

***CITY OF LYNDHURST  
CUYAHOGA COUNTY, OHIO***

**Audit Report**

**For the Year Ended December 31, 2002**

***CHARLES E. HARRIS & ASSOCIATES, INC.***  
Certified Public Accountants





**Auditor of State  
Betty Montgomery**

Honorable Mayor and Members of City Council  
City of Lyndhurst  
5301 Mayfield Road  
Lyndhurst, OH 44124

We have reviewed the Independent Auditor's Report of the City of Lyndhurst, Cuyahoga County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Lyndhurst is responsible for compliance with these laws and regulations.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

August 7, 2003

**This Page is Intentionally Left Blank.**

**CITY OF LYNDHURST, OHIO**  
**Audit Report**  
**For the Year Ended December 31, 2002**

**TABLE OF CONTENTS**

	<u><b>Page #</b></u>
<b>Report of Independent Accountants</b>	<b>1</b>
<b>Combined Balance Sheet, All Fund Types and Account Groups</b> <b>- As of December 31, 2002</b>	<b>2-3</b>
<b>Combined Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Fund Types</b> <b>- For the Year Ended December 31, 2002</b>	<b>4</b>
<b>Combined Statement of Revenues, Expenditures and Changes in Fund Balances</b> <b>- Budget and Actual (Budget Basis), All Governmental Fund Types -</b> <b>For the Year Ended December 31, 2002</b>	<b>5</b>
<b>Combined Statement of Revenues, Expenditures and Changes in Fund Balances</b> <b>- Budget and Actual (Budget Basis), All Governmental Fund Types -</b> <b>For the Year Ended December 31, 2002</b>	<b>6-7</b>
<b>Notes to the General Purpose Financial Statements</b>	<b>8-26</b>
<b>Report on Compliance and on Internal Control Over Financial Reporting</b> <b>Based on an Audit of Financial Statements Performed in Accordance</b> <b>With <i>Government Auditing Standards</i></b>	<b>27-28</b>
<b>Status of Prior Year's Citations and Recommendations</b>	<b>29</b>

**This Page is Intentionally Left Blank.**

***Charles E. Harris & Associates, Inc.***  
*Certified Public Accountants*

Rockefeller Building  
614 W Superior Ave Ste 1242  
Cleveland, OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

---

**REPORT OF INDEPENDENT ACCOUNTANTS**

**The Honorable Mayor and Members of City Council  
City of Lyndhurst  
Lyndhurst, Ohio**

We have audited the accompanying general purpose financial statements of the City of Lyndhurst, 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 as of December 31, 2002, 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 a report dated June 2, 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.

***Charles E. Harris & Associates, Inc.***  
**June 2, 2003**

**THE CITY OF LYNDHURST, OHIO  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
DECEMBER 31, 2002**

	<i>Governmental Fund Types</i>			<i>Fiduciary Fund Types</i>	<i>Account Groups</i>		Totals (Memorandum Only)	
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Trust and Agency Funds	General Fixed Assets		General Long-Term Obligations
<u>Assets and Other Debits:</u>								
Assets:								
Cash and Cash Equivalents	\$2,132,738	\$2,080,010	\$201,608	\$3,516,180	\$235,727	\$0	\$0	\$8,166,263
Investments	3,754,828	0	446,043	5,830,628	0	0	0	10,031,499
Receivables:								
Taxes	3,755,106	214,828	867,050	279,939	0	0	0	5,116,923
Accounts	7,116	0	0	0	0	0	0	7,116
Interest	0	24	0	0	0	0	0	24
Special Assessments	0	528,610	185	451,555	0	0	0	980,350
Due from Other Funds	88,440	21,749	0	0	0	0	0	110,189
Intergovernmental Receivables	443,108	183,925	0	0	0	0	0	627,033
Inventory of Supplies	0	37,295	0	0	0	0	0	37,295
Prepaid Items	124,105	0	0	0	0	0	0	124,105
Restricted Assets:								
Cash and Cash Equivalents	0	0	0	0	407,653	0	0	407,653
Fixed Assets	0	0	0	0	0	16,158,373	0	16,158,373
Other Debits:								
Amount Available in Debt Service Fund	0	0	0	0	0	0	647,651	647,651
Amount to be Provided for								
General Long-Term Obligations	0	0	0	0	0	0	1,195,551	1,195,551
Total Assets and Other Debits	<u>\$10,305,441</u>	<u>\$3,066,441</u>	<u>\$1,514,886</u>	<u>\$10,078,302</u>	<u>\$643,380</u>	<u>\$16,158,373</u>	<u>\$1,843,202</u>	<u>\$43,610,025</u>

