

**CITY OF WARRENSVILLE HEIGHTS
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 1999-1998

**CITY OF WARRENSVILLE HEIGHTS
TABLE OF CONTENTS**

TITLE	PAGE
Report of Independent Accountants	1
Combined Balance Sheet - All Fund Types and Account Groups - For the Year Ended December 31, 1999	2
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types - For the Year Ended December 31, 1999	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types - For the Year Ended December 31, 1999	5
Notes to the Financial Statements - For the Year Ended December 31, 1999	8
Combined Balance Sheet - All Fund Types and Account Groups - For the Year Ended December 31, 1998	35
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types - For the Year Ended December 31, 1998	37
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types - For the Year Ended December 31, 1998	38
Notes to the Financial Statements - For the Year Ended December 31, 1998	41
Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	70
Schedule of Findings	72



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:

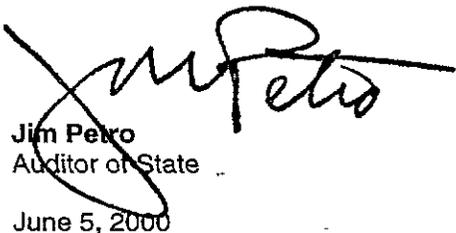
We have audited the accompanying general-purpose financial statements of the City of Warrensville Heights, Cuyahoga County, Ohio, (the City) as of and for the years ended December 31, 1999 and December 31, 1998, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 audits provide 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, 1999 and December 31, 1998, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

As described in Note 2 to the general-purpose financial statements, in 1998 the City changed its method of accounting for investments and its deferred compensation plan.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2000 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.


Jim Petro
Auditor of State
June 5, 2000

CITY OF WARRENSVILLE HEIGHTS, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 1999

	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	
Assets and Other Debits								
Cash and Cash Equivalents	\$ 550,990	\$ 340,646	\$ 478,282	\$ 1,824,863	\$ 25,290	\$ 0	\$ 0	\$ 3,220,071
Cash in Segregated Accounts	0	0	0	0	5,390	0	0	5,390
Receivables:								
Taxes	2,449,246	630,483	509,141	0	0	0	0	3,588,870
Accounts	73,607	1,458	0	0	29,471	0	0	104,536
Special Assessments	0	0	253,166	0	0	0	0	253,166
Accrued Interest	1,443	0	0	0	0	0	0	1,443
Due from Other Funds	37,636	0	0	0	0	0	0	37,636
Due from Other Governments	62,841	67,449	0	0	0	0	0	130,290
Inventory	25,335	0	0	0	0	0	0	25,335
Prepaid Items	43,686	0	0	0	0	0	0	43,686
Fixed Assets	0	0	0	0	0	6,426,389	0	6,426,389
Other Debits:								
Amount Available in Debt								
Service Funds	0	0	0	0	0	0	478,282	478,282
Amount to be Provided for								
Lease Payments	0	0	0	0	0	0	810,076	810,076
Amount to be Provided for								
Retirement of General Long-								
Term Obligations	0	0	0	0	0	0	9,187,170	9,187,170
Total Assets and Other Debits	\$ 3,244,784	\$ 1,040,036	\$ 1,240,589	\$ 1,824,863	\$ 60,151	\$ 6,426,389	\$ 10,475,528	\$ 24,312,340

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, 1999
 (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	
Liabilities, Fund Equity, and Other Credits								
Liabilities:								
Accounts Payable	\$ 365,471	\$ 18,488	\$ 0	\$ 0	\$ 29,572	\$ 0	\$ 0	\$ 413,531
Contracts Payable	0	0	0	478,867	0	0	0	478,867
Accrued Compensated Absences	189,172	0	0	0	0	0	1,286,892	1,476,064
Due to Other Funds	0	37,636	0	0	0	0	0	37,636
Due to Other Governments	16,579	492	0	0	15,361	0	318,568	351,000
Funds on Deposit	0	0	0	0	9,828	0	0	9,828
Undistributed Monies	0	0	0	0	5,390	0	0	5,390
Deferred Revenue	1,046,094	630,483	762,307	0	0	0	0	2,438,884
Capital Lease Obligation	0	0	0	0	0	0	810,076	810,076
General Obligation Bonds Payable	0	0	0	0	0	0	6,541,648	6,541,648
Special Assessment Bonds Payable	0	0	0	0	0	0	1,518,344	1,518,344
Total Liabilities	1,617,316	687,099	762,307	478,867	60,151	0	10,475,528	14,081,268
Fund Equity and Other Credits:								
Investment in General								
Fixed Assets	0	0	0	0	0	6,426,389	0	6,426,389
Fund Balances								
Reserved for Encumbrances	147,684	7,539	2,134	98,149	0	0	0	255,506
Reserved for Inventory	25,335	0	0	0	0	0	0	25,335
Reserved for Prepaid Items	43,686	0	0	0	0	0	0	43,686
Reserved for Debt Service	0	0	476,148	0	0	0	0	476,148
Unreserved:								
Undesignated	1,410,763	345,398	0	1,247,847	0	0	0	3,004,008
Total Fund Equity and Other Credits	1,627,468	352,937	478,282	1,345,996	0	6,426,389	0	10,231,072
Total Liabilities, Fund Equity, and Other Credits	\$ 3,244,784	\$ 1,040,036	\$ 1,240,589	\$ 1,824,863	\$ 60,151	\$ 6,426,389	\$ 10,475,528	\$ 24,312,340

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, 1999

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues					
Taxes	\$ 8,996,346	\$ 560,651	\$ 371,789	\$ 0	\$ 9,928,786
Intergovernmental	1,575,045	770,251	37,088	0	2,382,384
Special Assessments	0	0	224,128	0	224,128
Interest	82,824	717	0	17,388	100,929
Fines, Licenses, and Permits	309,540	1,458	0	0	310,998
Charges for Services	132,326	0	0	0	132,326
Miscellaneous	101,200	0	8,248	0	109,448
Total Revenues	11,197,281	1,333,077	641,253	17,388	13,188,999
Expenditures					
Current					
Security of Persons and Property	6,132,210	608,578	0	0	6,740,788
Public Health Services	23,230	0	0	0	23,230
Leisure Time Activities	230,122	0	0	0	230,122
Community Environment	531,688	89,572	0	0	621,260
Basic Utilities	795,318	6,390	0	0	801,708
Transportation	179,628	421,880	0	0	601,508
General Government	3,116,977	0	91,796	0	3,208,773
Capital Outlay	0	0	0	518,330	518,330
Debt Service					
Principal Retirement	235,809	71,810	2,590,000	0	2,897,619
Interest and Fiscal Charges	42,114	3,530	375,458	0	421,102
Total Expenditures	11,287,096	1,201,760	3,057,254	518,330	16,064,440
Excess (Deficiency) of Revenues Over(Under) Expenditures	(89,815)	131,317	(2,416,001)	(500,942)	(2,875,441)
Other Financing Sources (Uses)					
Proceeds from Sale of Assets	4,800	0	0	0	4,800
Proceeds from Sale of Bonds	0	0	2,330,000	1,825,000	4,155,000
Transfers In	0	61,363	244,377	0	305,740
Transfers Out	(305,740)	0	0	0	(305,740)
Total Other Financing Sources (Uses)	(300,940)	61,363	2,574,377	1,825,000	4,159,800
Excess (Deficiency) of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(390,755)	192,680	158,376	1,324,058	1,284,359
Fund Balances at Beginning of Year	2,018,223	160,257	319,906	21,938	2,520,324
Fund Balances at End of Year	\$ 1,627,468	\$ 352,937	\$ 478,282	\$ 1,345,996	\$ 3,804,683

