



**CITY OF INDEPENDENCE
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF INDEPENDENCE
CUYAHOGA COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

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 year ended December 31, 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Independence, Cuyahoga County, Ohio, as of December 31, 2000, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2001 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

June 18, 2001

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City of Independence, Ohio
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2000

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets				
Cash and Cash Equivalents	\$5,631,613	\$692,715	\$307,386	\$6,276,324
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0
Cash and Cash Equivalents with Fiscal Agents	0	0	8,044	0
Receivables:				
Taxes	3,658,249	139,124	510,125	0
Accounts	73,843	0	0	0
Special Assessments	0	0	41,939	0
Accrued Interest	3,052	0	0	0
Intergovernmental	249,585	21,818	0	0
Materials and Supplies				
Inventory	121,064	64,888	0	0
Prepaid Items	21,561	0	0	0
Fixed Assets	0	0	0	0
Other Debits				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
<i>Total Assets and Other Debits</i>	<u>\$9,758,967</u>	<u>\$918,545</u>	<u>\$867,494</u>	<u>\$6,276,324</u>

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	
\$2,702,286	\$308,193	\$0	\$0	\$15,918,517
0	17,645	0	0	17,645
0	0	0	0	8,044
0	0	0	0	4,307,498
0	0	0	0	73,843
0	0	0	0	41,939
0	0	0	0	3,052
0	0	0	0	271,403
0	0	0	0	185,952
0	0	0	0	21,561
0	0	42,073,728	0	42,073,728
0	0	0	307,386	307,386
0	0	0	17,186,203	17,186,203
<u>\$2,702,286</u>	<u>\$325,838</u>	<u>\$42,073,728</u>	<u>\$17,493,589</u>	<u>\$80,416,771</u>

City of Independence, Ohio
Combined Balance Sheet
All Fund Types and Account Groups (continued)
December 31, 2000

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities				
Fund Equity and Other Credits				
Liabilities				
Accounts Payable	\$438,435	\$43,794	\$0	\$32,173
Contracts Payable	19,180	0	0	588,583
Retainage Payable	1,709	0	0	67,155
Accrued Wages and Benefits	161,487	13,841	0	0
Compensated Absences Payable	0	0	0	0
Intergovernmental Payable	28,732	1,938	0	0
Deferred Revenue	881,125	139,124	552,064	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
Total Liabilities	1,530,668	198,697	560,108	687,911
Fund Equity and Other Credits				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	702,016	21,639	0	1,191,256
Reserved for Inventory	121,064	64,888	0	0
Unreserved, Undesignated (Deficit)	7,405,219	633,321	307,386	4,397,157
Total Fund Equity (Deficit) and Other Credits	8,228,299	719,848	307,386	5,588,413
Total Liabilities, Fund Equity and Other Credits	\$9,758,967	\$918,545	\$867,494	\$6,276,324

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	\$514,402
0	0	0	0	607,763
0	0	0	0	68,864
0	0	0	0	175,328
0	0	0	220,710	220,710
0	0	0	425,434	456,104
0	0	0	0	1,572,313
0	30,251	0	0	30,251
0	295,587	0	0	295,587
0	0	0	0	8,044
0	0	0	13,350,000	13,350,000
0	0	0	91,355	91,355
3,200	0	0	0	3,200
0	0	0	91,443	91,443
0	0	0	14,647	14,647
0	0	0	3,300,000	3,300,000
<u>3,200</u>	<u>325,838</u>	<u>0</u>	<u>17,493,589</u>	<u>20,800,011</u>
0	0	42,073,728	0	42,073,728
2,699,086	0	0	0	2,699,086
0	0	0	0	1,914,911
0	0	0	0	185,952
0	0	0	0	12,743,083
<u>2,699,086</u>	<u>0</u>	<u>42,073,728</u>	<u>0</u>	<u>59,616,760</u>
<u>\$2,702,286</u>	<u>\$325,838</u>	<u>\$42,073,728</u>	<u>\$17,493,589</u>	<u>\$80,416,771</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, 2000*

