



**CITY OF MUNROE FALLS
SUMMIT COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2002



**Auditor of State
Betty Montgomery**

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

The Honorable Mayor and Members of City Council
City of Munroe Falls
Summit County
43 Munroe Falls Avenue
Munroe Falls, Ohio 44262

To the City Council:

We have audited the accompanying general-purpose financial statements of the City of Munroe Falls, Summit County, Ohio, (the City) as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

As discussed in Note 2 to the general-purpose financial statements, the General Fixed Asset Account Group balances have been restated as of January 1, 2002.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Munroe Falls, Summit County, as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 21, 2003

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CITY OF MUNROE FALLS
 Combined Balance Sheet
 All Fund Types and Account Groups
 December 31, 2002

| | <u>Governmental Fund Types</u> | | | |
|---|--------------------------------|----------------------------|-------------------------|-----------------------------|
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> |
| Assets and Other Debits: | | | | |
| Assets: | | | | |
| Equity in pooled cash and cash equivalents | \$550,307 | \$665,366 | \$20,997 | \$830,539 |
| Receivables | 474,607 | 331,207 | 236,348 | 106,583 |
| Due from other funds (interfund receivable) | 0 | 0 | 0 | 0 |
| Due from other governments | 135,792 | 94,073 | 15,168 | 0 |
| Inventory of supplies | 7,204 | 1,553 | 0 | 100 |
| Prepays | 8,104 | 1,383 | 0 | 0 |
| Fixed assets (net, where applicable, of accumulated depreciation) | 0 | 0 | 0 | 0 |
| Other Debits: | | | | |
| Amount available in debt service fund for retirement of general L/T obligations | 0 | 0 | 0 | 0 |
| Amount available in compensated absences | 0 | | 0 | 0 |
| Amount to be provided for general L/T obligations from general gov't resources | 0 | 0 | 0 | 0 |
| Total Assets and Other Debits | <u>\$1,176,014</u> | <u>\$1,093,582</u> | <u>\$272,513</u> | <u>\$937,222</u> |
| Liabilities, Fund Equity and Other Credits: | | | | |
| Liabilities: | | | | |
| Accounts payable | 21,012 | 1,432 | 0 | 6,206 |
| Accrued wages and benefits | 91,742 | 35,181 | 0 | 0 |
| Deferred revenue | 410,697 | 349,258 | 210,661 | 53,228 |
| Interest Payable | 0 | 920 | 0 | 5,449 |
| General obligation bonds payable (net of issue costs) | 0 | 0 | 0 | 0 |
| Total Liabilities | 523,451 | 386,791 | 210,661 | 64,883 |
| Fund Equity and Other Credits: | | | | |
| Investment in general fixed assets | 0 | 0 | 0 | 0 |
| Contributed capital | 0 | 0 | 0 | 0 |
| Retained earnings: | | | | |
| Unreserved, undesignated | 0 | 0 | 0 | 0 |
| Fund balances: | | | | |
| Reserved for encumbrances | 15,378 | 1,738 | 0 | 75,648 |
| Reserved for debt service | 0 | 0 | 61,852 | 0 |
| Reserved for compensated absence | 0 | 154,193 | 0 | 0 |
| Reserved for inventory | 7,204 | 1,553 | 0 | 100 |
| Reserved for prepaids | 8,105 | 1,383 | 0 | 0 |
| Unreserved, undesignated | 621,876 | 547,924 | 0 | 796,591 |
| Total Fund Equity and Other Credits | <u>652,563</u> | <u>706,791</u> | <u>61,852</u> | <u>872,339</u> |
| Total Liabilities, Fund Equity & Other Credits | <u>\$1,176,014</u> | <u>\$1,093,582</u> | <u>\$272,513</u> | <u>\$937,222</u> |

See accompanying notes to the financial statements.

| <u>Proprietary Fund Type</u> | <u>Fiduciary Fund Type</u> | <u>Account Groups</u> | | <u>Totals (Memorandum Only)</u> |
|----------------------------------|--------------------------------|---------------------------------|--|---|
| | | <u>General Fixed Assets</u> | <u>General Long-term Obligations</u> | |
| <u>Enterprise</u> | <u>Expendable Trust</u> | | | |
| \$1,073,305 | \$128,344 | \$0 | \$0 | \$3,268,858 |
| 208,738 | 887 | 0 | 0 | 1,358,370 |
| 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 245,033 |
| 784 | 0 | 0 | 0 | 9,641 |
| 17,095 | 6,296 | 0 | 0 | 32,878 |
| 2,352,155 | 0 | 5,779,112 | 0 | 8,131,267 |
| 0 | 0 | 0 | 61,852 | 61,852 |
| 0 | 0 | 0 | 154,193 | 154,193 |
| 0 | 0 | 0 | 1,978,142 | 1,978,142 |
| <u>\$3,652,077</u> | <u>\$135,527</u> | <u>\$5,779,112</u> | <u>\$2,194,187</u> | <u>\$15,240,234</u> |
| 7,506 | 31,272 | 0 | 0 | 67,428 |
| 14,169 | 0 | 0 | 131,062 | 272,154 |
| 0 | 0 | 0 | 0 | 1,023,844 |
| 2,778 | 0 | 0 | 0 | 9,147 |
| <u>828,883</u> | <u>0</u> | <u>0</u> | <u>2,063,125</u> | <u>2,892,008</u> |
| 853,336 | 31,272 | 0 | 2,194,187 | 4,264,581 |
| 0 | 0 | 5,779,112 | 0 | 5,779,112 |
| 1,000 | 0 | 0 | 0 | 1,000 |
| | 0 | 0 | 0 | |
| 2,797,741 | 0 | 0 | 0 | 2,797,741 |
| 0 | 1,456 | 0 | 0 | 94,220 |
| 0 | 0 | 0 | 0 | 61,852 |
| 0 | 0 | 0 | 0 | 154,193 |
| 0 | 0 | 0 | 0 | 8,857 |
| 0 | 6,296 | 0 | 0 | 15,784 |
| 0 | 96,503 | 0 | 0 | 2,062,894 |
| <u>2,798,741</u> | <u>104,255</u> | <u>5,779,112</u> | <u>0</u> | <u>10,975,653</u> |
| <u>\$3,652,077</u> | <u>\$135,527</u> | <u>\$5,779,112</u> | <u>\$2,194,187</u> | <u>\$15,240,234</u> |