(Continued)



**THE CITY OF LYNDHURST, OHIO**  
**COMBINED BALANCE SHEET**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**DECEMBER 31, 2002**

	<i>Governmental</i>			<i>Fiduciary</i>	<i>Account</i>		Totals (Memorandum Only)	
	<i>Fund Types</i>			<i>Fund Types</i>	<i>Groups</i>			
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Trust and Agency Funds	General Fixed Assets	General Long-Term Obligations	
<b>Liabilities, Equity and Other Credits:</b>								
<b>Liabilities:</b>								
Accounts Payable	\$72,111	\$57,902	\$0	\$276,469	\$0	\$0	\$0	\$406,482
Accrued Wages and Benefits	273,073	23,914	0	0	0	0	0	296,987
Due to Other Funds	0	0	0	0	110,189	0	0	110,189
Intergovernmental Payables	0	0	0	0	148,313	0	0	148,313
Due to Others	0	0	0	0	384,878	0	0	384,878
Accrued Interest Payable	0	0	0	40,848	0	0	0	40,848
Deferred Revenue	3,635,295	866,056	867,235	520,075	0	0	0	5,888,661
Compensated Absences Payable	0	0	0	0	0	0	642,110	642,110
Intergovernmental Payable - Accrued Pension	0	0	0	0	0	0	313,092	313,092
General Obligation Notes Payable	0	0	0	4,300,000	0	0	0	4,300,000
Special Assessment Bonds Payable with Governmental Commitment	0	0	0	0	0	0	33,000	33,000
General Obligation Bonds Payable	0	0	0	0	0	0	855,000	855,000
<b>Total Liabilities</b>	<b>3,980,479</b>	<b>947,872</b>	<b>867,235</b>	<b>5,137,392</b>	<b>643,380</b>	<b>0</b>	<b>1,843,202</b>	<b>13,419,560</b>
<b>Equity and Other Credits:</b>								
Investment in General Fixed Assets	0	0	0	0	0	16,158,373	0	16,158,373
<b>Fund Balances:</b>								
Reserved for Encumbrances	116,661	219,646	0	2,117,652	0	0	0	2,453,959
Reserved for Supplies Inventory	0	37,295	0	0	0	0	0	37,295
Reserved for Prepaid Items	124,105	0	0	0	0	0	0	124,105
Reserved for Debt Service	0	0	647,651	0	0	0	0	647,651
<b>Unreserved:</b>								
Undesignated	6,084,196	1,861,628	0	2,823,258	0	0	0	10,769,082
<b>Total Equity and Other Credits</b>	<b>6,324,962</b>	<b>2,118,569</b>	<b>647,651</b>	<b>4,940,910</b>	<b>0</b>	<b>16,158,373</b>	<b>0</b>	<b>30,190,465</b>
<b>Total Liabilities, Equity and Other Credits</b>	<b>\$10,305,441</b>	<b>\$3,066,441</b>	<b>\$1,514,886</b>	<b>\$10,078,302</b>	<b>\$643,380</b>	<b>\$16,158,373</b>	<b>\$1,843,202</b>	<b>\$43,610,025</b>

The notes to the general purpose financial statements are an integral part of this statement.