	Governmental	
	General	Special Revenue
Revenues		
Municipal Income Tax	\$18,731,813	\$0
Property and Other Taxes	1,680,136	121,034
Charges for Services	61,600	0
Licenses and Permits	395,221	239,368
Fines and Forfeitures	219,248	12,544
Intergovernmental	1,328,215	326,589
Special Assessments	99,000	0
Interest	532,042	0
Rentals	83,204	0
Other	126,017	0
<i>Total Revenues</i>	<u>23,256,496</u>	<u>699,535</u>
Expenditures		
Current:		
General Government	4,130,992	0
Security of Persons and Property	5,883,315	363,580
Public Health and Welfare	132,462	0
Transportation	789,749	1,169,136
Community Environment	3,130,944	1,250
Basic Utility Services	460,959	0
Leisure Time Activities	1,141,161	296,773
Capital Outlay	0	0
Debt Service:		
Principal Retirement	13,277	2,487
Interest and Fiscal Charges	1,603	3,966
<i>Total Expenditures</i>	<u>15,684,462</u>	<u>1,837,192</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>7,572,034</u>	<u>(1,137,657)</u>
Other Financing Sources (Uses)		
Proceeds of Notes	0	0
Sale of Fixed Assets	15,865	0
Operating Transfers In	0	1,400,000
Operating Transfers Out	(6,650,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(6,634,135)</u>	<u>1,400,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	937,899	262,343
<i>Fund Balances (Deficit) Beginning of Year</i>	7,286,885	468,599
Increase (Decrease) in Reserve for Inventory	3,515	(11,094)
<i>Fund Balances (Deficit) End of Year</i>	<u>\$8,228,299</u>	<u>\$719,848</u>

See accompanying notes to the general purpose financial statements

Fund Types		Totals (Memorandum Only)
Debt Service	Capital Projects	
\$0	\$0	\$18,731,813
524,480	0	2,325,650
0	0	61,600
0	0	634,589
0	0	231,792
53,511	0	1,708,315
36,367	0	135,367
0	501,838	1,033,880
0	0	83,204
0	0	126,017
<u>614,358</u>	<u>501,838</u>	<u>25,072,227</u>
0	0	4,130,992
0	0	6,246,895
0	0	132,462
0	0	1,958,885
0	0	3,132,194
0	0	460,959
0	0	1,437,934
0	10,634,815	10,634,815
335,000	3,106,767	3,457,531
<u>208,298</u>	<u>355,510</u>	<u>569,377</u>
<u>543,298</u>	<u>14,097,092</u>	<u>32,162,044</u>
<u>71,060</u>	<u>(13,595,254)</u>	<u>(7,089,817)</u>
0	13,350,000	13,350,000
0	0	15,865
0	5,150,000	6,550,000
<u>0</u>	<u>0</u>	<u>(6,650,000)</u>
<u>0</u>	<u>18,500,000</u>	<u>13,265,865</u>
71,060	4,904,746	6,176,048
236,326	683,667	8,675,477
<u>0</u>	<u>0</u>	<u>(7,579)</u>
<u>\$307,386</u>	<u>\$5,588,413</u>	<u>\$14,843,946</u>

City of Independence, Ohio
*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For the Year Ended December 31, 2000*

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Municipal Income Tax	\$17,300,000	\$18,517,288	\$1,217,288
Property and Other Taxes	945,179	1,680,136	734,957
Charges for Services	69,294	69,294	0
Licenses and Permits	395,221	395,221	0
Fines and Forfeitures	219,248	219,248	0
Intergovernmental	202,248	1,261,781	1,059,533
Special Assessments	99,000	99,000	0
Interest	528,990	528,990	0
Rentals	83,204	83,204	0
Other	330,051	127,585	(202,466)
<i>Total Revenues</i>	<u>20,172,435</u>	<u>22,981,747</u>	<u>2,809,312</u>
Expenditures			
Current:			
General Government	5,329,104	4,451,448	877,656
Security of Persons and Property	6,205,542	6,009,345	196,197
Public Health and Welfare	161,595	132,615	28,980
Transportation	886,703	850,990	35,713
Community Environment	3,668,098	3,310,027	358,071
Basic Utility Services	577,365	527,652	49,713
Leisure Time Activities	1,395,940	1,150,324	245,616
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>18,224,347</u>	<u>16,432,401</u>	<u>1,791,946</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,948,088</u>	<u>6,549,346</u>	<u>4,601,258</u>
Other Financing Sources (Uses)			
Proceeds of Notes	0	0	0
Sale of Fixed Assets	15,865	15,865	0
Operating Transfers In	0	0	0
Operating Transfers Out	(6,650,000)	(6,650,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(6,634,135)</u>	<u>(6,634,135)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(4,686,047)</u>	<u>(84,789)</u>	<u>4,601,258</u>
<i>Fund Balances Beginning of Year</i>	4,019,851	4,019,851	0
Prior Year Encumbrances Appropriated	733,647	733,647	0
<i>Fund Balances (Deficit) End of Year</i>	<u>\$67,451</u>	<u>\$4,668,709</u>	<u>\$4,601,258</u>