CITY OF MUNROE FALLS
 Combined Statement of Revenues, Expenditures
 And Changes in Fund Balances
 All Governmental Fund Types and Expendable Trust Funds
 For the Year Ended December 31, 2002

| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Expendable Trust</u> | <u>Totals (Memorandum Only)</u> |
|---|------------------|----------------------------|-------------------------|-----------------------------|-----------------------------|---|
| Revenues: | | | | | | |
| Local Taxes | \$1,007,053 | \$338,175 | \$264,049 | \$339,080 | \$0 | \$1,948,357 |
| Intergovernmental | 382,729 | 230,246 | 29,526 | 74,092 | 0 | 716,593 |
| Charges for services | 21,501 | 10,000 | 0 | 0 | 4,475 | 35,976 |
| Fines, licenses, permits | 61,854 | 785 | 0 | 0 | 0 | 62,639 |
| Interest | 57,036 | 4,696 | 0 | 0 | 0 | 61,732 |
| Special assessments | 0 | 0 | 0 | 5,207 | 0 | 5,207 |
| Miscellaneous | 9,930 | 2,089 | 0 | 21,093 | 66,529 | 99,641 |
| Total revenues | 1,540,103 | 585,991 | 293,575 | 439,472 | 71,004 | 2,930,145 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Security of persons and property | 912,823 | 402,226 | 0 | 89,419 | 89,562 | 1,494,030 |
| Public health and welfare | 35,371 | 0 | 0 | 0 | 0 | 35,371 |
| Leisure time activities | 41,967 | 0 | 0 | 16,773 | 0 | 58,740 |
| Community environment | 476 | 0 | 0 | 0 | 0 | 476 |
| Transportation | 214,472 | 153,456 | 0 | 45,011 | 0 | 412,939 |
| General government | 628,756 | 14,892 | 3,188 | 200,176 | 0 | 847,012 |
| Capital outlay | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt Service: | | | | | | |
| Redemption of principal | 0 | 36,800 | 215,000 | 0 | 0 | 251,800 |
| Interest | 0 | 6,396 | 69,366 | (5,853) | 0 | 69,909 |
| Total expenditures | 1,833,865 | 613,770 | 287,554 | 345,526 | 89,562 | 3,170,277 |
| Excess of revenue over (under) expenditures | (293,762) | (27,779) | 6,021 | 93,946 | (18,558) | (240,132) |
| Other Financing Sources (Uses): | | | | | | |
| Proceeds of refunding bonds | 0 | 0 | 0 | 0 | 0 | 0 |
| Sale of fixed assets | 4,575 | 0 | 0 | 0 | 0 | 4,575 |
| Transfers-in | 0 | 20,000 | 49,770 | 0 | 0 | 69,770 |
| Transfers-out | (20,000) | 0 | 0 | (49,770) | 0 | (69,770) |
| Advances-in | 0 | 0 | 0 | 0 | 0 | 0 |
| Repayment of refunding bonds and issuance costs | 0 | 0 | 0 | 0 | 0 | 0 |
| Refund of prior year expenditures | 1,301 | (7,769) | 0 | 40 | 887 | (5,541) |
| Refund of prior year receipts | (26,742) | 0 | 0 | (10,567) | (6,400) | (43,709) |
| Total Other Financing Sources (Uses) | (40,866) | 12,231 | 49,770 | (60,297) | (5,513) | (44,675) |
| Excess of revenue and other financing sources over (under) expenditures and other financing uses | (334,628) | (15,548) | 55,791 | 33,649 | (24,071) | (284,807) |
| Fund Balances at the beginning of the year | 987,191 | 722,339 | 6,061 | 838,690 | 128,326 | 2,682,607 |
| Fund Balances at the end of the year. | \$652,563 | \$706,791 | \$61,852 | \$872,339 | \$104,255 | \$2,397,800 |

See accompanying notes to the financial statements.

CITY OF MUNROE FALLS
 Combined Statement of Revenues, Expenditures and
 Changes in Fund Balances - Budget and Actual (Budget Basis)
 All Governmental Fund Types and Expendable Trust Funds
 For the Year Ended December 31, 2002
 (Continued)

| | General Fund | | | Special Revenue Fund | | |
|--|-------------------|------------------|--|----------------------|------------------|--|
| | Revised Budget | Actual | Variance Favorable (Unfavorable) | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | | | | |
| Local taxes | \$1,033,266 | \$1,022,507 | (\$10,759) | \$285,732 | \$287,825 | \$2,093 |
| Intergovernmental | 354,131 | 399,716 | 45,585 | 235,345 | 228,970 | (6,375) |
| Charges for services | 4,200 | 4,842 | 642 | 10,000 | 10,000 | 0 |
| Fines, licenses and permits | 55,147 | 62,982 | 7,835 | 8,914 | 185 | (8,729) |
| Interest | 172,350 | 59,123 | (113,227) | 9,835 | 4,696 | (5,139) |
| Special assessments | 0 | 0 | 0 | 0 | 0 | 0 |
| Miscellaneous | 3,000 | 12,495 | 9,495 | 2,030 | 2,563 | 533 |
| Total revenues | 1,622,094 | 1,561,665 | (60,429) | 551,856 | 534,239 | (17,617) |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Security of persons & property | 978,024 | 898,252 | 79,772 | 509,650 | 396,694 | 112,956 |
| Public health & welfare | 35,375 | 35,371 | 4 | 0 | 0 | 0 |
| Leisure time activities | 44,000 | 41,976 | 2,024 | 0 | 0 | 0 |
| Community development | 380 | 346 | 34 | 0 | 0 | 0 |
| Transportation | 215,806 | 211,552 | 4,254 | 176,450 | 151,237 | 25,213 |
| General government | 705,326 | 637,496 | 67,830 | 29,134 | 14,891 | 14,243 |
| Debt service: | | | | | | |
| Principal retirement | 0 | 0 | 0 | 36,800 | 36,800 | 0 |
| Interest | 0 | 0 | 0 | 5,476 | 5,476 | 0 |
| Total expenditures | 1,978,911 | 1,824,993 | 153,918 | 757,510 | 605,098 | 152,412 |
| Excess of revenue over (under) expenditures | (356,817) | (263,328) | 93,489 | (205,654) | (70,859) | 134,795 |
| Other financing sources (uses): | | | | | | |
| Operating transfers-in | 110,813 | 0 | (110,813) | 20,000 | 20,000 | 0 |
| Operating transfers-out | (25,634) | (20,000) | 5,634 | 0 | 0 | 0 |
| Other financing sources (uses) | (30,100) | (24,658) | 5,442 | 0 | 0 | 0 |
| Total other sources (uses) | 55,079 | (44,658) | (99,737) | 20,000 | 20,000 | 0 |
| Excess of revenue and other financing sources over (under) expenditures and other uses | (301,738) | (307,986) | (6,248) | (185,654) | (50,859) | 134,795 |
| Fund balances at the beginning of year | 314,747 | 763,671 | 448,924 | 364,801 | 645,548 | 280,747 |
| Prior year encumbrances appropriated | 42,268 | 42,268 | 0 | 67,362 | 67,362 | 0 |
| Fund balances at end of year | \$55,277 | \$497,953 | \$442,676 | \$246,509 | \$662,051 | \$415,542 |

See accompanying notes to the financial statements.