**THE CITY OF LYNDHURST, OHIO**  
**COMBINED STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

	<i>Governmental</i>				Totals (Memorandum Only)
	<i>Fund Types</i>				
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	
<u>Revenues:</u>					
Taxes	\$7,926,821	\$264,827	\$491,112	\$785,493	\$9,468,253
Intergovernmental Revenues	2,673,006	413,353	163,668	937,887	4,187,914
Charges for Services	94,100	0	0	0	94,100
Licenses, Permits and Fees	107,143	0	0	0	107,143
Investment Earnings	0	57,871	19,702	305,843	383,416
Special Assessments	0	522,007	14,677	371,818	908,502
Fines and Forfeitures	1,027,461	282,876	0	0	1,310,337
All Other Revenues	64,006	47,428	0	37,824	149,258
Total Revenues	<u>11,892,537</u>	<u>1,588,362</u>	<u>689,159</u>	<u>2,438,865</u>	<u>16,608,923</u>
<u>Expenditures:</u>					
Current:					
Security of Persons and Property	5,073,175	801,415	0	633,846	6,508,436
Public Health and Welfare Services	45,073	0	0	0	45,073
Leisure Time Activities	616,354	177,920	0	1,211,502	2,005,776
Community Environment	369,089	182,838	0	1,733	553,660
Basic Utility Services	1,168,726	224,115	0	897,873	2,290,714
Transportation	0	551,035	0	1,422,241	1,973,276
General Government	2,875,546	196,026	1,076	149,019	3,221,667
Debt Service:					
Principal Retirement	0	0	482,625	0	482,625
Interest and Fiscal Charges	0	0	56,418	55,198	111,616
Total Expenditures	<u>10,147,963</u>	<u>2,133,349</u>	<u>540,119</u>	<u>4,371,412</u>	<u>17,192,843</u>
Excess (Deficiency) of Revenues Over Expenditures	1,744,574	(544,987)	149,040	(1,932,547)	(583,920)
<u>Other Financing Sources (Uses):</u>					
Operating Transfers In	0	605,000	0	300,000	905,000
Operating Transfers Out	(905,000)	0	0	0	(905,000)
Other Financing Sources	155,796	83,922	0	367,702	607,420
Total Other Financing Sources (Uses)	<u>(749,204)</u>	<u>688,922</u>	<u>0</u>	<u>667,702</u>	<u>607,420</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	995,370	143,935	149,040	(1,264,845)	23,500
Fund Balance Beginning of Year	5,329,592	1,984,397	498,611	6,205,755	14,018,355
Decrease in Inventory Reserve	0	(9,763)	0	0	(9,763)
Fund Balance End of Year	<u>\$6,324,962</u>	<u>\$2,118,569</u>	<u>\$647,651</u>	<u>\$4,940,910</u>	<u>\$14,032,092</u>

The notes to the general purpose financial statements are an integral part of this statement.

