

CITY OF NORTON, OHIO

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2001



**Auditor of State
Betty Montgomery**

Mayor and Members of City Council
City of Norton

We have reviewed the Independent Auditor's Report of the City of Norton, Summit County, prepared by James G. Zupka, CPA for the audit period January 1, 2001 through December 31, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

April 22, 2003

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CITY OF NORTON, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2001

TABLE OF CONTENTS

	<u>PAGE</u>
Index of Funds	1-2
Independent Auditor's Report	3
Combined Balance Sheet - All Fund Types and Account Groups (GAAP)	4-5
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types	6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Comparison - (Non-GAAP Budgetary Basis) - All Governmental Fund Types	7-11
Notes to the Combined Financial Statements	12-38
Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	39-40

CITY OF NORTON, OHIO

INDEX OF FUNDS

GOVERNMENTAL FUND TYPES

General Fund Types

General

Special Revenue Fund Types

Street Construction, Maintenance, and Repairs

State Highway Improvement

Special Permissive License Plate Tax

Street Lighting

Municipal Income Tax

Issue II

Fire Fund

Drug Abuse Resistance Education

Emergency Medical Service

DWI Enforcement and Education

Beautification

Environmental and Natural Resource

Community Development Block Grant

Drug Law Enforcement

Law Enforcement

Community Center

Greenwich Road Property

Cemetery

Special Events

Federal Emergency Management Assistance

Recycling

Scrap Tire

Policemen/Firemen's Disability Pension

Mayor's Court Computer Technical Program

Debt Service Fund Types

General Bond Retirement

Special Assessment Bond Retirement

CITY OF NORTON, OHIO

INDEX OF FUNDS

(Continued)

GOVERNMENTAL FUND TYPES (Continued)

Capital Projects Fund Types

- Land and Land Improvements
- Building
- Equipment
- Streets, Highways, Bridges
- Storm Sewer
- Waterline
- Sanitary Sewer
- Sidewalks
- Drilling
- Other Capital Improvements

FIDUCIARY FUND TYPES

Agency Funds

- General Agency
- Sick Leave
- Building Standards
- Mayor's Court

GENERAL ACCOUNT GROUPS

- General Fixed Asset Account Group
- General Long-Term Debt Account Group

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Certified Public Accountants
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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general purpose financial statements of the City of Norton, Ohio, as of and for the year ended December 31, 2001, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the City of Norton, Ohio's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Norton, Ohio, as of December 31, 2001, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As described in Note 2, during the year ended December 31, 2001, the City adopted Governmental Accounting Standards Board Statements 33 and 36.

In accordance with Government Auditing Standards, we have also issued a report dated March 13, 2003 on our consideration of the City of Norton, Ohio'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.

March 13, 2003

James G. Zupka
Certified Public Accountant

CITY OF NORTON, OHIO
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2001

	<u>Governmental Fund Types</u>				<u>Fiduciary Fund Type Agency</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>		<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
Assets and Other Debits								
Equity in Pooled Cash and								
Cash Equivalents	\$ 3,514	\$ 684,857	\$ 10,962	\$ 1,523,582	\$ 55,932	\$ 0	\$ 0	\$ 2,278,847
Cash and Cash								
Equivalents in								
Segregated Accounts	0	0	0	0	18,924	0	0	18,924
Receivables:								
Taxes	2,723,368	793,506	0	0	0	0	0	3,516,874
Accounts	14,321	13,639	0	25,695	0	0	0	53,655
Intergovernmental	640,431	238,536	0	0	0	0	0	878,967
Inventory	379	6,303	0	0	0	0	0	6,682
Prepaid Items	25,210	13,115	0	720	0	0	0	39,045
Fixed Assets	0	0	0	0	0	8,990,634	0	8,990,634
Construction in Progress	0	0	0	0	0	2,168,031	0	2,168,031
Other Debits:								
Amount Available in								
Debt Service Funds	0	0	0	0	0	0	10,962	10,962
Amount to be Provided for								
Retirement of General								
Long-Term Obligations	0	0	0	0	0	0	728,890	728,890
Total Assets and Other Debits	<u>\$ 3,407,223</u>	<u>\$ 1,749,956</u>	<u>\$ 10,962</u>	<u>\$ 1,549,997</u>	<u>\$ 74,856</u>	<u>\$ 11,158,665</u>	<u>\$ 739,852</u>	<u>\$ 18,691,511</u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTON, OHIO
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2001