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, 1999

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Local Taxes	\$ 9,389,469	\$ 9,135,029	\$ (254,440)	\$ 556,695	\$ 571,101	\$ 14,406
Intergovernmental	1,609,819	1,566,195	(43,624)	634,722	738,830	104,108
Special Assessments	0	0	0	0	0	0
Interest	89,856	87,421	(2,435)	659	717	58
Fines, Licenses, and Permits	305,755	297,470	(8,285)	0	0	0
Charges for Services	128,748	128,979	231	0	0	0
Miscellaneous	103,176	100,380	(2,796)	0	0	0
Total Revenues	11,626,823	11,315,474	(311,349)	1,192,076	1,310,648	118,572
Expenditures						
Current						
Security of Persons and Property	6,418,349	6,386,669	31,680	1,161,148	958,628	202,520
Public Health Services	25,120	26,698	(1,578)	0	0	0
Leisure Time Activities	238,083	234,922	3,161	0	0	0
Community Environment	598,507	575,527	22,980	4,194	0	4,194
Basic Utility Services	938,135	933,200	4,935	37,091	37,091	0
Transportation	167,265	166,557	708	513,244	423,263	89,981
General Government	3,280,917	3,160,714	120,203	0	0	0
Capital Outlay	0	0	0	0	0	0
Debt Service						
Principal Retirement	321,585	238,440	83,145	71,810	71,810	0
Interest and Other Charges	39,483	39,483	0	3,530	3,530	0
Total Expenditures	12,027,444	11,762,210	265,234	1,791,017	1,494,322	296,695
Excess (Deficiency) of Revenues Over (Under) Expenditures	(400,621)	(446,736)	(46,115)	(598,941)	(183,674)	415,267
Other Financing Sources (Uses)						
Proceeds from Sale of Assets	0	4,800	4,800	0	0	0
Proceeds from Sale of Bonds	0	0	0	0	0	0
Transfers In	0	0	0	52,500	61,363	8,863
Transfers Out	(300,950)	(305,740)	(4,790)	0	0	0
Total Other Financing Sources (Uses)	(300,950)	(300,940)	10	52,500	61,363	8,863
Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	(701,571)	(747,676)	(46,105)	(546,441)	(122,311)	424,130
Fund Cash Balance at Beginning of Year	540,502	540,502	0	429,816	429,816	0
Prior Year Encumbrances Reappropriated	499,490	499,490	0	25,071	25,071	0
Fund Cash Balance at End of Year	\$ 338,421	\$ 292,316	\$ (46,105)	\$ (91,554)	\$ 332,576	\$ 424,130

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, 1999

	<u>Debt Service Funds</u>			<u>Capital Projects Funds</u>		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Local Taxes	\$ 308,186	\$ 376,632	\$ 68,446	\$ 0	\$ 0	\$ 0
Intergovernmental	30,348	37,088	6,740	0	0	0
Special Assessments	183,397	224,128	40,731	0	0	0
Interest	0	0	0	0	17,388	17,388
Fines, Licenses, and Permits	0	0	0	0	0	0
Charges for Services	0	0	0	0	0	0
Miscellaneous	0	8,248	8,248	0	0	0
Total Revenues	<u>521,931</u>	<u>646,096</u>	<u>124,165</u>	<u>0</u>	<u>17,388</u>	<u>17,388</u>
Expenditures						
Current						
Security of Persons and Property	0	0	0	0	0	0
Public Health Services	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	91,796	93,930	(2,134)	0	0	0
Capital Outlay	0	0	0	1,943,280	297,596	1,645,684
Debt Service						
Principal Retirement	2,590,000	2,590,000	0	0	0	0
Interest and Other Charges	375,458	375,458	0	0	0	0
Total Expenditures	<u>3,057,254</u>	<u>3,059,388</u>	<u>(2,134)</u>	<u>1,943,280</u>	<u>297,596</u>	<u>1,645,684</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,535,323)</u>	<u>(2,413,292)</u>	<u>122,031</u>	<u>(1,943,280)</u>	<u>(280,208)</u>	<u>1,663,072</u>
Other Financing Sources (Uses)						
Proceeds from Sale of Assets	0	0	0	0	0	0
Proceeds from Sale of Bonds	2,330,000	2,330,000	0	1,825,000	1,825,000	0
Transfers In	244,377	244,377	0	0	0	0
Transfers Out	0	0	0	0	0	0
Total Other Financing Sources (Uses)	<u>2,574,377</u>	<u>2,574,377</u>	<u>0</u>	<u>1,825,000</u>	<u>1,825,000</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	39,054	161,085	122,031	(118,280)	1,544,792	1,663,072
Fund Cash Balance at Beginning of Year	315,064	315,064	0	92,498	92,498	0
Prior Year Encumbrances Appropriated	0	0	0	38,419	38,419	0
Fund Cash Balance at End of Year	<u>\$ 354,118</u>	<u>\$ 476,149</u>	<u>\$ 122,031</u>	<u>\$ 12,637</u>	<u>\$ 1,675,709</u>	<u>\$ 1,663,072</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, 1999

	<u>Totals (Memorandum Only)</u>		
	Revised <u>Budget</u>	Actual	Variance Favorable (Unfavorable)
Revenues			
Local Taxes	\$10,254,350	\$10,082,762	\$ (171,588)
Intergovernmental	2,274,889	2,342,113	67,224
Special Assessments	183,397	224,128	40,731
Interest	90,515	105,526	15,011
Fines, Licenses, and Permits	305,755	297,470	(8,285)
Charges for Services	128,748	128,979	231
Miscellaneous	103,176	108,628	5,452
Total Revenues	<u>13,340,830</u>	<u>13,289,606</u>	<u>(51,224)</u>
Expenditures			
Current			
Security of Persons and Property	7,579,497	7,345,297	234,200
Public Health Services	25,120	26,698	(1,578)
Leisure Time Activities	238,083	234,922	3,161
Community Environment	602,701	575,527	27,174
Basic Utility Services	975,226	970,291	4,935
Transportation	680,509	589,820	90,689
General Government	3,372,713	3,254,644	118,069
Capital Outlay	1,943,280	297,596	1,645,684
Debt Service			
Principal Retirement	2,983,395	2,900,250	83,145
Interest and Other Charges	418,471	418,471	0
Total Expenditures	<u>18,818,995</u>	<u>16,613,516</u>	<u>2,205,479</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5,478,165)</u>	<u>(3,323,910)</u>	<u>2,154,255</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Assets	0	4,800	4,800
Proceeds from Sale of Bonds	4,155,000	4,155,000	0
Transfers In	296,877	305,740	8,863
Transfers Out	(300,950)	(305,740)	(4,790)
Total Other Financing Sources (Uses)	<u>4,150,927</u>	<u>4,159,800</u>	<u>8,873</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	<u>(1,327,238)</u>	<u>835,890</u>	<u>2,163,128</u>
Fund Cash Balance at Beginning of Year	1,377,880	1,377,880	0
Prior Year Encumbrances Reappropriated	562,980	562,980	0
Fund Cash Balance at End of Year	<u>\$ 613,622</u>	<u>\$ 2,776,750</u>	<u>\$ 2,163,128</u>

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999

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, 1999, 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, 1999
(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, 1999
(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**

Governmental and fiduciary funds types are accounted for on the modified accrual basis of accounting. Under this basis revenues are recognized in the accounting period when they become both measurable and available to finance expenditures of the current period. The City uses 60 days as the measurable and available period. Revenue items, which are recognized before the related cash is received and are recorded as receivables, include income taxes arising from payroll tax withholding during the year, investment income, and reimbursable-type grants. Expenditures are recognized when the related fund liability is incurred, with the exception of accumulated unpaid employee compensation which is not payable from expendable financial resources and general long-term obligations principal and interest, which are recorded when due.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

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

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

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available, as they are collectible within the current period or soon enough thereafter to be used to pay obligations of the current period: investment earnings, special assessments due in the current year, income taxes withheld by employers and state-levied locally shared taxes (including motor vehicle fees).

Property taxes and special assessments (in the debt service funds), though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property tax and special assessment receivables are recorded and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded as expenditures when the related liability is incurred except for unmatured principal and interest on general long-term debt which are recognized when paid. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

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, 1999
(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, 1999
(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, 1999
 (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	\$ (390,755)	\$ 192,680	\$ 158,376	\$1,324,058
Increase (Decrease) Due to:				
Revenue Accruals	118,193	(22,429)	4,843	0
Expenditures Accruals	(216,441)	(284,494)	0	369,889
Encumbrances Outstanding	(258,673)	(8,068)	(2,134)	(149,155)
Budgetary Basis	\$ (747,676)	\$ (122,311)	\$ 161,085	\$1,544,792

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 1999, 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 1999. 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, 1999.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(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, 1999
(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 is recorded as an expenditure at the time inventory items are consumed (consumption method). 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, 1999
(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, 1999 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, 1999
(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, 1999
 (CONTINUED)

NOTE 2: **ACCOUNTABILITY AND COMPLIANCE**

Legal Compliance and Accountability

Section 5705.41(B), Ohio Revised Code, states that no subdivision shall make any expenditure of money unless it has been appropriated. Section 5705.41(D), Ohio Revised Code, states in part that encumbrances should be charged against proper appropriations and actual disbursements plus outstanding encumbrances should not be greater than the total appropriations. The following funds had appropriations in excess of actual disbursements plus encumbrances.