**THE CITY OF LYNDHURST, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

	<i>General Fund</i>			<i>Special Revenue Funds</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$7,902,716	\$7,881,457	(\$21,259)	\$269,892	\$264,827	(\$5,065)
Intergovernmental Revenues	2,596,546	2,673,159	76,613	413,047	421,532	8,485
Charges for Services	89,807	92,528	2,721	0	0	0
Licenses, Permits and Fees	51,850	107,143	55,293	0	0	0
Investment Earnings	0	0	0	85,050	57,903	(27,147)
Special Assessments	0	0	0	521,426	522,007	581
Fines and Forfeitures	1,022,300	1,014,767	(7,533)	254,500	280,319	25,819
All Other Revenues	70,700	65,101	(5,599)	46,300	47,428	1,128
Deposits	0	0	0	0	0	0
Total Revenues	11,733,919	11,834,155	100,236	1,590,215	1,594,016	3,801
<b>Expenditures:</b>						
Current:						
Security of Persons and Property	5,232,280	5,086,554	145,726	959,877	805,817	154,060
Public Health and Welfare Services	47,147	45,073	2,074	0	0	0
Leisure Time Activities	672,034	619,800	52,234	233,124	180,095	53,029
Community Environment	404,753	376,351	28,402	212,800	199,462	13,338
Basic Utility Services	1,300,213	1,183,562	116,651	511,636	428,058	83,578
Transportation	0	0	0	702,606	555,028	147,578
General Government	3,318,868	3,082,419	236,449	246,315	191,806	54,509
Other Expenditures	0	0	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	10,975,295	10,393,759	581,536	2,866,358	2,360,266	506,092
Excess (Deficiency) of Revenues Over (Under) Expenditures	758,624	1,440,396	681,772	(1,276,143)	(766,250)	509,893
<b>Other Financing Sources (Uses):</b>						
Proceeds from the Sale of Fixed Assets	0	0	0	0	0	0
Proceeds from General Obligation Notes	0	0	0	0	0	0
Operating Transfers In	0	0	0	605,000	605,000	0
Operating Transfers Out	(905,000)	(905,000)	0	0	0	0
Other Financing Sources	140,450	154,101	13,651	31,000	85,532	54,532
Other Financing Uses	0	0	0	0	0	0
Total Other Financing Sources (Uses)	(764,550)	(750,899)	13,651	636,000	690,532	54,532
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(5,926)	689,497	695,423	(640,143)	(75,718)	564,425
Fund Balance at Beginning of Year	4,833,361	4,833,361	0	1,601,283	1,601,283	0
Prior Year Encumbrances	223,609	223,609	0	279,514	279,514	0
Fund Balance at End of Year	\$5,051,044	\$5,746,467	\$695,423	\$1,240,654	\$1,805,079	\$564,425

The notes to the general purpose financial statements are an integral part of this statement.

(Continued)

**THE CITY OF LYNDHURST, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

	<i>Debt Service Fund</i>			<i>Capital Projects Funds</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$1,197,147	\$1,208,637	\$11,490	\$64,000	\$77,191	\$13,191
Intergovernmental Revenues	162,320	163,668	1,348	950,000	954,070	4,070
Charges for Services	0	0	0	0	0	0
Licenses, Permits and Fees	0	0	0	0	0	0
Investment Earnings	17,500	19,702	2,202	270,000	305,843	35,843
Special Assessments	3,000	14,677	11,677	368,426	371,818	3,392
Fines and Forfeitures	0	0	0	0	0	0
All Other Revenues	0	0	0	1,000	37,824	36,824
Deposits	0	0	0	0	0	0
<b>Total Revenues</b>	<b>1,379,967</b>	<b>1,406,684</b>	<b>26,717</b>	<b>1,653,426</b>	<b>1,746,746</b>	<b>93,320</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Security of Persons and Property	0	0	0	828,260	816,112	12,148
Public Health and Welfare Services	0	0	0	0	0	0
Leisure Time Activities	0	0	0	2,835,232	2,493,089	342,143
Community Environment	0	0	0	6,000	1,733	4,267
Basic Utility Services	0	0	0	2,146,082	1,392,167	753,915
Transportation	0	0	0	1,931,207	1,573,827	357,380
General Government	1,100	1,076	24	318,552	153,899	164,653
Other Expenditures	0	0	0	0	0	0
<b>Debt Service:</b>						
Principal Retirement	2,332,625	2,332,625	0	0	0	0
Interest and Fiscal Charges	130,020	123,943	6,077	0	0	0
<b>Total Expenditures</b>	<b>2,463,745</b>	<b>2,457,644</b>	<b>6,101</b>	<b>8,065,333</b>	<b>6,430,827</b>	<b>1,634,506</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,083,778)	(1,050,960)	32,818	(6,411,907)	(4,684,081)	1,727,826
<b>Other Financing Sources (Uses):</b>						
Proceeds from the Sale of Fixed Assets	0	0	0	5,000	0	(5,000)
Proceeds from General Obligation Notes	905,000	900,000	(5,000)	3,400,000	3,400,000	0
Operating Transfers In	0	300,000	300,000	400,000	400,000	0
Operating Transfers Out	0	0	0	(400,000)	(400,000)	0
Other Financing Sources	0	0	0	205,000	367,702	162,702
Other Financing Uses	0	0	0	(205)	0	205
<b>Total Other Financing Sources (Uses)</b>	<b>905,000</b>	<b>1,200,000</b>	<b>295,000</b>	<b>3,609,795</b>	<b>3,767,702</b>	<b>157,907</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(178,778)	149,040	327,818	(2,802,112)	(916,379)	1,885,733
Fund Balance at Beginning of Year	498,611	498,611	0	6,720,290	6,720,290	0
Prior Year Encumbrances	0	0	0	1,425,245	1,425,245	0
<b>Fund Balance at End of Year</b>	<b>\$319,833</b>	<b>\$647,651</b>	<b>\$327,818</b>	<b>\$5,343,423</b>	<b>\$7,229,156</b>	<b>\$1,885,733</b>

