate. The appropriations ordinance is the City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the City Council. The legal level of control has been established by the City Council at the object level within the general fund and the street construction, maintenance and repair special revenue fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by ordinance of the City Council. Authority to further allocate Council appropriations within departments has been given to the Finance Director for all funds except for the general and the street construction, maintenance and repair special revenue funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts in the amended certificate in effect at the time final appropriations were enacted by Council.

The appropriation ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Council during the year.

Note 3 - Change in Accounting Principles and Restatement of Prior Year Fund Equity

A. Changes in Accounting Principles

For 2003, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No.41, "Budgetary Comparison Schedules - Perspective Differences" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type and governmental activities. The City has no business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the accrual basis of accounting.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No.41 allows the presentation of budgetary schedules as requires supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the City not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of Statement No. 41 did not affect the presentation of the budgetary statements of the City.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

B. Restatement of Net Assets

In the prior year's report, capital assets below the capitalization threshold were included in the amount reported. To correct this error, the capital asset balance has been restated as of December 31, 2002.

The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Capital Improvements	Street Resurfacing
Fund Balances, December 31, 2002	\$5,850,894	\$414,570	\$1,214,445
Fund Reclassification	43,185	0	0
GASB Interpretation No. 6	10,713	0	0
Adjusted Fund Balances, December 31, 2002	<u>\$5,904,792</u>	<u>\$414,570</u>	<u>\$1,214,445</u>
	Oak Tree	Nonmajor	Total
Fund Balances, December 31, 2002	\$615,026	(\$505,974)	\$7,588,961
Fund Reclassification	0	0	43,185
GASB Interpretation No. 6	0	461	11,174
Adjusted Fund Balances, December 31, 2002	<u>\$615,026</u>	<u>(\$505,513)</u>	7,643,320
GASB 34 Adjustments:			
Capital Assets			64,120,788
Internal Service Funds			3,096,431
Pension Obligations			(366,255)
Police and Fire Liability			(86,144)
Compensated Absences			(363,325)
Long-Term Liabilities			(13,189,195)
Accrued Interest Payable			(14,000)
Long-Term (Deferred) Assets			<u>1,400,158</u>
Governmental Activities Net Assets, December 31, 2002			<u>\$62,241,778</u>

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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 and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - are presented in the basic financial statements for the general fund. The major differences between the budget basis and the GAAP Basis are:

- a) Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- b) Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- c) Encumbrances are treated as expenditures for all funds (budget) rather than as a reservation of fund balance (GAAP).
- d) Unrecorded cash, which consists of in-transit court cash and unrecorded interest, is not reported by the City on the operating statements (budget), but is reported on the GAAP basis operating statements.
- e) Investments are reported at cost (budget) rather than at fair value (GAAP).
- f) Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	
	General
GAAP Basis	\$1,375,647
Net Adjustment for Revenue Accruals	120,444
Ending Fair Value Adjustment for Investments	(190,134)
Advances In	1,500,000
Advances Out	(1,344,500)
Net Adjustment for Expenditure Accruals	(165,006)
Beginning Unrecorded Cash	21,508
Ending Unrecorded Cash	(21,592)
Encumbrances	(444,548)
Budget Basis	\$851,819

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 5 – Accountability

The oak tree capital projects fund had a deficit fund balance as of December 31, 2003 in the amount of \$35,603. The deficit is caused by revenue being insufficient to cover expenditures on the modified accrual basis of accounting. The general fund is liable for any deficit in the fund and provides operating transfers when cash is required, not when accruals occur.

Note 6 - Deposits and Investments

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

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

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

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, 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 can be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement 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 obligations of the State of Ohio;

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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 through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

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

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default 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 qualified trustee or, custodian.

GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements, requires disclosures to help assess actual and potential future deposit and investment market and credit risks". The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement 3.