CITY OF MUNROE FALLS
 Combined Statement of Revenues, Expenditures and
 Changes in Fund Balances - Budget and Actual (Budget Basis)
 All Governmental Fund Types and Expendable Trust Funds
 For the Year Ended December 31, 2002
 (Continued)

| | Debt Service Fund | | | Capital Projects Fund | | |
|---|-------------------|-----------------|--|-----------------------|------------------|--|
| | Revised Budget | Actual | Variance Favorable (Unfavorable) | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | | | | |
| Local taxes | \$222,522 | \$224,049 | \$1,527 | \$351,000 | \$345,703 | (\$5,297) |
| Intergovernmental | 28,666 | 28,671 | 5 | 0 | 74,092 | 74,092 |
| Charges for services | 0 | 0 | 0 | 0 | 0 | 0 |
| Fines, licenses and permits | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest | 0 | 0 | 0 | 0 | 0 | 0 |
| Special assessments | 0 | 0 | 0 | 9,018 | 5,207 | (3,811) |
| Miscellaneous | 0 | 0 | 0 | 0 | 24,500 | 24,500 |
| Total revenues | 251,188 | 252,720 | 1,532 | 360,018 | 449,502 | 89,484 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Security of persons & property | 0 | 0 | 0 | 100,557 | 95,957 | 4,600 |
| Public health & welfare | 0 | 0 | 0 | 0 | 0 | 0 |
| Leisure time activities | 0 | 0 | 0 | 36,903 | 36,176 | 727 |
| Community development | 0 | 0 | 0 | 0 | 0 | 0 |
| Transportation | 0 | 0 | 0 | 136,865 | 94,647 | 42,218 |
| General government | 3,212 | 3,187 | 25 | 275,163 | 224,589 | 50,574 |
| Debt service: | | | | | | |
| Principal retirement | 215,000 | 215,000 | 0 | 0 | 0 | 0 |
| Interest | 77,382 | 69,366 | 8,016 | 0 | 0 | 0 |
| Total expenditures | 295,594 | 287,553 | 8,041 | 549,488 | 451,369 | 98,119 |
| Excess of revenue over (under) expenditures | (44,406) | (34,833) | 9,573 | (189,470) | (1,867) | 187,603 |
| Other financing sources (uses): | | | | | | |
| Operating transfers-in | 49,770 | 49,770 | 0 | 6,750 | 0 | (6,750) |
| Operating transfers-out | (6,063) | 0 | 6,063 | (87,185) | (49,770) | 37,415 |
| Other financing sources (uses) | 0 | 0 | 0 | (12,900) | (10,568) | 2,332 |
| Total other sources (uses) | 43,707 | 49,770 | 6,063 | (93,335) | (60,338) | 32,997 |
| Excess of revenue and other financing sources over (under) expenditures and other uses | (699) | 14,937 | 15,636 | (282,805) | (62,205) | 220,600 |
| Fund balances at the beginning of year | 33,866 | (1) | (33,867) | (51,082) | 612,687 | 663,769 |
| Prior year encumbrances appropriated | 0 | 0 | 0 | 150,664 | 150,664 | 0 |
| Fund balances at end of year | \$33,167 | \$14,936 | (\$18,231) | (\$183,223) | \$701,146 | \$884,369 |

See accompanying notes to the financial statements.

| Expendable Trust Funds | | | Totals (Memorandum Only) | | |
|------------------------|----------|--|--------------------------|-------------|--|
| Revised Budget | Actual | Variance Favorable (Unfavorable) | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| \$0 | \$0 | \$0 | \$1,892,520 | \$1,880,084 | (\$12,436) |
| 0 | 0 | 0 | 618,142 | 731,449 | 113,307 |
| 2,782 | 4,475 | 1,693 | 16,982 | 19,317 | 2,335 |
| 0 | 0 | 0 | 64,061 | 63,167 | (894) |
| 0 | 0 | 0 | 182,185 | 63,819 | (118,366) |
| 0 | 0 | 0 | 9,018 | 5,207 | (3,811) |
| 100,000 | 66,603 | (33,397) | 105,030 | 106,161 | 1,131 |
| 102,782 | 71,078 | (31,704) | 2,887,938 | 2,869,204 | (18,734) |
| 114,384 | 93,178 | 21,206 | 1,702,615 | 1,484,081 | 218,534 |
| 0 | 0 | 0 | 35,375 | 35,371 | 4 |
| 0 | 0 | 0 | 80,903 | 78,152 | 2,751 |
| 0 | 0 | 0 | 380 | 346 | 34 |
| 0 | 0 | 0 | 529,121 | 457,436 | 71,685 |
| 0 | 0 | 0 | 1,012,835 | 880,163 | 132,672 |
| 0 | 0 | 0 | 251,800 | 251,800 | 0 |
| 0 | 0 | 0 | 82,858 | 74,842 | 8,016 |
| 114,384 | 93,178 | 21,206 | 3,695,887 | 3,262,191 | 433,696 |
| (11,602) | (22,100) | (10,498) | (807,949) | (392,987) | 414,962 |
| 2,528 | 0 | (2,528) | 189,861 | 69,770 | (120,091) |
| 0 | 0 | 0 | (118,882) | (69,770) | 49,112 |
| (91,406) | (34,182) | 57,224 | (134,406) | (69,408) | 64,998 |
| (88,878) | (34,182) | 54,696 | (63,427) | (69,408) | (5,981) |
| (100,480) | (56,282) | 44,198 | (871,376) | (462,395) | 408,981 |
| 54,754 | 96,677 | 41,923 | 717,086 | 2,118,582 | 1,401,496 |
| 36,031 | 36,031 | 0 | 296,325 | 296,325 | 0 |
| (\$9,695) | \$76,426 | \$86,121 | \$142,035 | \$1,952,512 | \$1,810,477 |

CITY OF MUNROE FALLS
Combined Statement of Revenues, Expenses and Changes in
Fund Equity - Proprietary Fund Type
For the Year Ended December 31, 2002

| | <u>Enterprise Fund</u> |
|---|----------------------------------|
| Operating Revenues: | |
| Charges for services | <u>\$835,313</u> |
| Total operating revenues | 835,313 |
| Operating expenses: | |
| Personal services | 132,604 |
| Contractual services | 268,756 |
| Material and supplies | 31,809 |
| Other operating expenses | (4,477) |
| Depreciation | <u>133,079</u> |
| Total operating expenses | <u>561,771</u> |
| Operating income | 273,542 |
| Non-operating revenues (expenses) | |
| Intergovernmental revenue | 188,337 |
| Interest expense | (45,072) |
| Refund of prior year receipts | (5,990) |
| Other financing sources | <u>299</u> |
| Total non-operating revenues (expenses) | <u>137,574</u> |
| Income (loss) before Operating Transfers | 411,116 |
| Operating transfers in | 380,087 |
| Operating transfers out | <u>(380,087)</u> |
| | 0 |
| Net income | 411,116 |
| Retained earnings at beginning of year | <u>2,386,625</u> |
| Retained earnings at end of year | <u><u>\$2,797,741</u></u> |

See accompanying notes to the financial statements.

CITY OF MUNROE FALLS
Combined Statement of Cash Flows
Proprietary Fund Type
For the Year Ended December 31, 2002

| | <u>Enterprise Fund</u> |
|--|----------------------------|
| Cash flows from operating activities: | |
| Operating income | \$273,542 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 133,079 |
| Changes in assets and liabilities that increase (decrease) cash flow from operations: | |
| Receivables | 510 |
| Inventory of supplies | 554 |
| Prepays | (10,814) |
| Accounts payable | (16,837) |
| Accrued wages and benefits | (6,617) |
| | <u>373,417</u> |
| Net cash provided by operating activities | 373,417 |
| Cash flows from non-capital financing activities: | |
| Intergovernmental revenue | 188,337 |
| Other non-operating revenues (expenses) | (5,691) |
| | <u>182,646</u> |
| Net cash used by non-capital financing activities | 182,646 |
| Cash flows provided by (used in) capital financing activities: | |
| Acquisition of capital assets | (448,917) |
| Reduction in debt principal | (60,000) |
| Interest paid on bonds | (39,078) |
| | <u>(547,995)</u> |
| Net cash used in capital financing activities | (547,995) |
| Net increase in cash and cash equivalents | 8,068 |
| Cash and cash equivalents at beginning of year | <u>1,065,237</u> |
| Cash and cash equivalents at end of year | <u><u>\$1,073,305</u></u> |
| Noncash transactions | |
| Retirement of refinancing costs | <u>\$ 8,883</u> |

See accompanying notes to the financial statements.

