



**CITY OF WARRENSVILLE HEIGHTS  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

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



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

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**STATE OF OHIO**



**CITY OF WARRENSVILLE HEIGHTS  
CUYAHOGA COUNTY**

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**STATE OF OHIO  
OFFICE OF THE AUDITOR**

**JIM PETRO, AUDITOR OF STATE**

Lausche Bldg  
615 W Superior Ave  
Floor 12  
Cleveland OH 44113 - 1801  
Telephone 216-787-3665  
800-626-2297  
Facsimile 216-787-3361  
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS**

City of Warrensville Heights  
Cuyahoga County  
4301 Warrensville Center Road  
Warrensville Heights, Ohio 44128

To the Members of City Council:

We have audited the accompanying general-purpose financial statements of the City of Warrensville Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

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

As described in Note 2C to the general purpose financial statements, during 2001 the City restated the beginning fund balances for several funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2002 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

**Jim Petro**  
Auditor of State

August 16, 2002

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

	Governmental Fund Types				Fiduciary Fund Type Agency	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		General Fixed Assets	General Long-Term Obligations	
	<b>Assets and Other Debits</b>							
Cash and Cash Equivalents	\$ 203,394	\$ 315,218	\$ 31,919	\$ 152,771	\$ 59,486	\$ 0	\$ 0	\$ 762,788
Cash in Segregated Accounts	0	0	0	0	26,992	0	0	26,992
Receivables:								
Taxes	4,234,465	940,376	709,973	0	0	0	0	5,884,814
Accounts	319,746	0	0	0	0	0	0	319,746
Special Assessments	0	0	297,593	0	0	0	0	297,593
Accrued Interest	0	0	0	0	0	0	0	0
Due from Other Funds	155,670	0	0	0	0	0	0	155,670
Due from Other Governments	520,930	335,261	21,445	0	0	0	0	877,636
Inventory	46,608	0	0	0	0	0	0	46,608
Prepaid Items	49,490	0	0	0	0	0	0	49,490
Fixed Assets	0	0	0	0	0	6,664,369	0	6,664,369
Other Debits:								
Amount Available in Debt Service Funds	0	0	0	0	0	0	64,764	64,764
Amount to be Provided for Lease Payments	0	0	0	0	0	0	1,198,536	1,198,536
Amount to be Provided for Retirement of General Long- Term Obligations	0	0	0	0	0	0	8,053,808	8,053,808
Total Assets and Other Debits	<u>\$ 5,530,303</u>	<u>\$ 1,590,855</u>	<u>\$ 1,060,930</u>	<u>\$ 152,771</u>	<u>\$ 86,478</u>	<u>\$ 6,664,369</u>	<u>\$ 9,317,108</u>	<u>\$ 24,402,814</u>

The accompanying notes are an integral part of these financial statements.

CITY OF WARRENSVILLE HEIGHTS, OHIO  
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
 DECEMBER 31, 2001  
 (CONTINUED)

	Governmental Fund Types				Fiduciary Fund Type Agency	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		General Fixed Assets	General Long-Term Obligations	
<b>Liabilities, Fund Equity, and Other Credits</b>								
Liabilities:								
Accounts Payable	\$ 163,584	\$ 26,077	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 189,661
Contracts Payable	0	151,277	0	25,344	0	0	0	176,621
Accrued Wages & Benefits 64,626		64,626	0	0	0	0	0	0
Due to Other Funds	0	155,670	0	0	0	0	0	155,670
Due to Other Governments	41,255	0	0	0	70,007	0	323,261	434,523
Due to Others	0	0	0	0	16,471	0	0	16,471
Deferred Revenue	3,252,592	1,108,736	996,166	0	0	0	0	5,357,494
General Obligation Bonds Payable	0	0	0	0	0	0	5,379,819	5,379,819
Capital Lease Commitment Payable	0	0	0	0	0	0	1,198,536	1,198,536
Special Assessment Bonds Payable	0	0	0	0	0	0	1,290,181	1,290,181
Compensated Absences Payable	77,579	0	0	0	0	0	1,125,311	1,202,890
<b>Total Liabilities</b>	<b>3,599,636</b>	<b>1,441,760</b>	<b>996,166</b>	<b>25,344</b>	<b>86,478</b>	<b>0</b>	<b>9,317,108</b>	<b>15,466,492</b>
Fund Equity and Other Credits:								
Investment in General Fixed Assets	0	0	0	0	0	6,664,369	0	6,664,369
Fund Balances								
Reserved for Encumbrances	26,335	7,065	0	0	0	0	0	33,400
Reserved for Inventory	46,608	0	0	0	0	0	0	46,608
Reserved for Prepaid Items	49,490	0	0	0	0	0	0	49,490
Reserved for Debt Service	0	0	321,415	0	0	0	0	321,415
Unreserved:								
Undesignated	1,808,234	142,030	(256,651)	127,427	0	0	0	1,821,040
<b>Total Fund Equity and Other Credits</b>	<b>1,930,667</b>	<b>149,095</b>	<b>64,764</b>	<b>127,427</b>	<b>0</b>	<b>6,664,369</b>	<b>0</b>	<b>8,936,322</b>
<b>Total Liabilities, Fund Equity, and Other Credits</b>	<b>\$ 5,530,303</b>	<b>\$ 1,590,855</b>	<b>\$ 1,060,930</b>	<b>\$ 152,771</b>	<b>\$ 86,478</b>	<b>\$ 6,664,369</b>	<b>\$ 9,317,108</b>	<b>\$ 24,402,814</b>

The accompanying notes are an integral part of these financial statements.