	Governmental Fund Types				Fiduciary Fund Type and Agency	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		General Fixed Assets	General Long-Term Obligations	
Liabilities, Fund Equity and Other Credits								
<u>Liabilities</u>								
Accounts Payable	\$ 21,140	\$ 22,683	\$ 0	\$ 49,023	\$ 18,947	\$ 0	\$ 0	\$ 111,793
Claims Payable	62,738	0	0	0	0	0	0	62,738
Accrued Wages and Benefits	55,380	27,971	0	0	0	0	0	83,351
Funds Held on Deposit	0	0	0	0	55,909	0	0	55,909
Deferred Revenue	2,481,883	972,585	0	0	0	0	0	3,454,468
General Obligation Notes Payable	0	0	0	3,705,000	0	0	0	3,705,000
Special Assessment Commitment Bonds Payable	0	0	0	0	0	0	95,000	95,000
Compensated Absences Payable	16,510	8,515	0	0	0	0	548,955	573,980
Ohio Police and Fire Pension Accrued Liability	0	0	0	0	0	0	95,897	95,897
Total Liabilities	2,637,651	1,031,754	0	3,754,023	74,856	0	739,852	8,238,136
<u>Fund Equity and Other Credits</u>								
Investment in General Fixed Assets	0	0	0	0	0	8,990,634	0	8,990,634
Construction in Progress	0	0	0	0	0	2,168,031	0	2,168,031
Fund Balances:								
Reserved for:								
Inventory	379	6,303	0	0	0	0	0	6,682
Prepaid Items	25,210	13,115	0	720	0	0	0	39,045
Encumbrances	0	0	0	1,523,581	0	0	0	1,523,581
Debt Service	0	0	10,962	0	0	0	0	10,962
Unreserved:								
Undesignated	743,983	698,784	0	(3,728,327)	0	0	0	(2,285,560)
Total Fund Equity and Other Credits	769,572	718,202	10,962	(2,204,026)	0	11,158,665	0	10,453,375
Total Liabilities, Fund Equity, and Other Credits	\$ 3,407,223	\$ 1,749,956	\$ 10,962	\$ 1,549,997	\$ 74,856	\$ 11,158,665	\$ 739,852	\$ 18,691,511

See accompanying notes to the general purpose financial statements.

CITY OF NORTON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
AND SIMILAR TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2001

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues					
Local Taxes	\$ 2,306,664	\$ 12,000	\$ 0	\$ 178,935	\$ 2,497,599
Other Taxes	313,927	871,360	0	52,486	1,237,773
Intergovernmental Revenue	1,083,381	500,445	0	127,713	1,711,539
Special Assessments	0	0	8,107	0	8,107
Charges for Services	20,614	96,115	0	0	116,729
Fines, Licenses, and Permits	257,476	29,992	0	0	287,468
Interest Income	34,387	53,516	0	0	87,903
Miscellaneous	161,394	110,610	0	191,227	463,231
Total Revenues	<u>4,177,843</u>	<u>1,674,038</u>	<u>8,107</u>	<u>550,361</u>	<u>6,410,349</u>
Expenditures					
Security of Persons and Property	1,589,947	707,797	0	0	2,297,744
Public Health	0	601	0	0	601
Leisure Time Activities	85,982	20,912	0	0	106,894
Community Development	132,507	63,798	0	0	196,305
Basic Utilities Expenditures	0	0	0	6,726	6,726
Transportation	0	741,285	0	20	741,305
Miscellaneous Expense	11,141	0	0	0	11,141
General Government	1,243,976	11,588	0	19,829	1,275,393
Capital Outlay	0	5,460	0	3,984,909	3,990,369
Debt Service:					
Principal Retirement	0	0	5,000	0	5,000
Interest and Fiscal Charges	0	0	6,600	222,992	229,592
Total Expenditures	<u>3,063,553</u>	<u>1,551,441</u>	<u>11,600</u>	<u>4,234,476</u>	<u>8,861,070</u>
Excess of Revenues Over (Under) Expenditures	<u>1,114,290</u>	<u>122,597</u>	<u>(3,493)</u>	<u>(3,684,115)</u>	<u>(2,450,721)</u>
Other Financing Sources (Uses)					
Proceeds from Sale of Notes	0	0	0	0	0
Sale of Fixed Assets	969	0	0	0	969
Proceeds from Sale of Notes	0	0	0	0	0
Transfers In	75,000	262,000	0	1,704,492	2,041,492
Transfers Out	(1,384,994)	(526,902)	(129,596)	0	(2,041,492)
Total Other Financing Sources (Uses)	<u>(1,309,025)</u>	<u>(264,902)</u>	<u>(129,596)</u>	<u>1,704,492</u>	<u>969</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(194,735)</u>	<u>(142,305)</u>	<u>(133,089)</u>	<u>(1,979,623)</u>	<u>(2,449,752)</u>
Fund Balance - Beginning of Year, as Restated	966,755	858,274	144,051	(224,403)	1,744,677
Increase (Decrease) in Reserve for Inventory	(2,448)	2,233	0	0	(215)
Fund Balance - End of Year	<u>\$ 769,572</u>	<u>\$ 718,202</u>	<u>\$ 10,962</u>	<u>\$ 2,204,026</u>	<u>\$ (705,290)</u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL -
ALL GOVERNMENTAL FUND TYPES (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2001