(Continued)

**THE CITY OF LYNDHURST, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

	<i>Expendable Trust Funds</i>			<i>Totals (Memorandum Only)</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$0	\$0	\$0	\$9,433,755	\$9,432,112	(\$1,643)
Intergovernmental Revenues	0	0	0	4,121,913	4,212,429	90,516
Charges for Services	0	0	0	89,807	92,528	2,721
Licenses, Permits and Fees	0	0	0	51,850	107,143	55,293
Investment Earnings	0	0	0	372,550	383,448	10,898
Special Assessments	0	0	0	892,852	908,502	15,650
Fines and Forfeitures	0	0	0	1,276,800	1,295,086	18,286
All Other Revenues	0	0	0	118,000	150,353	32,353
Deposits	30,050	50,848	20,798	30,050	50,848	20,798
<b>Total Revenues</b>	<b>30,050</b>	<b>50,848</b>	<b>20,798</b>	<b>16,387,577</b>	<b>16,632,449</b>	<b>244,872</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Security of Persons and Property	0	0	0	7,020,417	6,708,483	311,934
Public Health and Welfare Services	0	0	0	47,147	45,073	2,074
Leisure Time Activities	0	0	0	3,740,390	3,292,984	447,406
Community Environment	0	0	0	623,553	577,546	46,007
Basic Utility Services	0	0	0	3,957,931	3,003,787	954,144
Transportation	0	0	0	2,633,813	2,128,855	504,958
General Government	0	0	0	3,884,835	3,429,200	455,635
Other Expenditures	50,100	30,991	19,109	50,100	30,991	19,109
<b>Debt Service:</b>						
Principal Retirement	0	0	0	2,332,625	2,332,625	0
Interest and Fiscal Charges	0	0	0	130,020	123,943	6,077
<b>Total Expenditures</b>	<b>50,100</b>	<b>30,991</b>	<b>19,109</b>	<b>24,420,831</b>	<b>21,673,487</b>	<b>2,747,344</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(20,050)	19,857	39,907	(8,033,254)	(5,041,038)	2,992,216
<b>Other Financing Sources (Uses):</b>						
Proceeds from the Sale of Fixed Assets	0	0	0	5,000	0	(5,000)
Proceeds from General Obligation Notes	0	0	0	4,305,000	4,300,000	(5,000)
Operating Transfers In	0	0	0	1,005,000	1,305,000	300,000
Operating Transfers Out	0	0	0	(1,305,000)	(1,305,000)	0
Other Financing Sources	0	0	0	376,450	607,335	230,885
Other Financing Uses	0	0	0	(205)	0	205
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,386,245</b>	<b>4,907,335</b>	<b>521,090</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(20,050)	19,857	39,907	(3,647,009)	(133,703)	3,513,306
Fund Balance at Beginning of Year	211,482	211,482	0	13,865,027	13,865,027	0
Prior Year Encumbrances	0	0	0	1,928,368	1,928,368	0
<b>Fund Balance at End of Year</b>	<b>\$191,432</b>	<b>\$231,339</b>	<b>\$39,907</b>	<b>\$12,146,386</b>	<b>\$15,659,692</b>	<b>\$3,513,306</b>

**THE CITY OF LYNDHURST, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

---

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Lyndhurst, Ohio (the City) was incorporated on January 16, 1951 and is a home rule municipal corporation created under the laws of the State of Ohio. The City operates a Mayor-Council form of government.

The accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups and the results of operations of the various fund types. The financial statements are presented as of December 31, 2002 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

**A. Reporting Entity**

The accompanying general purpose financial statements comply with the provisions of GASB Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, account groups, agencies, boards and commissions that are part of the primary government, which includes the following services: fire and police protection, emergency medical response, parks, recreation, planning, zoning, street construction and maintenance, refuse collection and other governmental services.

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

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the general purpose financial statements. The following fund types and account groups are used by the City:

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

***Governmental Funds***

The governmental funds are those funds through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary fund) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's governmental fund types:

General Fund - This fund is used to account for all financial resources except those 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 and the limitations of the City Charter.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources other than expendable trusts or major capital projects that are legally restricted to expenditure for specified purposes.

Debt Service Fund - This fund is used for the accumulation of resources for, and the payment of, general obligation 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.

***Fiduciary Funds***

Trust and Agency Funds - These funds are used to account for assets held by a government unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City maintains both expendable trust funds and agency funds. The expendable trust funds are accounted for and reported similarly to governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

General Fixed Assets Account Group - This account group is established to account for fixed assets of the City.

General Long-Term Obligations Account Group - This account group is established to account for all long-term debt and other long-term obligations of the City.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Basis of Accounting**

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements, and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and expendable trust and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 31 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the period in which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, interest on investments, and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenue, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, is recorded as revenue when received in cash because it is generally not measurable until received.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent periods when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Property taxes which are measurable at December 31, 2002, but which are not intended to finance 2002 operations or are recorded as deferred revenue as further described in Note 3.

**D. Budgetary Process**

The budgetary process is prescribed by Charter and 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. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year. All funds, other than agency funds, are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. Budgetary modifications above the major object level by fund may only be made by ordinance of the City Council.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Process** (Continued)

1. Tax Budget

The Mayor submits an annual tax budget for the following fiscal year to City Council by July 15 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.

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by 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 do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2002.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level, and may be modified during the year by ordinance of the City Council. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. Expenditures may not legally exceed budgeted appropriations at the object level. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual (Non-GAAP Budgetary Basis)--All Governmental Fund Types and Expendable Trust Funds" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying general purpose financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Process (Continued)**

5. Lapsing of Appropriations

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 subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the governmental funds:

	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds
GAAP Basis (as reported)	\$995,370	\$143,935	\$149,040	(\$1,264,845)
Increase (Decrease):				
Accrued Revenues at December 31, 2002 received during 2003	(658,475)	(83,080)	0	(211,419)
Accrued Revenues at December 31, 2001 received during 2002	598,398	90,344	0	236,375
Accrued Expenditures at December 31, 2002 paid during 2003	345,184	81,616	0	317,317
Accrued Expenditures at December 31, 2001 paid during 2002	(347,668)	(33,602)	0	(326,155)
2001 Prepays for 2002	21,892	0	0	0
2002 Prepays for 2003	(124,105)	0	0	0
Fund Debt:				
Note Proceeds	0	0	0	4,300,000
Note Retirements	0	0	0	(1,850,000)
Outstanding Encumbrances	(141,099)	(274,931)	0	(2,117,652)
Budget Basis	<u>\$689,497</u>	<u>(\$75,718)</u>	<u>\$149,040</u>	<u>(\$916,379)</u>

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits, the State Treasury Asset Reserve (STAR Ohio) and short-term certificates of deposit. The certificates of deposit are considered cash equivalents because they are highly liquid investments with original maturity dates of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and cash equivalents represents the balance on hand as if each fund maintained its own cash and cash equivalent account. See Note 2, "Cash, Cash Equivalents and Investments."

**F. Investments**

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit) which are reported at cost. The City allocates interest among the various funds based upon applicable legal and administrative requirements. See Note 2, "Cash, Cash Equivalents and Investments."

The City has invested funds in the STAR Ohio during 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.

