



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

---

**STATE OF OHIO**



**CITY OF INDEPENDENCE  
TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Report of Independent Accountants	1
General Purpose Financial Statements - For the Year Ended December 31, 1999	4
Notes to the General Purpose Financial Statements - For the Year Ended December 31, 1999	17
General Purpose Financial Statements - For the Year Ended December 31, 1998	40
Notes to the General Purpose Financial Statements - For the Year Ended December 31, 1998	53
Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	73
Schedule of Findings	75

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STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

**REPORT OF INDEPENDENT ACCOUNTANTS**

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

To the Members of City Council:

We have audited the accompanying general-purpose financial statements of the City of Independence, 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 audits 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 Independence, Cuyahoga County, Ohio, as of December 31, 1999 and December 31, 1998, and the results of its operations and the cash flows of its proprietary fund type for the years then ended in conformity with generally accepted accounting principles.

As described in Note 3 to the general-purpose financial statements, in 1998 the City changed its method of accounting for investments, its deferred compensation plan and its deposit trust and occupancy trust funds. Also in 1998 and as described in Note 3 to the general-purpose financial statements, the City changed its recognition period from 31 days to 60 days.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 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.

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

**Jim Petro**  
Auditor of State

July 31, 2000

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**City of Independence, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups*  
*December 31, 1999*

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Assets and Other Debits</b>				
<b>Assets</b>				
Cash and Cash Equivalents	\$4,753,498	\$387,880	\$236,326	\$13,895,562
Cash and Cash Equivalents in Segregated Accounts				
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	8,044	0
Receivables:				
Taxes	3,383,029	120,250	520,509	0
Accounts	14,939	0	0	0
Special Assessments	0	0	59,006	0
Intergovernmental	187,718	43,721	0	0
Materials and Supplies				
Inventory	117,549	75,982	0	0
Prepaid Items	13,111	0	0	0
Fixed Assets	0	0	0	0
<b>Other Debits</b>				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount Available in Debt Service Fund for Retirement of Special Assessment Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Amount to be Provided from Special Assessments	0	0	0	0
<b>Total Assets and Other Debits</b>	<b>\$8,469,844</b>	<b>\$627,833</b>	<b>\$823,885</b>	<b>\$13,895,562</b>

See accompanying notes to the general purpose financial statements



Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Internal Service	Agency			
\$2,545,237	\$307,190	\$0	\$0	\$22,125,693
	14,315			14,315
0	0	0	0	8,044
0	0	0	0	4,023,788
0	0	0	0	14,939
0	0	0	0	59,006
0	0	0	0	231,439
0	0	0	0	193,531
0	0	0	0	13,111
0	0	38,227,888	0	38,227,888
0	0	0	220,513	220,513
0	0	0	15,813	15,813
0	0	0	7,395,604	7,395,604
0	0	0	19,187	19,187
<u>\$2,545,237</u>	<u>\$321,505</u>	<u>\$38,227,888</u>	<u>\$7,651,117</u>	<u>\$72,562,871</u>

**City of Independence, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups (continued)*  
*December 31, 1999*

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Liabilities</b>				
<b>Fund Equity and Other Credits</b>				
<b>Liabilities</b>				
Accounts Payable	\$243,056	\$17,016	\$0	\$40,258
Contracts Payable	5,077	0	0	298,076
Retainage Payable	0	0	0	30,387
Accrued Wages and Benefits	139,730	19,240	0	0
Compensated Absences Payable	6,655	0	0	0
Intergovernmental Payable	31,610	2,728	0	0
Deferred Revenue	756,831	120,250	579,515	0
Undistributed Monies	0	0	0	0
Deposits Held and Due to Others	0	0	0	0
Matured Bonds and Interest Payable	0	0	8,044	0
Accrued Interest Payable	0	0	0	93,174
Notes Payable	0	0	0	12,750,000
OPWC Loan Payable	0	0	0	0
Claims and Judgments Payable	0	0	0	0
Police and Fire Pension Liability	0	0	0	0
Capital Leases Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Special Assessment Debt with Governmental Commitment	0	0	0	0
<b>Total Liabilities</b>	<b>1,182,959</b>	<b>159,234</b>	<b>587,559</b>	<b>13,211,895</b>
<b>Fund Equity and Other Credits</b>				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	572,996	10,492	0	6,412,343
Reserved for Inventory	117,549	75,982	0	0
Unreserved, Undesignated (Deficit)	6,596,340	382,125	236,326	(5,728,676)
<b>Total Fund Equity and Other Credits</b>	<b>7,286,885</b>	<b>468,599</b>	<b>236,326</b>	<b>683,667</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$8,469,844</b>	<b>\$627,833</b>	<b>\$823,885</b>	<b>\$13,895,562</b>

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Internal Service	Agency			
\$0	\$0	\$0	\$0	\$300,330
0	0	0	0	303,153
0	0	0	0	30,387
0	0	0	0	158,970
0	0	0	181,651	188,306
0	0	0	514,490	548,828
0	0	0	0	1,456,596
0	15,127	0	0	15,127
0	306,378	0	0	306,378
0	0	0	0	8,044
0	0	0	0	93,174
0	0	0	3,100,000	15,850,000
0	0	0	98,122	98,122
3,000	0	0	0	3,000
0	0	0	93,930	93,930
0	0	0	27,924	27,924
0	0	0	3,600,000	3,600,000
0	0	0	35,000	35,000
<u>3,000</u>	<u>321,505</u>	<u>0</u>	<u>7,651,117</u>	<u>23,117,269</u>
0	0	38,227,888	0	38,227,888
2,542,237	0	0	0	2,542,237
0	0	0	0	6,995,831
0	0	0	0	193,531
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,486,115</u>
<u>2,542,237</u>	<u>0</u>	<u>38,227,888</u>	<u>0</u>	<u>49,445,602</u>
<u>\$2,545,237</u>	<u>\$321,505</u>	<u>\$38,227,888</u>	<u>\$7,651,117</u>	<u>\$72,562,871</u>

**City of Independence, Ohio**  
*Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances  
All Governmental Fund Types  
For the Year Ended December 31, 1999*

	Governmental	
	General	Special Revenue
<b>Revenues</b>		
Municipal Income Tax	\$19,046,206	\$0
Property and Other Taxes	2,653,906	124,690
Charges for Services	27,371	0
Licenses and Permits	481,704	245,591
Fines and Forfeitures	261,751	14,871
Intergovernmental	328,057	369,279
Special Assessments	0	0
Interest	450,039	0
Rentals	50,236	0
Other	201,047	1,205
<i>Total Revenues</i>	23,500,317	755,636
<b>Expenditures</b>		
Current:		
General Government	3,554,765	0
Security of Persons and Property	5,371,520	337,025
Public Health and Welfare	138,728	0
Transportation	671,290	1,144,080
Community Environment	2,883,401	0
Basic Utility Services	434,941	0
Leisure Time Activities	878,279	278,105
Capital Outlay	0	0
Debt Service:		
Principal Retirement	10,799	2,384
Interest and Fiscal Charges	2,149	4,068
<i>Total Expenditures</i>	13,945,872	1,765,662
<i>Excess of Revenues Over (Under) Expenditures</i>	9,554,445	(1,010,026)
<b>Other Financing Sources (Uses)</b>		
Proceeds of Notes	0	0
Sale of Fixed Assets	4,000	0
Inception of Capital Lease	9,873	0
Operating Transfers In	0	1,220,000
Operating Transfers Out	(7,155,000)	0
<i>Total Other Sources (Uses)</i>	(7,141,127)	1,220,000
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	2,413,318	209,974
<i>Fund Balances Beginning of Year</i>	4,881,382	230,415
Increase (Decrease) in Reserve for Inventory	(7,815)	28,210
<i>Fund Balances End of Year</i>	\$7,286,885	\$468,599

See accompanying notes to the general purpose financial statements

Fund Types		Totals (Memorandum Only)
Debt Service	Capital Projects	
\$0	\$0	\$19,046,206
566,300	0	3,344,896
0	0	27,371
0	0	727,295
0	0	276,622
36,937	0	734,273
34,138	0	34,138
0	228,947	678,986
0	0	50,236
0	61,000	263,252
<u>637,375</u>	<u>289,947</u>	<u>25,183,275</u>
0	0	3,554,765
0	0	5,708,545
0	0	138,728
0	0	1,815,370
0	0	2,883,401
0	0	434,941
0	0	1,156,384
0	10,957,714	10,957,714
335,000	5,606,767	5,954,950
226,197	250,284	482,698
<u>561,197</u>	<u>16,814,765</u>	<u>33,087,496</u>
<u>76,178</u>	<u>(16,524,818)</u>	<u>(7,904,221)</u>
0	3,100,000	3,100,000
0	0	4,000
0	0	9,873
0	5,835,000	7,055,000
0	0	(7,155,000)
<u>0</u>	<u>8,935,000</u>	<u>3,013,873</u>
76,178	(7,589,818)	(4,890,348)
160,148	8,273,485	13,545,430
<u>0</u>	<u>0</u>	<u>20,395</u>
<u>\$236,326</u>	<u>\$683,667</u>	<u>\$8,675,477</u>

**City of Independence, Ohio**  
*Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget (Non-GAAP) and Actual  
All Governmental Fund Types  
For the Year Ended December 31, 1999*

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<b>Revenues</b>			
Municipal Income Tax	\$16,300,000	\$17,608,236	\$1,308,236
Property and Other Taxes	1,501,222	2,646,800	1,145,578
Charges for Services	40,607	40,607	0
Licenses and Permits	481,704	481,704	0
Fines and Forfeitures	261,751	261,751	0
Intergovernmental	250,000	235,838	(14,162)
Special Assessments	0	0	0
Interest	450,039	450,039	0
Rentals	50,236	50,236	0
Other	200,000	200,749	749
<i>Total Revenues</i>	<u>19,535,559</u>	<u>21,975,960</u>	<u>2,440,401</u>
<b>Expenditures</b>			
Current:			
General Government	4,021,889	3,898,227	123,662
Security of Persons and Property	5,962,184	5,597,650	364,534
Public Health and Welfare	174,037	142,226	31,811
Transportation	934,510	718,408	216,102
Community Environment	2,832,160	3,074,195	(242,035)
Basic Utility Services	657,123	450,609	206,514
Leisure Time Activities	1,022,202	917,830	104,372
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>15,604,105</u>	<u>14,799,145</u>	<u>804,960</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,931,454</u>	<u>7,176,815</u>	<u>3,245,361</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds of Notes	0	0	0
Sale of Fixed Assets	4,000	4,000	0
Operating Transfers In	0	0	0
Operating Transfers Out	(6,728,099)	(7,155,000)	(426,901)
<i>Total Other Financing Sources (Uses)</i>	<u>(6,724,099)</u>	<u>(7,151,000)</u>	<u>(426,901)</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(2,792,645)	25,815	2,818,460
<i>Fund Balances Beginning of Year</i>	3,641,792	3,641,792	0
Prior Year Encumbrances Appropriated	352,244	352,244	0
<i>Fund Balances End of Year</i>	<u>\$1,201,391</u>	<u>\$4,019,851</u>	<u>\$2,818,460</u>