Special Revenue Funds			Debt Service Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0
340,427	120,061	(220,366)	504,520	520,298	15,778
0	0	0	0	0	0
260,000	239,368	(20,632)	0	0	0
24,000	12,949	(11,051)	0	0	0
1,240,314	349,060	(891,254)	57,693	57,693	0
0	0	0	50,000	36,367	(13,633)
0	0	0	0	0	0
0	0	0	0	0	0
12,000	0	(12,000)	0	0	0
<u>1,876,741</u>	<u>721,438</u>	<u>(1,155,303)</u>	<u>612,213</u>	<u>614,358</u>	<u>2,145</u>
0	0	0	0	0	0
415,000	370,111	44,889	0	0	0
0	0	0	0	0	0
1,309,866	1,206,789	103,077	0	0	0
3,000	1,250	1,750	0	0	0
0	0	0	0	0	0
320,708	302,451	18,257	0	0	0
0	0	0	0	0	0
0	0	0	436,702	335,000	101,702
0	0	0	208,298	208,298	0
<u>2,048,574</u>	<u>1,880,601</u>	<u>167,973</u>	<u>645,000</u>	<u>543,298</u>	<u>101,702</u>
<u>(171,833)</u>	<u>(1,159,163)</u>	<u>(987,330)</u>	<u>(32,787)</u>	<u>71,060</u>	<u>103,847</u>
0	0	0	0	0	0
0	0	0	0	0	0
1,400,000	1,400,000	0	0	0	0
0	0	0	0	0	0
<u>1,400,000</u>	<u>1,400,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
1,228,167	240,837	(987,330)	(32,787)	71,060	103,847
361,306	361,306	0	236,326	236,326	0
26,574	26,574	0	0	0	0
<u>\$1,616,047</u>	<u>\$628,717</u>	<u>(\$987,330)</u>	<u>\$203,539</u>	<u>\$307,386</u>	<u>\$103,847</u>

(continued)

City of Independence, Ohio
*Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types (continued)
For the Year Ended December 31, 2000*

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
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	5,885,000	501,838	(5,383,162)
Rentals	0	0	0
Other	0	0	0
<i>Total Revenues</i>	<u>5,885,000</u>	<u>501,838</u>	<u>(5,383,162)</u>
Expenditures			
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	14,844,455	12,125,559	2,718,896
Debt Service:			
Principal Retirement	15,856,767	15,856,767	0
Interest and Fiscal Charges	448,684	448,684	0
<i>Total Expenditures</i>	<u>31,149,906</u>	<u>28,431,010</u>	<u>2,718,896</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(25,264,906)</u>	<u>(27,929,172)</u>	<u>(2,664,266)</u>
Other Financing Sources (Uses)			
Proceeds of Notes	13,350,000	13,350,000	0
Sale of Fixed Assets	0	0	0
Operating Transfers In	5,150,000	5,150,000	0
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>18,500,000</u>	<u>18,500,000</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(6,764,906)</u>	<u>(9,429,172)</u>	<u>(2,664,266)</u>
<i>Fund Balances Beginning of Year</i>	7,145,656	7,145,656	0
Prior Year Encumbrances Appropriated	<u>6,749,906</u>	<u>6,749,906</u>	<u>0</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$7,130,656</u>	<u>\$4,466,390</u>	<u>(\$2,664,266)</u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$17,300,000	\$18,517,288	\$1,217,288
1,790,126	2,320,495	530,369
69,294	69,294	0
655,221	634,589	(20,632)
243,248	232,197	(11,051)
1,500,255	1,668,534	168,279
149,000	135,367	(13,633)
6,413,990	1,030,828	(5,383,162)
83,204	83,204	0
342,051	127,585	(214,466)
<u>28,546,389</u>	<u>24,819,381</u>	<u>(3,727,008)</u>
5,329,104	4,451,448	877,656
6,620,542	6,379,456	241,086
161,595	132,615	28,980
2,196,569	2,057,779	138,790
3,671,098	3,311,277	359,821
577,365	527,652	49,713
1,716,648	1,452,775	263,873
14,844,455	12,125,559	2,718,896
16,293,469	16,191,767	101,702
656,982	656,982	0
<u>52,067,827</u>	<u>47,287,310</u>	<u>4,780,517</u>
<u>(23,521,438)</u>	<u>(22,467,929)</u>	<u>1,053,509</u>
13,350,000	13,350,000	0
15,865	15,865	0
6,550,000	6,550,000	0
(6,650,000)	(6,650,000)	0
<u>13,265,865</u>	<u>13,265,865</u>	<u>0</u>
(10,255,573)	(9,202,064)	1,053,509
11,763,139	11,763,139	0
7,510,127	7,510,127	0
<u>\$9,017,693</u>	<u>\$10,071,202</u>	<u>\$1,053,509</u>