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

	Governmental Fund Types				Totals (Memorandum)
	General	Special Revenue	Debt Service	Capital Projects	
<b>Revenues</b>					
Local Income Tax	\$ 8,761,300	\$ 0	\$ 0	\$ 0	\$ 8,761,300
Property Tax	992,102	613,715	533,255	0	2,139,072
Other Taxes	15,644	0	0	0	15,644
Intergovernmental	1,421,909	844,002	26,672	0	2,292,583
Special Assessments	0	0	255,733	0	255,733
Interest	117,874	3,096	0	0	120,970
Fines, Licenses, and Permits	360,992	0	0	0	360,992
Charges for Services	297,684	740	0	0	298,424
Miscellaneous	435,145	51,391	840	33	487,409
<b>Total Revenues</b>	<u>12,402,650</u>	<u>1,512,944</u>	<u>816,500</u>	<u>33</u>	<u>14,732,127</u>
<b>Expenditures</b>					
Current					
Security of Persons & Property	6,206,449	903,723	0	0	7,110,172
Public Health Services	46,448	42,048	0	0	88,496
Leisure Time Activities	131,235	24,598	0	0	155,833
Community Environment	793,769	214,945	0	0	1,008,714
Basic Utilities	1,236,255	0	0	0	1,236,255
Transportation	100,261	407,180	0	0	507,441
General Government	3,567,560	156,736	3,691	0	3,727,987
Capital Outlay	0	0	0	695,966	695,966
Debt Service					
Principal Retirement	0	0	740,000	0	740,000
Interest and Fiscal Charges	0	0	416,929	0	416,929
<b>Total Expenditures</b>	<u>12,081,977</u>	<u>1,749,230</u>	<u>1,160,620</u>	<u>695,966</u>	<u>15,687,793</u>
Excess (Deficiency) of Revenues Over(Under) Expenditures	320,673	(236,286)	(344,120)	(695,933)	(955,666)
<b>Other Financing Sources (Uses)</b>					
Proceeds from Sale of Assets	2,630	0	0	0	2,630
Transfers In	73,323	12,810	402,468	186,731	675,332
Transfers Out	(377,010)	(73,322)	0	(225,000)	(675,332)
<b>Total Other Financing Sources (Uses)</b>	<u>(301,057)</u>	<u>(60,512)</u>	<u>402,468</u>	<u>(38,269)</u>	<u>2,630</u>
Excess (Deficiency) of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	19,616	(296,798)	58,348	(734,202)	(953,036)
Increase in Reserve for Inventory	10,577	0	0	0	10,577
Fund Balances at Beginning of Year, as Restated	1,900,474	445,893	6,416	861,629	3,214,412
<b>Fund Balance at End of Year</b>	<u><u>\$ 1,930,667</u></u>	<u><u>\$ 149,095</u></u>	<u><u>\$ 64,764</u></u>	<u><u>\$ 127,427</u></u>	<u><u>\$ 2,271,953</u></u>

The accompanying notes are an integral part of these financial statements.

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

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>						
Local Taxes - Income Taxes	\$ 8,820,000	\$ 8,822,665	\$ 2,665	\$ 0	\$ 0	\$ 0
Local Taxes - Property Taxes	1,022,792	992,102	(30,690)	736,392	613,715	(122,677)
Other Taxes	8,500	15,644	7,144	0	0	0
Intergovernmental Revenues	1,410,172	1,413,105	2,933	810,691	774,164	(36,527)
Special Assessments	0	0	0	0	0	0
Charges for Services	298,111	302,104	3,993	0	740	740
Fines, Licenses, and Permits	488,499	386,840	(101,659)	0	0	0
Interest Income	119,010	119,254	244	0	3,096	3,096
Miscellaneous	370,323	388,842	18,519	135,946	52,270	(83,676)
<b>Total Revenues</b>	<u>12,537,407</u>	<u>12,440,556</u>	<u>(96,851)</u>	<u>1,683,029</u>	<u>1,443,985</u>	<u>(239,044)</u>
<b>Expenditures</b>						
Current						
Security of Persons & Property	6,323,801	6,251,640	72,161	1,078,380	902,568	175,812
Public Health and Welfare	46,448	46,448	0	58,492	43,419	15,073
Leisure Time Activities	136,232	127,083	9,149	25,020	22,027	2,993
Community Environment	849,236	822,207	27,029	605,208	207,314	397,894
Basic Utility Services	1,239,007	1,238,712	295	0	0	0
Transportation	112,534	112,528	6	446,091	435,113	10,978
General Government	3,748,609	3,566,486	182,123	0	0	0
Capital Outlay	0	0	0	1,153	0	1,153
Debt Service						
Principal Retirement	0	0	0	0	0	0
Interest and Other Charges	0	0	0	0	0	0
<b>Total Expenditures</b>	<u>12,455,867</u>	<u>12,165,104</u>	<u>290,763</u>	<u>2,214,344</u>	<u>1,610,441</u>	<u>603,903</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	81,540	275,452	193,912	(531,315)	(166,456)	364,859
<b>Other Financing Sources (Uses)</b>						
Sale of Fixed Assets	2,630	2,630	0	0	0	0
Transfers In	100,000	73,323	(26,677)	0	12,810	12,810
Transfers Out	(410,731)	(377,010)	33,721	(19,874)	(73,322)	(53,448)
Advances In	0	0	0	75,087	29,187	(45,900)
Advances Out	0	(29,187)	(29,187)	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<u>(308,101)</u>	<u>(330,244)</u>	<u>(22,143)</u>	<u>55,213</u>	<u>(31,325)</u>	<u>(86,538)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	(226,561)	(54,792)	171,769	(476,102)	(197,781)	278,321
Fund Cash Balance at Beginning of Year, as Restated	145,900	145,900	0	494,243	494,243	0
Prior Year Encumbrances Reappropriated	131,389	131,389	0	11,685	11,685	0
<b>Fund Cash Balance at End of Year</b>	<u>\$ 50,728</u>	<u>\$ 222,497</u>	<u>\$ 171,769</u>	<u>\$ 29,826</u>	<u>\$ 308,147</u>	<u>\$ 278,321</u>