<u>Fund/Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Excess</u>
<u>General Fund</u>			
Public Health Services	\$ 25,120	\$ 26,698	\$ (1,578)
<u>Debt Service</u>			
General Government	91,796	93,930	(2,134)

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.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

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

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.

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

- 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;
- 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.
- 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;
- Bonds and other obligations of the State of Ohio;
- 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
- The State Treasurer's investment pool (STAROhio).

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

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

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

- Bonds of the State of Ohio;
- 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
- Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City and must be purchased with the expectation that it will be held 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 \$417,980 and the bank balance was \$628,785. \$360,000 of the bank balance was covered by federal depository insurance and \$268,785 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.

CITY OF WARRENSVILLE HEIGHTS, OHIO
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

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

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 Treasury Asset Reserve of Ohio (STAROhio) during the 1998-1999 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, 1999 were as follows:

	Carrying Value	Fair Value
Repurchase Agreement (Category 3)	\$2,101,938	\$2,101,938
STAROhio (uncategorized)	705,543	705,543
Total Investments	\$2,807,481	\$2,807,481

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

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:

CITY OF WARRENSVILLE HEIGHTS, OHIO
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

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

	Cash & Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$3,225,461	\$ 0
Investments:		
Repurchase Agreement	(2,101,938)	2,101,938
STAROhio	(705,543)	705,543
GASB Statement No. 3	\$ 417,980	\$2,807,481

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, 1999	Additions	Deletions	Balance December 31, 1999
Land and Land Improvements	\$ 234,033	\$ 0	\$ 0	\$ 234,033
Buildings, Structures, and Improvements	1,745,617	79,575	0	1,825,192
Furniture and Fixtures	376,185	9,747	0	385,932
Machinery and Equipment	903,112	249,458	0	1,152,570
Vehicles	2,724,671	201,752	97,761	2,828,662
Total	\$5,983,618	\$ 540,532	\$ 97,761	\$6,426,389

NOTE 5: **INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances at December 31, 1999 consist of the following:

Fund	Interfund Receivable	Interfund Payables
General Fund	\$ 37,636	\$ 0
Special Revenue Funds: CDBG - Paint Program	0	37,636
	\$ 37,636	\$ 37,636

CITY OF WARRENSVILLE HEIGHTS, OHIO
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (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>
<u>General Fund</u>	
Local Government Support	\$ 34,805
Estate Taxes	26,341
Hotel/Motel Tax	369
Liquor Permit	1,326
Total General Fund	62,841
<u>Special Revenue Fund</u>	
Street Maintenance	
Gasoline Tax	26,235
Motor Vehicle License Tax	6,255
Permissive Tax	2,582
	35,072
State Highway	
Gasoline Tax	2,127
Motor Vehicle License Tax	507
Permissive Tax	209
	2,843
<u>COPS Grant</u>	
COPS Grant Reimbursement	29,534
Total Special Revenue Funds	67,449
Total All Funds	\$ 130,290

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*.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

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

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

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. Plan members, other than those engaged in law enforcement, are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 9.35 percent of covered payroll. The City's required contributions to PERS for the years ended December 31, 1999, 1998, and 1997, were \$388,989, \$351,976, and \$336,613, respectively. The full amount has been contributed for 1998 and 1997, 73 percent has been contributed for 1999 with the remainder being reported as a liability within the respective funds.

B. **Police and Fire Pension Fund**

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

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

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

B. **Police and Firemen's Disability and Pension Fund** (Continued)

Plan members are required to contribute 10 percent of their annual covered salary, while the City is required to contribute 12.5 percent for police officers and 17.0 percent for firefighters. The City's contributions to the OP&F for the years ended December 31, 1999, 1998, and 1997, were \$881,767, \$804,234, and \$773,641, respectively. The full amount has been contributed for 1998 and 1997, 76 percent has been contributed for 1999 with the remainder being reported as a liability within the respective funds.

NOTE 8: **POSTEMPLOYMENT BENEFITS**

A. **Public Employees Retirement System**

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contributions to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 1999 employer contribution rate was 13.55 percent of covered payroll for employees not engaged in law enforcement; 4.2 percent was the portion that was used to fund health care for 1999. The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The portion of the 1999 employer contribution rate (identified above) that was used to fund health care for the year 1999 was 4.2 percent of covered payroll, which amounted to \$120,572.

Other postemployment benefits are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

During 1999, OPEB expenditures made by PERS were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. At December 31, 1999, the total number of benefit recipients eligible for OPEB through PERS was 118,063.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 8: **POSTEMPLOYMENT BENEFITS** (Continued)

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

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to other postemployment benefits. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2 percent of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

B. **Police and Firemen's Disability and Pension Fund**

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter's employer contribution rate is 24 percent of covered payroll.

The Ohio Revised Code provides statutory authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 6.5 percent and 7.0 percent of covered payroll in 1998 and 1999, respectively. The allocation is 7.25 percent in 2000. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 1998, (the last actuarial valuation available) was 11,424 for police and 9,186 for firefighters. The portion of the City's contributions that was used to pay postemployment benefits was \$141,309 for police and \$142,539 for firefighters.

CITY OF WARRENSVILLE HEIGHTS, OHIO
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 8: **POSTEMPLOYMENT BENEFITS** (Continued)

B. **Police and Firemen's Disability and Pension Fund** (Continued)

OP&F's total health care expenses for the year ending December 31, 1998 (the last actuarial valuation available) were \$78,596,790, which was net of member contributions of \$5,331,515.

NOTE 9: **LONG-TERM OBLIGATIONS**

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

	Balance January 1, 1999	Additions	Retired	Balance December 31, 1999
General Obligation Bonds				
10-1-90 Various Purpose	\$ 107,218	\$ 0	\$ 5,570	\$ 101,648
10-1-90 Various Purpose	345,000	0	105,000	240,000
6-1-92 Various Purpose	1,745,000	0	80,000	1,665,000
6-1-92 Various Purpose	490,000	0	110,000	380,000
9-1-99 Street Improvement	0	2,330,000	0	2,330,000
9-1-99 Various Purpose				
City Hall Improvement	0	1,160,000	0	1,160,000
9-1-99 Street Improvement	0	665,000	0	665,000
Total General Obligation Bonds	2,687,218	4,155,000	300,570	6,541,648
Special Assessment Bond				
10-1-90 Various Purpose	662,774	0	34,430	628,344
10-1-88 Street Improvement	135,000	0	10,000	125,000
9-1-86 Street Improvement	310,000	0	40,000	270,000
6-1-92 Various Purpose	520,000	0	25,000	495,000
Total Special Assessment Bonds	1,627,774	0	109,430	1,518,344
Other Obligations				
Notes Payable	2,180,000	0	2,180,000	0
Accrued Compensated Absences	1,552,695	0	265,803	1,286,892
Capital Leases	937,930	182,396	310,250	810,076
Due to Other Governments	281,693	318,568	281,693	318,568
Total Other Obligations	4,952,318	500,964	3,037,746	2,415,536
Total General Obligation Bonds and Other Obligations	\$ 9,267,310	\$ 4,655,964	\$ 3,447,746	\$ 10,475,528

CITY OF WARRENSVILLE HEIGHTS, OHIO
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 9: **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, 1999 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>
2000	\$ 480,570	\$ 408,748	\$ 109,430	\$ 106,868	\$ 590,000	\$ 515,616
2001	556,266	331,360	118,734	99,303	675,000	430,663
2002	456,266	301,471	118,734	91,095	575,000	392,566
2003	336,963	278,167	128,037	82,807	465,000	360,974
2004	352,659	261,568	137,341	73,777	490,000	335,345
2005-2009	2,075,258	1,010,884	609,742	229,127	2,685,000	1,240,011
2010-2015	2,283,666	371,069	296,326	36,737	2,579,992	407,806
Totals	\$ 6,541,648	\$ 2,963,267	\$ 1,518,344	\$ 719,714	\$ 8,059,992	\$ 3,682,981