	GENERAL FUND		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Local Taxes - Income Taxes	\$2,463,278	\$2,417,431	\$ (45,847)
Other Taxes	315,000	313,927	(1,073)
Intergovernmental Revenues	1,100,000	1,009,706	(90,294)
Special Assessments	0	0	0
Charges for Services	21,000	20,614	(386)
Fines, Licenses, and Permits	255,550	253,414	(2,136)
Interest Income	61,700	34,387	(27,313)
Miscellaneous	165,000	161,394	(3,606)
Total Revenues	4,381,528	4,210,873	(170,655)
Expenditures			
Security of Persons and Property	1,601,391	1,601,235	156
Public Health and Welfare	0	0	0
Leisure Time Activities	87,647	87,642	5
Community Development	197,650	134,474	63,176
Basic Utilities	0	0	0
Transportation	0	0	0
Miscellaneous Expense	168,368	61,729	106,639
General Governments	1,285,184	1,264,746	20,438
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	3,340,240	3,149,826	190,414
Excess of Revenues Over (Under) Expenditures	1,041,288	1,061,047	19,759
Other Financing Sources (Uses)			
Proceeds from Sale of Notes	0	0	0
Retirement of General Obligation Note	0	0	0
Sale of Fixed Assets	969	969	0
Transfers In	2,630,004	75,000	(2,555,004)
Transfers Out	(3,848,849)	(1,384,994)	2,463,855
Total Other Financing Sources (Uses)	(1,217,876)	1,309,025	(91,149)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(176,588)	(247,978)	(71,390)
Fund Balance - Beginning of Year	251,492	251,492	0
Fund Balance - End of Year	\$ 74,904	\$ 3,514	\$ (71,390)

See accompanying notes to the general purpose financial statements.

CITY OF NORTON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL -
ALL GOVERNMENTAL FUND TYPES (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>SPECIAL REVENUE FUND</u>		
	<u>Revised</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
<u>Revenues</u>			
Local Taxes - Income Taxes	\$ 0	\$ 12,000	\$ 12,000
Other Taxes	995,226	871,360	(123,866)
Intergovernmental Revenues	1,117,838	596,061	(521,777)
Special Assessments	0	0	0
Charges for Services	55,067	96,115	41,048
Fines, Licenses, and Permits	30,800	29,687	(1,113)
Interest Income	67,000	55,216	(11,784)
Miscellaneous	192,196	102,146	(90,050)
Total Revenues	<u>2,458,127</u>	<u>1,762,585</u>	<u>(695,542)</u>
<u>Expenditures</u>			
Security of Persons and Property	756,350	724,404	31,946
Public Health and Welfare	10,500	601	9,899
Leisure Time Activities	32,600	21,142	11,458
Community Development	375,286	63,100	312,186
Basic Utilities	0	0	0
Transportation	902,000	784,200	117,800
Miscellaneous Expense	3,417	0	3,417
General Governments	22,500	9,882	12,618
Capital Outlay	9,000	5,460	3,540
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	<u>2,111,653</u>	<u>1,608,789</u>	<u>502,864</u>
Excess of Revenues Over (Under) Expenditures	<u>346,474</u>	<u>153,796</u>	<u>(192,678)</u>
<u>Other Financing Sources (Uses)</u>			
Proceeds from Sale of Notes	0	0	0
Retirement of General Obligation Note	0	0	0
Sale of Fixed Assets	0	0	0
Transfers In	404,000	262,000	(142,000)
Transfers Out	(1,186,739)	(526,902)	659,837
Total Other Financing Sources (Uses)	<u>(782,739)</u>	<u>(264,902)</u>	<u>517,837</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(436,265)</u>	<u>(111,106)</u>	<u>325,159</u>
Fund Balance - Beginning of Year	795,963	795,963	0
Fund Balance - End of Year	<u>\$ 359,698</u>	<u>\$ 684,857</u>	<u>\$ 325,159</u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL -
ALL GOVERNMENTAL FUND TYPES (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2001