Deposits At year-end, the carrying amount of the City's deposits was \$6,183,715 and the bank balance was \$6,581,643. Of the bank balance:

1. \$217,400 was covered by federal depository insurance.
2. \$6,364,243 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments Investments are classified under the guidelines of GASB Statement No. 3 into three categories. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Type	Category 3	Fair Value
STAROhio		\$9,969
Business Money Market Mutual Funds		4,016,899
U.S. Treasury Notes	\$939,063	939,063
Federal Home Loan Bank Bonds	6,450,683	6,450,683
Federal Farm Credit Bonds	1,952,458	1,952,458
Federal National Mortgage Association Bonds	5,808,493	5,808,493
Federal National Mortgage Corporation Bonds	4,056,481	4,056,481
Total	<u>\$19,207,178</u>	<u>\$23,234,046</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 investments 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	Investments
GASB Statement No. 9	\$29,418,611	\$0
Cash on Hand	(850)	0
Investments		
STAROhio	(9,969)	9,969
Business Money Market Mutual Funds	(4,016,899)	4,016,899
U.S. Treasury Notes	(939,063)	939,063
Federal Home Loan Bank Bonds	(6,450,683)	6,450,683
Federal Farm Credit Bonds	(1,952,458)	1,952,458
Federal National Mortgage Association Bonds	(5,808,493)	5,808,493
Federal Home Loan Mortgage Corporation Bonds	(4,056,481)	4,056,481
GASB Statement No. 3	<u>\$6,183,715</u>	<u>\$23,234,046</u>

Note 7 – Receivables

Receivables at December 31, 2003, consisted of taxes, accounts (billings for user charged services), special assessments, interest and intergovernmental receivables arising from grants, entitlements and shared revenues.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Special assessments expected to be collected on the oak tree Issue II capital projects fund within one year amount to \$25,000 and in more than one year amount to \$675,000. At December 31, 2003, there were no delinquent special assessments.

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 2003 for real and public utility property taxes represents collections of the 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

2003 real property taxes are levied after October 1, 2003 on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

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. 2003 public utility property taxes became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventories.

The full tax rate for all City operations for the year ended December 31, 2003 was \$4.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$212,846,750
Other Real Estate	253,773,710
Public Utility Personal Property	22,120,190
Tangible Personal Property	49,910,985
Total	\$538,651,635

Real property taxes are payable annually or semi-annually. If paid annually, the 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-city taxpayers are due September 20. Single city 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 Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The County Treasurer collects property tax on behalf of all taxing districts within the City. The County Auditor periodically remits to the taxing districts their portions of the taxes collected. Property taxes receivable represents real and tangible personal property taxes and public utility taxes which are measurable as of December 31, 2003 and for which there is an enforceable legal claim. In the general fund, the general obligation bond retirement fund and the police pension special revenue fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2003 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while the remainder of the receivable is deferred.

B. Income Tax

The City levies and collects an income tax of 2.0 percent on all income earned within the City as well as on income 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. In 2003, the proceeds were allocated one-hundred percent to the general fund.

C. Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amount
Street Resurfacing	\$4,200,000
Local Government	322,187
Street Construction Maintenance and Repair	129,903
Estate Tax	135,213
Homestead and Rollback	77,850
City of Cleveland	34,250
State Highway	10,533
Motor Vehicle License Tax	8,316
Prisoner Housing	7,833
Liquor Fees	3,315
Enforcement and Education	173
Total Intergovernmental Receivables	\$4,929,573

The largest intergovernmental receivable was from Cuyahoga County for a Snow and Rockside Road street improvement grant.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 8 - 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or any 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, 2003.

B. Litigation

The City of Independence is a party to legal proceedings. 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 9 - Capital Assets