City of Independence, Ohio
*Statement of Revenues,
 Expenses and Changes in Retained Earnings
 Internal Service Fund
 For the Year Ended December 31, 2000*

	<u>Self Insurance</u>
Operating Revenues	
Charges for Services	\$105,294
Operating Expenses	
Contractual Services	3,993
Claims	122,438
Total Operating Expenses	126,431
<i>Operating Loss</i>	(21,137)
Non-Operating Revenues	
Interest	77,986
<i>Income Before Operating Transfers</i>	56,849
Operating Transfers - In	100,000
<i>Net Income</i>	156,849
<i>Retained Earnings Beginning of Year</i>	2,542,237
<i>Retained Earnings End of Year</i>	\$2,699,086

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, 2000

	<u>Self Insurance</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Quasi-External Transactions with Other Funds	\$105,294
Cash Payments for Contractual Services	(3,993)
Cash Payments for Claims	(122,238)
<i>Net Cash Used for Operating Activities</i>	(20,937)
Cash Flows from Noncapital Financing Activities	
Transfers In	100,000
Cash Flows from Investing Activities	
Interest on Investments	77,986
<i>Net Increase in Cash and Cash Equivalents</i>	157,049
<i>Cash and Cash Equivalents Beginning of Year</i>	2,545,237
<i>Cash and Cash Equivalents End of Year</i>	\$2,702,286
 Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
<i>Operating Loss</i>	(\$21,137)
<i>Adjustments:</i>	
Increase/(Decrease) in Liabilities	
Claims Payable	200
<i>Net Cash Used for Operating Activities</i>	(\$20,937)

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, 2000*

	Self Insurance Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Charges for Services	\$100,000	\$105,294	\$5,294
Expenses			
Current:			
Contractual Services	3,993	3,993	0
Claims	126,007	122,238	3,769
<i>Total Expenses</i>	130,000	126,231	3,769
<i>Excess of Revenues Under Expenses</i>	(30,000)	(20,937)	9,063
Operating Transfers In	100,000	100,000	0
<i>Excess of Revenues Over Expenses and Operating Transfers</i>	70,000	79,063	9,063
<i>Fund Equity Beginning of Year</i>	2,545,237	2,545,237	0
<i>Fund Equity End of Year</i>	\$2,615,237	\$2,624,300	\$9,063

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, 2000

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 two jointly governed organizations, the Southwest Council of Governments and the Northeast Ohio Public Energy Council. These organizations are presented in Note 12 of the General Purpose 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

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

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.

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 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:

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

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

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

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 sources) 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 31 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.

In applying the susceptible to accrual concept, revenues accrued at the end of the year include income taxes, interest on investments, and state levied locally shared taxes (including motor vehicle license fees, gasoline taxes, and local government assistance). 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.

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

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, 2000 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 5.

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.

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 2000.

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.

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

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.

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 "cash and cash equivalents" on the combined balance sheet.

During 2000, investments were limited to repurchase agreements, U. S. Treasury Notes, Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, Federal Home Loan Mortgage Company Bonds, and Certificates of Deposit.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2000 amounted to \$532,042, which includes \$239,250 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." The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented in the Combined Balance Sheet as "cash and cash equivalents in segregated accounts."

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 not purchased from the pool 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.

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2000 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.

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 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

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

financial resources. Payments made more than thirty-one 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.