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

	Debt Service Funds			Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>						
Local Taxes - Income Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Local Taxes - Property Taxes	516,211	533,255	17,044	0	0	0
Other Taxes	0	0	0	0	0	0
Intergovernmental Revenues	48,000	26,672	(21,328)	0	0	0
Special Assessments	213,532	222,888	9,356	0	0	0
Charges for Services	0	0	0	0	0	0
Fines, Licenses, and Permits	0	0	0	0	0	0
Interest Income	0	0	0	0	0	0
Miscellaneous	0	840	840	25,000	33	(24,967)
<b>Total Revenues</b>	<u>777,743</u>	<u>783,655</u>	<u>5,912</u>	<u>25,000</u>	<u>33</u>	<u>(24,967)</u>
<b>Expenditures</b>						
Current						
Security of Persons and Property	0	0	0	0	0	0
Public Health and Welfare	0	0	0	0	0	0
Leisure Time Activities	0	0	0	0	0	0
Community Environment	0	0	0	0	0	0
Basic Utility Services	0	0	0	0	0	0
Transportation	0	0	0	0	0	0
General Government	4,000	3,691	309	0	0	0
Capital Outlay	0	0	0	925,983	748,214	177,769
Debt Service						
Principal Retirement	740,071	740,000	71	0	0	0
Interest and Other Charges	416,929	416,929	0	0	0	0
<b>Total Expenditures</b>	<u>1,161,000</u>	<u>1,160,620</u>	<u>380</u>	<u>925,983</u>	<u>748,214</u>	<u>177,769</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(383,257)</u>	<u>(376,965)</u>	<u>6,292</u>	<u>(900,983)</u>	<u>(748,181)</u>	<u>152,802</u>
<b>Other Financing Sources (Uses)</b>						
Sale of Fixed Assets	0	0	0	0	0	0
Transfers In	402,468	402,468	0	186,731	186,731	0
Transfers Out	0	0	0	(225,000)	(225,000)	0
Advances In	0	0	0	0	0	0
Advances Out	0	0	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<u>402,468</u>	<u>402,468</u>	<u>0</u>	<u>(38,269)</u>	<u>(38,269)</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	19,211	25,503	6,292	(939,252)	(786,450)	152,802
Fund Cash Balance at Beginning of Year, as Restated	6,416	6,416	0	939,252	939,252	0
Prior Year Encumbrances Reappropriated	0	0	0	0	0	0
<b>Fund Cash Balance at End of Year</b>	<u>\$ 25,627</u>	<u>\$ 31,919</u>	<u>\$ 6,292</u>	<u>\$ 0</u>	<u>\$ 152,802</u>	<u>\$ 152,802</u>

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

	<u>Totals (Memorandum Only)</u>		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Local Taxes - Income Taxes	\$ 8,820,000	\$ 8,822,665	\$ 2,665
Local Taxes - Property Taxes	2,275,395	2,139,072	(136,323)
Other Taxes	8,500	15,644	7,144
Intergovernmental Revenues	2,268,863	2,213,941	(54,922)
Special Assessments	213,532	222,888	9,356
Charges for Services	298,111	302,844	4,733
Fines, Licenses, and Permits	488,499	386,840	(101,659)
Interest Income	119,010	122,350	3,340
Miscellaneous	531,269	441,985	(89,284)
<b>Total Revenues</b>	<u>15,023,179</u>	<u>14,668,229</u>	<u>(354,950)</u>
<b>Expenditures</b>			
Current			
Security of Persons and Property	7,402,181	7,154,208	247,973
Public Health and Welfare	104,940	89,867	15,073
Leisure Time Activities	161,252	149,110	12,142
Community Environment	1,454,444	1,029,521	424,923
Basic Utility Services	1,239,007	1,238,712	295
Transportation	558,625	547,641	10,984
General Government	3,752,609	3,570,177	182,432
Capital Outlay	927,136	748,214	178,922
Debt Service			
Principal Retirement	740,071	740,000	71
Interest and Other Charges	416,929	416,929	0
<b>Total Expenditures</b>	<u>16,757,194</u>	<u>15,684,379</u>	<u>1,072,815</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,734,015)</u>	<u>(1,016,150)</u>	<u>717,865</u>
<b>Other Financing Sources (Uses)</b>			
Sale of Fixed Assets	2,630	2,630	0
Transfers In	689,199	675,332	(13,867)
Transfers Out	(655,605)	(675,332)	(19,727)
Advances In	75,087	29,187	(45,900)
Advances Out	0	(29,187)	(29,187)
<b>Total Other Financing Sources (Uses)</b>	<u>111,311</u>	<u>2,630</u>	<u>(108,681)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	<u>(1,622,704)</u>	<u>(1,013,520)</u>	<u>609,184</u>
Fund Cash Balance at Beginning of Year, as Restated	1,585,811	1,585,811	0
Prior Year Encumbrances Reappropriated	143,074	143,074	0
<b>Fund Cash Balance at End of Year</b>	<u><u>\$ 106,181</u></u>	<u><u>\$ 715,365</u></u>	<u><u>\$ 609,184</u></u>