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

	Balance 12/31/02	Additions	Reductions	Balance 12/31/03
Governmental Activities:				
Capital assets not being depreciated				
Land	\$11,001,283	\$0	\$0	\$11,001,283
Construction in progress	0	3,708,862	0	3,708,862
Total capital assets not being depreciated	11,001,283	3,708,862	0	14,710,145
Capital assets being depreciated				
Buildings and Improvements	25,000,837	132,652	0	25,133,489
Machinery and Equipment	2,541,692	266,742	(2,723)	2,805,711
Furniture and Fixtures	1,685,755	7,433	0	1,693,188
Vehicles	4,609,148	340,117	(96,064)	4,853,201
Infrastructure	38,647,837	3,671,363	0	42,319,200
Total capital assets being depreciated	72,485,269	4,418,307	(98,787)	76,804,789
Accumulated depreciation				
Buildings and Improvements	(4,666,731)	(502,670)	0	(5,169,401)
Machinery and Equipment	(1,240,971)	(262,962)	2,723	(1,501,210)
Furniture and Fixtures	(946,831)	(84,659)	0	(1,031,490)
Vehicles	(2,323,383)	(469,637)	80,277	(2,712,743)
Infrastructure	(10,187,848)	(1,136,957)	0	(11,324,805)
Total accumulated depreciation	(19,365,764)	(2,456,885) *	83,000	(21,739,649)
Capital assets being depreciated, net	53,119,505	1,961,422	(15,787)	55,065,140
Governmental activities capital assets, net	\$64,120,788	\$5,670,284	(\$15,787)	\$69,775,285

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

* Depreciation expense was charged to governmental activities as follows:

General Government	\$653,863
Security of Persons and Property	318,731
Leisure Time Activities	65,381
Community Environment	49,035
Basic Utility Services	488,025
Transportation	<u>881,850</u>
Total	<u>\$2,456,885</u>

Note 10 - Risk Management

The City of Independence is exposed to various risks of loss to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disaster. During 2003, the City contracted with CNA Insurance Company of Hartford for various types of insurance as follows:

Type	Coverage	Deductible
Inland Marine		
Contractor's Equipment	\$458,418	\$1,000
Property	32,897,136	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, 2003. Changes in the fund's claims liability amount for 2002 through 2003 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2002	\$0	\$4,739	\$4,739	\$0
2003	0	24,672	24,672	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.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 11 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

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

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City of Independence's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City of Independence's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City of Independence's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$528,252, \$524,692, and \$542,723 respectively; 80.15 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$11,615 made by the City of Independence and \$7,287 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

City of Independence, Ohio
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For the Year Ended December 31, 2003

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City of Independence is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City of Independence's contributions to the Fund for police and firefighters were \$255,365 and \$238,291 for the year ended December 31, 2003, \$259,742 and \$234,032 for the year ended December 31, 2002, and \$246,077 and \$219,950 for the year ended December 31, 2001. The full amount has been contributed for 2002 and 2001. 67.49 percent for police and 75.30 percent for firefighters has been contributed for 2003 with the remainder being reported as a liability.

Note 12 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$308,919. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

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

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

B. Ohio Police and Fire Pension Fund

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

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

The City of Independence's actual contributions for 2003 that were used to fund postemployment benefits were \$168,432 for police and \$113,647 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

Note 13 – Compensated Absences

Employees earn five to twenty-five days of vacation per year, depending upon length of service. Upon termination, employees are paid for accrued unused vacation up to ten 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.

Note 14 – 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 has been recorded on the government-wide statements. The equipment has been capitalized in the amount of \$75,769, the present value of the minimum lease payments at the inception of the lease. The book value as of December 31, 2003 was \$53,249. The remaining balance that will be paid in 2004 is \$6,264, of which \$393 represents interest and \$5,871 represents principal.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 15 – Contractual Commitments

The City had the following contractual commitments outstanding at December 31, 2003:

Project	Contract Amount	Amount Paid to Date	Amount Remaining on Contract
Sanitary Sewer	\$93,820	\$0	\$93,820
Roadway Maintenance	155,000	134,375	20,625
Creek Maintenance	86,500	14,242	72,258
Shared Facilities	9,961,682	0	9,961,682
Total	\$10,297,002	\$148,617	\$10,148,385