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 Combined 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

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

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	\$937,899	\$262,343	\$71,060	\$4,904,746
Net Adjustment for Revenue Accruals	(274,749)	21,903	0	0
Net Adjustment for Expenditure Accruals	214,965	20,589	0	226,016
Principal Retirement	0	0	0	(12,750,000)
Encumbrances	(962,904)	(63,998)	0	(1,809,934)
Budget Basis	(\$84,789)	\$240,837	\$71,060	(\$9,429,172)

Net Income/Excess of Revenues Over Expenses
and Operating Transfers
Internal Service Fund

GAAP Basis	\$156,849
Fair Value Adjustment for Investments	(77,986)
Net Adjustment for Expense Accruals	200
Budget Basis	\$79,063

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

Note 4 - 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,

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

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."

Cash on Hand. At year end, the City had \$750 in undeposited cash on hand which is included on the balance sheet as part of "equity in pooled cash and cash equivalents."

A. Deposits

At year-end, the carrying amount of the City's deposits was \$12,494,668 and the bank balance was \$13,226,514. Of the bank balance:

1. \$313,786 was covered by federal depository insurance.
2. \$12,912,728 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.

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.

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

	Category 3	Carrying Amount	Fair Value
Money Market	\$899,699	\$899,699	\$899,699
U. S. Treasury Notes	520,039	520,039	520,039
Federal Home Loan Bank Bonds	1,018,525	1,018,525	1,018,525
Federal National Mortgage Association Bonds	761,425	761,425	761,425
Federal Home Loan Mortgage Company Bonds	249,100	249,100	249,100
Total	<u>\$3,448,788</u>	<u>\$3,448,788</u>	<u>\$3,448,788</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and 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	\$15,944,206	\$0
Cash on Hand	(750)	0
Investments:		
Money Market	(899,699)	899,699
U. S. Treasury Notes	(520,039)	520,039
Federal Home Loan Bank Bonds	(1,018,525)	1,018,525
Federal National Mortgage Association Bonds	(761,425)	761,425
Federal Home Loan Mortgage Company Bonds	(249,100)	249,100
GASB Statement No. 3	<u>\$12,494,668</u>	<u>\$3,448,788</u>

Note 5 - Receivables

Receivables at December 31, 2000 consist primarily of taxes, intergovernmental receivables, special assessments, and accrued interest on investments. All receivables are considered fully collectible.

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

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 2000 for real and public utility property taxes represents collections of 1999 taxes. Property tax payments received during 2000 for tangible personal property (other than public utility property) is for 2000 taxes.

2000 real property taxes are levied after October 1, 2000 on the assessed value as of January 1, 2000, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2000 real property taxes are collected in and intended to finance 2001.

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. 2000 public utility property taxes became a lien December 31, 1999, are levied after October 1, 2000, and are collected in 2001 with real property taxes.

2000 tangible personal property taxes are levied after October 1, 1999, on the value as of December 31, 1999. Collections are made in 2000. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 2000 was \$3.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2000 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$186,531,910
Other Real Estate	227,004,330
Tangible Personal Property	
Public Utility	24,252,740
General Tangible Personal Property	57,941,478
Total	\$495,730,458

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, 2000. 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 2000 operations. The receivable is offset by deferred revenue.

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

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 quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Intergovernmental Receivables	Amount
<i>General Fund:</i>	
Undivided Local Government	\$119,847
Estate Tax	80,580
Additional Officers Grant	42,000
Liquor Permit Fees	4,260
Local Government Assistance	1,958
EMS Grant	940
<i>Total General Fund</i>	249,585
<i>Special Revenue Funds:</i>	
Street Construction Maintenance and Repair	17,066
State Highway	1,384
Permissive Tax	2,800
Enforcement and Education	60
Drug Offense	508
<i>Total Special Revenue Funds</i>	21,818
Total	\$271,403

Note 6 - 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, 2000

Note 7 - Fixed Assets

Changes in general fixed assets during 2000 were as follows:

	Balance January 1, 2000	Additions	Deletions	Balance December 31, 2000
Land	\$7,303,202	\$324,418	\$0	\$7,627,620
Buildings	20,151,557	3,012,928	0	23,164,485
Machinery and Equipment	4,309,512	315,033	0	4,624,545
Furniture and Fixtures	1,687,155	80,774	9,000	1,758,929
Vehicles	4,509,060	486,725	97,636	4,898,149
Construction In Progress	267,402	2,575,345	2,842,747	0
Total	\$38,227,888	\$6,795,223	\$2,949,383	\$42,073,728