**CITY OF WARRENSVILLE HEIGHTS, OHIO  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. **Description of the Entity**

**The City**

The City of Warrensville Heights, Ohio (the “City”) operates under a Council-Mayor form of government. Elected officials include seven council members and a Mayor. The City provides the following services as authorized by its charter that was adopted May 6, 1958: public safety, highway and streets, parks and recreation, and public improvements.

**Reporting Entity**

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 financially 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, parks and recreation, health, certain social services, and general administrative services.

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND 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. The City uses the following fund categories, fund types, and account groups:

**Governmental Funds**

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

**General Fund** - the general operating fund of the City; used to account for all revenues and expenditures 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 the State of Ohio.

**Special Revenue Funds** - used to account for revenue from specific sources (other than major capital projects) which require separate accounting because of legal restrictions requiring that expenditures be 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.

**Capital Projects Funds** - used to account for revenues and expenditures related to the acquisition or construction of major capital facilities and to account for the financing of public improvements or services deemed to benefit specific properties against which assessments are levied.

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

***Fiduciary Funds***

*Agency Funds* - used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. The City has no trust funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

***Account Groups***

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* - used to account for capital assets used in general government operations with a useful life of greater than one year.

*General Long-Term Obligations Account Group* - used to account for all long-term obligations of the City. These obligations are secured by the credit of the City as a whole and are payable from general government resources or assessments against property owners.

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 WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND 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 in Note 5.

D. **Budgetary Accounting**

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 WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Accounting** (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 of Warrensville Heights. Budgetary modifications may only be made by ordinance of the City Council.

The City's budgetary process is as follows:

*Budget* - A tax budget of estimated revenue 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. A proposed budget of estimated revenues and expenditures is submitted by the Mayor to members of City Council of the City by November 15 of each year for the period January 1 to December 31 of the following year.

*Estimated Resources* - The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. On or about January 1, the 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 any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources.

*Appropriations* - A temporary appropriation measure to control disbursements may be passed on or about January 1 of each year for the period from January 1 to March 31. The annual appropriations ordinance must be passed by April 1 and may be amended or supplemented during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. Appropriations may not exceed the estimated resources.

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Budgetary Accounting** (Continued)

*Budgeted Level of Expenditures* - The City is required by Ohio law to establish annual appropriations for all necessary funds. These appropriations distinguish the personal services and other costs for every division and expenditures may not legally exceed the amount appropriated at this level.

*Encumbrances* - The City is required to use, by Ohio law, the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditures of funds are recorded in order to reserve a portion of the applicable appropriation.

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

*Budgetary Basis of Accounting*

The City's budget (budget basis) accounts for certain transactions are on a basis which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and GAAP basis are that:

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

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**D. Budgetary Accounting** (Continued)

A reconciliation of the results of operations for the year from the GAAP basis to the budgetary basis for governmental fund types is as follows:

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses				
-----				
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds
GAAP Basis	\$ 19,616	\$ (296,798)	\$ 58,348	\$ (734,202)
Increase (Decrease) Due to:				
Revenue Accruals	37,906	(39,772)	(32,845)	0
Expenditures Accruals	(85,979)	145,854	0	(52,248)
Encumbrances Outstanding	(26,335)	(7,065)	0	0
Budgetary Basis	<u>\$ (54,792)</u>	<u>\$ (197,781)</u>	<u>\$ 25,503</u>	<u>\$ (786,450)</u>

**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 the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During 2001, the portfolio of the City was limited to nonparticipating interest-earning investment contracts (e.g., repurchase agreements) and State Treasurer's Asset Reserve of Ohio (STAROhio). Nonparticipating investments contracts such as non-negotiable certificates of deposit and repurchase agreements are reported at cost.

The City also invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2001. STAROhio is an investment pool managed by the State Treasurer's 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, 2001.

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. **Cash and Cash Equivalents** (Continued)

The City's policy is to hold investments until maturity.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City's treasury.

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

F. **Fixed Assets**

Fixed assets include land and land improvements, buildings, structures and improvements, machinery and vehicles under capital leases, vehicles and machinery and equipment owned by the City. Infrastructure, including street, bridges, lighting systems, sewer lines, and sidewalks are not included.

Fixed assets acquired or constructed for general governmental purposes are reported as expenditures in the fund that finances the asset acquisition and are capitalized in the general fixed assets account group. The City's capitalization threshold is \$500.

All purchased fixed assets are recorded at historical cost or estimated historical cost if actual cost information is not available. All donated fixed assets are recorded at estimated fair market value at time of donation.

G. **Depreciation**

No depreciation is provided on general fixed assets.