See accompanying notes to the general purpose financial statements

Special Revenue Funds			Debt Service Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0
118,777	124,690	5,913	553,654	566,300	12,646
0	0	0	0	0	0
280,000	245,591	(34,409)	0	0	0
39,000	14,188	(24,812)	0	0	0
247,778	345,691	97,913	36,937	36,937	0
0	0	0	50,000	34,138	(15,862)
0	0	0	0	0	0
0	0	0	0	0	0
3,000	1,205	(1,795)	0	0	0
<u>688,555</u>	<u>731,365</u>	<u>42,810</u>	<u>640,591</u>	<u>637,375</u>	<u>(3,216)</u>
0	0	0	0	0	0
390,000	343,477	46,523	0	0	0
0	0	0	0	0	0
1,328,058	1,185,951	142,107	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
281,579	285,953	(4,374)	0	0	0
0	0	0	0	0	0
0	0	0	478,803	335,000	143,803
0	0	0	226,197	226,197	0
<u>1,999,637</u>	<u>1,815,381</u>	<u>184,256</u>	<u>705,000</u>	<u>561,197</u>	<u>143,803</u>
<u>(1,311,082)</u>	<u>(1,084,016)</u>	<u>227,066</u>	<u>(64,409)</u>	<u>76,178</u>	<u>140,587</u>
0	0	0	0	0	0
0	0	0	0	0	0
1,220,000	1,220,000	0	0	0	0
0	0	0	0	0	0
<u>1,220,000</u>	<u>1,220,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(91,082)	135,984	227,066	(64,409)	76,178	140,587
210,684	210,684	0	160,148	160,148	0
14,638	14,638	0	0	0	0
<u>\$134,240</u>	<u>\$361,306</u>	<u>\$227,066</u>	<u>\$95,739</u>	<u>\$236,326</u>	<u>\$140,587</u>

(continued)

**City of Independence, Ohio**  
*Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget (Non-GAAP) and Actual  
All Governmental Fund Types (continued)  
For the Year Ended December 31, 1999*

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Municipal Income Tax	\$0	\$0	\$0
Property and Other Taxes	0	0	0
Charges for Services	0	0	0
Licenses and Permits	0	0	0
Fines and Forfeitures	0	0	0
Intergovernmental	0	0	0
Special Assessments	0	0	0
Interest	196,422	211,295	14,873
Rentals	0	0	0
Other	61,652	78,652	17,000
<i>Total Revenues</i>	<u>258,074</u>	<u>289,947</u>	<u>31,873</u>
<b>Expenditures</b>			
Current:			
General Government	0	0	0
Security of Persons and Property	0	0	0
Public Health and Welfare	0	0	0
Transportation	0	0	0
Community Environment	0	0	0
Basic Utility Services	0	0	0
Leisure Time Activities	0	0	0
Capital Outlay	12,797,576	17,980,041	(5,182,465)
Debt Service:			
Principal Retirement	0	5,606,767	(5,606,767)
Interest and Fiscal Charges	0	157,110	(157,110)
<i>Total Expenditures</i>	<u>12,797,576</u>	<u>23,743,918</u>	<u>(10,946,342)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(12,539,502)</u>	<u>(23,453,971)</u>	<u>(10,914,469)</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds of Notes	4,831,207	15,850,000	11,018,793
Sale of Fixed Assets	0	0	0
Operating Transfers In	550,000	5,835,000	5,285,000
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>5,381,207</u>	<u>21,685,000</u>	<u>16,303,793</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(7,158,295)</u>	<u>(1,768,971)</u>	<u>5,389,324</u>
<i>Fund Balances Beginning of Year</i>	1,952,051	1,952,051	0
Prior Year Encumbrances Appropriated	6,962,576	6,962,576	0
<i>Fund Balances End of Year</i>	<u>\$1,756,332</u>	<u>\$7,145,656</u>	<u>\$5,389,324</u>

See accompanying notes to the general purpose financial statements



Totals (Memorandum Only)

Revised Budget	Actual	Variance Favorable (Unfavorable)
\$16,300,000	\$17,608,236	\$1,308,236
2,173,653	3,337,790	1,164,137
40,607	40,607	0
761,704	727,295	(34,409)
300,751	275,939	(24,812)
534,715	618,466	83,751
50,000	34,138	(15,862)
646,461	661,334	14,873
50,236	50,236	0
264,652	280,606	15,954
<u>21,122,779</u>	<u>23,634,647</u>	<u>2,511,868</u>
4,021,889	3,898,227	123,662
6,352,184	5,941,127	411,057
174,037	142,226	31,811
2,262,568	1,904,359	358,209
2,832,160	3,074,195	(242,035)
657,123	450,609	206,514
1,303,781	1,203,783	99,998
12,797,576	17,980,041	(5,182,465)
478,803	5,941,767	(5,462,964)
226,197	383,307	(157,110)
<u>31,106,318</u>	<u>40,919,641</u>	<u>(9,813,323)</u>
<u>(9,983,539)</u>	<u>(17,284,994)</u>	<u>(7,301,455)</u>
4,831,207	15,850,000	11,018,793
4,000	4,000	0
1,770,000	7,055,000	5,285,000
<u>(6,728,099)</u>	<u>(7,155,000)</u>	<u>(426,901)</u>
<u>(122,892)</u>	<u>15,754,000</u>	<u>15,876,892</u>
(10,106,431)	(1,530,994)	8,575,437
5,964,675	5,964,675	0
7,329,458	7,329,458	0
<u>\$3,187,702</u>	<u>\$11,763,139</u>	<u>\$8,575,437</u>

**City of Independence, Ohio**  
*Statement of Revenues,  
 Expenses and Changes in Retained Earnings  
 Internal Service Fund  
 For the Year Ended December 31, 1999*

	<u>Self Insurance</u>
<b>Operating Expenses</b>	
Claims	\$1,365
<i>Operating Loss</i>	(1,365)
<b>Non-Operating Revenues</b>	
Investment Earnings	117,813
<i>Income Before Operating Transfers</i>	116,448
Operating Transfers - In	100,000
<i>Net Income</i>	216,448
<i>Retained Earnings Beginning of Year</i>	2,325,789
<i>Retained Earnings End of Year</i>	\$2,542,237

See accompanying notes to the general purpose financial statements

**City of Independence, Ohio**  
*Statement of Cash Flows*  
*Internal Service Fund*  
*For the Year Ended December 31, 1999*

	<u>Self Insurance</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Payments for Claims	<u>(\$1,365)</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers In	<u>100,000</u>
<b>Cash Flows From Investing Activities:</b>	
Investment Earnings	<u>117,813</u>
<i>Net Increase in Cash and Cash Equivalents</i>	216,448
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>2,328,789</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$2,545,237</u></u>

See accompanying notes to general purpose financial statements

**City of Independence, Ohio**  
*Statement of Revenues, Expenses, and  
 Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual  
 Internal Service Fund  
 For the Year Ended December 31, 1999*

	Self Insurance Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Expenses</b>			
Claims	\$100,000	\$1,365	\$98,635
<i>Operating Loss</i>	(100,000)	(1,365)	(98,635)
<b>Non-Operating Revenues</b>			
Investment Earnings	0	117,813	117,813
<i>Income Before Operating Transfers</i>	100,000	116,448	216,448
Operating Transfers In	100,000	100,000	0
Excess of Revenues and Other Financing Sources Over Expenses	0	216,448	216,448
<i>Fund Equity Beginning of Year</i>	2,328,789	2,328,789	0
<i>Fund Equity End of Year</i>	\$2,528,789	\$2,545,237	\$216,448

See accompanying notes to the general purpose financial statements

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1999*

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**Note 1 - Reporting Entity and Basis of Presentation**

The City of Independence is a home rule municipal corporation formed under the laws of the State of Ohio. The City operates under its own Charter made effective November 4, 1958. The Charter, as amended, provides for a Council-Mayor form of government.

The Mayor, elected by the voters for a two-year term, is the head of the municipal government for ceremonial, administrative, and executive purposes, performs the judicial functions of the City and presides at Council meetings. The chief conservator of the peace, he oversees the enforcement of all laws and ordinances. He also appoints all department heads and executes all contracts, conveyances, and evidences of indebtedness of the City.

Legislative authority is vested in a seven member council with all seven members elected at large for a term of two years. Council enacts ordinances and resolutions relating to tax levies, appropriates and borrows money, and accepts bids for materials and services and other municipal purposes.

**A. Reporting Entity**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading.

The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. For the City of Independence this includes all City departments and agencies that provide the following services: police and fire protection, emergency medical, parks, recreation, a cemetery, street maintenance, and Mayor's court.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the final budget, the issuance of debt or the levying of taxes. There are no component units included as part of the reporting entity.

The City is associated with the Southwest Council of Governments, a jointly governed organization. Information about the organization is presented in Note 13 to the combined financial statements.

**B. Basis of Presentation - Fund Accounting**

The City's accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operation of each fund is accounted for within a set of self-balancing accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types." The City uses the following fund types and account groups.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1999*

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**Note 1 - Reporting Entity and Basis of Presentation (Continued)**

**B. Basis of Presentation - Fund Accounting (Continued)**

**Governmental Fund Types** Governmental funds are those through which most governmental functions typically are financed. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The following are the City's governmental fund types:

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

**Special Revenue Funds** These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

**Debt Service Funds** These funds are used 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** These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

**Proprietary Fund Type** Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The City's only proprietary fund is an Internal Service Fund.