**G. Inventory**

Inventory is stated at cost (first-in, first-out) in the governmental funds. The cost of inventory items are recorded as expenditures in the governmental and expendable trust funds when purchased.

**H. Fixed Assets and Depreciation**

The accounting and reporting treatment applied to fixed assets is determined by their ultimate use. Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received.

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City; therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Long-Term Obligations**

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	General Bond Retirement Fund
Special Assessment Bonds	General Bond Retirement Fund
Compensated Absences	General Fund
	Street Construction, Maintenance and Repair Fund
Intergovernmental Payable -	General Fund
Accrued Pension	Street Construction, Maintenance and Repair Fund
	Court Special Projects Fund
	Community Center Fund, Court EDP Fund
	Sewer Maintenance Fund
	Police Pension Fund
	Fire Pension Fund

**J. Compensated Absences**

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

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

For governmental funds, the portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." The long-term portion of the liability is reported in the General Long-Term Obligations Account Group.

**K. Pensions**

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Interfund Transactions**

During the course of normal operations, the City has numerous transactions between funds. Interfund transactions are generally classified as follows:

- Operating transfers are reported as "Other Financing Sources and Uses" in the governmental funds, as "Operating Transfers In" by the recipient fund, and "Operating Transfers Out" by the disbursing fund.
- Residual equity transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. The City did not perform any residual equity transfers in 2002.

Transactions that would be treated as revenues and expenditures/expenses if the transactions involved organizations external to the City are similarly treated when involving other funds of the City. The City also advances cash from one fund to another as necessary to meet current obligations.

**M. Reservations of Fund Balance**

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for supplies inventory, prepaid items, debt service and encumbered amounts that have not been accrued at year end.

**N. Total Columns on Combined Financial Statements - Overview**

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

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash resources of a majority of individual funds are combined to form a pool of cash and investments. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents." Ohio law requires the classification of funds held by the City into three categories:

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

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

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

- Bonds, notes or other obligations guaranteed by the United States, or those for which the faith of the United States is pledged for payment of principal and interest;
- Bonds, notes, debentures or other obligations or securities issued by any federal government agency or the Export-Import Bank of Washington;
- Repurchase agreements collateralized by securities enumerated above;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

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

Deposits:

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Investments:

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

**A. Deposits**

At year end the carrying amount of the City's deposits was \$8,432,263, and the bank balance was \$8,371,734. Federal depository insurance covered \$300,000 of the bank balance. All remaining deposits were classified as Category 3.

**B. Investments**

The City's investments at December 31, 2002 are summarized below:

<u>Categorized Investments</u>	<u>Category 1</u>	<u>Fair Value</u>
City of Lyndhurst Special Assessment Bonds		
Richmond Road Sewer S.A. Bond	\$4,000	\$4,000
Portage Commodore S.A. Bond	29,000	29,000
	<u>33,000</u>	<u>33,000</u>
Federal National Mortgage Association Notes	5,998,499	5,998,499
Federal Home Loan Corporation Notes	3,000,000	3,000,000
Total Categorized Investments	<u>9,031,499</u>	<u>9,031,499</u>
<u>Noncategorized Investments</u>		
STAR Ohio	N/A	1,141,653
Total Investments	<u><u>\$9,031,499</u></u>	<u><u>\$10,173,152</u></u>

STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

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

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Investments with an original maturity of three months or less are treated as cash and cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per items A and B of this note are as follows:

	Cash and Cash Equivalents	Investments
Per Combined Balance Sheet	\$8,573,916	\$10,031,499
Certificates of Deposit with original maturities greater than 90 days	1,000,000	(1,000,000)
STAR Ohio	(1,141,653)	1,141,653
Per GASB Statement No. 3	<u>\$8,432,263</u>	<u>\$10,173,152</u>

**NOTE 3 - TAXES**

**A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2002 were levied after October 1, 2001 on assessed values as of January 1, 2001, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be reappraised every six years, and equalization adjustments are made in the third year following reappraisal. The last revaluation was completed in 2000. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

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



**NOTE 3 – TAXES (Continued)**

**A. Property Taxes (Continued)**

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

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

The full tax rate for all City operations for the year ended December 31, 2002 was \$11.50 per \$1,000 of assessed value. The assessed value upon which the 2002 levy was based was \$392,035,043. This amount constitutes \$374,725,000 in real property assessed value, \$5,848,560 in public utility assessed value and \$11,461,483 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is 1.15% (11.5 mills) of assessed value.