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**H. Encumbrances**

As part of formal budgetary control over all funds, purchase orders, contracts, and other commitments for expenditures are encumbered and reported as expenditures on the non-GAAP budget basis in order to reserve that portion of the applicable appropriation. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balance since they do not represent expenditures or liabilities of the City.

**I. Grants and Other Intergovernmental Revenues**

State grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Amounts received in excess of expenditures are reflected as deferred revenue.

**J. Interfund Transactions**

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. Operating subsidies are recorded as operating transfers.

**K. Inventories**

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

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**L. Compensated Absences**

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the general long-term obligations account group.

**M. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2001 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. Prepaid items 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.

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 1: **DESCRIPTION OF REPORTING ENTITY, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

N. **Long-Term Obligations**

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

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

O. **Reservations of Fund Balance**

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

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

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

**CITY OF WARRENSVILLE HEIGHTS, OHIO  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2001  
 (CONTINUED)**

**NOTE 2: COMPLIANCE AND ACCOUNTABILITY**

**A. Fund Deficits**

The following funds had deficit fund balances at December 31, 2001:

<u>Fund</u>	<u>Deficit</u>
Special Revenue:	
Police Levy	\$ 769
Street Lighting	133,145
Master Plan	15,559
Exterior Maintenance	70,819
CDBG Paint Program	11,636
Exterior Maintenance 2001	2,869
Sidewalk Replacement	4,541

The fund deficits in the special revenue funds result from the recognition of expenditures on the modified accrual basis of accounting that are greater than expenditures recognized on the budgetary basis.

**B. Change in Accounting Principle**

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.

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. The implementation of these statements, while not material, resulted in a restatement in the following fund:



**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

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

**B. Change in Accounting Principle** (Continued)

<u>Special Revenue Fund</u>	
Fund Balance as of December 31, 2000	\$ 381,881
Gasoline Tax	5,133
Auto Registration	7,349
Restated Fund Balance, December 31, 2000	<u>\$ 394,363</u>

**C. Restatement of Fund Balances**

The prior year financial statement overstated the fund balances in the general fund and debt service fund and understated the fund balances in the special revenue fund and the capital projects fund. This was due to posting errors that occurred prior to calendar year 2000 which were not detected and subsequently carried forward each year. As a result, prior year fund balances for these funds were restated as follows:

<u>General Fund</u>	
Fund Balance as of December 31, 2000	\$ 1,954,583
Cash	(54,109)
Restated Fund Balance, December 31, 2000	<u>\$ 1,900,474</u>
<u>Special Revenue Fund</u>	
Fund Balance as of December 31, 2000 (See Note 2B)	\$ 394,363
Cash	51,530
Restated Fund Balance, December 31, 2000	<u>\$ 445,893</u>
<u>Debt Service Fund</u>	
Fund Cash Balance as of December 31, 2000	\$ 321,415
Cash	(314,999)
Restated Fund Balance, December 31, 2000	<u>\$ 6,416</u>
<u>Capital Projects Fund</u>	
Fund Cash Balance as of December 31, 2000	\$ 788,125
Cash	73,504
Restated Fund Balance, December 31, 2000	<u>\$ 861,629</u>

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

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

**D. Fund Deficit**

Ohio Revised Code Section 5705.10 provides that money paid into any fund shall be used only for the purposes for which such fund is established. As of December 31, 2001 the Special Revenue Exterior Maintenance 2001 Fund had a negative cash fund balance of \$52,869. This deficit balance indicates that money from other funds was used to pay expenditures for this fund. The deficit resulted from the grant reimbursement not being received prior to year end.

NOTE 3: **CASH, CASH EQUIVALENTS, 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 funds are public deposits that the City has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as a security for repayment, by surety company bonds deposited with the Treasurer of 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.

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of 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, 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 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 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;
5. No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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

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

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

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

The following information classifies deposits and investments by categories of risk, as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*.

A. **Deposits**

At year end, the carrying amount of the City's deposits was \$375,145 and the bank balance was \$390,470. \$340,238 of the bank balance was covered by federal depository insurance and \$50,232 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the City's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

B. **Investments**

GASB Statement No. 3 requires the City's investments be categorized to give an indication of the level of risk assumed by the City at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. The City invested in the State

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
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**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

B. **Investments** (Continued)

Treasury Asset Reserve of Ohio (STAROhio) during the 2001 fiscal year. STAROhio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

Investments (as defined by GASB 3) as of December 31, 2001 were as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
Repurchase Agreement (Category 3)	\$ 183,071	\$ 183,071
STAROhio (uncategorized)	231,564	231,564
Total Investments	<u>\$ 414,635</u>	<u>\$ 414,635</u>

STAROhio is not categorized since those investments are not evidenced by securities that exist in physical or book entry form.

The investments are carried at cost except STAROhio, which is carried at fair value.

C. **Reconciliation of Cash, Cash Equivalents, and Investments**

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. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash &amp; Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 789,780	\$ 0
Investments:		
Repurchase Agreement	(183,071)	183,071
STAROhio	(231,564)	231,564
GASB Statement No. 3	<u>\$ 375,145</u>	<u>\$ 414,635</u>

**CITY OF WARRENSVILLE HEIGHTS, OHIO  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(CONTINUED)**

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

C. **Reconciliation of Cash, Cash Equivalents, and Investments** (Continued)

The City maintains a cash pool that is available for use by all funds and accounts except for the Deputy Clerk of Courts fund, and Compliant Trust fund, which are maintained separately.