**Internal Service Fund** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

**Fiduciary Fund Types** Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City's only fiduciary fund types are the agency funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

**Account Groups** To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

**General Fixed Assets Account Group** The general fixed assets account group is used to account for all general fixed assets of the City.

**General Long-Term Obligations Account Group** The general long-term obligations account group is used to account for all unmatured long-term indebtedness of the City.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1999*

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**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the City of Independence have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989, to its proprietary activities to the extent they do not contradict or conflict with GASB pronouncements. The more significant of the City's accounting policies are described below.

**A. Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is utilized for reporting purposes by the governmental and agency funds. Under this method of accounting, the City recognizes revenues and other financing sources when they become both measurable and available (i.e. collectible within the current period or within 60 days thereafter) to finance current City operations. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Compensated absences are reported as a fund liability when payment will require the use of current available financial resources.

Revenue considered susceptible to accrual at the end of year includes income taxes, interest on investments, state levied locally shared taxes (including motor vehicle license fees, gasoline taxes, and local government assistance), have been made. Other revenues, including licenses, permits, certain charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of December 31, 1999 and delinquent property taxes, whose availability is indeterminable and which are not intended to finance the current year, have been recorded as deferred revenue as further described in Note 6.

The accrual basis of accounting is utilized for reporting purposes by the internal service fund. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1999*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**B. Budgetary Data**

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 prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

**Tax Budget** During the first Council meeting in July, the Mayor presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget 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.

**Estimated Resources** The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 1999.

**Appropriations** A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may only be modified during the year only by an ordinance of Council. During the year, several supplemental appropriation measures were passed; however, none were significant in amount. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

**Encumbrances** As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures.

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



**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1999*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***C. 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, investments were limited to repurchase agreements, reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 1999 amounted to \$450,039, which includes \$353,371 assigned from other City funds.

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

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.

***D. Inventory***

Inventory is stated at cost for governmental funds on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds when purchased.

***E. 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 by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which it was consumed. Prepaid items consist primarily of insurance premiums and equipment maintenance contracts.

***F. Fixed Assets and Depreciation***

General fixed assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the General Fixed Assets Account Group. Infrastructure fixed assets such as streets, storm sewers and drains, and traffic signals and signs are not capitalized by the City and are not reported as part of the General Fixed Assets Account Group.

Fixed asset values were initially determined at December 31, 1986 by assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1999*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***F. Fixed Assets and Depreciation (Continued)***

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized. Improvements are capitalized.

The City has elected not to record depreciation in the General Fixed Assets Account Group.

***G. Compensated Absences***

The City has implemented the provisions of Governmental Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

***H. Accrued Liabilities and Long Term Obligations***

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year end are generally considered not to have been paid with current available resources. The bond anticipation notes that were rolled over prior to the issuance of the financial statements have been reported in the general long-term obligations account group. Bonds, long-term loans and capital leases are recognized as a liability of the general long-term obligations account group until due or until resources have been accumulated in the fund making a payment early in the following year. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

***I. Fund Equity***

Reservations of fund balance are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure including amounts that are legally segregated for a specific future use. Fund balances are reserved for encumbrances and inventories of supplies and materials.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1999*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***J. Interfund Transactions***

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

***K. Estimates***

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

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

The "Totals" columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**Note 3 - Budgetary Basis of Accounting**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and the Statement of Revenues, Expenses, and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - Internal Service Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis (generally accepted accounting principles) are:

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

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 1999

**Note 3 - Budgetary Basis of Accounting (Continued)**

4. Proceeds from and principal payment on short-term note obligations are reported on the operating statement (budget) rather than on the balance sheet (GAAP).
5. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$2,413,318	\$209,974	\$76,178	(\$7,589,818)
Net Adjustment for Revenue Accruals	(1,526,186)	(24,271)	0	0
Unreported Cash	(8,044)	0	0	0
Proceeds of Notes	0	0	0	12,750,000
Net Adjustment for Expenditure Accruals	(127,670)	(20,359)	0	(179,247)
Encumbrances	(725,603)	(29,360)	0	(6,749,906)
Budget Basis	\$25,815	\$135,984	\$76,178	(\$1,768,971)

**Note 4 - Accountability and Compliance**

**A. Compliance**

The following accounts had expenditures in excess of appropriations contrary to Section 5705.41, Ohio Revised Code:

Fund/Function	Appropriations	Expenditures	Excess
<i>General Fund</i>			
Community Environment	\$2,832,160	\$3,074,195	\$242,035
Transfers Out	6,728,099	7,155,000	426,901
<i>Special Revenue Funds</i>			
<i>Recreation Trust</i>			
Leisure Time Activity	277,279	284,653	7,374

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 1999

Fund/Function	Appropriations	Expenditures	Excess
<i>Capital Projects Funds</i>			
Capital Improvements			
Capital Outlay	\$4,590,211	\$8,991,219	\$4,401,008
Principal Retirement	0	2,606,767	2,606,767
Interest and Fiscal Charges	0	72,735	72,735
Drain Water			
Capital Outlay	1,839,426	2,312,691	473,265
Street Resurfacing			
Capital Outlay	6,367,939	6,676,131	308,192
Principal Retirement	0	3,000,000	3,000,000
Interest and Fiscal Charges	0	84,375	84,375

In order to eliminate the budgetary violations, appropriations will be monitored more closely.

**Note 5 - Deposits and Investments**

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

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

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

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the finance director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 1999

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**Note 5 - Deposits and Investments (Continued)**

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligation of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

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 custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

**A. Deposits**

At year-end, the carrying amount of the City's deposits was \$21,636,668 and the bank balance was \$20,203,454. Of the bank balance:

1. \$423,790 was covered by federal depository insurance.
2. \$19,779,664 was uncollateralized and uninsured. Although the pledging bank has an investment and securities pool used to collateralize all public deposits which are held in the financial institution's name, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 1999

**Note 5 - Deposits and Investments (Continued)**

**B. Investments**

The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at 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 for which the securities 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.

	Category 3	Carrying Amount	Fair Value
Repurchase Agreement	\$511,384	\$511,384	\$511,384

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$22,148,052	\$0
Investments: Repurchase Agreement	(511,384)	511,384
GASB Statement No. 3	\$21,636,668	\$511,384

**Note 6 - Receivables**

Receivables at December 31, 1999 consist primarily of taxes, intergovernmental receivables, special assessments, and accrued interest on investments. All receivables are considered fully collectible.

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 1999 for real and public utility property taxes represents collections of 1998 taxes. Property tax payments received during 1999 for tangible personal property (other than public utility property) is for 1999 taxes.

1999 real property taxes are levied after October 1, 1999 on the assessed value as of January 1, 1999, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 1999 real property taxes are collected in and intended to finance 2000.

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 1999

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**Note 6 - Receivables (Continued)**

**A. Property Taxes (Continued)**

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 1999 public utility property taxes became a lien December 31, 1998, are levied after October 1, 1999, and are collected in 2000 with real property taxes.

1999 tangible personal property taxes are levied after October 1, 1998, on the value as of December 31, 1998. Collections are made in 1999. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 1999 was \$3.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 1999 property tax receipts were based are as follows:

Real Estate	
Residential/Agricultural	\$167,431,580
Other Real Estate	187,195,620
Tangible Personal Property	
Public Utility	24,444,450
General Tangible Personal Property	<u>53,400,026</u>
Total	<u><u>\$432,471,676</u></u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Independence. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 1999. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 1999 operations. The receivable is offset by deferred revenue.

**B. Income Taxes**

The City levies and collects an income tax of two percent on all income earned within the City as well on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.



**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 1999

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**Note 6 - Receivables (Continued)**

**C. Intergovernmental Receivables**

A summary of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
<i>General Fund:</i>	
Undivided Local Government	\$78,385
Estate Tax	49,476
Additional Officers Grant	25,000
Local Government Assistance	22,778
Troops to Cops Grant	9,800
Liquor Permit Fees	2,279
<i>Total General Fund</i>	187,718
 <i>Special Revenue Funds:</i>	
Street Construction Maintenance and Repair	\$36,871
State Highway	2,989
Permissive Tax	2,888
Enforcement and Education	120
Drug Offence	693
Law Enforcement	160
<i>Total Special Revenue Funds</i>	43,721
Total	\$231,439

**Note 7 - Contingencies**

The City of Independence is a party to legal proceedings seeking damages. The City management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 1999

**Note 8 - Fixed Assets**

Changes in general fixed assets during 1999 were as follows:

	Balance January 1, 1999	Additions	Deletions	Balance December 31, 1999
Land	\$4,499,019	\$2,813,933	\$9,750	\$7,303,202
Buildings	20,241,756	423,901	514,100	20,151,557
Machinery and Equipment	4,232,912	80,079	3,479	4,309,512
Furniture and Fixtures	1,492,084	195,071	0	1,687,155
Vehicles	4,065,615	463,818	20,373	4,509,060
Construction In Progress	1,690,496	221,076	1,644,170	267,402
<b>Total</b>	<b>\$36,221,882</b>	<b>\$4,197,878</b>	<b>\$2,191,872</b>	<b>\$38,227,888</b>

**Note 9 - Defined Benefit Pension Plans**

**A. Public Employee Retirement System (PERS)**

All City full-time employees, other than Police and Firemen, participate in 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 basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members 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. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 1999, 1998, and 1997 were \$400,209, \$366,905, and \$347,638 respectively. The full amount has been contributed for 1998 and 1997. 52.92 percent has been contributed for 1999 with the remainder being reported as a liability in the general long-term obligations group.

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 1999

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**Note 9 - Defined Benefit Pension Plans (Continued)**

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

The City contributes to the Police and Firemen's Disability and Pension Fund of Ohio (PFDPF), a cost-sharing multiple employer public employee retirement system administered by the PFDPF's Board of Trustees. The PFDPF 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 by Chapter 742 of the Ohio Revised Code. The PFDPF issues a publicly available financial report that includes financial information and required supplementary information. That 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.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and for 1999 the City was required to contribute 12.5 percent for police and 17 percent for firefighters. For 1998 the City contributions were 13 percent for police and 17.5 percent for firefighters. Contributions are authorized by State statute. The City's contributions to PFDPF for police and firefighters were \$221,854 and \$218,488 for the year ended December 31, 1999, \$210,696 and \$187,901 for 1998, and \$201,075 and \$176,218 for 1997. The full amount has been contributed for 1998 and 1997. 71.45 and 68.53 percent, respectively, have been contributed for 1999 with the remainder being reported as a liability within the general long-term obligations account group.