NOTE 10: **LEASE COMMITMENT**

Capital Leases

The City is obligated under eleven 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, respectively. The assets acquired under the capital leases for 1999 totaled \$182,396. 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, 1999:

CITY OF WARRENSVILLE HEIGHTS, OHIO
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 10: **LEASE COMMITMENT** (Continued)

Capital Leases

2000	\$ 301,297
2001	264,467
2002	104,418
2003	80,427
2004	66,447
2005-2008	111,763
Total Minimum Lease Payments	928,819
Less Amount Representing Interest	(118,743)
Present Value of Net Minimum Lease Payments	\$ 810,076

NOTE 11: **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, 1999
 (CONTINUED)

NOTE 11: **ACCUMULATED UNPAID EMPLOYEE BENEFITS** (Continued)

A summary of employee benefit obligations (calculated in accordance with GASB Statement No. 16) at December 31, 1999 is as follows:

	<u>Government Fund Types</u>
Vacation	\$ 465,778
Sick Pay	481,491
Compensatory Time	339,623
	\$1,286,892

Government fund type liabilities are recorded in the General Long-Term Obligation Account Group. The liability above excludes the amount of \$70,069 which was paid within the available period, which is reflected as a fund liability in the general fund.

NOTE 12: **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 13: **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 1999 levy was based was approximately \$246 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 1994.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 13: **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 1999, 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, 1999 was \$13.20 per \$1,000 of assessed value. The assessed value upon which the 1999 tax receipts were based was \$219,969,672. This amount constitutes \$164,688,330 in real property assessed value, \$14,144,070 in public utility assessed value and \$41,137,272 in tangible personal property assessed value.

CITY OF WARRENSVILLE HEIGHTS, OHIO
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1999
 (CONTINUED)

NOTE 13: **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, 1999. 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, 1999 amounted to \$1,037,824 in the general fund, \$630,483 in the special revenue funds, and \$509,141 in the debt service funds.

NOTE 14: **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 15: **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 1999, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
National Casualty Co.	Public Officials Liability (\$1,000,000 limit)	\$ 10,000
National Casualty Co.	Law Enforcement Liability (\$1,000,000 limit)	10,000
Love Insurance Company	Buildings and Contents	1,000
Love Insurance Company	Commercial Property	250
Love Insurance Company	Inland Marine	500
Love Insurance Company	Boiler and Machinery	0
Love Insurance Company	Automobile Comprehensive	100
Love Insurance Company	Automobile Collision	250
Love Insurance Company	General Liability (\$3,000,000 Aggregate/\$1,000,000 per occurrence)	0
American Alternative Insurance	Fire Professional Liability	250
Dawson Insurance	Bond - Finance Officials	0
Love Insurance Agency	Bond - Public Employees	0

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999
(CONTINUED)

NOTE 15: **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.

CITY OF WARRENSVILLE HEIGHTS, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 DECEMBER 31, 1998

	Governmental Fund Types				Fiduciary Fund Type Trust and Agency	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		General Fixed Assets	General Long-Term Obligations	
Assets and Other Debits								
Cash and Cash Equivalents	\$ 1,039,992	\$ 454,891	\$ 315,064	\$ 130,917	\$ 13,728	\$ 0	\$ 0	\$ 1,954,592
Cash in Segregated Accounts	0	0	0	0	5,524	0	0	5,524
Receivables:								
Taxes	2,690,354	648,058	427,612	0	0	0	0	3,766,024
Accounts	57,370	0	0	0	25,433	0	0	82,803
Special Assessments	0	0	268,864	0	0	0	0	268,864
Accrued Interest	6,039	0	0	0	0	0	0	6,039
Due from Other Funds	37,636	0	0	0	0	0	0	37,636
Due from Other Governments	42,335	36,028	0	0	0	0	0	78,363
Inventory	20,800	0	0	0	0	0	0	20,800
Prepaid Items	47,672	0	0	0	0	0	0	47,672
Fixed Assets	0	0	0	0	0	5,983,618	0	5,983,618
Other Debits:								
Amount Available in Debt Service Funds	0	0	0	0	0	0	319,906	319,906
Amount to be Provided for Lease Payments	0	0	0	0	0	0	937,929	937,929
Amount to be Provided for Retirement of General Long- Term Obligations	0	0	0	0	0	0	8,009,475	8,009,475
Total Assets and Other Debits	\$ 3,942,198	\$ 1,138,977	\$ 1,011,540	\$ 130,917	\$ 44,685	\$ 5,983,618	\$ 9,267,310	\$ 21,519,245

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, 1998
 (CONTINUED)

	Governmental Fund Types				Fiduciary Fund Type Trust and Agency	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		General Fixed Assets	General Long-Term Obligations	
Liabilities, Fund Equity, and Other Credits								
Liabilities:								
Accounts Payable	\$ 274,089	\$ 63,434	\$ 0	\$ 0	\$ 12,115	\$ 0	\$ 0	\$ 349,638
Contracts Payable	0	0	0	108,979	0	0	0	108,979
Accrued Wages and Benefits	302,104	9,145	0	0	0	0	0	311,249
Accrued Compensated Absences	110,765	0	0	0	0	0	1,552,695	1,663,460
Due to Other Funds	0	37,636	0	0	0	0	0	37,636
Due to Other Governments	100,152	230,897	0	0	6,065	0	281,693	618,807
Funds on Deposit	0	0	0	0	20,981	0	0	20,981
Undistributed Monies	0	0	0	0	5,524	0	0	5,524
Deferred Revenue	1,136,865	637,608	691,634	0	0	0	0	2,466,107
Capital Lease Obligation	0	0	0	0	0	0	937,930	937,930
General Obligation Notes Payable	0	0	0	0	0	0	2,180,000	2,180,000
General Obligation Bonds Payable	0	0	0	0	0	0	2,687,218	2,687,218
Special Assessment Bonds Payable	0	0	0	0	0	0	1,627,774	1,627,774
Total Liabilities	1,923,975	978,720	691,634	108,979	44,685	0	9,267,310	13,015,303
Fund Equity and Other Credits:								
Investment in General Fixed Assets	0	0	0	0	0	5,983,618	0	5,983,618
Fund Balances								
Reserved for Encumbrances	339,354	20,367	0	0	0	0	0	359,721
Reserved for Inventory	20,799	0	0	0	0	0	0	20,799
Reserved for Prepaid Items	47,672	0	0	0	0	0	0	47,672
Reserved for Debt Service	0	0	319,906	0	0	0	0	319,906
Unreserved, Undesignated	1,610,398	139,890	0	21,938	0	0	0	1,772,226
Total Fund Equity (Deficit) and Other Credits	2,018,223	160,257	319,906	21,938	0	5,983,618	0	8,503,942
Total Liabilities, Fund Equity (Deficit), and Other Credits	\$ 3,942,198	\$ 1,138,977	\$ 1,011,540	\$ 130,917	\$ 44,685	\$ 5,983,618	\$ 9,267,310	\$ 21,519,245