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CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Munroe Falls, Ohio, (the City) is incorporated as a municipal corporation under the laws of the State of Ohio. The City operates under a Council-Mayor form of government and provides the following services: security of persons and property (police and fire), public health and welfare, leisure time activities, transportation (highways and streets), public improvements, community development, water utility system and general government services.

A. REPORTING ENTITY

The criteria for including entities and funds in the combined financial statements comply with the Governmental Accounting Standards Board (GASB) Statement Number 14, *The Financial Reporting Entity*. The primary government has an elected governing board and is legally separate as a body politic with its own name. It is capable of suing and being sued in its own name without recourse and is capable of buying, selling, leasing and holding title to property. The general purpose financial statements include all funds and account groups of governmental operations that are controlled by or dependent upon the City as determined on the basis of budgetary overview, obligations to fund deficits or control the use of surplus funds, taxing authority and fiscal management responsibilities. Component units are legally separate organizations for which the primary government is financially accountable or legally separate organizations that are fiscally dependent on the primary government. As such, the City does not have any component units.

The Stow-Munroe Falls School District conducts a portion of their activities within the boundaries of the City. However, this organization is not considered part of the reporting entity because the City does not exercise significant influence over their daily operations, approve their budgets, or maintain their accounting records. In addition, the City is not responsible for this organization's debt or funding any operating deficits.

B. BASIS OF ACCOUNTING AND BASIS FOR PRESENTATION - FUND ACCOUNTING

Measurement Focus and Basis of Accounting – The accounting and 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.

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF ACCOUNTING AND BASIS FOR PRESENTATION - FUND ACCOUNTING (Continued)

The proprietary fund types are accounted for on the flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type 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 modified accrual basis of accounting is followed for the governmental and fiduciary funds. The full accrual basis of accounting is followed for the proprietary funds.

Revenue Recognition – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the revenue is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**B. BASIS OF ACCOUNTING AND BASIS FOR PRESENTATION - FUND
ACCOUNTING (Continued)**

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income taxes, interest, state-levied locally shared taxes (including gasoline tax), fines and forfeitures and income tax withheld by employers.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements have been met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the period have also been reported as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized when they are incurred. Unbilled service charges receivable are recognized as revenue at year-end.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Basis of Presentation - The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal accounting entity with a self-balancing set of 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.

The City uses the following fund types and account groups:

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF ACCOUNTING AND BASIS FOR PRESENTATION - FUND ACCOUNTING (Continued)

Governmental Fund Types - Governmental funds are those through which most governmental functions are typically financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

The measurement focus is upon determination of financial position and changes in financial position. The following are the City's governmental fund types:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for revenue derived from specific taxes, grants or other restricted revenue sources (other than expendable trusts or capital projects that are legally restricted to expenditures for specified purposes).

Debt Service Funds - The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, certain general long-term debt principal, interest and related costs.

Capital Projects Funds - The Capital Projects 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 Types - Proprietary Funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to achieve sound financial administration. The measurement focus is based upon determination of net income, financial position and cash flows.

The proprietary fund types have elected to not follow the Financial Accounting Standards Board's (FASB) pronouncements issued subsequent to November 30, 1989 in accordance with GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The following is the City's proprietary fund type:

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF ACCOUNTING AND BASIS FOR PRESENTATION - FUND ACCOUNTING (Continued)

Enterprise Funds - Enterprise Funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Types - Fiduciary Funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These funds include Expendable Trust Funds.

Expendable Trust Funds - The Expendable Trust Funds are used to account for assets held by the City in a trustee capacity. The funds' measurement focus is based upon determination of financial position and changes in financial position.

Account Groups - The following account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term obligations:

General Fixed Assets Account Group - to account for fixed assets other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - to account for all unmatured long-term obligations of the City that are not a specific liability of any proprietary fund.

C. BUDGET REQUIREMENTS AND BUDGETARY ACCOUNTING

Tax Budget - The City's Director of Finance prepares a budget of estimated cash receipts and disbursements with the assistance and approval of the Mayor. This budget is presented to City Council which holds a public hearing before approving the budget. The budget is then submitted to the County Fiscal Officer, 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.

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BUDGET REQUIREMENTS AND BUDGETARY ACCOUNTING (Continued)

Estimated Resources - The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the Official Certificate of Estimated Resources which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from each fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure. Estimated revenue as shown in the combined financial statements does not include January 1, 2002, unencumbered fund balances; however, those fund balances are available for appropriation.

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

At the close of each fiscal 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 fiscal year and need not be reappropriated.

The City maintains budgetary control by not permitting expenditures plus encumbrances to exceed appropriations at the fund, function and object level of control.

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-Generally Accepted Accounting Principles (GAAP) budgetary basis statements in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

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 fiscal year and need not be reappropriated.

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETARY BASIS OF ACCOUNTING

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types and Expendable Trust Funds is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts and disbursements. The major differences between the budget basis and GAAP are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP);
2. Expenditures are recorded when spent in cash (budget) as opposed to when the liability is incurred (GAAP);
3. Encumbrances are recorded as expenditures (budget) as opposed to a reservation of a fund balance (GAAP) for governmental fund types and expendable trust fund.

A reconciliation of the results of operations for the year from the GAAP basis to the budget basis is shown below:

| | Excess of Revenue And Other Financing Sources Over (Under) Expenditures and Other Financing Uses | | | | | |
|----------------------|--|-----------------------------|--------------------------|------------------------------|------------------------------|--------------------|
| | GENERAL FUND | SPECIAL REVENUE FUNDS | DEBT SERVICE FUNDS | CAPITAL PROJECTS FUNDS | EXPENDABLE TRUST FUNDS | TOTAL |
| GAAP BASIS | \$(334,628) | \$(15,548) | \$ 55,791 | \$ 33,649 | \$(24,071) | \$(284,807) |
| Adjustments | | | | | | |
| Revenue Accruals | 15,686 | (51,752) | (40,855) | 9,990 | (813) | (67,744) |
| Expenditure Accruals | 47,346 | 19,611 | 1 | (23,990) | 1,330 | 44,298 |
| Encumbrances | <u>(36,390)</u> | <u>(3,170)</u> | <u>0</u> | <u>(81,854)</u> | <u>(32,728)</u> | <u>(154,142)</u> |
| BUDGET BASIS | <u>\$(307,986)</u> | <u>\$(50,859)</u> | <u>\$ 14,937</u> | <u>\$(62,205)</u> | <u>\$(56,282)</u> | <u>\$(462,395)</u> |

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. POOLED CASH AND CASH EQUIVALENTS

Cash balances of substantially all funds of the City are pooled and invested in a common group of bank accounts and in short-term investments. The cash flow statement for proprietary funds considers all cash and investments with a maturity of three months or less when purchased to be cash and cash equivalents.