NOTE 4: **FIXED ASSETS**

A summary of changes in general fixed assets follows:

	Balance January 1, <u>2001</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2001</u>
Land and Land Improvements	\$ 234,033	\$ 0	\$ 0	\$ 234,033
Buildings, Structures, and Improvements	1,825,192	0	0	1,825,192
Furniture and Fixtures	385,932	64,009	0	449,941
Machinery and Equipment	1,253,096	19,634	0	1,272,730
Vehicles	2,687,503	282,207	87,237	2,882,473
Total	<u>\$ 6,385,756</u>	<u>\$ 365,850</u>	<u>\$ 87,237</u>	<u>\$ 6,664,369</u>

NOTE 5: **INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances at December 31, 2001 consist of the following:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payables</u>
General Fund	\$ 155,670	\$ 0
Special Revenue Funds: EMS Training	0	11,376
Special Revenue Funds: Community Navigator	0	3,100
Special Revenue Funds: Sidewalk Repair	0	13,711
Special Revenue Funds: Master Plan	0	19,028
Special Revenue Funds: CDBG Paint Program	0	11,636
Special Revenue Funds: Exterior Maintenance	0	70,819
Special Revenue Funds: SCMR	0	26,000
	<u>\$ 155,670</u>	<u>\$ 155,670</u>

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 6: **DUE FROM OTHER GOVERNMENTS**

A summary of the principal items of Due from Other Governments follows:

<u>Fund</u>	<u>Amounts</u>
<b><u>General Fund</u></b>	
Local Government Support	\$ 477,605
Estate Taxes	3,830
Hotel/Motel Tax	599
Homestead/Rollback	38,896
Total General Fund	520,930
 <b><u>Special Revenue Fund</u></b>	
Auto Registration Tax	135,253
Gasoline Tax	45,156
Homestead/Rollback	28,406
Permissive Tax	2,089
Grants	124,357
Total Special Revenue Fund	335,261
 <b><u>Debt Service Fund</u></b>	
Homestead/Rollback	21,445
Total Debt Service Fund	21,445
 Total All Funds	 \$ 877,636

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 7: **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 PERS of Ohio to assist the City in complying with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employees*.

The City of Warrensville Heights 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-PERS (7377).

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 required contributions to the PERS of Ohio for the years ending December 31, 2001, 2000 and 1999 were \$433,567, \$331,398, and \$388,989, respectively, which were equal to the required contributions for each year. The full amount has been contributed for 2000 and 1999; 73 percent has been contributed for 2001 with the remainder being reported as a liability within the General Long-Term Obligation Account Group.

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



**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 7: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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 \$137,590.

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 investments 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.

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 adjustment,

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 7: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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 required contributions to the OP&F fund for the years ending December 31, 2001, 2000 and 1999 were \$396,660, \$387,984, and \$396,791 for police and \$452,512, \$469,613, and \$484,971 for firefighters, respectively. The full amount has been contributed for 2000 and 1999; 73 percent has been contributed for 2001 for police and 75 percent for fire, with the remainder being reported as a liability within the General Long-Term Obligations Account Group.

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.

The portion of the 2001 covered payroll that was used to fund postemployment health care benefits was \$29,750 representing 7.5 percent of covered payroll for police and \$33,938 representing 7.25 percent of covered payroll to fire. Health care funding and accounting was 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

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 7: **DEFINED BENEFIT PENSION PLANS** (Continued)

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

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 8: **LONG-TERM OBLIGATIONS**

Long-term obligations of the City, recorded in the General Long-Term Obligation Account Group, are as follows:

	Balance January 1, 2001	Additions	Retired	Balance December 31, 2001
<b><u>General Obligation Bonds</u></b>				
10-1-90 Various Purpose	\$ 96,085	\$ 0	\$ 6,266	\$ 89,819
10-1-90 Various Purpose	125,000	0	125,000	0
6-1-92 Various Purpose	1,575,000	0	90,000	1,485,000
6-1-92 Various Purpose	260,000	0	125,000	135,000
9-1-99 Various Purpose	3,945,000	0	275,000	3,670,000
Total General Obligation Bonds	<u>6,001,085</u>	<u>0</u>	<u>621,266</u>	<u>5,379,819</u>
<b><u>Special Assessment Bond</u></b>				
10-1-90 Various Purpose	593,915	0	38,734	555,181
10-1-88 Street Improvement	115,000	0	10,000	105,000
9-1-86 Street Improvement	230,000	0	40,000	190,000
6-1-92 Various Purpose	470,000	0	30,000	440,000
Total Special Assessment Bonds	<u>1,408,915</u>	<u>0</u>	<u>118,734</u>	<u>1,290,181</u>
<b><u>Other Obligations</u></b>				
Accrued Compensated Absences	1,127,753	0	2,442	1,125,311
Capital Leases	550,776	902,948	255,188	1,198,536
Due to Other Governments	277,630	323,261	277,630	323,261
Total Other Obligations	<u>1,956,159</u>	<u>1,226,209</u>	<u>535,260</u>	<u>2,647,108</u>
Total General Obligation Bonds and Other Obligations	<u>\$ 9,366,159</u>	<u>\$ 1,226,209</u>	<u>\$ 1,275,260</u>	<u>\$ 9,317,108</u>

**CITY OF WARRENSVILLE HEIGHTS, OHIO  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(CONTINUED)**

**NOTE 8: LONG-TERM OBLIGATIONS** (Continued)

Outstanding general obligation bonds consist of street improvements which are payable from proceeds received from the collection of City income tax.