	DEBT SERVICE FUND		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Local Taxes - Income Taxes	\$ 0	\$ 0	\$ 0
Other Taxes	0	0	0
Intergovernmental Revenues	0	0	0
Special Assessments	11,600	8,107	(3,493)
Charges for Services	0	0	0
Fines, Licenses, and Permits	0	0	0
Interest Income	0	0	0
Miscellaneous	0	0	0
Total Revenues	<u>11,600</u>	<u>8,107</u>	<u>(3,493)</u>
Expenditures			
Security of Persons and Property	0	0	0
Public Health and Welfare	0	0	0
Leisure Time Activities	0	0	0
Community Development	0	0	0
Basic Utilities	0	0	0
Transportation	0	0	0
Miscellaneous Expense	0	0	0
General Governments	0	0	0
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	5,000	5,000	0
Interest and Fiscal Charges	6,600	6,600	0
Total Expenditures	<u>11,600</u>	<u>11,600</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	<u>0</u>	<u>(3,493)</u>	<u>(3,493)</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Notes	0	0	0
Retirement of General Obligation Note	0	0	0
Sale of Fixed Assets	0	0	0
Transfers In	0	0	0
Transfers Out	(129,596)	(129,596)	0
Total Other Financing Sources (Uses)	<u>(129,596)</u>	<u>(129,596)</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(129,596)</u>	<u>(133,089)</u>	<u>(3,493)</u>
Fund Balance - Beginning of Year	144,051	144,051	0
Fund Balance - End of Year	<u>\$ 14,455</u>	<u>\$ 10,962</u>	<u>\$ (3,493)</u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL -
ALL GOVERNMENTAL FUND TYPES (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>CAPITAL PROJECTS FUND</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues</u>			
Local Taxes - Income Taxes	\$ 74,435	\$ 178,935	\$ 104,500
Other Taxes	60,000	51,212	(8,788)
Intergovernmental Revenues	130,000	127,713	(2,287)
Special Assessments	0	0	0
Charges for Services	0	0	0
Fines, Licenses, and Permits	0	0	0
Interest Income	0	0	0
Miscellaneous	120,000	179,419	59,419
Total Revenues	<u>384,435</u>	<u>537,279</u>	<u>152,844</u>
<u>Expenditures</u>			
Security of Persons and Property	0	0	0
Public Health and Welfare	0	0	0
Leisure Time Activities	0	0	0
Community Development	0	0	0
Basic Utilities	0	0	0
Transportation	0	0	0
Miscellaneous Expense	0	0	0
General Governments	0	0	0
Capital Outlay	4,811,858	3,989,298	822,560
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	222,992	222,992	0
Total Expenditures	<u>5,034,850</u>	<u>4,212,290</u>	<u>822,560</u>
Excess of Revenues Over (Under) Expenditures	<u>(4,650,415)</u>	<u>(3,675,011)</u>	<u>975,404</u>
<u>Other Financing Sources (Uses)</u>			
Proceeds from Sale of Notes	4,205,065	3,705,000	(500,065)
Retirement of General Obligation Note	(5,026,720)	(4,195,000)	831,720
Sale of Fixed Assets	0	0	0
Transfers In	2,125,500	1,704,492	(421,008)
Transfers Out	0	0	0
Total Other Financing Sources (Uses)	<u>1,303,845</u>	<u>1,214,492</u>	<u>(89,353)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(3,346,570)</u>	<u>(2,460,519)</u>	<u>886,051</u>
Fund Balance - Beginning of Year	3,984,101	3,984,101	0
Fund Balance - End of Year	<u>\$ 637,531</u>	<u>\$ 1,523,582</u>	<u>\$ 886,051</u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL -
ALL GOVERNMENTAL FUND TYPES (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>TOTALS (MEMORANDUM ONLY)</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenues</u>			
Local Taxes - Income Taxes	\$2,537,713	\$2,608,366	\$ 70,653
Other Taxes	1,370,226	1,236,499	(133,727)
Intergovernmental Revenues	2,347,838	1,733,480	(614,358)
Special Assessments	11,600	8,107	(3,493)
Charges for Services	76,067	116,729	40,662
Fines, Licenses, and Permits	286,350	283,101	(3,249)
Interest Income	128,700	89,603	(39,097)
Miscellaneous	477,196	442,959	(34,237)
Total Revenues	<u>7,235,690</u>	<u>6,518,844</u>	<u>(716,846)</u>
<u>Expenditures</u>			
Security of Persons and Property	2,357,741	2,325,639	32,102
Public Health and Welfare	10,500	601	9,899
Leisure Time Activities	120,247	108,784	11,463
Community Development	572,936	197,574	375,362
Basic Utilities	0	0	0
Transportation	902,000	784,200	117,800
Miscellaneous Expense	171,785	61,729	110,056
General Governments	1,307,684	1,274,628	33,056
Capital Outlay	4,820,858	3,994,758	826,100
Debt Service:			
Principal Retirement	5,000	5,000	0
Interest and Fiscal Charges	229,592	229,592	0
Total Expenditures	<u>10,498,343</u>	<u>8,982,505</u>	<u>1,515,838</u>
Excess of Revenues Over (Under) Expenditures	<u>(3,262,653)</u>	<u>(2,463,661)</u>	<u>798,992</u>
<u>Other Financing Sources (Uses)</u>			
Proceeds from Sale of Notes	4,205,065	3,705,000	(500,065)
Retirement of General Obligation Note	(5,026,720)	(4,195,000)	831,720
Sale of Fixed Assets	969	969	0
Transfers In	5,159,504	2,041,492	(3,118,012)
Transfers Out	(5,165,184)	(2,041,492)	3,123,692
Total Other Financing Sources (Uses)	<u>(826,366)</u>	<u>(489,031)</u>	<u>337,335</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(4,089,019)</u>	<u>(2,952,692)</u>	<u>1,136,327</u>
Fund Balance - Beginning of Year	5,175,607	5,175,607	0
Fund Balance - End of Year	<u>\$1,086,588</u>	<u>\$2,222,915</u>	<u>\$1,136,327</u>