Note 16 - Long-Term Obligations

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

	Balance 12/31/02	Additions	Reductions	Balance 12/31/03	Amounts Due in One Year
General Obligation Bonds					
1991 5.60%					
Civic Center	\$2,700,000	\$0	(\$2,700,000)	\$0	\$0
2003 \$2,520,000 - 2% to 3%					
Civic Center	0	2,520,000	(135,000)	2,385,000	275,000
Unamortized Premium	0	16,378	(1,820)	14,558	0
Unamortized Accounting Loss	0	(48,000)	5,333	(42,667)	0
2003 \$15,000,000 - 2% to 5%					
Shared Facilities	0	15,000,000	0	15,000,000	580,000
Unamortized Premium	0	789,707	(39,486)	750,221	0
2003 \$7,125,000 - 2% to 5%					
Northwest Quadrant TIF	0	7,125,000	0	7,125,000	180,000
Unamortized Premium	0	193,369	(7,437)	185,932	0
2003 \$1,675,000 - 2% to 5%					
Southwest Quadrant TIF	0	1,675,000	0	1,675,000	45,000
Unamortized Premium	0	45,041	(1,732)	43,309	0
Total General Obligation Bonds	2,700,000	27,316,495	(2,880,142)	27,136,353	1,080,000
Special Assessment Bonds					
2003 \$700,000 - 2% to 5%					
Oaktree	0	700,000	0	700,000	25,000
Unamortized Premium	0	37,038	(1,852)	35,186	0
Total Special Assessment Bonds	\$0	\$737,038	(\$1,852)	\$735,186	\$25,000

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

	Balance 12/31/02	Additions	Reductions	Balance 12/31/03	Amounts Due in One Year
OPWC Loan					
1994 \$335,095 - 0%					
Quarry Road Bridge	\$77,821	\$0	(\$6,767)	\$71,054	\$6,767
Other Long-term Obligations					
Notes Payable	10,400,000	10,400,000	(10,400,000)	10,400,000	0
Capital Lease Obligation	11,374	0	(5,503)	5,871	5,871
Police and Fire Pension	86,144	0	(2,821)	83,323	2,942
Compensated Absences	363,325	167,012	(105,637)	424,700	102,540
Total General Long-term Obligations	\$13,638,664	\$38,620,545	(\$13,402,722)	\$38,856,487	\$1,223,120

On May 15, 2003, the City of Independence issued \$26,320,000 and \$700,000 in general obligation and special assessment bonds, respectively, at various interest rates varying from 2.00 percent to 5.00 percent. A portion of the general obligation bond proceeds were used to refund \$2,700,000 of the 1991 Civic Center general obligation bonds. An analysis of the information follows:

	1991 Civic Center
Outstanding at 12/31/02	\$2,700,000
Amount Refunded	(2,700,000)
Outstanding at 12/31/03	\$0

The bonds were sold at a premium of \$1,081,533. Proceeds of \$2,748,000 (after the premium, underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunding portion of the 1991 Civic Center general obligation bonds. As a result, \$2,700,000 of these bonds are considered defeased and the liability for the refunded portion of these bonds has been removed from the long-term obligations of the City.

The City decreased its total debt service payments by \$378,907 as a result of the advance refunding. The City also incurred an economic gain (difference between the present values of the old and new debt service payments) of \$353,021.

In 2003, the City issued \$2,520,000 in voted general obligation bonds for the purpose of refunding the 1991 Civic Center issue at a lower interest rate. The bonds were issued for a nine year period with a final maturity in 2011.

In 2003, the City issued \$15,000,000 in unvoted general obligation bonds for the purpose of constructing a shared use facility with the Independence Local School District. The bonds were issued for a twenty year period with a final maturity in 2022.

In 2003, the City issued \$7,125,000 and \$1,675,000 in unvoted and voted general obligation bonds for the purpose of widening Rockside Road. The bonds were issued for a twenty-six year period with a final maturity in 2028.

In 2003, the City issued \$700,000 in special assessment bonds for the purpose of constructing a portion of Oaktree Boulevard North. The bonds were issued for a twenty year period with a final maturity in 2022.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

In 1994, the City received \$335,095 in Ohio Public Works Commission loans for the Quarry Road Bridge Project. The bonds were issued for a twenty-one year period with a final maturity in 2014.

In 2003, the City refinanced \$10,400,000 in Various Improvement bond anticipation notes for various construction projects throughout the City. The notes are backed by the full faith and credit of the City of Independence and mature within one year. The note liability is reflected in the fund which received the proceeds.