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, 1998

Revenues	Governmental Fund Types				Totals
	General	Special Revenue	Debt Service	Capital Projects	(Memorandum Only)
Taxes	\$ 9,378,833	\$ 569,277	\$ 376,928	\$ 0	\$10,325,038
Intergovernmental	882,722	632,397	37,288	0	1,552,407
Special Assessments	0	0	274,818	0	274,818
Interest	552,182	0	0	0	552,182
Fines, Licenses, and Permits	310,656	0	0	0	310,656
Charges for Services	53,022	0	0	0	53,022
Miscellaneous	1,486	13,367	0	0	14,853
Total Revenues	11,178,901	1,215,041	689,034	0	13,082,976
Expenditures					
Current					
Security of Persons and Property	5,581,161	668,176	0	0	6,249,337
Public Health Services	22,199	0	0	0	22,199
Leisure Time Activities	207,075	0	0	0	207,075
Community Environment	468,955	36,376	0	0	505,331
Basic Utilities	834,286	0	0	0	834,286
Transportation	807,988	361,588	0	0	1,169,576
General Government	2,148,921	1,500	0	0	2,150,421
Capital Outlay	0	0	0	122,842	122,842
Debt Service					
Principal Retirement	183,713	0	2,892,004	0	3,075,717
Interest and Fiscal Charges	45,761	0	424,807	0	470,568
Total Expenditures	10,300,059	1,067,640	3,316,811	122,842	14,807,352
Excess (Deficiency) of Revenues Over(Under) Expenditures	878,842	147,401	(2,627,777)	(122,842)	(1,724,376)
Other Financing Sources (Uses)					
Proceeds from Sale of Notes	0	0	2,180,000	0	2,180,000
Transfers In	0	29,038	452,600	221,707	703,345
Transfers Out	(703,345)	0	0	0	(703,345)
Total Other Financing Sources (Uses)	(703,345)	29,038	2,632,600	221,707	2,180,000
Excess (Deficiency) of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	175,497	176,439	4,823	98,865	455,624
Fund Balances (Deficit) at Beginning of Year	1,842,726	(16,182)	315,083	(76,927)	2,064,700
Fund Balances (Deficit) at End of Year	\$ 2,018,223	\$ 160,257	\$ 319,906	\$ 21,938	\$ 2,520,324

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, 1998

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Local Taxes	\$ 9,267,175	\$ 9,267,175	\$ 0	\$ 558,827	\$ 558,827	\$ 0
Intergovernmental	1,131,916	1,131,916	0	728,465	638,660	(89,805)
Special Assessments	0	0	0	0	0	0
Interest	550,632	550,632	0	0	0	0
Fines, Licenses, and Permits	363,892	363,892	0	0	0	0
Charges for Services	43,972	43,972	0	0	0	0
Miscellaneous	0	0	0	13,362	13,372	10
Total Revenues	11,357,587	11,357,587	0	1,300,654	1,210,859	(89,795)
Expenditures						
Current						
Security of Persons and Property	5,845,029	5,758,459	86,570	1,068,939	661,171	407,768
Public Health Services	23,000	22,655	345	0	0	0
Leisure Time Activities	134,050	121,710	12,340	0	0	0
Community Environment	631,850	620,638	11,212	28,290	6,582	21,708
Basic Utility Services	900,400	887,011	13,389	0	0	0
Transportation	911,956	871,383	40,573	511,115	384,286	126,829
General Government	2,112,297	2,178,537	(66,240)	0	0	0
Capital Outlay	0	0	0	0	0	0
Debt Service						
Principal Retirement	183,713	183,713	0	0	0	0
Interest and Other Charges	96,287	86,828	9,459	0	0	0
Total Expenditures	10,838,582	10,730,934	107,648	1,608,344	1,052,039	556,305
Excess (Deficiency) of Revenues Over (Under) Expenditures	519,005	626,653	107,648	(307,690)	158,820	466,510
Other Financing Sources (Uses)						
Proceeds from Sale of Notes	0	0	0	0	0	0
Transfers In	0	0	0	29,038	29,038	0
Transfers Out	(703,345)	(703,345)	0	0	0	0
Advances In	0	7,845	7,845	31,675	31,675	0
Advances Out	0	(31,675)	(31,675)	(7,845)	(7,845)	0
Total Other Financing Sources (Uses)	(703,345)	(727,175)	(23,830)	52,868	52,868	0
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(184,340)	(100,522)	83,818	(254,822)	211,688	466,510
Fund Cash Balance at Beginning of Year	641,024	641,024	0	218,132	218,132	0
Fund Cash Balance at End of Year	\$ 456,684	\$ 540,502	\$ 83,818	\$ (36,690)	\$ 429,820	\$ 466,510

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, 1998

	Debt Service Funds			Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Local Taxes	\$ 409,374	\$ 372,086	\$ (37,288)	\$ 0	\$ 0	\$ 0
Intergovernmental	14,977	37,288	22,311	102,399	102,399	0
Special Assessments	110,386	274,818	164,432	0	0	0
Interest	0	0	0	0	0	0
Fines, Licenses, and Permits	0	0	0	0	0	0
Charges for Services	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Total Revenues	534,737	684,192	149,455	102,399	102,399	0
Expenditures						
Current						
Security of Persons and Property	0	0	0	0	0	0
Public Health Services	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	0	0	0	0	0	0
Capital Outlay	0	0	0	340,023	233,905	106,118
Debt Service						
Principal Retirement	2,892,004	2,892,004	0	0	0	0
Interest and Other Charges	424,870	424,807	63	0	0	0
Total Expenditures	3,316,874	3,316,811	63	340,023	233,905	106,118
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,782,137)	(2,632,619)	149,518	(237,624)	(131,506)	106,118
Other Financing Sources (Uses)						
Proceeds from Sale of Notes	2,180,000	2,180,000	0	0	0	0
Transfers In	452,600	452,600	0	221,707	221,707	0
Transfers Out	0	0	0	0	0	0
Advances In	0	0	0	0	0	0
Advances Out	0	0	0	0	0	0
Total Other Financing Sources (Uses)	2,632,600	2,632,600	0	221,707	221,707	0
Excess (Deficiency) of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	(149,537)	(19)	149,518	(15,917)	90,201	106,118
Fund Cash Balance at Beginning of Year	315,083	315,083	0	2,297	2,297	0
Fund Cash Balance at End of Year	\$ 165,546	\$ 315,064	\$ 149,518	\$ (13,620)	\$ 92,498	\$ 106,118

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, 1998

	<u>Totals (Memorandum Only)</u>		
	Revised <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues			
Local Taxes	\$10,235,376	\$10,198,088	\$ (37,288)
Intergovernmental	1,977,757	1,910,263	(67,494)
Special Assessments	110,386	274,818	164,432
Interest	550,632	550,632	0
Fines, Licenses, and Permits	363,892	363,892	0
Charges for Services	43,972	43,972	0
Miscellaneous	13,362	13,372	10
Total Revenues	<u>13,295,377</u>	<u>13,355,037</u>	<u>59,660</u>
Expenditures			
Current			
Security of Persons and Property	6,913,968	6,419,630	494,338
Public Health Services	23,000	22,655	345
Leisure Time Activities	134,050	121,710	12,340
Community Environment	660,140	627,220	32,920
Basic Utility Services	900,400	887,011	13,389
Transportation	1,423,071	1,255,669	167,402
General Government	2,112,297	2,178,537	(66,240)
Capital Outlay	340,023	233,905	106,118
Debt Service			
Principal Retirement	3,075,717	3,075,717	0
Interest and Other Charges	521,157	511,635	9,522
Total Expenditures	<u>16,103,823</u>	<u>15,333,689</u>	<u>770,134</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,808,446)</u>	<u>(1,978,652)</u>	<u>829,794</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Notes	2,180,000	2,180,000	0
Transfers In	703,345	703,345	0
Transfers Out	(703,345)	(703,345)	0
Advances In	31,675	39,520	7,845
Advances Out	(7,845)	(39,520)	(31,675)
Total Other Financing Sources (Uses)	<u>2,203,830</u>	<u>2,180,000</u>	<u>(23,830)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	<u>(604,616)</u>	<u>201,348</u>	<u>805,964</u>
Fund Cash Balance at Beginning of Year	<u>1,176,536</u>	<u>1,176,536</u>	<u>0</u>
Fund Cash Balance at End of Year	<u>\$ 571,920</u>	<u>\$ 1,377,884</u>	<u>\$ 805,964</u>

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998

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, 1998, 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, 1998
(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, 1998
(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**

Governmental and fiduciary funds types are accounted for on the modified accrual basis of accounting. Under this basis revenues are recognized in the accounting period when they become both measurable and available to finance expenditures of the current period. The City uses 60 days as the measurable and available period. Revenue items, which are recognized before the related cash is received and are recorded as receivables, include income taxes arising from payroll tax withholding during the year, investment income, and reimbursable-type grants. Expenditures are recognized when the related fund liability is incurred, with the exception of accumulated unpaid employee compensation which is not payable from expendable financial resources and general long-term obligations principal and interest, which are recorded when due.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

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

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

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available, as they are collectible within the current period or soon enough thereafter to be used to pay obligations of the current period: investment earnings, special assessments due in the current year, income taxes withheld by employers and state-levied locally shared taxes (including motor vehicle fees).