Note 8 - Defined Benefit Pension Plans

A. Public Employees Retirement System (PERS)

All full-time employees, other than non-administrative full-time police officers and firefighters, 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. For calendar year 2000, PERS instituted a temporary employer rate rollback for state and local governments. The 2000 employer pension contribution rate for the City was 6.54 percent of covered payroll, reduced from 9.35 percent in 1999. 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, 2000, 1999, and 1998 were \$375,588, \$400,209, and \$366,905 respectively. The full amount has been contributed for 1999 and 1998. 77.42 percent has been contributed for 2000 with the remainder being reported as a liability in the general long-term obligations account group.

B. Ohio Police and Fire Pension Fund

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

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

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 12.25 percent for police and 16.75 percent for firefighters. For 1999, the City contributions were 12.5 percent for police and 17 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$316,171 and \$229,468 for the year ended December 31, 2000, \$221,854 and \$218,488 for the year ended December 31, 1999, and \$210,696 and \$187,901 for the year ended December 31, 1998. The full amount has been contributed for 1999 and 1998. 79.66 and 74.00 percent, respectively, have been contributed for 2000 with the remainder being reported as a liability in 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, 2000, the unfunded liability of the City was \$91,443 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 9 - Postemployment Benefits

A. Public Employees Retirement System

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2000 employer contribution rate was 10.84 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2000. For 1999, the contribution rate was 13.55 percent of covered payroll; 4.20 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 1999, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

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

The number of active contributing participants was 401,339. The City's actual contributions for 2000 which were used to fund postemployment benefits were \$246,946. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 1999, (the latest information available) were \$10,805.5 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$12,473.6 million and \$1,668.1 million, respectively.

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

For 2000, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire 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 7.25 percent of covered payroll was applied to the postemployment health care program during 2000. For 1999, the percent used to fund healthcare was 7 percent. 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 2000 that were used to fund postemployment benefits were \$187,122 for police and \$99,322 for fire. The OP&F's total health care expenses for the year ended December 31, 1999, (the latest information available) were \$95,004,633 which was net of member contributions of \$5,518,098. The number of OP&F participants eligible to receive health care benefits as of December 31, 1999, was 12,467 for police and 9,807 for firefighters.

Note 10 - Compensated Absences

Employees earn ten to thirty days of vacation per year, depending upon length of service. Vacation time cannot be carried forward to the next year. At fiscal year end and upon termination employees are paid for accrued unused vacation up to five days, all other vacation time is lost. Employees earn sick leave at different rates depending upon length of service and type of employment. Sick leave accrual is continuous, without limit. Upon retirement, an employee can be paid a maximum of one fourth of 960 hours of accumulated, unused sick leave.

As of December 31, 2000, the liability for unpaid compensated absences was \$220,710 for the entire City.

Note 11 - 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 2000, the City contracted with CNA Insurance Company of Hartford for various types of insurance as follows:

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

Company	Type	Coverage	Deductible
CNA Insurance Company	Inland Marine		
	Miscellaneous Equipment	\$473,873	\$250
	Property	36,018,314	1,000
	Fleet Vehicle Insurance	1,000,000	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 accounts for extraordinary liability insurance for all lawsuits in the Self Insurance internal service fund. The claims liability of \$3,200 has been accrued in the internal service fund at December 31, 2000 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 1998 through 2000 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
1998	\$3,000	\$30,000	\$30,000	\$3,000
1999	3,000	1,365	1,365	3,000
2000	3,000	122,438	122,238	3,200

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 12 - Jointly Governed Organizations

A. Southwest Council of Governments

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The board is comprised of one member from each of the sixteen participating entities. The board exercises total control over the operation of the Council including budgeting, appropriating, contracting and designating management. Budgets are adopted by the board. Each City's degree of control is limited to its representation on the board. In 2000, the City contributed \$17,290 which represents 5.26 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 44130.

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

B. Northeast Ohio Public Energy Council (NOPEC)

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 93 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City of Independence did not contribute to NOPEC during 2000. Financial information can be obtained by contacting Dan DiLiberto, Treasurer, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

Note 13 - Contractual Commitments

The City had the following contractual commitments outstanding at December 31, 2000:

Project	Contract Amount	Amount Remaining on Contract
Bath House	\$1,733,000	\$130,218
Roadway Improvement - Dale Brook	1,226,914	299,335

Note 14 - Capital Leases

In prior years, the City has entered into lease agreements for copiers. These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, "Accounting for Leases" and 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 2000 totaled \$13,277 in the general fund.