F. INVESTMENT POLICY

The City adheres to GASB Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes accounting and reporting guidelines for government investments and investment pools. The City accounts for its investments at fair value and records changes in investment value through investment income.

G. FIXED ASSETS AND DEPRECIATION

The accounting and reporting treatment applied to the fixed assets associated with a fund is determined by its measurement focus. General fixed assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental fund types and capitalized (recorded and accounted for) in the General Fixed Assets Account Group. Infrastructure fixed assets such as streets, storm sewers, drains, traffic signals and signs are not capitalized by the City and are not reported as part of the General Fixed Asset Account Group.

Fixed assets used in proprietary fund type operations are capitalized in the fund in which they are utilized. All fixed assets are recorded at historical cost or, if donated, at fair market value at the date received.

Maintenance and repairs are normally expended or expensed except for expenditures which materially add to the value or life expectancy of an asset, which are capitalized at cost.

The City has elected not to record depreciation in the General Fixed Assets Account Group. Depreciation for proprietary funds is determined by allocating the cost of the fixed assets over their estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. FIXED ASSETS AND DEPRECIATION (Continued)

| | <u>Years</u> |
|----------------------|--------------|
| Buildings | 25 |
| Land Improvements | 25 |
| Equipment | 2 - 25 |
| Water Infrastructure | 40 |

H. INVENTORY OF SUPPLIES

Inventories are stated at cost on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased and as an expense in the proprietary fund types when used. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute “available spendable resources” even though it is a component of net current assets.

I. INTERFUND TRANSACTIONS

Funds are transferred from one fund to support expenditures of other funds in accordance with the authority established for the individual funds. During 2002, transfers between funds were authorized by City Council. The accompanying financial statements reflect such transactions as operating transfers.

J. COMPENSATED ABSENCES

The portion of estimated vacation and vested sick leave for Governmental Fund employees that is payable at year end is recognized as a liability and expenditure in the respective governmental fund and are included in accrued wages and benefits, and the portion not payable at year end is recognized in the General Long-Term Obligation Account Group.

Vacation leave is accumulated based upon the length of service. Unused leave for all full-time employees shall be cumulative. The maximum accumulated vacation shall be 320 hours. Compensated absences are shown in accrued wages and benefits.

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. COMPENSATED ABSENCES (Continued)

The City utilizes the vesting method for calculating compensated absences. Each full-time employee is entitled to sick leave of 1¼ days each month. Unused sick leave is cumulative up to 2,080 hours. Each full-time employee, except full-time patrolmen and police sergeants, may elect to convert four hours of sick leave to one hour of vacation. Upon retirement, the first 960 hours of accumulated sick leave will be compensated at 50% and all hours over 960 will be compensated at 25%. Full-time employees are entitled to vacations with pay based upon the term of employment as follows:

| <u>Years of Employment</u> | <u>Week(s)</u> |
|----------------------------|----------------|
| After one year | 2 |
| After five years | 3 |
| After ten years | 4 |
| After twenty years | 5 |
| After twenty-four years | 6 |

K. CONTRIBUTED CAPITAL

Contributed capital represents resources from other funds that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. There was no change in contributed capital during 2002.

L. FUND BALANCES (GOVERNMENTAL FUNDS AND EXPENDABLE TRUST FUND TYPES)

Fund balances are reserved for encumbrances, prepaid items, compensated absences, and inventories of supplies. The fund balance in the debt service fund is restricted for the retirement of general obligation and special assessment long-term debt.

M. TOTALS MEMORANDUM ONLY

Amounts in the "Totals Memorandum Only" columns in the financial statements represent a summation of the combined financial statement line items of the fund types and account groups and are presented only for analytical purposes. The data in these columns does not present financial information in accordance with U.S. generally accepted accounting principles. The summation includes fund types and account groups that use a different basis of accounting, and include interfund transactions that have not been eliminated. Consequently, amounts shown in the "Totals Memorandum Only" columns are not comparable to a consolidation.

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

2. PRIOR PERIOD ADJUSTMENT

In prior periods, the City incorrectly included infrastructure as a general fixed asset. The correction of the error had the following effect on the Investment in Fixed Assets line item of the General Fixed Asset Account Group:

| | <u>General Fixed Assets</u> |
|---|-----------------------------|
| Previously reported Investment in Fixed Assets, December 31, 2001 | \$ 6,065,735 |
| Correction of error related to infrastructure | <u>(493,871)</u> |
| Restated Investment in Fixed Assets, January 1, 2002 | <u>\$ 5,571,864</u> |

The adjustment had the following effect on the general fixed asset balances as previously reported:

| <u>Asset Category</u> | <u>Balances as previously reported at December 31, 2001</u> | <u>Restatement adjustments</u> | <u>Restated balance at January 1, 2002</u> |
|---|---|------------------------------------|--|
| Land and land improvements | \$ 836,246 | \$ (493,871) | \$ 342,375 |
| Buildings, structures, and improvements | 3,621,868 | - | 3,621,868 |
| Furniture, fixtures, equipment and vehicles | 1,567,990 | - | 1,567,990 |
| Construction in Progress | <u>39,631</u> | <u>-</u> | <u>39,631</u> |
| TOTALS | <u>\$ 6,065,735</u> | <u>\$ (493,871)</u> | <u>\$ 5,571,864</u> |

CITY OF MUNROE FALLS

NOTES TO COMBINED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2002 (Continued)

3. DEPOSITS AND INVESTMENTS

Policies and Practices – The investment and deposit of City monies are governed by the Ohio Revised Code and provisions of the Codified Ordinances of the City. In accordance with these provisions, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits.

The provisions also permit the City to invest its monies in certificates of deposit, savings accounts, money market accounts, the State Treasury Asset Reserve (STAR Ohio), obligations of the United States Government, or certain agencies thereof, and certain industrial revenue bonds issued by other governmental entities. The City may also enter into repurchase agreements with any eligible depository for a period not exceeding 30 days.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Insurance Corporation (FDIC) or may pledge a pool of government securities, the face value of which is at least 105% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement.

During 2002, the City complied with the provisions of these statutes pertaining to the types of investments held and institutions in which deposits were made. The City was also in compliance with the provisions of the statutes concerning security requirements. The City will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Deposits - At year-end, the carrying amount of the City's deposits was \$710,329 and the bank balance was \$783,750. Of the bank balance, \$300,000 was covered by federal depository insurance. \$483,750 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the City to a successful claim by FDIC.

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Investment – The City invested \$2,043,529 with the State Asset Reserve of Ohio (STAR Ohio) as of December 31, 2002. STAR Ohio is an investment pool managed by the State Treasurer’s Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price which is the price the investment could be sold for on December 31, 2002. The Investment in STAR Ohio is not categorized as to custodial credit risk, as required by GASB Statement Number 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, because the investment is not evidenced by securities that exist in physical or book entry form.