In addition to the current contribution, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 1999, the unfunded liability of the City was \$93,930 payable in semiannual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported in the general long-term obligations account group.

**Note 10 - 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 retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on the authority granted by State statute. The 1999 employer contribution rate was 13.55 percent of covered payroll for employees; 4.2 percent was the portion that was used to fund health care.

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 1999

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**Note 10 - Postemployment Benefits (Continued)**

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

Benefits are funded on a pay-as-you-go basis. OPEB are financed through employer contributions and investment earnings. The contributions allocated to retiree health care and Medicare, along with investments 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 118,062. The City's actual contributions for 1999 which were used to fund OPEB were \$223,249.

During 1997, PERS adopted a new calculation method for determining employer contributions applied to OPEB. 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 coverage.

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

The Police and Firemen's Disability and Pension Fund (PFDPF) 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 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Police and Firemen's Disability and Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Police and Firemen's Disability and Pension Fund shall be included in the employers' contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7 percent of covered payroll is applied to the postemployment health care program during 1999. For 1998, the percent used to fund healthcare was 6.5 percent. This allocation will be raised to 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 City's actual contributions for 1999 that were used to fund postemployment benefits were \$124,238 for police and \$89,966 for fire. PFDPF's total health care expenses for the year ended December 31, 1998, (the latest information available) were \$78,596,790 which was net of member contributions of \$5,331,515. The number of PFDPF participants eligible to receive health care benefits as of December 31, 1999, was 11,424 for police and 9,186 for firefighters.

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 1999

**Note 11 - Compensated Absences**

Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned vacation time must be used each year and may not be carried forward to the next year. Employees earn sick leave at different rates depending upon length of service and type of employment. Sick leave accrual is continuous, without limit. Upon retirement, an employee can be paid a maximum of one fourth of 960 hours of accumulated, unused sick leave. As of December 31, 1999, the liability for unpaid compensated absences was \$188,306 for the entire City.

**Note 12 - Risk Management**

The City of Independence is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disaster. During 1999, the City contracted with National Fire Insurance Company of Hartford for various types of insurance as follows:

Company	Type	Coverage	Deductible
Reliance Insurance Company	Inland Marine	\$413,500	\$250
	Property	30,407,000	1,000
	Auto Comprehensive/ Collision	500,000	500/500

There has not been a significant reduction in commercial coverage from the prior year and settled claims have not exceeded this coverage in any of the last three years.

The City also carries and administers extraordinary liability insurance for all lawsuits. This insurance is maintained through the Self Insurance internal service fund. The claims liability of \$3,000 has been accrued in the internal service fund at December 31, 1999 based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount for 1997 through 1999 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
1997	\$3,000	\$1,000	\$1,000	\$3,000
1998	3,000	30,000	30,000	3,000
1999	3,000	1,365	1,365	3,000

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

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 1999

**Note 13 - Jointly Governed Organization**

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The board is comprised of one member from each of the sixteen participating entities. The board exercises total control over the operation of the Council including budgeting, appropriating, contracting and designating management. Budgets are adopted by the board. Each City's degree of control is limited to its representation on the board. In 1999, the City contributed \$4,500 which represents 5.88 percent of total contributions.

The Council has established two subsidiary organizations, the Hazardous Material Response Team ("HAZ MAT") which provides hazardous material protection and assistance and the Southwest Enforcement Bureau which provides extra assistance to cities in the form of a Swat Team. The Council's financial statements may be obtained by contacting the Southwest Council of Governments, Parma Heights, Ohio.

**Note 14 - Long-Term Obligations**

Changes in long-term obligations of the City during 1999 were as follows:

	Outstanding 12/31/98	Additions	(Reductions)	Outstanding 12/31/99
<b>General Long-Term Obligations</b>				
<i>General Obligations Bond:</i>				
1991 5.58%				
Civic Center	\$3,900,000	\$0	(\$300,000)	\$3,600,000
<i>Special Assessment Bond:</i>				
1985 8.50%				
West Creek Road	70,000	0	(35,000)	35,000
<i>Notes Payable:</i>				
1998 3.75%				
Street Resurfacing	3,000,000	0	(3,000,000)	0
1998 3.73%				
Fire Station Construction	2,600,000	0	(2,600,000)	0
1999 3.24%, Matures May 13, 2000				
Property and Equipment	0	3,100,000	0	3,100,000
<i>Total Notes</i>	5,600,000	3,100,000	(5,600,000)	3,100,000
0% OPWC Loan	104,889	0	(6,767)	98,122
Compensated Absences	149,569	181,651	(149,569)	181,651
Capital Lease Obligations	28,850	9,873	(10,799)	27,924

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 1999

	Outstanding 12/31/98	Additions	(Reductions)	Outstanding 12/31/99
Intergovernmental Payables	369,321	514,490	(369,321)	514,490
Police and Fire Pension	96,314	0	(2,384)	93,930
<b>Total General Long-Term Obligations</b>	<b>\$10,318,943</b>	<b>\$3,806,014</b>	<b>(\$6,473,840)</b>	<b>\$7,651,117</b>

General obligation bonds and the Ohio Public Works Commission loan will be paid from the general bond retirement debt service fund from property taxes. Special assessment bonds will be paid from the proceeds of special assessments levied against benefitted property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City.

The capital lease obligation is paid from the general fund. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid. Intergovernmental payables (long-term pension obligations) will be paid from the fund from which the employees' salaries are paid. The police and fire pension liability will be paid from taxes received in the police and fire pension special revenue funds.

Bond anticipation notes that were rolled over prior to the issuance of the financial statements and have a new maturity beyond the end of the year in which the report is issued, have been reported in the general long-term obligations account group and will be paid from the debt service fund.

The City's overall legal debt margin was \$22,846,322 with an unvoted debt margin of \$10,600,813 at December 31, 1999. Principal and interest requirements to retire long-term obligations outstanding at December 31, 1999 are as follows:

	Civic Center	West Creek Special Assessment	Ohio Public Works Loan	Police and Fire Pension
2000	\$501,600	\$37,975	\$6,767	\$6,453
2001	484,800	0	6,767	6,453
2002	468,000	0	6,767	6,453
2003	451,200	0	6,767	6,453
2004-2008	2,004,000	0	33,835	32,265
2009-2013	1,000,800	0	33,835	32,265
2014-2018	0	0	3,384	32,265
2019-2022	0	0	0	25,812
<b>Total</b>	<b>\$4,910,400</b>	<b>\$37,975</b>	<b>\$98,122</b>	<b>\$148,419</b>

**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 1999

**Note 15 - Capital Leases**

In prior years, the City has entered into lease agreements for copiers. During 1999, the City entered into a lease agreement for an additional copier which was accounted for on a GAAP basis as a program expenditure in the general fund, with an offsetting amount reported as an other financing source. These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, "Accounting for Leases" and have been recorded in the general long-term obligations account group.

Fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$58,131 which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 1999 totaled \$10,799 in the general fund.

The following is a schedule of the future long-term annual minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 1999:

Year	Total
2000	\$14,887
2001	10,228
2002	5,267
Total minimum lease payments	30,382
Less: Amount representing interest	(2,458)
Present value of minimum lease payments	\$27,924

**Note 16 - Note Obligations**

The City's note activity, including amounts outstanding, interest rates and the capital projects fund in which the note liability is reported is as follows:

	Outstanding 12/31/98	Additions	(Reductions)	Outstanding 12/31/99
Capital Improvements Fund				
1999 3.95%	\$0	\$2,600,000	\$0	\$2,600,000
1999 3.95%	0	3,250,000	0	3,250,000
1999 3.95%	0	2,200,000		2,200,000
1999 3.73%	0	1,000,000	0	1,000,000
Total Capital Improvements	0	9,050,000	0	9,050,000
Drain Water Fund				
1999 3.95%	0	1,500,000	0	1,500,000
1999 3.95%	0	600,000	0	600,000
Total Drain Water Fund	0	2,100,000	0	2,100,000



**City of Independence, Ohio**  
Notes to the General Purpose Financial Statements  
For the Year Ended December 31, 1999

	Outstanding 12/31/98	Additions	(Reductions)	Outstanding 12/31/99
Street Resurfacing Fund				
1999 3.95%	0	1,100,000	0	1,100,000
1999 3.73%	0	500,000	0	500,000
Total Street Resurfacing Fund	0	1,600,000	0	1,600,000
Total Notes	<u>\$0</u>	<u>\$12,750,00</u>	<u>\$0</u>	<u>\$12,750,00</u>

All of the notes are backed by the full faith and credit of the City of Independence and mature within one year. The note liability is reflected in the fund which received the proceeds. All of the notes mature August 10, 2000 except the 1999 3.73% \$1,000,000 capital improvement fund notes and the 1999 3.73% \$500,000 street resurfacing fund notes which mature May 13, 2000.

The notes are issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

**Note 17 - Contractual Commitments**

The City had the following contractual commitments outstanding at December 31, 1999:

Project	Contract Amount	Amount Remaining on Contract
Bath House	\$1,733,000	\$1,687,920
Pool at Elmwood Park	905,650	666,900
Elmwood Park Maintenance Building	584,642	534,042

**Note 18 - Subsequent Events**

On April 17, 2000, the City issued \$3,100,000 of bond anticipation notes, \$2,000,000 at a rate of 4.92% and \$1,100,000 at a rate of 4.71% for various capital projects going on in the City. The notes mature May 11, 2001.