Outstanding special assessment bonds consist of street and sewer improvements which are payable from the proceeds of tax assessments levied against individual property owners.

Capital leases will be paid from fund revenues in the general fund.

Accrued compensated absences and due to other governments will be paid by the fund from which the employee's salary is paid.

**Principal and Interest Requirements**

A summary of the City's future long-term debt requirements, including principal and interest payments as of December 31, 2001 follows:

<u>Years</u>	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>		<u>Totals</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2002	\$ 526,266	\$ 301,033	\$ 118,734	\$ 91,095	\$ 645,000	\$ 392,128
2003	426,963	277,722	128,037	82,807	555,000	360,529
2004	457,659	261,070	137,341	73,777	595,000	334,847
2005	482,659	243,164	132,341	64,088	615,000	307,252
2006	503,355	223,776	136,645	54,723	640,000	278,499
2007-2011	2,032,917	856,182	582,083	143,531	2,615,000	999,713
2012-2016	950,000	53,100	55,000	3,520	1,005,000	56,620
<b>Totals</b>	<b>\$5,379,819</b>	<b>\$2,216,047</b>	<b>\$1,290,181</b>	<b>\$ 513,541</b>	<b>\$6,670,000</b>	<b>\$2,729,588</b>

**NOTE 9: LEASE COMMITMENT**

**Capital Leases**

The City is obligated under fourteen leases which are accounted for as a capital lease, as defined by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*. The leased assets and related obligations are accounted for in the General Fixed Assets Account Group and the General Long-Term Debt Account Group. The following is a schedule by years of the future minimum lease payments for capital leases together with the present value of the net minimum lease payments as of December 31, 2001:

**CITY OF WARRENSVILLE HEIGHTS, OHIO  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2001  
 (CONTINUED)**

NOTE 9: **LEASE COMMITMENT** (Continued)

<b><u>Capital Leases</u></b>	
2002	\$ 254,166
2003	233,816
2004	220,576
2005	205,373
2006	197,517
2007	88,376
2008	88,376
2009	88,375
2010	88,377
Total Minimum Lease Payments	<u>1,464,952</u>
Less Amount Representing Interest	<u>266,416</u>
Present Value of Net Minimum Lease Payments	<u><u>\$1,198,536</u></u>

NOTE 10: **ACCRUED COMPENSATED ABSENCES**

City employees generally earn vacation ranging from two to five weeks based on length of service and sick leave of 5 days after six months and 1 1/4 days per month for continuous service. Vacation and sick leave accumulate on a monthly basis and are fully vested when earned. Normally, all vacation time is to be taken in the year available unless written approval for carryover of vacation is obtained. 760 hours of unused sick leave plus 336 hours of unused vacation leave is paid at retirement or death for administrative personnel. 320 hours of unused sick leave and the accumulated vacation leave is paid at retirement or death for the Police Department. The Fire Department can receive 360 hours of the first 960 hours or a percentage thereof for accumulated unused sick leave and accumulated vacation leave at the time of retirement or death.

In addition, employees of the City's Police and Fire departments can accumulate compensatory time for a portion of overtime hours worked generally based upon time and a half of hourly rates. Employees are entitled to receive payments in cash for their accumulated hours, up to 480 hours, upon retirement or termination from the City's payroll. Employees can also earn sick leave bonus which is granted to those employees who do not use any sick time during the preceding calendar year.

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 10: **ACCUMULATED UNPAID EMPLOYEE BENEFITS** (Continued)

A summary of employee benefit obligations (calculated in accordance with GASB Statement No. 16) at December 31, 2001 is as follows:

	<u>Government</u>
	<u>Fund Types</u>
Vacation	\$ 493,566
Sick Pay	631,745
	<u>\$1,125,311</u>
	<u>=====</u>

Government fund type liabilities are recorded in the General Long-Term Obligation Account Group. The liability above excludes the amount of \$57,462 which was paid within the available period, which is reflected as a fund liability in the general fund.

NOTE 11: **INCOME TAXES**

The City levies an income tax of 1.75 percent on gross salaries, wages, and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City.

Employers within the City are required to withhold income tax on employee compensation and remit this tax to an intermediary collection agency (Central Collection Agency) at least quarterly. Corporations and self-employed individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually with the collection agency. The collection agency remits tax collected for the City each month, net of a fee for their service. Income taxes are recorded in the general fund.

NOTE 12: **PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. The assessed value upon which the 2001 levy was based was approximately \$245.5 million (per the Cuyahoga County Auditor). Ohio law prohibits taxation of property from all taxing authorities in excess of 10 mills of assessed value without a vote of the people. A reevaluation of all property is required to be completed no less than every six years, with a statistical update every third year. The last reevaluation was completed in 1997.