As required by GASB Statement No. 3, the City’s investments at December 31, 2002, are categorized below to give an indication of the level of custodial credit risk assumed by the City at year-end. The categories are described as follows:

- Category 1 Insured or registered, or for which the securities are held by the City of its agent in the City’s name.
- Category 2 Uninsured or unregistered, with securities held by the counterparty’s trust department or agent in the City’s name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City’s name.

| | Risk Category | | | Carrying Amount (Fair Value) |
|-------------------------------|---------------|-------------|-------------------|---------------------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | |
| Categorized Investments: | | | | |
| Repurchase Agreements | \$ <u>0</u> | \$ <u>0</u> | \$ <u>515,000</u> | \$ <u>515,000</u> |
| Total Categorized Investments | \$ <u>0</u> | \$ <u>0</u> | \$ <u>515,000</u> | \$ <u>515,000</u> |
| Non-Categorized Investments | | | | |
| STAR Ohio | | | | <u>2,043,529</u> |
| Total Investments | | | | <u>\$2,558,529</u> |

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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 Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

| | <u>Cash and Cash Equivalent Deposits</u> | <u>Investments</u> |
|------------------------------|--|--------------------|
| GASB Statement 9 | \$ 3,268,858 | \$ 0 |
| Investments: | | |
| Investment Sweep Account | (515,000) | 515,000 |
| State Treasury Asset Reserve | <u>(2,043,529)</u> | <u>2,043,529</u> |
| GASB Statement 3 | <u>\$ 710,329</u> | <u>\$2,558,529</u> |

4. COMPLIANCE AND ACCOUNTABILITY

A. Fund Deficit

The Water Distribution Fund in the Enterprise Fund type had a deficit fund balance at December 31, 2002 of \$162,937. The deficit resulted from adjustments for accrued liabilities. The General Fund is liable for deficits in any fund and provides operating transfers when cash is required, not when accruals occur.

B. Non-Certification of Expenditures

Contrary to Ohio Revised Code Section 5705.41 (D), the City did not always certify the availability of funds prior to entering into the commitment.

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

5. RECEIVABLES

The City's receivables by fund type consist of the following:

| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Enterprise</u> |
|-------------------|------------------|----------------------------|-------------------------|-----------------------------|-------------------|
| Property taxes | \$247,692 | \$331,207 | \$236,348 | \$ 0 | \$ 0 |
| City income taxes | 216,706 | 0 | 0 | 92,874 | 0 |
| Utility billings | 0 | 0 | 0 | 0 | 208,738 |
| Special | 0 | 0 | 0 | 13,709 | 0 |
| Interest | 376 | 0 | 0 | 0 | 0 |
| Fines | 6,999 | 0 | 0 | 0 | 0 |
| Other | <u>2,834</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Totals | <u>\$474,607</u> | <u>\$331,207</u> | <u>\$236,348</u> | <u>\$106,583</u> | <u>\$208,738</u> |

6. FIXED ASSETS

General Fixed Assets - A summary of changes in the General Fixed Assets Account Group follows:

| | <u>January 1 (as restated)</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance December 31</u> |
|---|------------------------------------|-------------------|------------------|--------------------------------|
| Land and land improvements | \$ 342,375 | \$ - | \$ - | \$ 342,375 |
| Buildings, structures and improvements | 3,621,868 | 26,862 | - | 3,648,730 |
| Furniture, fixtures, equipment and vehicles | 1,567,990 | 186,128 | 6,292 | 1,747,826 |
| Construction in progress | <u>39,631</u> | <u>550</u> | <u>-</u> | <u>40,181</u> |
| TOTALS | <u>\$ 5,571,864</u> | <u>\$ 213,540</u> | <u>\$ 6,292</u> | <u>\$ 5,779,112</u> |

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

6. FIXED ASSETS (Continued)

Proprietary Fund Type Fixed Assets - A summary of propriety fund fixed assets at December 31, 2002 follows:

| | |
|-------------------------------|----------------------------|
| Enterprise | |
| Land and land improvements | \$ 24,747 |
| Buildings | 314,907 |
| Equipment | 438,213 |
| Water infrastructure | <u>2,518,178</u> |
| TOTAL | 3,296,045 |
| Less accumulated depreciation | <u>943,890</u> |
| NET | <u><u>\$ 2,352,155</u></u> |

7. LONG-TERM OBLIGATIONS

A summary of the changes in the City's long-term obligations for the year ended December 31, 2002 is as follows:

| | January 1 | Additions | Retired | December31 |
|--|--------------------|---------------|---------------------|--------------------|
| ENTERPRISE FUND OBLIGATIONS: | | | | |
| Series 2001B | \$ 995,475 | \$ 0 | \$ (60,000) | \$ 935,475 |
| Refinancing Costs | (115,475) | 0 | 8,883 | (106,592) |
| Compensated Absences | <u>13,423</u> | <u>0</u> | <u>(6,644)</u> | <u>6,779</u> |
| Total | <u>\$ 893,423</u> | <u>\$ 0</u> | <u>\$ (57,761)</u> | <u>\$ 835,662</u> |
| GENERAL LONG TERM OBLILGATIONS ACCOUNT GROUP: | | | | |
| EMS Vehicle Note – 4.96% | \$ 110,400 | \$ 0 | \$ (36,800) | \$ 73,600 |
| Series 2001A | 1,950,000 | 0 | (175,000) | 1,775,000 |
| Series 2001B | 254,525 | 0 | (40,000) | 214,525 |
| Compensated Absences | <u>130,328</u> | <u>734</u> | <u>0</u> | <u>131,062</u> |
| Total | <u>\$2,445,253</u> | <u>\$ 734</u> | <u>\$ (251,800)</u> | <u>\$2,194,187</u> |

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

7. LONG-TERM OBLIGATIONS (Continued)

On November 1, 2001 the City issued \$1,950,000 Series A and \$1,250,000 Series B in General Obligation Bonds with an average interest rate of 4.34 percent to advance refund \$1,950,000 of 1994A Series bonds with an average interest rate of 6.30 percent and \$1,105,000 of 1994B Series bonds with an average interest rate 6.49 percent. The net proceeds of \$3,055,000 (after deduction of \$145,000 in underwriting fees, insurance and other issuance costs) were used to pay the 1994 A & B Series Bonds. As a result, the 1994A and 1994B Series bonds are considered to be defeased and the liability removed from the general long-term debt account group and the enterprise fund.

Payment of the principal and interest on the refinanced bonds is insured by a municipal bond insurance policy issued by Financial Guaranty Insurance Company.

City's debt service requirements, including interest of \$253,680 and \$361,534 for the Enterprise Fund Obligations and the General Obligations, respectively, subsequent to December 31, 2002 are:

| | Enterprise Fund Obligations | | | General Obligations | | |
|-------------|-----------------------------|------------------|--------------------|---------------------|------------------|--------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2003 | \$ 65,725 | \$ 34,239 | \$ 99,964 | \$ 256,075 | \$ 68,387 | \$ 324,462 |
| 2004 | 61,337 | 32,409 | 93,746 | 260,463 | 62,841 | 323,304 |
| 2005 | 67,692 | 30,745 | 98,437 | 182,308 | 51,430 | 233,738 |
| 2006 | 72,857 | 28,721 | 101,578 | 182,143 | 45,954 | 228,097 |
| 2007 | 72,857 | 26,353 | 99,210 | 187,143 | 40,035 | 227,178 |
| 2008 - 2013 | 499,211 | 97,142 | 596,353 | 943,294 | 92,283 | 1,035,577 |
| 2014 | 95,796 | 4,071 | 99,867 | 51,699 | 604 | 52,303 |
| Total | <u>\$935,475</u> | <u>\$253,680</u> | <u>\$1,189,155</u> | <u>\$2,063,125</u> | <u>\$361,534</u> | <u>\$2,424,659</u> |

8. LOCAL TAX REVENUES

Income Taxes - An income tax of 2% is levied on substantially all income earned within the City. In addition, residents of the City are required to pay City income taxes on income earned outside the City; however, credit is allowed for income taxes paid to other municipalities and Joint Economic Development Districts up to 100% of the City's current tax rate.