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**City of Independence, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups*  
*December 31, 1998*

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Assets and Other Debits</b>				
<b>Assets</b>				
Cash and Cash Equivalents	\$4,009,936	\$225,322	\$160,149	\$8,914,627
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	8,044	0
Receivables:				
Taxes	3,128,242	123,782	577,651	0
Accounts	68,470	190	0	0
Special Assessments	0	0	79,058	0
Due from Other Governments	95,499	19,260	0	0
Materials and Supplies				
Inventory	125,364	47,772	0	0
Prepaid Items	12,535	0	0	0
Fixed Assets	0	0	0	0
<b>Other Debits</b>				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount Available in Debt Service Fund for Retirement of Special Assessment Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Amount to be Provided from Special Assessments	0	0	0	0
<b>Total Assets and Other Debits</b>	<b>\$7,440,046</b>	<b>\$416,326</b>	<b>\$824,902</b>	<b>\$8,914,627</b>

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	
\$2,328,789	\$285,370	\$0	\$0	\$15,924,193
0	12,038	0	0	12,038
0	0	0	0	8,044
0	0	0	0	3,829,675
0	0	0	0	68,660
0	0	0	0	79,058
0	0	0	0	114,759
0	0	0	0	173,136
0	0	0	0	12,535
0	0	36,221,882	0	36,221,882
0	0	0	142,779	142,779
0	0	0	17,370	17,370
0	0	0	10,102,664	10,102,664
0	0	0	56,130	56,130
<u>\$2,328,789</u>	<u>\$297,408</u>	<u>\$36,221,882</u>	<u>\$10,318,943</u>	<u>\$66,762,923</u>

**City of Independence, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups (continued)*  
*December 31, 1998*

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Liabilities</b>				
<b>Fund Equity and Other Credits</b>				
<b>Liabilities</b>				
Accounts Payable	\$151,363	\$13,251	\$0	\$25,663
Contracts Payable	0	0	0	432,121
Accrued Wages and Benefits	336,715	43,045	0	0
Compensated Absences Payable	9,051	0	0	0
Due to Other Governments	57,922	5,833	0	0
Deferred Revenue	783,954	123,782	656,709	0
Undistributed Monies	0	0	0	0
Deposits Held and Due to Others	0	0	0	0
Matured Bonds and Interest Payable	0	0	8,044	0
Notes Payable	0	0	0	0
OPWC Loan Payable	0	0	0	0
Claims and Judgments Payable	0	0	0	0
Police and Fire Pension Liability	0	0	0	0
Capital Leases Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Special Assessment Debt with Governmental Commitment	0	0	0	0
<b>Total Liabilities</b>	<b>1,339,005</b>	<b>185,911</b>	<b>664,753</b>	<b>457,784</b>
<b>Fund Equity and Other Credits</b>				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	269,291	12,945	0	6,504,792
Reserved for Inventory	125,364	47,772	0	0
Unreserved, Undesignated	5,706,386	169,698	160,149	1,952,051
<b>Total Fund Equity and Other Credits</b>	<b>6,101,041</b>	<b>230,415</b>	<b>160,149</b>	<b>8,456,843</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$7,440,046</b>	<b>\$416,326</b>	<b>\$824,902</b>	<b>\$8,914,627</b>

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	
\$0	\$0	\$0	\$0	\$190,277
0	0	0	0	432,121
0	0	0	0	379,760
0	0	0	149,569	158,620
0	0	0	369,321	433,076
0	0	0	0	1,564,445
0	12,231	0	0	12,231
0	285,177	0	0	285,177
0	0	0	0	8,044
0	0	0	5,600,000	5,600,000
0	0	0	104,889	104,889
3,000	0	0	0	3,000
0	0	0	96,314	96,314
0	0	0	28,850	28,850
0	0	0	3,900,000	3,900,000
<u>0</u>	<u>0</u>	<u>0</u>	<u>70,000</u>	<u>70,000</u>
<u>3,000</u>	<u>297,408</u>	<u>0</u>	<u>10,318,943</u>	<u>13,266,804</u>
0	0	36,221,882	0	36,221,882
2,325,789	0	0	0	2,325,789
0	0	0	0	6,787,028
0	0	0	0	173,136
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,988,284</u>
<u>2,325,789</u>	<u>0</u>	<u>36,221,882</u>	<u>0</u>	<u>53,496,119</u>
<u>\$2,328,789</u>	<u>\$297,408</u>	<u>\$36,221,882</u>	<u>\$10,318,943</u>	<u>\$66,762,923</u>

**City of Independence, Ohio**  
*Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances  
All Governmental Fund Types  
For the Year Ended December 31, 1998*

	Governmental	
	General	Special Revenue
<b>Revenues</b>		
Municipal Income Tax	\$18,905,210	\$0
Property and Other Taxes	2,430,812	111,850
Charges for Services	49,082	0
Licenses and Permits	460,159	244,913
Fines and Forfeitures	226,113	4,282
Intergovernmental	123,154	350,340
Special Assessments	0	100
Interest	455,502	0
Rentals	49,869	0
Other	287,738	1,855
	<u>22,987,639</u>	<u>713,340</u>
<i>Total Revenues</i>		
<b>Expenditures</b>		
Current:		
General Government	2,921,572	0
Security of Persons and Property	4,940,848	338,035
Public Health and Welfare	146,904	7,095
Transportation	700,228	1,027,732
Community Environment	2,197,668	7,232
Basic Utility Services	436,295	0
Leisure Time Activities	971,932	247,671
Capital Outlay	0	0
Debt Service:		
Principal Retirement	9,656	2,286
Interest and Fiscal Charges	2,738	4,166
	<u>12,327,841</u>	<u>1,634,217</u>
<i>Total Expenditures</i>		
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>10,659,798</u>	<u>(920,877)</u>
<b>Other Financing Sources (Uses)</b>		
Proceeds of Notes	0	0
Sale of Fixed Assets	35,400	0
Operating Transfers In	0	816,000
Operating Transfers Out	(8,286,000)	0
	<u>(8,250,600)</u>	<u>816,000</u>
<i>Total Other Sources (Uses)</i>		
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>2,409,198</u>	<u>(104,877)</u>
<i>Fund Balances Beginning of Year (Restated - Note 3)</i>	3,672,212	360,853
Increase (Decrease) in Reserve for Inventory	<u>19,631</u>	<u>(25,561)</u>
<i>Fund Balances End of Year</i>	<u>\$6,101,041</u>	<u>\$230,415</u>

See accompanying notes to the general purpose financial statements



Fund Types		Totals (Memorandum Only)
Debt Service	Capital Projects	
\$0	\$0	\$18,905,210
597,044	0	3,139,706
0	0	49,082
0	0	705,072
0	0	230,395
59,948	0	533,442
53,983	0	54,083
0	107,311	562,813
0	0	49,869
0	56,948	346,541
<u>710,975</u>	<u>164,259</u>	<u>24,576,213</u>
0	0	2,921,572
0	0	5,278,883
0	0	153,999
0	0	1,727,960
0	0	2,204,900
0	0	436,295
0	0	1,219,603
0	5,554,976	5,554,976
2,310,267	0	2,322,209
358,322	0	365,226
<u>2,668,589</u>	<u>5,554,976</u>	<u>22,185,623</u>
<u>(1,957,614)</u>	<u>(5,390,717)</u>	<u>2,390,590</u>
5,600,000	0	5,600,000
0	0	35,400
0	10,959,816	11,775,816
<u>(3,619,816)</u>	<u>0</u>	<u>(11,905,816)</u>
<u>1,980,184</u>	<u>10,959,816</u>	<u>5,505,400</u>
22,570	5,569,099	7,895,990
137,579	2,887,744	7,058,388
<u>0</u>	<u>0</u>	<u>(5,930)</u>
<u>\$160,149</u>	<u>\$8,456,843</u>	<u>\$14,948,448</u>

**City of Independence, Ohio**  
*Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget (Non-GAAP) and Actual  
All Governmental Fund Types  
For the Year Ended December 31, 1998*

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<b>Revenues</b>			
Municipal Income Tax	\$14,293,282	\$17,896,840	\$3,603,558
Property and Other Taxes	1,924,579	2,427,743	503,164
Charges for Services	40,297	50,456	10,159
Licenses and Permits	374,755	469,236	94,481
Fines and Forfeitures	180,585	226,113	45,528
Intergovernmental	97,023	103,537	6,514
Special Assessments	0	0	0
Interest	363,786	455,502	91,716
Rentals	39,828	49,869	10,041
Other	229,819	287,760	57,941
<i>Total Revenues</i>	<u>17,543,954</u>	<u>21,967,056</u>	<u>4,423,102</u>
<b>Expenditures</b>			
Current:			
General Government	3,113,038	3,087,193	25,845
Security of Persons and Property	5,631,155	5,096,686	534,469
Public Health and Welfare	149,000	147,259	1,741
Transportation	773,989	725,269	48,720
Community Environment	2,202,010	2,185,320	16,690
Basic Utility Services	578,172	561,388	16,784
Leisure Time Activities	1,115,236	970,560	144,676
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>13,562,600</u>	<u>12,773,675</u>	<u>788,925</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,981,354</u>	<u>9,193,381</u>	<u>5,212,027</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds of Notes	0	0	0
Sale of Fixed Assets	16,605	35,400	18,795
Operating Transfers In	0	0	0
Operating Transfers Out	(7,430,000)	(8,156,000)	(726,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(7,413,395)</u>	<u>(8,120,600)</u>	<u>(707,205)</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(3,432,041)	1,072,781	4,504,822
<i>Fund Balances Beginning of Year</i>	2,169,011	2,169,011	0
Prior Year Encumbrances Appropriated	400,000	400,000	0
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$863,030)</u>	<u>\$3,641,792</u>	<u>\$4,504,822</u>

See accompanying notes to the general purpose financial statements

Special Revenue Funds			Debt Service Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0
108,460	111,850	3,390	578,453	597,044	18,591
0	0	0	0	0	0
165,000	244,913	79,913	0	0	0
16,000	9,117	(6,883)	0	0	0
336,240	344,152	7,912	59,948	59,948	0
0	0	0	52,000	53,983	1,983
0	0	0	0	0	0
0	0	0	0	0	0
15,000	1,855	(13,145)	0	0	0
<u>640,700</u>	<u>711,887</u>	<u>71,187</u>	<u>690,401</u>	<u>710,975</u>	<u>20,574</u>
0	0	0	0	0	0
344,000	351,582	(7,582)	0	0	0
0	0	0	0	0	0
1,190,000	1,043,402	146,598	0	0	0
6,000	7,700	(1,700)	0	0	0
0	0	0	0	0	0
240,000	250,543	(10,543)	0	0	0
0	0	0	0	0	0
0	0	0	435,000	435,000	0
0	0	0	255,000	253,405	1,595
<u>1,780,000</u>	<u>1,653,227</u>	<u>126,773</u>	<u>690,000</u>	<u>688,405</u>	<u>1,595</u>
<u>(1,139,300)</u>	<u>(941,340)</u>	<u>197,960</u>	<u>401</u>	<u>22,570</u>	<u>22,169</u>
0	0	0	0	0	0
0	0	0	0	0	0
1,090,000	816,000	(274,000)	0	0	0
0	0	0	0	0	0
<u>1,090,000</u>	<u>816,000</u>	<u>(274,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>
(49,300)	(125,340)	(76,040)	401	22,570	22,169
261,024	261,024	0	137,579	137,579	0
75,000	75,000	0	0	0	0
<u>\$286,724</u>	<u>\$210,684</u>	<u>(\$76,040)</u>	<u>\$137,980</u>	<u>\$160,149</u>	<u>\$22,169</u>