Property taxes and special assessments (in the debt service funds), though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property tax and special assessment receivables are recorded and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded as expenditures when the related liability is incurred except for unmatured principal and interest on general long-term debt which are recognized when paid. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

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, 1998
(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, 1998
(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 should revert to the respective fund from which it was appropriated and become subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated. However, at the end of 1997 the City did not encumber appropriations.

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, 1998
 (CONTINUED)

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

D. **Budgetary Accounting** (Continued)

Budgetary Basis of 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	\$ 175,497	\$ 176,439	\$ 4,823	\$ 98,865
Increase (Decrease) Due to:				
Revenue Accruals	186,531	27,493	(4,842)	102,399
Expenditures Accruals	36,940	32,827	0	(72,644)
Encumbrances	(499,490)	(25,071)	0	(38,419)
Budgetary Basis	<u>\$ (100,522)</u>	<u>\$ 211,688</u>	<u>\$ (19)</u>	<u>\$ 90,201</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 1998, 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.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(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 also invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 1998. 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, 1998.

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 on the combined statement of cash flows and for 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.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

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

F. **Fixed Assets** (Continued)

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.

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.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

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

K. **Inventories**

Inventories are stated at cost, on a first-in, first-out basis. The cost is recorded as an expenditure at the time inventory items are consumed (consumption method). 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.

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.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

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

M. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 1998 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.

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 obligations 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).

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

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

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.

NOTE 2: **ACCOUNTABILITY AND COMPLIANCE**

A. **Changes in Accounting Principle**

For 1998, the City has implemented GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement established accounting and reporting guidelines for government investments and investment pools. The implementation of this statement did not result in any changes from the prior years.

The City has also implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* for its deferred compensation plan through the State of Ohio Deferred Compensation Board and the City. Under GASB Statement No. 32, the City is not required to report its Section 457 Deferred Compensation Plan. As required by the Internal Revenue Code, a trust was established for the assets and income of the Plan for which the City has no fiduciary responsibility. Since the balance of the deferred compensation plans were included as an asset and liability in the agency fund as of December 31, 1997, implementation of GASB Statement No. 32 had no impact on fund balances as of January 1, 1998.

CITY OF WARRENSVILLE HEIGHTS, OHIO
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1998
 (CONTINUED)

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

B. **Legal Compliance and Accountability**

Section 5705.41(B), Ohio Revised Code, states that no subdivision shall make any expenditure of money unless it has been appropriated. Section 5705.41(D), Ohio Revised Code, states in part that encumbrances should be charged against proper appropriations and actual disbursements plus outstanding encumbrances should not be greater than the total appropriations. The following fund had appropriations in excess of actual disbursements plus encumbrances.

<u>Fund/Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Excess</u>
<u>General Fund</u>			
General Government	\$2,112,297	\$2,178,537	\$ (66,240)

NOTE 3: **RESTATEMENT OF PRIOR YEAR BALANCES**

The general long-term obligations account group total liabilities increased from \$9,328,058 to \$9,505,987 as of December 31, 1997 due to compensated absences being understated.

Restatement of Land Beginning Balances:

	Beginning Balances (Previously Reported)	Understated	December 31, 1997
Land	\$ 194,747	\$ 39,286	\$ 234,033

Land was understated due to an accounting error.

NOTE 4: **CASH, CASH EQUIVALENTS, AND INVESTMENTS**

Cash resources of several individual fund are combined to form a pool of cash, cash equivalents, and investments. In addition, investments are separately held by a number of individual funds. Statutes require the classification of funds held by the City into three categories:

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

NOTE 4: CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Category 2 consists of "inactive" funds - those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
- 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;
- Bonds and other obligations of the State of Ohio;
- 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
- The State Treasurer's investment pool (STAROhio).

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

NOTE 4: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

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

- Bonds of the State of Ohio;
- 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
- Obligations of the City.

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

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

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 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 institutions; agent in the pool's name are classified as Category 3.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

NOTE 4: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

The GASB has established risk categories for deposits and investments as follows:

Deposits

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 - Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Investments

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

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

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

A. **Deposits**

At year end, the carrying amount of the City's deposits was \$889,319 and the bank balance was \$788,830. Of the bank balance, \$432,478 was fully insured by federal depository insurance. The remainder was uninsured but collateralized by a collateral pool of assets held by an agent of the financial institution, but not in the City's name (Category 3).

CITY OF WARRENSVILLE HEIGHTS, OHIO
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1998
 (CONTINUED)

NOTE 4: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

B. Investments

Investments (as defined by GASB 3) as of December 31, 1998 were as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
Repurchase Agreement (Category 3)	\$ 51,699	\$ 51,699
Repurchase Agreement (Category 3)	205,985	205,985
Repurchase Agreement (Category 3)	142,000	142,000
STAROhio (uncategorized)	671,113	671,113
Total Investments	<u>\$1,070,797</u>	<u>\$1,070,797</u>

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

C. Reconciliation of Cash, Cash Equivalents, and Investments

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 are as follows:

	<u>Cash & Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$1,960,116	\$ 0
Investments:		
Repurchase Agreement	(399,684)	399,684
STAROhio	(671,113)	671,113
GASB Statement No. 3	<u>\$ 889,319</u>	<u>\$1,070,797</u>

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.

CITY OF WARRENSVILLE HEIGHTS, OHIO
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1998
 (CONTINUED)

NOTE 5: **FIXED ASSETS**

A summary of changes in general fixed assets follows:

	Balance January 1, 1998 <u>Restated</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, 1998 <u>1998</u>
Land & Land Improvements	\$ 234,033	\$ 0	\$ 0	\$ 234,033
Buildings, Structures, and Improvements	1,745,617	0	0	1,745,617
Furniture and Fixtures	373,926	2,259	0	376,185
Machinery and Equipment	442,000	461,112	0	903,112
Vehicles	2,363,822	360,849	0	2,724,671
Total	<u>\$5,159,398</u>	<u>\$ 824,220</u>	<u>\$ 0</u>	<u>\$5,983,618</u>

NOTE 6: **INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances at December 31, 1998 consist of the following:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payables</u>
General Fund	\$ 37,636	\$ 0
Special Revenue Funds: CDBG - Paint Program	0	37,636
	<u>\$ 37,636</u>	<u>\$ 37,636</u>

CITY OF WARRENSVILLE HEIGHTS, OHIO
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1998
 (CONTINUED)

NOTE 7: DUE FROM OTHER GOVERNMENTS

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

<u>Fund</u>	<u>Amounts</u>
<u>General Fund</u>	
Local Government Support	\$ 29,798
Estate Taxes	10,800
Hotel/Motel Tax	1,737
Total General Fund	42,335
<u>Special Revenue Fund</u>	
Street Maintenance	
Gasoline Tax	26,116
Motor Vehicle License Tax	5,088
Permissive Tax	2,122
	33,326
State Highway	
Gasoline Tax	2,118
Motor Vehicle License Tax	412
Permissive Tax	172
	2,702
Total Special Revenue Funds	36,028
Total All Funds	\$ 78,363

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

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

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

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

The City of Warrensville Heights contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides 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.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members, other than those engaged in law enforcement, are required to contribute 8.5% of their annual covered salary to fund pension obligations and the City is required to contribute 13.55% of covered payroll, 9.35% to fund the pension benefit obligation, and 4.2% 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 PERS for the years ended December 31, 1998, 1997, and 1996 were \$351,976, \$336,613, and \$303,235, respectively. The full amount has been contributed for 1997 and 1996, 74% has been contributed for 1998 with the remainder being reported as a liability within the respective funds.

B. **Police and Firemen's Disability and Pension Fund**

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

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

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

B. **Police and Firemen's Disability and Pension Fund** (Continued)

Police and firefighters are required to contribute 10% of their annual covered salary to fund pension obligations and the City is required to contribute 13.0% for police and 17.5% for firefighters. The City's contributions to PFDPF for the years ended December 31, 1998, 1997, and 1996 were \$804,234, \$773,641, and \$700,608, respectively. The full amount has been contributed for 1997 and 1996, 48% has been contributed for 1998 with the remainder being reported as a liability within the respective funds.