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

8. LOCAL TAX REVENUES (Continued)

Employers within the City are required to withhold income tax on employee compensation and remit this tax to the City at least quarterly. Major employers are required to remit withholdings to the City at least monthly. Corporations and self-employed individual taxpayers are required to pay estimated taxes quarterly and file a declaration annually with the City.

Total income tax revenue for the year ended December 31, 2002 was \$1,152,342.

Property Taxes - Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January of that preceding year, the lien date. Assessed values are established by the County Fiscal Officer at 35% of the appraised market value. All property is required to be revalued every six years with a triennial update. Real property taxes received by the City in 2002 were based upon 2001 property values which were last updated in 2001. Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20, with the remainder payable by June 20. In certain circumstances, state statute permits earlier or later payment dates to be established.

Tangible personal property taxes (for tangible property other than public utility property) attach as a lien and are levied on January 1 of the current calendar year. Tax collections for the current year are therefore based upon assessed values as of January 1 of the current year.

Tangible property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25% 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 based on assessed values as of December 31 of the second year preceding the tax collection year, the lien date. The majority of public utility tangible personal property currently is assessed at 35% of its true value. Public Utility property taxes are payable on the same dates as real property taxes described previously.

The County Fiscal Officer collects property taxes on behalf of all taxing districts within the County. The Fiscal Officer periodically remits to the City its portion of the taxes collected with final settlement in June and December for taxes payable in the first and second halves of the year, respectively.

The City records property taxes receivable as of the levy date.

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

8. LOCAL TAX REVENUES (Continued)

The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are shown as follows:

| | |
|---|----------------------|
| Real Property – 2001 Tax Valuation | \$103,621,290 |
| Public Utility Personal Property - 2001 Tax Valuation | 1,605,470 |
| Tangible Personal Property - 2001 Tax Valuation | <u>4,038,586</u> |
| Total Valuation | <u>\$109,265,346</u> |

Total property tax revenue recognized by fund type for the year ended December 31, 2002 is as follows:

| | |
|----------------------|------------------|
| General Fund | \$ 215,868 |
| Special Revenue Fund | 287,825 |
| Debt Service Fund | <u>224,049</u> |
| Total | <u>\$727,742</u> |

9. DEFINED BENEFIT PENSION PLANS

- A. Employees and Plans – The City contributes to the Ohio Public Employees Retirement System (OPERS) and the Ohio Police and Fire Pension Fund (OP&F), which are both cost-sharing multiple-employer defined benefit pension plans. Non-uniformed and part-time uniformed employees are members of OPERS. Full-time police and fire personnel are members of OP&F. The authority to establish and amend benefits is established by the Ohio State Legislature and are codified in Chapters 145 and 742 of the Ohio Revised Code for OPERS and OP&F, respectively. OPERS and OP&F issue publicly available financial reports that include financial information and required supplementary information for the plans. OPERS and OP&F provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Interested parties may obtain a copy of these financial reports by making a written request to the Public Employees Retirement System of Ohio at 277 East Town Street, Columbus, Ohio 43215-4642 and OP&F at 140 East Town Street, Columbus, Ohio 43215-5164.

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Public Employee Retirement System (OPERS)

Under OPERS, the Ohio Revised Code provides statutory authority for employee and employer contributions. Employees other than law enforcement are required to contribute 8.5% of covered payroll. The employer contribution rate is 13.55% of covered payroll. The employer contributions from the City to OPERS for the years ended 2002, 2001, and 2000 were \$99,720, \$81,479, and \$79,324, respectively, equal to the required contributions for each year.

C. Ohio Police and Fire Pension Fund of Ohio (OP&F)

Under OP&F, plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24%, respectively, for police officers and firefighters. The City's contributions to OP&F for the years ending December 31, 2002, 2001 and 2000 were \$97,999, \$91,403, and \$78,957, respectively, equal to the required contributions for each year.

10. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

A. Ohio Public Employees Retirement System (OPERS)

1. Ohio Public Employees Retirement System provides postretirement health care coverage to age and service retirees with 10 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 (OPEB) as described in GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer and employee contributions. The OPERS law enforcement program was separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2002 employer contribution rate for state employers was 13.31% of covered payroll; 5.0% was the portion used to fund health care for the year. For local government employer units the rate was 13.55% of covered payroll; 5.0% was the portion used to fund health care for the year. The total police employer contribution is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2002.

CITY OF MUNROE FALLS

NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)

10. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)

A. Ohio Public Employees Retirement System (OPERS) (Continued)

2. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.
3. Summary of Assumptions:

Actuarial Review. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2001.

Funding Method. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

Assets Valuation Method. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

Investment Return. The investment assumption rate for 2001 was 8.0%.

Active Employee Total Payroll. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.50% to 6.30%.

Health Care. Health care costs were assumed to increase 4.0% annually.

4. OPEBs are advance-funded on an actuarially determined basis.
 - a. The number of active contributing participants was 402,041.

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

**10. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)**

A. Ohio Public Employees Retirement System (OPERS) (Continued)

The contribution rates stated above are the actuarially determined contribution requirements for OPERS. Included in the City's total employer contributions to OPERS was \$36,797 for the purpose of funding postemployment benefits.

- b. 11.6 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2001 (the most recent actuarial report available).
- c. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

OPERS Board adopts new health care plan.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical spending Account.

CITY OF MUNROE FALLS

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002
(Continued)**

**10. POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)**

B. Ohio Police and Fire Pension Fund of Ohio (OP&F)

1. The fund provides postretirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or an individual 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 Post Employment Benefit (OPEB) as described in GASB Statement Number 12. The Ohio Revised code provides that health care cost paid from the funds of Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll.
2. The Ohio Revised Code also provides the statutory authority allowing the Fund's Board of Trustees to provide health care coverage to all eligible individuals.
3. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.50% and 7.75% of covered payroll in 2001 and 2002, respectively. 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.
4. The City's actual contributions for 2002 that were used to fund postemployment benefits were \$31,611 for police and \$5,935 for fire. OP&F's total health care expense statewide for the year ending December 31, 2001, the date of the last actuarial valuation available, was \$122,298,771, which was net of the member contributions of \$6,874,699.
5. The number of OP&F participants eligible to receive health care benefits statewide as of December 31, 2001, the date of the last actuarial valuation available, is 13,174 for police and 10,239 for firefighters

CITY OF MUNROE FALLS

NOTES TO THE COMBINED FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2002
 (Continued)