(continued)

**City of Independence, Ohio**  
*Combined Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Budget (Non-GAAP) and Actual  
 All Governmental Fund Types (continued)  
 For the Year Ended December 31, 1998*

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Municipal Income Tax	\$0	\$0	\$0
Property and Other Taxes	0	0	0
Charges for Services	0	0	0
Licenses and Permits	0	0	0
Fines and Forfeitures	0	0	0
Intergovernmental	0	0	0
Special Assessments	0	0	0
Interest	0	56,948	56,948
Rentals	0	0	0
Other	418,000	107,311	(310,689)
<i>Total Revenues</i>	<u>418,000</u>	<u>164,259</u>	<u>(253,741)</u>
<b>Expenditures</b>			
Current:			
General Government	0	0	0
Security of Persons and Property	0	0	0
Public Health and Welfare	0	0	0
Transportation	0	0	0
Community Environment	0	0	0
Basic Utility Services	0	0	0
Leisure Time Activities	0	0	0
Capital Outlay	3,648,573	12,409,726	(8,761,153)
Debt Service:			
Principal Retirement	1,906,767	1,906,767	0
Interest and Fiscal Charges	74,660	73,417	1,243
<i>Total Expenditures</i>	<u>5,630,000</u>	<u>14,389,910</u>	<u>(8,759,910)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(5,212,000)</u>	<u>(14,225,651)</u>	<u>(9,013,651)</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds of Notes	2,600,000	5,600,000	3,000,000
Sale of Fixed Assets	0	0	0
Operating Transfers In	1,582,000	7,340,000	5,758,000
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>4,182,000</u>	<u>12,940,000</u>	<u>8,758,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(1,030,000)</u>	<u>(1,285,651)</u>	<u>(255,651)</u>
<i>Fund Balances Beginning of Year</i>	2,407,702	2,407,702	0
Prior Year Encumbrances Appropriated	830,000	830,000	0
<i>Fund Balances (Deficit) End of Year</i>	<u>\$2,207,702</u>	<u>\$1,952,051</u>	<u>(\$255,651)</u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)

Revised Budget	Actual	Variance Favorable (Unfavorable)
\$14,293,282	\$17,896,840	\$3,603,558
2,611,492	3,136,637	525,145
40,297	50,456	10,159
539,755	714,149	174,394
196,585	235,230	38,645
493,211	507,637	14,426
52,000	53,983	1,983
363,786	512,450	148,664
39,828	49,869	10,041
662,819	396,926	(265,893)
<u>19,293,055</u>	<u>23,554,177</u>	<u>4,261,122</u>
3,113,038	3,087,193	25,845
5,975,155	5,448,268	526,887
149,000	147,259	1,741
1,963,989	1,768,671	195,318
2,208,010	2,193,020	14,990
578,172	561,388	16,784
1,355,236	1,221,103	134,133
3,648,573	12,409,726	(8,761,153)
2,341,767	2,341,767	0
329,660	326,822	2,838
<u>21,662,600</u>	<u>29,505,217</u>	<u>(7,842,617)</u>
<u>(2,369,545)</u>	<u>(5,951,040)</u>	<u>(3,581,495)</u>
2,600,000	5,600,000	3,000,000
16,605	35,400	18,795
2,672,000	8,156,000	5,484,000
<u>(7,430,000)</u>	<u>(8,156,000)</u>	<u>(726,000)</u>
<u>(2,141,395)</u>	<u>5,635,400</u>	<u>7,776,795</u>
(4,510,940)	(315,640)	4,195,300
4,975,316	4,975,316	0
1,305,000	1,305,000	0
<u>\$1,769,376</u>	<u>\$5,964,676</u>	<u>\$4,195,300</u>

**City of Independence, Ohio**  
*Statement of Revenues,  
 Expenses and Changes in Retained Earnings  
 Internal Service Fund  
 For the Year Ended December 31, 1998*

	<u>Self Insurance</u>
<b>Operating Expenses</b>	
Claims	\$30,000
<i>Operating Loss</i>	(30,000)
<b>Non-Operating Revenues</b>	
Investment Earnings	111,680
<i>Income Before Operating Transfers</i>	81,680
Operating Transfers-In	130,000
<i>Net Income</i>	211,680
<i>Retained Earnings Beginning of Year</i>	2,114,109
<i>Retained Earnings End of Year</i>	\$2,325,789

See accompanying notes to the general purpose financial statements

**City of Independence, Ohio**  
*Statement of Cash Flows*  
*Internal Service Fund*  
For the Year Ended December 31, 1998

	<u>Self Insurance</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Payments for Claims	(\$30,000)
<b>Cash Flows from Noncapital Financing Activities</b>	
Operating Transfers In from Other Funds	130,000
<b>Cash Flows From Investing Activities:</b>	
Investment Earnings	111,680
<i>Net Increase in Cash and Cash Equivalents</i>	211,680
<i>Cash and Cash Equivalents Beginning of Year</i>	2,117,109
<i>Cash and Cash Equivalents End of Year</i>	\$2,328,789

See accompanying notes to general purpose financial statements

**City of Independence, Ohio**  
*Statement of Revenues, Expenses, and  
Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual  
Internal Service Fund  
For the Year Ended December 31, 1998*

	Self Insurance		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<b>Expenses</b>			
Claims	<u>\$100,000</u>	<u>\$30,000</u>	<u>\$70,000</u>
<i>Operating Loss</i>	(100,000)	(30,000)	70,000
<b>Non-Operating Revenues</b>			
Investment Earnings	<u>100,000</u>	<u>111,680</u>	<u>11,680</u>
<i>Income Before Operating Transfers</i>	0	81,680	81,680
Operating Transfers In	<u>0</u>	<u>130,000</u>	<u>130,000</u>
<i>Net Income</i>	0	211,680	211,680
<i>Fund Equity Beginning of Year</i>	<u>2,117,109</u>	<u>2,117,109</u>	<u>0</u>
<i>Fund Equity End of Year</i>	<u><u>\$2,117,109</u></u>	<u><u>\$2,328,789</u></u>	<u><u>\$211,680</u></u>

See accompanying notes to the general purpose financial statements



**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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**Note 1 - Reporting Entity and Basis of Presentation**

The City of Independence is a home rule municipal corporation formed under the laws of the State of Ohio. The City operates under its own Charter made effective November 4, 1958. The Charter, as amended, provides for a Council-Mayor form of government.

The Mayor, elected by the voters for a two-year term, is the head of the municipal government for ceremonial, administrative, and executive purposes, performs the judicial functions of the City and presides at Council meetings. The chief conservator of the peace, he oversees the enforcement of all laws and ordinances. He also appoints all department heads and executes all contracts, conveyances, and evidences of indebtedness of the City.

Legislative authority is vested in a seven member council with all seven members elected at large for a term of two years. Council enacts ordinances and resolutions relating to tax levies, appropriates and borrows money, and accepts bids for materials and services and other municipal purposes.

**A. Reporting Entity**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading.

The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. For the City of Independence this includes the City departments and agencies that provide the following services: police and fire protection, emergency medical, parks, recreation, a cemetery, street maintenance, and Mayor's court.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the final budget, the issuance of debt or the levying of taxes. There are no component units included as part of the reporting entity.

The City is associated with the Southwest Council of Governments, a jointly governed organization. Information about the organization is presented in Note 16 to the combined financial statements.

**B. Basis of Presentation - Fund Accounting**

The City's accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operation of each fund is accounted for within a set of self-balancing accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types." The City uses the following fund types and account groups.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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**Note 1 - Reporting Entity and Basis of Presentation (Continued)**

**B. Basis of Presentation - Fund Accounting (Continued)**

**Governmental Fund Types** Governmental funds are those through which most governmental functions typically are financed. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The following are the City's governmental fund types:

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

**Special Revenue Funds** These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

**Debt Service Funds** These funds are used 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** These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

**Proprietary Fund Type** Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The City's only proprietary fund is an Internal Service Fund.

**Internal Service Fund** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

**Fiduciary Fund Types** Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City's only fiduciary fund types are the agency funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

**Account Groups** To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

**General Fixed Assets Account Group** The general fixed assets account group is used to account for all general fixed assets of the City.

**General Long-Term Obligations Account Group** The general long-term obligations account group is used to account for all unmatured long-term indebtedness of the City.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the City of Independence have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989, to its proprietary activities to the extent they do not contradict or conflict with GASB pronouncements. The more significant of the City's accounting policies are described below.

**A. Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is utilized for reporting purposes by the governmental and agency funds. Under this method of accounting, the City recognizes revenues and other financing sources when they become both measurable and available (i.e. collectible within the current period or within 60 days thereafter) to finance current City operations. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Compensated absences are reported as a fund liability when payment will require the use of current available financial resources.

Revenue considered susceptible to accrual at the end of year includes income taxes, interest on investments, state levied locally shared taxes (including motor vehicle license fees, gasoline taxes, and local government assistance), have been made. Other revenues, including licenses, permits, certain charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of December 31, 1998 and delinquent property taxes, whose availability is indeterminable and which are not intended to finance the current year, have been recorded as deferred revenue as further described in Note 7.

The accrual basis of accounting is utilized for reporting purposes by the internal service fund. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**B. Budgetary Data**

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 prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

**Tax Budget** During the first Council meeting in July, the Mayor presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget 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.

**Estimated Resources** The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 1998.

**Appropriations** A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may only be modified during the year only by an ordinance of Council. During the year, several supplemental appropriation measures were passed; however, none were significant in amount. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

**Encumbrances** As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures.

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

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***C. 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, investments were limited to non-negotiable certificates of deposit, reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 1998 amounted to \$455,502, which includes \$275,455 assigned from other City funds.

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

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.

***D. Inventory***

Inventory is stated at cost for governmental funds on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds when purchased.

***E. 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 by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which it was consumed. Prepaid items consist primarily of insurance premiums and equipment maintenance contracts.