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 12: **PROPERTY TAXES** (Continued)

Real property taxes, excluding public utility property, are all assessed at 35 percent of appraised market value. Pertinent real property tax dates are:

Collection Dates	January 20 and June 20 of the current year
Lien Date	January 1 of the year preceding the collection year
Levy Date	October 1 of the year preceding the collection year

Tangible personal property taxes are based on assessed value determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. For the collection year 2001, the percentage used to determine taxable value of personal property and inventory was 25 percent. Pertinent tangible personal property tax dates are:

Collection Dates	April 30 and September 30 of the current year
Lien Date	January 1 of the current year
Levy Date	October 1 of the year preceding the collection year

Public utility tangible personal property currently is assessed at 100 percent of its true value except for rural electric companies (50 percent) and railroads (25 percent). Pertinent public utility tangible personal property tax dates are:

Collection Dates	January 20 and June 20 of the current year
Lien Date	January 1 of the year preceding the collection year
Levy Date	October 1 of the year preceding the collection year

The County Treasurer collects personal property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the City its portion of the taxes collected.

The full property tax rate for all City operations for the year ended December 31, 2001 was \$13.20 per \$1,000 of assessed value. The assessed value upon which the 2001 tax receipts were based was \$245,333,065. This amount constitutes \$190,925,910 in real property assessed value, \$14,834,100 in public utility assessed value and \$39,573,055 in tangible personal property assessed value.

**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

NOTE 12: **PROPERTY TAXES** (Continued)

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes which are measurable at December 31, 2001. These taxes are intended to finance the next fiscal year's operations and are therefore offset by a credit to deferred revenue. Taxes receivable at December 31, 2001 amounted to \$1,287,695 in the general fund, \$940,376 in the special revenue funds, and \$709,972 in the debt service funds.

NOTE 13: **CONTINGENCIES AND COMMITMENTS**

The City is party to various legal proceedings. City management is of the opinion that ultimate settlement of such claims not covered by insurance will not result in a material adverse effect on the City's financial position.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being allowable expenditures under federal and state regulations. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial.

NOTE 14: **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, thefts 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>Type of Coverage</u>	<u>Deductible</u>
Speciality National Insurance Company	Commercial Crime Coverage	\$ 750
	Commercial General Liability	0
	(\$1,000,000 Aggregate/\$1,000,000 per occurrence)	
Insurance Company	Commercial Property & Contents	1,000
Insurance Company	Automobile Comprehensive	500
Insurance Company	Automobile Collision	500
Insurance Company	Public Officials Liability	5,000
Insurance Company	Law Enforcement Liability	5,000
Insurance Company	Commercial Inland Marine	1,000
Travelers Property Casualty	Boiler & Machinery	1,000



**CITY OF WARRENSVILLE HEIGHTS, OHIO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001**  
**(CONTINUED)**

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

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. 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.

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

NOTE 15: **SUBSEQUENT EVENT**

As of January 1, 2002, the City's income tax rate increased from 1.75 percent to 2 percent. This increase was passed by the City in May of 2001. This rate increase is expected to generate additional revenue of approximately \$975,600 annually.

An employee of the City of Warrensville Heights, filed a civil law suit against the City prior to 2002. In February of 2002, a judgment was rendered in favor of the employee in the amount of \$45,000. The City has appealed the judgment and the appeal is pending.

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

Lausche Bldg  
615 W Superior Ave  
Floor 12  
Cleveland OH 44113 - 1801  
Telephone 216-787-3665  
800-626-2297  
Facsimile 216-787-3361  
www.auditor.state.oh.us

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

City of Warrensville Heights  
Cuyahoga County  
4301 Warrensville Center Road  
Warrensville Heights, Ohio 44128

To the Members of City Council:

We have audited the financial statements of the City of Warrensville Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated August 16, 2002, in which we noted the City restated the beginning fund balances for several funds. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-20818-001. We also noted immaterial instances of noncompliance that we have reported to management in a separate letter dated August 16, 2002.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that did not require inclusion in this report, that we have reported to management of the City in a separate letter dated August 16, 2002.

City of Warrensville Heights  
Cuyahoga County  
Report on Compliance and on Internal Control Required by  
*Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

**Jim Petro**  
Auditor of State

August 16, 2002

**CITY OF WARRENSVILLE HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**NONCOMPLIANCE CITATIONS**

<b>Finding Number</b>	<b>2001-20818-001</b>
-----------------------	-----------------------

Ohio Revised Code §5705.41(D) states no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

This section also provides two exceptions to the above requirements:

- If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, City Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate (a then and now certificate), if such expenditure is otherwise valid.
- If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of City Council.

A test of expenditures disclosed that 51% of the purchase orders were dated after the invoice date and the instances noted did not fall within any exceptions to this Section. As a result, the City did not record a reservation of the applicable appropriation (encumber) at the time a commitment for the expenditure of funds was made and encumbrances were understated at year end. Failure to encumber commitments could result in deficit fund balances.

**CITY OF WARRENSVILLE HEIGHTS  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

Finding Number	Finding Summary	Fully Corrected	Not corrected, partially corrected, different corrective action taken; finding no longer valid; Explain
2000-20818-001	Ohio Rev. Code §5705.41(D), Finance Director did not certify the availability of funds for routine expenditures.	No	Same noncompliance issue being reported in the current audit.
2000-20818-002	Ohio Rev. Code §1901.31, and §1901.311 Waiver Bureau did not maintain a complete docket and maintain a general index.	No	Improvements made therefore issue was reported in the management letter.
2000-20818-003	Establishing written procedures in the Waiver Bureau for reconciling all activity with the Bedford Municipal Court and police department bond logs.	No	Improvements made therefore issue was reported in the management letter.



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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

**CITY OF WARRENSVILLE HEIGHTS**

**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  
SEPTEMBER 17, 2002**