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

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, 2000:

Year	Total
2001	\$10,220
2002	5,281
Total minimum lease payments	15,501
Less: Amount representing interest	(854)
Present value of minimum lease payments	\$14,647

Note 15 - Long-term Obligations

Changes in long-term obligations of the City during 2000 were as follows:

	Outstanding 01/01/00	Additions	(Reductions)	Outstanding 12/31/00
General Long-term Obligations				
General Obligations Bond				
1991 5.60% Civic Center	\$3,600,000	\$0	(\$300,000)	\$3,300,000
Special Assessment Bond				
1985 8.50% West Creek Road	35,000	0	(35,000)	0
Notes Payable	3,100,000	13,350,000	(3,100,000)	13,350,000
0% OPWC Loan	98,122	0	(6,767)	91,355
Compensated Absences	181,651	220,710	(181,651)	220,710
Capital Lease Obligations	27,924	0	(13,277)	14,647
Intergovernmental Payables	514,490	425,434	(514,490)	425,434
Police and Fire Pension	93,930	0	(2,487)	91,443
Total General Long-Term Obligations	\$7,651,117	\$13,996,144	(\$4,153,672)	\$17,493,589

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

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.

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

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. The notes are backed by the full faith of the City of Independence.

The City's overall legal debt margin was \$35,696,692 with an unvoted debt margin of \$27,265,175 at December 31, 2000. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2000 are as follows:

	General Obligation Bonds	Ohio Public Works Loan	Police and Fire Pension
2001	\$484,800	\$6,767	\$6,453
2002	468,000	6,767	6,453
2003	451,200	6,767	6,453
2004	434,400	6,767	6,453
2005-2009	1,920,000	33,835	32,265
2010-2014	650,400	30,452	32,265
2015-2019	0	0	32,265
2020-2022	0	0	19,359
Total	<u>\$4,408,800</u>	<u>\$91,355</u>	<u>\$141,966</u>

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 01/01/00	Additions	(Reductions)	Outstanding 12/31/00
Capital Improvements Fund				
2000 4.69%	\$2,600,000	\$0	\$2,600,000	\$0
2000 4.69%	3,250,000	0	3,250,000	0
2000 4.69%	2,200,000	0	2,200,000	0
2000 3.23%	500,000	0	500,000	0
2000 4.71%	1,600,000	0	1,600,000	0
Total Capital Improvements Fund	<u>10,150,000</u>	<u>0</u>	<u>10,150,000</u>	<u>0</u>
Drain Water Fund				
2000 3.95%	600,000	0	600,000	0
2000 4.69%	1,500,000	0	1,500,000	0
Total Drain Water Fund	<u>2,100,000</u>	<u>0</u>	<u>2,100,000</u>	<u>0</u>

City of Independence, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2000

	Outstanding 01/01/00	Additions	(Reductions)	Outstanding 12/31/00
Street Resurfacing Fund				
2000 4.92%	\$2,500,000	\$0	\$2,500,000	\$0
2000 4.71%	0	0	0	0
2000 4.69%	1,100,000	0	1,100,000	0
Total Street Resurfacing Fund	<u>3,600,000</u>	<u>0</u>	<u>3,600,000</u>	<u>0</u>
Total Notes	<u>\$15,850,000</u>	<u>\$0</u>	<u>\$15,850,000</u>	<u>\$0</u>

Note 17 - Subsequent Event

On May 8, 2001, the City issued bond anticipation notes in the aggregate amount of \$11,400,000 with an interest rate of 3.40 percent for various improvement projects. These notes mature February 8, 2002.

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**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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**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 financial statements of the City of Independence, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2000, and have issued our report thereon dated June 18, 2001. We conducted our audit 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 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a matter involving the compliance over financial reporting that did not require inclusion in this report, that we have reported to management of the City in a separate letter dated June 18, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over financial reporting that did not require inclusion in this report, that we have reported to management of the City in a separate letter dated June 18, 2001.

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.

Jim Petro
Auditor of State

June 18, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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
JULY 12, 2001**