***F. Fixed Assets and Depreciation***

General fixed assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the General Fixed Assets Account Group. Infrastructure fixed assets such as streets, storm sewers and drains, and traffic signals and signs are not capitalized by the City and are not reported as part of the General Fixed Assets Account Group.

Fixed asset values were initially determined at December 31, 1986 by assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***F. Fixed Assets and Depreciation (Continued)***

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized. Improvements are capitalized.

The City has elected not to record depreciation in the General Fixed Assets Account Group.

***G. Compensated Absences***

The City has implemented the provisions of Governmental Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

***H. Accrued Liabilities and Long Term Obligations***

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences, special termination benefits and contractually required pension contributions are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year end are generally considered not to have been paid with current available resources. Bonds, long-term loans and capital leases are recognized as a liability of the general long-term obligations account group until due or until resources have been accumulated in the fund making a payment early in the following year.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

***I. Fund Equity***

Reservations of fund balance are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure including amounts that are legally segregated for a specific future use. Fund balances are reserved for encumbrances and inventories of supplies and materials.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

***J. Interfund Transactions***

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

***K. Estimates***

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

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

The "Totals" columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**Note 3 - Restatement of Prior Year's Fund Equity/ Change in Basis of Accounting**

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. Certain investments which were reported at cost in previous years are now reported at fair value. The implementation of GASB 31 had no effect on fund balance at the beginning of the year.

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 Ohio Deferred Compensation Program. On September, 1998, the Ohio Deferred Compensation Program created a trust for the assets of the plan for which the District has no fiduciary responsibility. Therefore, the balance of the Ohio Public Employees' Deferred Compensation plan is no longer presented as part of the City's financial statements.

At December 31, 1997, the fund balance in the special revenue funds and agency funds were restated by \$296,120 due to a fund reclassification. Also, at December 31, 1997, accounts payable were overstated by \$1,100 in the special revenue funds.

The restatements above decreased the fund balance in the special revenue funds from \$655,873 to \$360,853 and increased the excess of revenues and other financing sources over expenditures and other financing uses for the year ended December 31, 1997 from \$496,113 to \$496,213.

In 1998, the City changed the available period based on a study from thirty-one to sixty days after year end.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

**Note 4 - Budgetary Basis of Accounting**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and the Statement of Revenues, Expenses, and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - Internal Service Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis (generally accepted accounting principles) are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/Expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures/expenses for all funds (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure for proprietary funds.
4. Proceeds from and principal payment on short-term note obligations are reported on the operating statement (budget) rather than on the balance sheet (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$2,409,198	(\$104,877)	\$22,570	\$5,569,099
Net Adjustment for Revenue Accruals	(1,020,583)	(1,453)	0	0
Proceeds of Notes to Pay Debt	0	0	(5,600,000)	5,600,000
Transfers to Pay Debt	0	0	3,619,816	(3,619,816)
Net Adjustment for Expenditure Accruals	36,410	628	0	107,826
Principal Retirement	0	0	1,906,767	(1,906,767)
Interest and Fiscal Charges	0	0	73,417	(73,417)
Encumbrances	(352,244)	(19,638)	0	(6,962,576)
Budget Basis	<u>\$1,072,781</u>	<u>(\$125,340)</u>	<u>\$22,570</u>	<u>(\$1,285,651)</u>



**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

**Note 5 - Accountability and Compliance**

The following funds had total appropriations in excess of estimated resources plus carryover in violation of section 5705.39, Ohio Revised Code:

Fund Type/Fund	Estimated Resources	Appropriations	Excess
<i>General Fund</i>	\$20,129,570	\$20,992,600	\$863,030
<i>Special Revenue Fund</i>			
Recreation	193,106	240,000	46,894
<i>Capital Projects Funds</i>			
Street Resurfacing	985,526	1,950,000	964,474

The following funds had expenditures in excess of appropriations contrary to Section 5705.41, Ohio Revised Code:

Fund/Function	Appropriations	Expenditures	Excess
<i>General Fund</i>			
Transfers Out	7,430,000	8,156,000	726,000
<i>Special Revenue Funds</i>			
<i>Tree Fund</i>			
Community Environment	6,000	7,700	1,700
<i>Law Enforcement Trust</i>			
Security of Persons and Property	10,000	13,211	3,211
<i>Recreation</i>			
Leisure Time Activities	240,000	250,543	10,543
<i>Police Pension</i>			
Security of Persons and Property	310,000	331,276	21,276
<i>Debt Service</i>			
<i>Special Assessment Bond Retirement</i>			
Debt Service	45,000	47,453	2,453
<i>Capital Projects Funds</i>			
<i>Capital Improvements</i>			
Capital Outlay	1,784,133	4,239,341	2,455,208
<i>Drain Water</i>			
Capital Outlay	330,000	2,109,442	1,779,442
<i>Street Resurfacing</i>			
Capital Outlay	1,534,440	6,060,943	4,526,503

In order to eliminate the budgetary violations, appropriations will be monitored more closely.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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**Note 6 - Deposits and Investments**

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

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

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

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the finance director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligation of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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**Note 6 - Deposits and Investments (Continued)**

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

**A. Deposits**

At year-end, the carrying amount of the City's deposits was \$14,738,279 and the bank balance was \$14,099,337. Of the bank balance:

1. \$400,000 was covered by federal depository insurance.
2. \$13,699,337 was uncollateralized and uninsured. Although the pledging bank has an investment and securities pool used to collateralize all public deposits which are held in the financial institution's name, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

**B. Investments**

The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio and the money market fund are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value	Fair Value
Repurchase Agreements	\$1,205,996	\$1,205,996	\$1,205,996

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. Cash and cash equivalents are defined to include investments with original maturities of three months or less and cash and investments of the cash management pool.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

**Note 6 - Deposits and Investments (Continued)**

**C. Investments (Continued)**

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$15,944,275	\$0
Cash on Hand	(1,205,996)	1,205,996
GASB Statement 3	\$14,738,279	\$1,205,996

**Note 7 - Receivables**

Receivables at December 31, 1998 consist primarily of taxes, intergovernmental receivables, special assessments, and accrued interest on investments. All receivables are considered fully collectible.

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by state law at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1997. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31. If paid semi-annually, the first payment is due December 31, with the remainder payable by June 20, unless extended.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values as of December 31 of that calendar year, and at the tax rates determined in the prior year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single-county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Independence. The County Auditor periodically remits to the City its portion of the taxes collected.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
For the Year Ended December 31, 1998

**Note 7 - Receivables (Continued)**

**A. Property Taxes (Continued)**

The full tax rate for all City operations for the year ended December 31, 1998 was \$3.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 1998 property tax receipts were based are as follows:

Real Estate	
Residential/Agricultural	\$164,473,680
Other Real Estate	180,703,370
Tangible Personal Property	
Public Utility	30,688,820
General Tangible Personal Property	49,644,275
Total	\$425,510,145

**B. Income Taxes**

The City levies a municipal income tax of two percent on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside the City. In the latter case the City allows a credit of 100 percent of the tax paid to another municipality to a maximum of the total amount assessed. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

**C. Intergovernmental Receivables**

A summary of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
<i>General Fund:</i>	
Estate Tax	\$65,376
Cigarette Tax	123
Liquor Permit Fees	5,554
Local Government Assistance	22,295
Undivided Local Government	2,151
<i>Total General Fund</i>	95,499
<i>Special Revenue Funds:</i>	
Street Construction Maintenance and Repair	\$16,649
State Highway	1,350
Drug Offense	100
Motor Vehicle License Tax	1,161
<i>Total Special Revenue Funds</i>	19,260
Total	\$114,759

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

**Note 8 - Contingencies**

The City of Independence is a party to legal proceedings seeking damages. The City management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**Note 9 - Fixed Assets**

Changes in general fixed assets during 1998 were as follows:

	Balance January 1, 1998	Additions	Deletions	Balance December 31, 1998
Land	\$2,901,020	\$1,597,999	\$0	\$4,499,019
Buildings	20,241,756	0	0	20,241,756
Machinery and Equipment	3,978,011	254,901	0	4,232,912
Furniture and Fixtures	1,381,144	112,940	2,000	1,492,084
Vehicles	3,800,955	264,660	0	4,065,615
Construction In Progress	1,555,790	134,706	0	1,690,496
<b>Total</b>	<b>\$33,858,676</b>	<b>\$2,365,206</b>	<b>\$2,000</b>	<b>\$36,221,882</b>

**Note 10 - Defined Benefit Pension Plans**

**A. Public Employee Retirement System (PERS)**

All City full-time employees, other than non-administrative full-time uniformed police officers and firemen, participate in 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 basic retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members 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. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 1998, 1997, and 1996 were \$366,905, \$347,638, and \$311,758 respectively. The full amount has been contributed for 1997 and 1996. 72.34 percent has been contributed for 1998 with the remainder being reported as a liability in the general long-term obligations group.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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**Note 10 - Defined Benefit Pension Plans (Continued)**

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

The City contributes to the Police and Firemen's Disability and Pension Fund of Ohio (PFDPF), a cost-sharing multiple employer public employee retirement system administered by the Fund's Board of Trustees. PFDPF provides retirement benefits 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 by Chapter 742 of the Ohio Revised Code. PFDPF issues a publicly available financial report that includes financial report that includes financial information and required supplementary information. That 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.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13 percent for police and 17.5 percent for firefighters. Contributions are authorized by State statute. The City's contributions to PFDPF for police and firefighters were \$210,696 and \$187,901 for the year ended December 31, 1998, \$201,075 and \$176,218 for 1997, and \$195,646 and \$165,668 for 1996. The full amount has been contributed for 1997 and 1996. 72.54 and 71.89 percent, respectively, have been contributed for 1998 with the remainder being reported as a liability within the general long-term obligations account group.

In addition to the current contribution, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 1998, the unfunded liability of the City was \$96,314, payable in semiannual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported in the general long-term obligations account group.

**Note 11 - 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 retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution 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 percent of covered payroll; 4.2 percent was the portion that was used to fund health care. For 1997, the percent used to fund health care was 5.11 percent.

Benefits are funded on a pay-as-you-go basis. OPEB are financed through employer contributions and investment earnings. The contributions allocated to retiree health care 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 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. The City's actual contributions for 1998 which were used to fund OPEB were \$212,498.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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**Note 11 - Postemployment Benefits (Continued)**

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

During 1997, PERS adopted a new calculation method for determining employer contributions applied to OPEB. 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 coverage.