See accompanying notes to the general purpose financial statements.

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

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

A. **Reporting Entity**

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

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

The accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups and the results of operations of the various fund types. The financial statements are presented as of December 31, 2001, and for the year then ended, and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

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

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

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

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

B. Basis of Presentation

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

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

Governmental Funds

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

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

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

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

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

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

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

Governmental Funds (Continued)

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

Fiduciary Funds

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

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

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

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

C. **Basis of Accounting**

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures in the accounts and reported in the financial statements, and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements including 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, interest on investments, and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenue, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, is recorded as revenue when received in cash because it is generally not measurable until received.

Special assessment installments including related accrued interest, which are measurable but not available at December 31, are recorded as deferred revenue. Property taxes measurable as of December 31, 2001, but which are not intended to finance 2001 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described Note 3.

D. **Budgetary Process**

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

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

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

D. **Budgetary Process** (Continued)

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

The City's budgetary process is as follows:

1. **Tax Budget**

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

2. **Estimated Resources**

The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include January 1, 2000 unencumbered fund balances. However, those fund balances are available for appropriation.

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

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

D. **Budgetary Process** (Continued)

3. **Appropriations**

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

4. **Encumbrances**

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

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

5. **Governmental Fund Budgets**

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

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

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

D. **Budgetary Process** (Continued)

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

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

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

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

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses - All Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$(194,735)	\$(142,305)	\$(133,089)	\$(1,979,623)
Increase (Decrease) due to:				
Revenue Accruals	(17,558)	88,547	1,008,397	(726,074)
Expenditure Accruals	(35,685)	(57,348)	(88,397)	245,178
Debt Proceeds	0	0	0	0
Debt Retirement	0	0	(920,000)	0
Budget Basis	\$(247,978)	\$(111,106)	\$(133,089)	\$(2,460,519)

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

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

E. **Investments**

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

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

In applying GASB 31, the City utilized the following methods and assumptions as of December 31, 2001:

The portfolio was limited to a repurchase agreement in First Merit Bank;

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

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

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund and special revenue fund during fiscal year 2001 amounted to \$34,387 and \$53,516, respectively, which includes \$32,220 assigned from other City funds.

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

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

E. **Investments** (Continued)

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

F. **Cash and Cash Equivalents**

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

G. **Fixed Assets**

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

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

H. **Compensated Absences**

In conformity with GASB Statement No. 16, the City accrues vacation and compensatory time benefits as earned by its employees if the leave is attributable to past service and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Likewise, the City accrues for sick pay benefits as earned by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future. These compensated absences are measured using the pay rates in effect at December 31, 2001. Additionally, certain salary related payments associated with the payment of compensated absences have been accrued.

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

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

H. **Compensated Absences** (Continued)

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

I. **Long-Term Obligations**

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

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

J. **Deferred Revenue**

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

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

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

K. Inventory

Inventory of governmental funds is stated at cost. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds when purchased. Reported materials and supplies are equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

L. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2001 are recorded as prepaid items. A portion of the relevant funds balances equal to the prepaid items has been reserved to indicate that is not available for appropriation.

M. Reserves of Fund Equity

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

N. Total Columns on Financial Statements

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

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

NOTE 2: **ACCOUNTABILITY AND COMPLIANCE**

A. Fund Deficit

The fund deficits at December 31, 2001 of \$58,787 in the equipment fund, \$450,596 in the State Highway fund, \$876 in the Waterline fund, and \$1,839,521 in the Sanitary Sewer fund (capital projects funds) arose from recording notes payable amounts in the individual fund balance sheets. Deficits do not exist under the cash basis of accounting. The general fund provides operating transfers when cash is required, not when accruals occur.