General obligation bonds will be paid from the general bond retirement debt service fund from property taxes. Special assessment bonds were paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The OPWC loans will be paid from the capital improvements capital projects fund.

Compensated absences will be paid from the general fund and the street, construction, maintenance and repair special revenue fund.

The City's overall legal debt margin was \$44,642,334 with an unvoted debt margin of \$17,709,752 at December 31, 2003. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 are as follows:

	General Obligation Bonds		Special Assessment Bonds		OPWC Loan
	Principal	Interest	Principal	Interest	Principal
2004	\$1,080,000	\$1,010,402	\$25,000	\$27,945	\$6,767
2005	1,110,000	988,802	25,000	27,445	6,767
2006	1,130,000	966,603	30,000	26,945	6,767
2007	1,150,000	944,003	30,000	26,345	6,767
2008	1,170,000	921,002	30,000	25,745	6,767
2009 - 2013	5,715,000	4,079,285	160,000	114,675	33,835
2014 - 2018	5,950,000	2,851,488	200,000	74,975	3,384
2019 - 2023	6,305,000	1,307,826	200,000	22,812	0
2024 - 2028	2,575,000	336,812	0	0	0
Total	<u>\$26,185,000</u>	<u>\$13,406,223</u>	<u>\$700,000</u>	<u>\$346,887</u>	<u>\$71,054</u>

Note 17 – Jointly Governed Organization

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 2003, the City contributed \$7,500 which represents 5.26 percent of total contributions.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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.

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 over 100 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 on the governing board 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 2003. Financial information can be obtained by contacting the Board Chairman at 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

Note 18 – Interfund Transactions

A. Interfund Balances

	Interfund Receivable		
Interfund Payable	General	Street Resurfacing	Totals
Major Funds:			
Street Resurfacing	\$900,000	\$0	\$900,000
Oak Tree	133,500	227,500	361,000
Other Governmental Funds:			
Quadrant TIF	311,000	0	311,000
	\$1,344,500	\$227,500	\$1,572,000

The interfund payables are advances for grant monies that were not repaid by year end.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2003, consisted of the following:

Transfers To	Transfer From		
	General	Quadrant TIF	Total
<i>Major Funds:</i>			
Capital Improvements	\$3,000,000	\$0	\$3,000,000
Street Resurfacing	0	6,240,000	6,240,000
Oak Tree	0	150,000	150,000
Total Major Funds	3,000,000	6,390,000	9,390,000
<i>Nonmajor Funds:</i>			
Street Construction, Maintenance and Repair	850,000	0	850,000
Recreation Trust	60,000	0	60,000
Police Pension	300,000	0	300,000
Drain Water	200,000	0	200,000
Total Nonmajor Funds	1,410,000	0	1,410,000
Total All Funds	\$4,410,000	\$6,390,000	\$10,800,000

The general fund transfer to the capital improvements capital projects fund was to provide money for capital purchases and expenses for year 2003. The general fund transfer to the street construction, maintenance and repair special revenue fund was to help cover costs of yearly expenditures. The general fund transfer to the recreation trust special revenue fund was to help cover costs of yearly expenditures. The general fund transfer to the police pension special revenue fund was to help fund pension costs. The general fund transfer to the drain water capital projects fund was to fund improvements and provided expenses for year 2003. The quadrant TIF capital projects fund transfer to the street resurfacing capital projects fund is to provide payment of debt. The quadrant TIF capital projects fund transfer to the oaktree issue II capital projects fund is to provide payment of debt.

Note 19 – Subsequent Event

On July 1, 2004, the City issued \$10,400,000 in bond anticipation notes at a rate of 1.75 percent to repay the existing \$10,400,000 bond anticipation note liability, with a maturity date of June 30, 2005.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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Auditor of State Betty Montgomery

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Independence, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 13, 2005, wherein we noted the District adopted Governmental Accounting Standards Board (GASB) Statements No. 34, 37, 38, and GASB Interpretation No. 6. 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report 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 to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated February 13, 2005.

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www.auditor.state.oh.us

This report is intended solely for the information and use of management and members of 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 13, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
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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
MARCH 22, 2005**