NOTE 9: **POSTEMPLOYMENT BENEFITS**

A. **Public Employees Retirement System**

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contributions to PERS is set aside for the funding of postretirement health care based on authority granted by state statute. The 1998 employer contribution rate was 13.55 % of covered payroll for employees not engaged in law enforcement; 4.2% percent was the portion that was used to fund health care for 1998. The Ohio Revised Code provides statutory authority for employer contributions and requires employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 1998 employer contribution rate (identified above) that was used to fund health care for the year 1998 was 4.2% of covered payroll, which amounted to \$109,099.

Other postemployment benefits are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

NOTE 9: **POSTEMPLOYMENT BENEFITS** (Continued)

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

During 1998, OPEB expenditures made by PERS were \$440,596,663. As of December 31, 1998, the unaudited estimated net assets available for future OPEB payments were \$9,447,325,318. At December 31, 1998, the total number of benefit recipients eligible for OPEB through PERS was 115,579.

During 1998, the Retirement Board adopted a new calculation method for determining employer contributions applied to other postemployment benefits. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

B. **Police and Firemen's Disability and Pension Fund**

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter's employer contribution rate is 24 percent of covered payroll.

The Ohio Revised Code provides statutory authority allowing the fund's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you go basis. Currently, 6.5% of covered payroll, the Board-defined allocation, is used to pay retiree health care expenses. 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.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

NOTE 9: **POSTEMPLOYMENT BENEFITS** (Continued)

B. **Police and Firemen's Disability and Pension Fund** (Continued)

The number of participants eligible to receive health care benefits as of December 31, 1997, (the latest information available) was 11,239 for police and 9,025 for firefighters. The portion of the City's contributions that was used to pay postemployment benefits was \$114,504 for police and \$124,762 for firefighters. The Fund's total health care expenses for the year ended December 31, 1997 were \$76,459,832.

NOTE 10: **LONG-TERM OBLIGATIONS**

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

	Balance January 1, 1998 <u>Restated</u>	<u>Additions</u>	<u>Retired</u>	Balance December 31, 1998
<u>General Obligation Bonds</u>				
10-1-90 Various Purpose	\$ 112,096	\$ 0	\$ 4,878	\$ 107,218
10-1-90 Various Purpose	445,000	0	100,000	345,000
10-1-88 Street Improvement	200,431	0	200,431	0
6-1-92 Various Purpose	1,820,000	0	75,000	1,745,000
6-1-92 Various Purpose	595,000	0	105,000	490,000
Total General Obligation Bonds	3,172,527	0	485,309	2,687,218
<u>Special Assessment Bond</u>				
10-1-90 Various Purpose	692,900	0	30,126	662,774
10-1-88 Street Improvement	144,569	0	9,569	135,000
9-1-86 Street Improvement	350,000	0	40,000	310,000
9-1-87 Street Improvement	17,000	0	17,000	0
6-1-92 Various Purpose	545,000	0	25,000	520,000
Total Special Assessment Bonds	1,749,469	0	121,695	1,627,774
<u>Other Obligations</u>				
Notes Payable	2,285,000	2,180,000	2,285,000	2,180,000
Accrued Compensated Absences	1,363,650	189,045	0	1,552,695
Capital Leases	558,671	562,972	183,713	937,930
Due to Other Governments	332,988	281,693	332,988	281,693
Accrued Wages and Benefits Payable	43,682	0	43,682	0
Total Other Obligations	4,583,991	3,213,710	2,845,383	4,952,318
Total General Obligation Bonds and Other Obligations	\$ 9,505,987	\$ 3,213,710	\$ 3,452,387	\$ 9,267,310

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

NOTE 10: **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, due to other governments, and accrued wages and benefits payable will be paid in 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, 1998 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>
1999	\$ 300,569	\$ 168,094	\$ 109,430	\$114,710	\$ 409,999	\$ 282,804
2000	330,569	147,365	109,430	106,868	439,999	254,233
2001	346,265	127,880	118,734	99,303	464,999	227,183
2002	241,265	106,652	118,734	91,095	359,999	197,747
2003-2007	624,687	392,344	645,312	320,266	1,269,999	712,610
2008-2012	843,863	168,621	526,134	102,180	1,369,997	270,801
Totals	\$2,687,218	\$1,110,956	\$1,627,774	\$834,422	\$4,314,992	\$1,945,378

CITY OF WARRENSVILLE HEIGHTS, OHIO
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1998
 (CONTINUED)

NOTE 11: **LEASE COMMITMENT**

Capital Leases

The City is obligated under nine 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 Obligation Account Group, respectively. The assets acquired under the capital leases for 1998 totaled \$562,972. 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, 1998:

1999	\$ 254,409
2000	255,268
2001	255,259
2002	103,542
2003	81,739
2004-2008	199,298
Total Minimum Lease Payments	<u>1,149,515</u>
Less Amount Representing Interest	(211,585)
Present Value of Net Minimum Lease Payments	<u><u>\$ 937,930</u></u>

NOTE 12: **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 480 hours of unused vacation leave is paid at retirement or death for the Police Department. Sergeants and Lieutenants may receive 360 hours of unused sick leave. The Fire Department can receive 1,080 hours of the first 2,880 hours or a percentage thereof for accumulated unused sick leave and 728 hours of unused vacation leave at the time of retirement or death.

CITY OF WARRENSVILLE HEIGHTS, OHIO
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1998
 (CONTINUED)

NOTE 12: **ACCRUED COMPENSATED ABSENCES** (Continued)

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.

A summary of employee benefit obligations (calculated in accordance with GASB Statement No. 16) at December 31, 1998 is as follows:

	<u>Government Fund Types</u>
Vacation	\$ 837,402
Sick Pay	444,219
Compensatory Time	271,074
	\$1,552,695

Government fund type liabilities are recorded in the General Long-Term Debt Account Group. The liability above excludes the amount of \$67,647 which was paid within the available period, which is reflected as a fund liability in the general fund.

NOTE 13: **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.

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

NOTE 14: **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 1998 levy was based was approximately \$246 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 1994.

Real property taxes, excluding public utility property, are all assessed at 35% 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 1998, the percentage used to determine taxable value of personal property and inventory was 25%. 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% of its true value except for rural electric companies (50%) and railroads (25%). 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

CITY OF WARRENSVILLE HEIGHTS, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(CONTINUED)

NOTE 14: **PROPERTY TAXES** (Continued)

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, 1998 was \$13.20 per \$1,000 of assessed value. The assessed value upon which the 1998 tax receipts were based was \$219,601,301. This amount constitutes \$163,920,310 in real property assessed value, \$14,978,420 in public utility assessed value and \$40,702,571 in tangible personal property assessed value.

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes which are measurable at December 31, 1998. 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, 1998 amounted to \$1,147,114 in the general fund, \$648,058 in the special revenue funds, and \$427,612 in the debt service funds.

NOTE 15: **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.

CITY OF WARRENSVILLE HEIGHTS, OHIO
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 1998
 (CONTINUED)

NOTE 16: **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 1998, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
National Casualty Co.	Public Officials Liability (\$1,000,000 limit)	\$ 10,000
National Casualty Co.	Law Enforcement Liability (\$1,000,000 limit)	10,000
Love Insurance Company	Buildings and Contents	1,000
Love Insurance Company	Commercial Property	250
Love Insurance Company	Inland Marine	500
Love Insurance Company	Boiler and Machinery	0
Love Insurance Company	Automobile Comprehensive	100
Love Insurance Company	Automobile Collision	250
Love Insurance Company	General Liability (\$3,000,000 Aggregate/\$1,000,000 per occurrence)	0
American Alternative Insurance	Fire Professional Liability	250
Dawson Insurance	Bond - Finance Officials	0
Love Insurance Agency	Bond - Public Employees	0

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 17: **SUBSEQUENT EVENTS**

In September, 1999, the note payable in the General Long-Term Obligations Account Group was rolled over into a General Obligation Bond.