B. Change in Accounting Principle

GASB Statement No. 33 and GASB Statement No. 36 were required for the current year. These statements clarified the timing requirements of recognizing assets, liabilities, revenues, and expenditures/expenses associated with nonexchange transactions. As a result of implementation of the statements, a restatement of prior year fund balance is necessary as described below.

For December 31, 2001, the City has adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*. GASB Statement No. 36 modified the provisions of GASB Statement No. 33 for certain specific nonexchange revenues.

General Fund

Fund Balance as of December 31, 2000	\$ 297,810
Municipal Income Tax	526,504
Income Taxes	142,441
Restated Beginning Balance	<u>\$ 966,755</u>

Special Revenue Fund

Fund Balance as of December 31, 2000	\$1,376,705
Municipal Income Tax	(526,504)
Permissive License Tax	2,189
Motor Vehicle License Tax	5,884
Restated Fund Balance, December 31, 2001	<u>\$ 858,274</u>

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

NOTE 3: **PROPERTY TAXES**

Real property taxes were levied on assessed values which equal 35% of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last appraisal was completed for tax year 2001.

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

The full tax rate applied to real property for the fiscal year ended December 31, 2001 was \$6.50 per \$1000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$5.19 per \$1000 of assessed valuation of real property classified as residential/agricultural and \$5.61 per \$1000 of assessed evaluation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2001 was \$6.50 per \$1000 of assessed valuation.

Real Estate - 2001 Valuation

Residential/Agricultural	\$ 154,375,550
Commercial/Industrial	30,968,160
Public Utilities	10,111,350
General Tangible Personal Property - 2001 Valuation	21,836,416
	<u>\$ 217,291,476</u>
	=====

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

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

NOTE 4: **MUNICIPAL INCOME TAXES**

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

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

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

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

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

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

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

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

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

Legislation permits interim monies to be invested or deposited in the following securities:

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

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

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

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 110% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation, or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

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

criteria described in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

Deposits

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

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

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

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

All deposits are carried at cost. At year end, the carrying amount of the City's cash and deposits was \$667,771 and the bank balance was \$1,321,548. Of the bank balance, \$200,000 was insured by the FDIC and \$1,121,548 was classified as Risk Category 3.

Investments

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

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

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

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

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

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

Investments (Continued)

The City's categorized investments at December 31, 2001 were as follows:

	<u>Financial Institution</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Repurchase Agreement (Risk Category 3)	First Merit	\$ 1,630,000	\$ 1,630,000
Total Investments		<u>\$ 1,630,000</u>	<u>\$ 1,630,000</u>

Cash balances and investments of fund types are as follows:

Governmental Fund Types		
General Fund		\$ 3,514
Special Revenue Fund		684,857
Debt Service Fund		10,962
Capital Projects Fund		1,523,582
Fiduciary Fund Types		
Agency Funds		74,856
		<u>\$ 2,297,771</u>

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

	<u>Cash/Cash</u> <u>Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$2,297,771	\$ 0
Investments:		
Repurchase Agreements	(1,630,000)	1,630,000
GASB Statement No. 3	<u>\$ 667,771</u>	<u>\$ 1,630,000</u>

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

NOTE 6: **RECEIVABLES**

The receivables at December 31, 2001 consist of taxes, intergovernmental receivables arising from grants, entitlements, or shared revenues. All receivables are considered fully collectible.

A summary of the principal items of intergovernmental receivables follows:

<u>Fund Type/Fund</u>	<u>Amounts</u>
<u>General Fund</u>	
Estate Tax	\$ 254,003
Local Government Support	354,525
Homestead and Rollback	19,154
Grants	12,749
Total General Fund	<u>640,431</u>
<u>Special Revenue Funds</u>	
Street Maintenance	
Gasoline Tax	123,122
Motor Vehicle License Tax	47,334
Total Street Maintenance	<u>170,456</u>
State Highway	
Gasoline Tax	9,983
Motor Vehicle License Tax	3,838
Total State Highway	<u>13,821</u>
Permissive	
Permissive Tax	15,711
Total Permissive	<u>15,711</u>
Fire	
Homestead and Rollback	19,447
Total Fire	<u>19,447</u>
EMS	
Homestead and Rollback	15,509
Total EMS	<u>15,509</u>
PFDPF	
Homestead and Rollback	3,592
Total PFDPF	<u>3,592</u>
Total Special Revenue Funds	<u>238,536</u>
Total All Funds	<u><u>\$ 878,967</u></u>

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

NOTE 7: FIXED ASSETS

The general fixed assets in 2001 were as follows:

<u>Description</u>	<u>January 1,</u> <u>2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31,</u> <u>2001</u>
Land and Land Improvements	\$ 292,350	\$ 36,640	\$ 0	\$ 328,990
Buildings and Improvements	1,505,180	44,623	0	1,549,803
Furniture, Fixtures, Machinery and Equipment	1,735,416	206,978	0	1,942,394
Infrastructure	3,354,263	0	0	3,354,263
Vehicle	1,820,750	42,082	47,648	1,815,184
Construction in Progress	0	2,168,031	0	2,168,031
Total	<u>\$ 8,707,959</u>	<u>\$2,498,354</u>	<u>\$ 47,648</u>	<u>\$11,158,665</u>

NOTE 8: DEFINED BENEFIT PENSION PLANS

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

A. Public Employees Retirement System

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

The City of Norton contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand alone financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

NOTE 8: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 2001 and 2000 employer contribution rate for local government employer units was 13.55 percent of covered payroll, 9.25 percent to fund the pension and 4.3 percent to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the PERS of Ohio for the years ending December 31, 2001, 2000, and 1999 were \$187,540, \$131,758, and \$162,275, respectively, which were equal to the required contributions for each year.

The PERS of Ohio provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the PERS of Ohio is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 2001 employer contribution rate (identified above) that was used to fund health care for the year 2001 was 4.3 percent of covered payroll, which amounted to \$59,633.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 2000. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2000 was 7.75 percent. An annual increase of 4.75 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75 percent base increase, were assumed to range from 0.54 percent to 5.1 percent. Health care costs were assumed to increase 4.75 percent annually.

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

NOTE 8: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 411,076. The actuarial value of the PERS of Ohio net assets available for OPEB at December 31, 2000 was \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

B. **Ohio Police and Fire Pension Fund (the "OP&F" Fund)**

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing, multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent and 24.0 percent respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2001, 2000, and 1999 were \$158,025, \$148,567 and \$136,330 for police and \$37,307, \$30,877, and \$28,320 for firefighters, respectively, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

NOTE 8: **DEFINED BENEFIT PENSION PLANS** (Continued)

B. **Ohio Police and Fire Pension Fund (the "OP&F" Fund)** (Continued)

The portion of the 2001 covered payroll that was used to fund postemployment health care benefits was \$58,753 representing 7.25 percent of covered payroll for police and \$11,531 representing 7.25 percent of covered payroll for fire. Health care funding and accounting were on a pay-as-you-go basis. 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. As of December 31, 2000, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 12,853 for police and 10,037 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2000 were \$106,160,054, which was net of member contributions of \$5,657,431.

NOTE 9: **COMPENSATED ABSENCES**

In accordance with Government Accounting Standards Board (GASB) Statement 16, the City of Norton, Ohio has accrued a liability for compensated absences (vacation and sick leave) at December 31, 2001 along with any salary-related payments associated with the payment of compensated absences.

Sick leave for City employees is accrued at rates of 4.6 for every 80 hours. Employees who retire or terminate service after 10 years may convert 25 percent of accumulated sick leave days into a lump-sum payment within certain limitations. For governmental funds, the City recognized the current portion of this liability at December 31, 2001 that is expected to be liquidated with expendable available financial resources.

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

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

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

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>General Long-Term Account Group</u>
Sick Leave	\$ 7,415	\$ 1,810	\$ 439,642
Holiday	2,926	445	4,685
Vacation Leave	4,432	4,479	88,383
Comp	1,737	1,780	16,245
Totals	<u>\$ 16,510</u>	<u>\$ 8,514</u>	<u>\$ 548,955</u>

NOTE 10: **SHORT-TERM DEBT**

Short-term debt outstanding at December 31, 2001 consisted of the following:

<u>Description</u>	<u>January 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2001</u>
Bond Anticipation Note -				
- Wooster Road Sanitary				
Sewer (Waterline portion)	\$ 2,900,000	\$ 2,775,000	\$(2,900,000)	\$ 2,775,000
- 2000 Streets Program	725,000	775,000	(725,000)	775,000
- Multi-Purpose Equipment	510,000	155,000	(510,000)	155,000
- Park Land Purchase	60,000	0	(60,000)	0
Total	<u>\$ 4,195,000</u>	<u>\$ 3,705,000</u>	<u>\$(4,195,000)</u>	<u>\$ 3,705,000</u>

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

NOTE 11: **LONG-TERM DEBT**

Long-term obligations of the City at December 31, 2001 are as follows:

<u>Description</u>	<u>Balance at 01/01/01</u>	<u>Additions/ (Reductions)</u>	<u>Balance at 12/31/01</u>
Special Assessment Bonds	\$ 100,000	\$ (5,000)	\$ 95,000
Total Bond Indebtness	<u>\$ 100,000</u>	<u>\$ (5,000)</u>	<u>\$ 95,000</u>
<u>Other Long-Term Obligations:</u>			
Accrued Compensated Absences	\$ 505,881	\$ 43,074	\$ 548,955
Accrued Pension Liability	77,356	18,541	95,897
Total Other Long-Term Obligations	<u>583,237</u>	<u>61,615</u>	<u>644,852</u>
TOTAL LONG-TERM DEBT	<u>\$ 683,237</u>	<u>\$ 56,615</u>	<u>\$ 739,852</u>

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2001 are:

	<u>Obligation Bonds</u>
2001	\$ 11,270
2003	10,940
2004	10,610
2005	10,280
2006	9,950
2007-2011	44,800
2012-2016	54,570
Total	<u>152,420</u>
Less Interest	57,420
Outstanding Principal	<u>\$ 95,000</u>

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

NOTE 12: CLAIMS AND JUDGMENTS

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

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

NOTE 13: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2001, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Description</u>	<u>Deductible</u>
Ohio Casualty Ins. Co.	Bond-Public Employees	\$ 0
National Casualty Co.	Public Officials Liability	\$ 5,000
National Casualty Co.	Law Enforcement Liability	\$ 5,000
Wichert Insurance	Commercial Property	\$ 1,000
Wichert Insurance	Inland Marine	\$ 500
Wichert Insurance	Automobile Liability	\$ 250
Wichert Insurance	Automobile Collision	\$ 500
Wichert Insurance	General Liability	\$ 2,500
	\$1,000,000 per occurrence	
	\$2,000,000 aggregate	
Wichert Insurance	Umbrella Liability	\$ 10,000
Ohio Casualty Ins. Co.	Bond-Finance Director	\$ 0
Ohio Casualty Ins. Co.	Bond - Mayor	\$ 0
Ohio Casualty Ins. Co.	Bond - Administrator	\$ 0
Ohio Casualty Ins. Co.	Bond - Clerk of Mayor's Court	\$ 0
Wichert Insurance	Commercial Crime	\$ 0
Wichert Insurance	Ambulance and EMT Liability	\$ 0
	\$1,000,000 per occurrence	
	\$2,000,000 aggregate	
Wichert Insurance	Firemen's Errors and Omissions	\$ 0
	\$1,000,000 per occurrence	
	\$2,000,000 aggregate	

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

NOTE 13: RISK MANAGEMENT

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

At December 31, the amount of these liabilities was \$62,738. This liability is the City's best estimate based on available information. Changes in the reported liability since December 31, 2001 resulted from the following:

	<u>Beginning of Fiscal Year Liability</u>	<u>Current- Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
2000	\$ 14,841	\$ 343,261	\$(295,364)	\$ 62,738
2001	\$ 62,738	\$ 463,803	\$(463,803)	\$ 62,738

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

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

CITY OF NORTON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(CONTINUED)

NOTE 14: **OPERATING TRANSFERS**

Following is a summary of operating transfers in and out for all funds for 2001.

	<u>Transfers In</u>	<u>Transfers Out</u>
<u>General Fund</u>	\$ 75,000	\$1,384,994
<u>Special Revenue Funds</u>		
Street Construction, Maintenance, and Repair	250,000	0
Special Permissive License Plate Tax	0	205,500
Street Lighting	12,000	0
Fire Fund	0	83,500
Emergency Medical Service Fund	0	20,000
Police and Fire Liability Pension Fund	0	65,189
Mayor's Court Computer Technology Program	0	25,000
Community Development Block Grant	0	127,713
Total Special Revenue Funds	262,000	526,902
<u>Debt Service Fund</u>		
General Debt Service Fund	0	129,596
Total Debt Service Fund	0	129,596
<u>Capital Projects Funds</u>		
Land Improvements	63,107	0
Equipment Fund	672,670	0
Streets/Highways/Bridges	584,965	0
Sanitary Sewer Funds	383,750	0
Total Capital Projects Funds	1,704,492	0
Total All Funds	\$ 2,041,492	\$ 2,041,492

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

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

We have audited the general purpose financial statements of the City of Norton, Ohio, (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated March 13, 2003. The City adopted Governmental Accounting Standards Board Statements No. 33 and 36 for the year ended December 31, 2001, as described in Note 2 of the general purpose financial statements. We conducted our audit in accordance with auditing standard 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 of Norton's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. The results of our tests disclosed immaterial instances of noncompliance that are required to be reported under Government Auditing Standards, which we have reported to the management of the City of Norton, Ohio in a separate letter dated March 13, 2003.

Internal Control Over Compliance

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated March 13, 2003.

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

March 13, 2003

James G. Zupka
Certified Public Accountant



**Auditor of State
Betty Montgomery**

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CITY OF NORTON

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 8, 2003**