11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains several enterprise funds which provide water services. Segment information as of December 31, 2002, and for the year then ended for the enterprise funds is summarized as follows:

| | Water Revenue | Water Distribution | Utility Improvement | Harry Avenue Waterline | Northmoreland Avenue Waterline | Other | Total |
|---|-------------------|-----------------------|------------------------|------------------------------|--------------------------------------|------------------|------------------|
| Operating revenues | \$ 834,922 | \$ - | \$ - | \$ - | \$ - | \$ 391 | \$ 835,313 |
| Operating expenses: | | | | | | | |
| Depreciation | - | 24,135 | 95,051 | 6,175 | 7,341 | 377 | 133,079 |
| Other operating expenses | 474,590 | - | (40,298) | - | - | (5,600) | 428,692 |
| Total operating expenses | 474,590 | 24,135 | 54,753 | 6,175 | 7,341 | (5,223) | 561,771 |
| Operating income (loss) | 360,332 | (24,135) | (54,753) | (6,175) | (7,341) | 5,614 | 273,542 |
| Other non-operating revenues (expenses) | | | | | | | |
| Intergovernmental revenue | - | - | 188,337 | - | - | - | 188,337 |
| Transfers In/(Out) | (380,087) | 60,000 | 281,000 | - | - | 39,087 | - |
| Interest | - | (8,883) | 2,889 | - | - | (39,078) | (45,072) |
| Other non-operating | 299 | - | - | - | - | (5,990) | (5,691) |
| Net income (loss) | (19,456) | 26,982 | 417,473 | (6,175) | (7,341) | (367) | 411,116 |
| Property, plant, and equipment additions | - | - | 448,917 | - | - | - | 448,917 |
| Contributed capital | - | - | 1,000 | - | - | - | 1,000 |
| Net working capital | 749,132 | (65,725) | 526,329 | - | - | 8 | 1,209,744 |
| Total assets | 764,967 | 657,064 | 1,748,958 | 210,256 | 252,207 | 18,625 | 3,652,077 |
| Bonds and other long- term liabilities | - | 828,883 | - | - | - | - | 828,883 |
| Total Equity | <u>\$ 749,132</u> | <u>\$ (171,819)</u> | <u>\$1,746,180</u> | <u>\$210,256</u> | <u>\$ 252,207</u> | <u>\$ 12,785</u> | <u>2,798,741</u> |

CITY OF MUNROE FALLS

**NOTES TO THE COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002**

(Continued)

12. CONTINGENT LIABILITIES

There are certain pending and threatened lawsuits against the City. The City's management, after consultation with the City's Law Director, is of the opinion that the ultimate outcome of the pending and threatened litigation will not materially affect the City's financial position.

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

During 2002, the City received some donated property which may require environmental remediation. As of the date of these financial statements, management has not assessed the potential dollar amount that the potential environmental remediation, if any, would require.

13. RISK MANAGEMENT

The City is exposed to various risks of loss during the normal course of its operations including, but not limited to, loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The City purchases commercial insurance to reduce its exposure to risk of loss.

The City carries insurance for General Liability, Auto Liability and Law Enforcement Liability with limits of \$5,000,000 per occurrence. The City also carries \$5,000,000 of Public Officials Liability coverage. The City also purchases insurance for the buildings and contents of all City locations and physical damage to vehicles with various deductibles. The City is insured through the State of Ohio for workers' compensation and provides employee health care benefits through a commercial insurance carrier.

Settled claims have not exceeded the City's insurance coverage in any of the past three years.

14. SUBSEQUENT EVENT

On May 20, 2003, the City passed Ordinance 19-2003, which amended section 181.14 of the Codified Ordinances, Credit for Tax Paid to Another Municipality. The income tax credit was reduced from 100% to 65%.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members of City Council
City of Munroe Falls
Summit County
43 Munroe Falls Avenue
Munroe Falls, Ohio 44262

To the City Council:

We have audited the general-purpose financial statements of the City of Munroe Falls, Summit County, Ohio, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated July 21, 2003, in which we noted a restatement of the General Fixed Asset Account Group. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2002-001.

We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated July 21, 2003.

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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2002-002.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. The reportable condition described above is considered to be a material weakness.

We also noted other matters involving 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 21, 2003.

This report is intended for the information and use of the audit committee, 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 21, 2003

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002**

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

FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract 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 encumbrances.

The following exceptions to this basic requirement are provided by statute:

- Then and Now Certificate: This exception provides that, if the fiscal officer (finance director) can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority (City Council) has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.
- Amounts of less than \$100 for counties, or less than \$1,000 (\$3,000 after April 7, 2003) for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

During the testing of non-payroll disbursements, we noted that 28% of the items tested included invoices that preceded the fiscal officer's certification. It was also found that neither of the two exceptions above were utilized for the items found to be in non-compliance. The City should certify the availability of funds prior to incurring the obligation for expenditures. The City should also implement the use of "then and now" certificates and "blanket certificates" as further permitted by Ohio Rev. Code Section 5705.41.

FINDING NUMBER 2002-002

Material Weakness

During testing of Fixed Assets we noted the following conditions:

- The City does not maintain a written and formally approved fixed asset policy which defines the City's fixed asset accounting system, useful life and capitalization threshold.
- The Fixed Asset Master Listing does not list fixed asset tag numbers, serial numbers or other individually identifying information.
- Asset additions are recorded only from acquisitions recorded in accounting funds 403 and 409. Additions to any other funds are not booked to the fixed asset listing.
- The City does not have a deletions listing. Deletions are marked on the Master List which does not contain tag numbers and makes it difficult to determine if the asset was originally included in and subsequently removed from the listing.
- Fixed assets listings from the previous year were not maintained.

FINDING NUMBER 2002-002 (Continued)

Material Weakness (Continued)

We recommend City Council and management develop and implement procedures that will reasonably ensure that all fixed assets are capitalized in the financial statements of the City. These procedures and policy should be written and formally approved by City Council. This fixed asset policy should include guidance regarding, but not be limited to, the following;

- Capitalization Threshold - This threshold should specify a minimum amount for the recording of an acquisition as a fixed asset. The City should clarify if the threshold is a per-item cost or an aggregate purchase cost.
- Fixed Asset Master List - This list should serve as an accurate record of the location, asset description, tag number, acquisition date, and historical cost of each fixed asset.
- Fixed Asset Additions/Deletions/Transfers Sheet - This sheet should be completed by the department head at the time of acquisition, disposition, or transfer of a fixed asset to or from the respective department.
- Supporting Documentation - All documents supporting the fixed asset listing, including invoices, location and other information related to movements of assets and disposals should be retained.
- Compare Master List to assets via a periodic (e.g. annual) physical inventory.
- Depreciation - The policy should clearly state depreciation methods and useful lives for the various types/categories of fixed assets, including general fixed assets and infrastructure which will be recorded and depreciated upon the implementation of Governmental Accounting Standards Board Statement No. 34.

Implementation of a comprehensive fixed asset policy will help reduce the likelihood that material misstatements will occur in the financial statements.

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|----------------|---|------------------|---|
| 2001-20977-001 | Revised Code Section 5705.41(D) – failure to certify expenditures | No | Not corrected, repeated as item 2002-001 |
| 2001-20977-002 | Fixed asset reportable condition | No | Not corrected, repeated as item 2002-002 |

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**Auditor of State
Betty Montgomery**

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Facsimile 614-466-4490

CITY OF MUNROE FALLS

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 13, 2003**