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 general-purpose financial statements of the City of Warrensville Heights, Cuyahoga County, Ohio, (the City) as of and for the years ended December 31, 1999 and December 31, 1998, and have issued our report thereon dated June 5, 2000, in which report we noted the City changed its accounting for investments and its deferred compensation plan. We conducted our audits in accordance with generally accepted auditing standards 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 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 1999-20818-001 and 1999-20818-002. We also noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated June 5, 2000.

Internal Control Over Financial Reporting

In planning and performing our audits 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. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 1998-20818-003 to 1999-20818-005.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 1999-20818-003 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management in a separate letter dated June 5, 2000.

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", is written over a printed name and title. The signature is stylized and cursive.

Jim Petro
Auditor of State

June 5, 2000

**CITY OF WARRENSVILLE HEIGHTS
SCHEDULE OF FINDINGS**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

NONCOMPLIANCE CITATIONS

Finding Number	1999-20818-001
-----------------------	-----------------------

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.

The City utilizes purchase orders to document the finance director's certification of funds. From 1/1/98 to 7/31/99 all purchase orders were prepared after the invoice was received, instead of prior to entering into the obligation. From 8/1/99 to 12/31/99, purchase orders were prepared prior to entering into the obligation. However, in several instances they were not signed by the finance director and they were dated after the invoice date. 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.

We recommend the City continue to utilize the purchase order system for all expenditures, communicate the requirements to all department managers, and monitor departments' compliance with proper purchasing policies and procedures.

Finding Number	1999-20818-002
-----------------------	-----------------------

Ohio Revised Code § 1901.31 lists the duties of the clerk of court. Ohio Revised Code § 1901.311 authorizes a municipal court to establish branch office(s) and appoint a special deputy clerk. Each deputy clerk is to perform the duties of the clerk as described in Ohio Revised Code § 1901.31.

The clerk of the Waiver Bureau failed to:

- maintain a complete docket, listing the disposition of all cases;
- maintain a general index; and
- pursue past due accounts.

We recommend the Clerk of the Waiver Bureau maintain all records in compliance with the above Sections of the Ohio Revised Code. The City should consider automating the system and require the Clerk to obtain training in court procedures. Furthermore, procedures for collecting outstanding parking tickets should be established and enforced because monies due the City are not being collected and there is a two year statute of limitations. The City should consider contacting the Ohio Bureau of Motor Vehicles and restrict the issuance of annual registrations to drivers that have outstanding parking tickets.

**CITY OF WARRENSVILLE HEIGHTS
SCHEDULE OF FINDINGS
(Continued)**

REPORTABLE CONDITIONS

Finding Number	1999-20818-003
-----------------------	-----------------------

Payroll/Personnel

The payroll and personnel department did not uniformly utilize authorization, monitoring, and documentation procedures as follows:

- The Mayor did not sign all salary notices.
- On an annual basis, City Council does not approve all salary schedules in the minutes.
- The Personnel Director did not sign all payroll sign-off sheets.
- A modem is located at the City so that payroll may be processed through its service organization, Automated Data Processing (ADP). Passwords used to access the system are generic and stored in an unlocked desk drawer that everyone has access to.
- Based on conversations with management, it appears they are not aware of all the security measures available through ADP.
- The City is provided with various payroll reports from ADP which are to be reviewed and signed/dated by various levels of management. However, several instances were noted in which no notations were made on the documents to indicate that a review was performed.
- Employee files did not contain the appropriate hiring and salary authorization forms. Furthermore, the files did not contain signed forms for the retirement system, various other payroll deductions and tax withholding documents. The files contained the federal form, but not the state and local forms. The City utilizes the federal form for state and local purposes.
- Journal entries are used to post gross payrolls to the general ledger. However, employee deductions and other payroll activity is not recorded in the general ledger.
- The terms of employee contractual provisions were contradictory and not properly monitored. As a result, employees were overcompensated.

Authorization, monitoring, and proper documentation enable management to safeguard assets, accurately state liabilities, and pinpoint accountability. Journal entries should record the complete transaction, linking the payroll register to the financial statements.

Inconsistent management and accounting practices and the lack of written policies and procedures can result in errors in recording payroll activity, and misstated financial statements.

We recommend the City develop authorization, monitoring, and complete documentation policies that assign accountability to individuals. Policies and procedures should be in writing and communicated to all departments of the City. Management should periodically review and consistently enforce these policies. The written policies and procedures should include the following:

- The finance department should obtain written authorization from the appropriate official prior to processing a salary increase or separation payment.
- The Personnel Director should sign the payroll sign-off sheets.
- Management should become familiar with all security measures available through ADP, including restrictions on access to the system through user identification and passwords.
- When reviewing the payroll reports from ADP, the individual performing the review should sign and date the report.
- The employee files should contain signed forms relating to all deductions.
- The finance department should prepare payroll journal entries, to accurately reflect the payroll expenditures.
- The law director should review all contracts regarding employee compensation and identify all ambiguous language for removal in subsequent contracts. Furthermore, management should familiarize themselves with the terms and conditions of the contracts and ensure that employees are compensated accordingly.

**CITY OF WARRENSVILLE HEIGHTS
SCHEDULE OF FINDINGS
(Continued)**

Finding Number	1999-20818-004
-----------------------	-----------------------

Leave Records

We noted inconsistent accrual and reporting of employee leave balances. We also noted the following weaknesses in the accounting and record keeping for leave:

- Formal policies and procedures have not been established for processing the various types of leave.
- Each department maintains leave records. However, the personnel department employee responsible for monitoring leave is not verifying the individual employee accruals and usage.
- City Ordinance 1992-44 restricts vacation leave accumulation to forty-two days and sick leave accumulation to ninety-five days. Some employees had a vacation balance in excess of the maximum allowed.
- The manual attendance records utilized to track leave balances for employees, reflect days used but not available leave balances at any given point in time. Also, manual records result in an inefficient process in tracking leave and formulating financial statement amounts.

Inaccurate leave balances could result in the City paying employees for time not earned or making excess payments at the time of retirement or separation.

We recommend the following:

- Formal policies and procedures should be established for processing and monitoring leave time.
- Guidelines and limits established by ordinances and contracts should be enforced for the accumulation and use of leave.
- Each employee's leave record should include, the type of leave, the number of days earned, days used, and current balance. Such records should be periodically tested for accuracy and compliance with City policies and various bargaining unit agreements or contracts.
- The City should consider automating leave records.

Finding Number	1999-20818-005
-----------------------	-----------------------

Waiver Bureau

During our review of activity related to the Waiver Bureau, we noted the following with regard to accounting procedures:

- The docket record of citations issued reflected only those citations which were satisfied by payment at the Waiver Bureau. The Clerk did not post the dispositions of all other citations to the docket which were heard at the Bedford Municipal Court. This causes the records of the Waiver Bureau to be incomplete concerning the disposition of all citations issued.
- The Clerk of the Waiver Bureau failed to maintain an index of all cases on the docket. This resulted in an inability to trace individual cases from one record to another easily.
- The City does not have a system in place to collect outstanding parking tickets. This results in a loss of revenue for the City.

**CITY OF WARRENSVILLE HEIGHTS
SCHEDULE OF FINDINGS
(Continued)**

Finding Number (Continued)	1999-20818-005
-----------------------------------	-----------------------

The Clerk of the Waiver Bureau is required by law to maintain a complete set of records for the Waiver Bureau including a complete docket, index, and cash book. The clerk also is required to issue receipts for all monies collected and pursue collection of all monies due the Waiver Bureau. Due to the condition of records and the lack of management review, the Clerk was not able to reconcile the cash book to the docket.

We recommend the following:

- The Clerk of Bedford Municipal Court establish a written policy to insure that the Clerk of the Waiver Bureau maintains a complete set of records (docket, index, cash book) and reconciles all such records on a timely basis. The Clerk should also reconcile the police department bond logs to the Waiver Bureau cash book on a monthly basis.
- The Waiver Bureau should establish procedures for the collection of past due parking tickets. The City should continue its efforts to computerize the Waiver Bureau records. Additional court training and software training should be provided for personnel at the Waiver Bureau.



STATE OF OHIO
OFFICE OF THE AUDITOR

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
www.auditor.state.oh.us

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.

By: *Susan Babbitt*

Date: JUL 13 2000