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

The Police and Firemen's Disability and Pension Fund (PFDPF) 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 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 the authority allowing the Police and Firemen's Disability and Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Police and Firemen's Disability and Pension Fund shall be included in the employers' contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 6.5 percent of covered payroll is applied to the postemployment health care program. 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 City's actual contributions for 1998 that were used to fund postemployment benefits were \$99,806 for police and \$98,060 for fire. PFDPF's total health care expenses for the year ended December 31, 1997, (the latest information available) were \$76,459,832. The number of PFDPF participants eligible to receive health care benefits as of December 31, 1997, was 11,239 for police and 9,025 for firefighters.

**Note 12 - Compensated Absences**

Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned vacation time must be used each year and may not be carried forward to the next year. Employees earn sick leave at different rates depending upon length of service and type of employment. Sick leave accrual is continuous, without limit. Upon retirement, an employee can be paid a maximum of one fourth of 960 hours of accumulated, unused sick leave. As of December 31, 1998, the liability for unpaid compensated absences was \$158,620 for the entire City.

**Note 13 - Risk Management**

The City of Independence is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disaster. During 1998, the City contracted with Reliance Insurance Company for various types of insurance as follows:



**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
For the Year Ended December 31, 1998

**Note 13 - Risk Management (Continued)**

Company	Type of Coverage	Deductible
Reliance Insurance Company	Inland Marine	\$250
	Property	1,000
	Fleet	1,000

There has not been a significant reduction in commercial coverage from the prior year and settled claims have not exceeded this coverage in any of the last three years.

The City also carries and administers extraordinary liability insurance for all other types of insurance coverage not mentioned above. This insurance is maintained through the Self Insurance internal service fund. The claims liability of \$3,000 has been accrued in the internal service fund at December 31, 1998 based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount for 1996 through 1998 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
1996	\$3,000	\$2,033	\$2,033	\$3,000
1997	3,000	1,000	1,000	3,000
1998	3,000	30,000	30,000	3,000

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

**Note 14 - Long-Term Obligations**

Changes in long-term obligations of the City during 1998 were as follows:

	Outstanding 12/31/97	Additions	(Reductions)	Outstanding 12/31/98
<b>General Long-Term Obligations</b>				
<i>General Obligations Bond:</i>				
1991 5.58%				
Civic Center	\$4,300,000	\$0	(\$400,000)	\$3,900,000
<i>Special Assessment Bond:</i>				
1985 8.50%				
West Creek Road	105,000	0	(35,000)	70,000

*Notes Payable:*

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
For the Year Ended December 31, 1998

	Outstanding 12/31/97	Additions	(Reductions)	Outstanding 12/31/98
1998 3.75%				
Street Resurfacing	0	3,000,000	0	3,000,000
1998 3.73%				
Fire Station Construction	0	2,600,000	0	2,600,000
1997 3.89%				
Street Resurfacing	\$400,000	\$0	(\$400,000)	\$0
1997 3.94%				
Fire Station Construction	1,500,000	0	(1,500,000)	0
<b>Total Notes</b>	<b>1,900,000</b>	<b>5,600,000</b>	<b>(1,900,000)</b>	<b>5,600,000</b>
0% OPWC Loan	111,656	0	(6,767)	104,889
Compensated Absences	121,978	27,591	0	149,569
Capital Lease Obligations	38,506	0	(9,656)	28,850
Due to Other Governments	307,702	369,321	(307,702)	369,321
Police and Fire Pension	98,600	0	(2,286)	96,314
<b>Total General Long-Term Obligations</b>	<b>\$6,983,442</b>	<b>\$5,996,912</b>	<b>(\$2,661,411)</b>	<b>\$10,318,943</b>

General obligation bonds and the Ohio Public Works Commission loan will be paid from the general bond retirement debt service fund from property taxes. Special assessment bonds will be paid from the proceeds of special assessments levied against benefitted property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City.

The capital lease obligation is paid from the general fund. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid. Due to other governments (long-term pension obligations) will be paid from the fund from which the employees' salaries are paid. The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue funds.

Bond anticipation notes that were rolled over prior to the issuance of the financial statements and have a new maturity beyond the end of the year in which the report is issued, have been reported in the general long-term obligations account group and will be paid from the debt service fund.

The City's overall legal debt margin was \$33,158,130 at December 31, 1998. Principal and interest requirements to retire long-term obligations outstanding at December 31, 1998 are as follows:

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

**Note 14 - Long-Term Obligations (Continued)**

	Civic Center	West Creek Special Assessment	Ohio Public Works Loan	Police and Fire Pension
1999	\$518,100	\$40,950	\$6,767	\$6,453
2000	501,600	37,975	6,767	6,453
2001	484,800	0	6,767	6,453
2002	468,000	0	6,767	6,453
2003	451,200	0	6,767	6,453
2004-2008	2,004,000	0	33,835	32,265
2009-2013	1,000,800	0	33,835	32,265
2014-2018	0	0	3,384	32,265
2019-2022	0	0	0	25,812
Total	<u>\$5,428,500</u>	<u>\$78,925</u>	<u>\$104,889</u>	<u>\$154,872</u>

**Note 15 - Capital Leases**

In prior years, the City has entered into lease agreements for copiers. These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, "Accounting for Leases" and have been recorded in the general long-term obligations account group. The agreements provide for minimum annual rental payments as follows:

Year	Total
1999	\$11,742
2000	11,265
2001	6,606
2002	<u>2,850</u>
Total minimum lease payments	32,463
Less: Amount representing interest	<u>(3,613)</u>
Present value of minimum lease payments	<u>\$28,850</u>

The copiers have been capitalized in the general fixed assets account group in the amount of \$50,152, the present value of the minimum lease payments at the inception of the lease.

**Note 16 - Jointly Governed Organization**

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The board is comprised of one member from each of the sixteen participating entities. The board exercises total control over the operation of the Council including budgeting, appropriating, contracting and designating management. Budgets are adopted by the board. Each City's degree of control is limited to its representation on the board. In 1998, the City contributed \$3,000 which represents 16.3 percent of total contributions.

**City of Independence, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 1998*

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**Note 16 - Jointly Governed Organization (Continued)**

The Council has established two subsidiary organizations, the Hazardous Material Response Team (“HAZ MAT”) which provides hazardous material protection and assistance and the Southwest Enforcement Bureau which provides extra assistance to cities in the form of a Swat Team. The Council’s financial statements may be obtained by contacting the Southwest Council of Governments, Parma Heights, Ohio.

**Note 17 - Subsequent Events**

On May 13, 1999, the City issued \$5,600,000 of bond anticipation notes at a rate of 3.76% for various capital projects going on in the City.



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](http://www.auditor.state.oh.us)

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

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

To the Members of City Council:

We have audited the general-purpose financial statements of the City of Independence, 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 July 31, 2000, in which report we noted the City changed its accounting for investments, its deferred compensation plan, its deposit trust and occupancy trust funds and its recognition period. 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 1999/1998-20818-001 and 1998-20818-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated July 31, 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 financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 31, 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". The signature is fluid and cursive, with a large loop at the end.

**Jim Petro**  
Auditor of State

July 31, 2000

**CITY OF INDEPENDENCE  
SCHEDULE OF FINDINGS**

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

**NONCOMPLIANCE CITATIONS**

<b>Finding Number</b>	<b>1999/1998-20818-001</b>
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Ohio Rev. Code § 5705.41(B), prohibits a subdivision from making an expenditure unless it has been appropriated. Ohio Rev. Code § 5705.41(D), provides that 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.

In order to monitor compliance with the above requirement, management and City Council are provided with a monthly budgetary report which includes a comparison of total appropriations with expenditures plus encumbrances.

The following funds had expenditures plus encumbrances in excess of appropriations:

<u>Year</u>	<u>Fund/Function</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Difference</u>
1999	General Fund			
	Community Environment	\$2,832,160	\$3,074,195	\$ 242,035
	Transfers Out	6,728,000	7,155,000	427,000
1999	Capital Improvement Fund			
	Capital Outlay	4,590,211	8,991,219	4,401,008
	Principal Outlay	0	2,606,767	2,606,767
	Interest & Fiscal Charges	0	72,735	72,735
1999	Drain Water Fund			
	Capital Outlay	1,839,426	2,312,691	473,265
1999	Street Resurfacing Fund			
	Capital Outlay	6,367,939	6,676,131	308,192
	Principal Outlay	0	3,000,000	3,000,000
	Interest & Fiscal Charges	0	84,375	84,375
1998	General Fund			
	Transfers Out	7,430,000	8,156,000	726,000
1998	Capital Improvement Fund			
	Capital Outlay	1,784,133	4,239,341	2,455,208
1998	Drain Water Fund			
	Capital Outlay	330,000	2,109,442	1,779,442
1998	Street Resurfacing Fund			
	Capital Outlay	1,534,440	6,060,943	4,526,503

In all of the above instances, there was sufficient total estimated resources to increase the appropriations to the level of total expenditure plus encumbrances. We recommend that management and City Council review the aforementioned monthly budgetary report and amend the appropriations accordingly.

**CITY OF INDEPENDENCE  
SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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(Continued)

<b>Finding Number</b>	<b>1998-20818-002</b>
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Ohio Rev. Code § 5705.39, prohibits a political subdivision from making a fund appropriation in excess of the estimated resources available for expenditure from that fund. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

In order to monitor compliance with the above requirement, management and City Council are provided with a monthly budgetary report which includes a comparison of estimated revenue with appropriations.

In 1998, the following funds had appropriations in excess of total estimated resources:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Difference</u>
General	\$20,129,570	\$20,992,600	\$863,030
Recreation	193,106	240,000	46,894
Street Resurfacing	985,526	1,950,000	964,474

In all of the above instances, the actual revenue received exceeded the total estimated resources, therefore, the City could have obtained an amended certificate of estimated resources that would have been in excess of the appropriation levels established.

We recommend that management and City Council review the aforementioned monthly budgetary report and amend the appropriations so that it does not exceed the total estimated resources. Furthermore, when total actual revenue exceeds the total estimated resources the City should obtain an amended certificate of estimated resources that coincides with the actual revenue.





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

**CITY OF INDEPENDENCE**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 7, 2000**