**B. Income Tax**

The City levies a tax of 1.5% on substantially all income earned within the City. In addition, residents of the City are required to pay City income tax on income they earn outside the City. However, the City allows a credit of a maximum of 50% of the first one and one-half percent of income tax paid to another municipality.

Employers within the City are required to withhold income tax on employees compensation and remit the tax either monthly or quarterly, as required, to the Regional Income Tax Agency which serves as the City's agent for collection of their income tax. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. All income tax proceeds are received by the General Fund.

**NOTE 4 - RECEIVABLES**

Receivables at December 31, 2002 consisted of taxes, special assessments, interest, accounts receivable, interfund receivables and intergovernmental receivables arising from shared revenues. All receivables other than those offset by deferred revenues are considered collectible in full.

**NOTE 5 - INTERFUND BALANCES**

The following is a summary of interfund receivables and payables for all funds for 2002:

Fund	Due From Other Funds	Due To Other Funds
General Fund	\$88,440	\$0
Special Revenue Funds:		
Municipal Court EDP Fund	7,045	0
Indigent Driver/DUI Fund	1,008	0
Court Special Project Fund	13,696	0
Total Special Revenue Funds	21,749	0
Agency Fund:		
Municipal Court Fund	0	110,189
Totals	<u>\$110,189</u>	<u>\$110,189</u>

**NOTE 6 - OPERATING TRANSFERS**

The following is a summary of operating transfers in and out for all funds for 2002:

Fund	Transfers In	Transfers Out
General Fund	\$0	\$905,000
Special Revenue Funds:		
Community Center Fund	200,000	0
Police Pension Fund	230,000	0
Fire Pension Fund	175,000	0
Total Special Revenue Funds	605,000	0
Capital Projects Fund:		
Street Improvement Fund	300,000	0
Totals	<u>\$905,000</u>	<u>\$905,000</u>

**NOTE 7 - FIXED ASSETS**

Summary by category of changes in General Fixed Assets:

Category	December 31, 2001	Additions	Deletions	December 31, 2002
Land	\$394,193	\$0	\$0	\$394,193
Buildings	8,585,845	477,354	(46,082)	9,017,117
Improvements Other Than Buildings	1,453,989	526,648	(89,924)	1,890,713
Machinery and Equipment	4,885,078	357,363	(386,091)	4,856,350
Total General Fixed Assets	<u>\$15,319,105</u>	<u>\$1,361,365</u>	<u>(\$522,097)</u>	<u>\$16,158,373</u>

Schedule of General Fixed Assets by source at December 31, 2002:

Category	December 31, 2001	Additions	Deletions	December 31, 2002
General Fund	\$450,794	\$8,013	(\$4,507)	\$454,300
Special Revenue Funds	107,402	3,706	0	111,108
Capital Projects Funds	14,760,909	1,349,646	(517,590)	15,592,965
Total General Fixed Assets	<u>\$15,319,105</u>	<u>\$1,361,365</u>	<u>(\$522,097)</u>	<u>\$16,158,373</u>

**NOTE 8 – DEFINED BENEFIT PENSION PLANS**

All of the City’s full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

**A. Ohio Public Employees Retirement System (the “Ohio PERS”)**

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, “Accounting for Pensions by State and Local Government Employers.”

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in the Ohio PERS, a cost-sharing multiple employer defined benefit pension plan. The Ohio PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 2002 employer contribution rate for local government employer units was 13.55%, of covered payroll, 8.55% to fund the pension and 5.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Ohio Public Employees Retirement Board. The City’s contributions to the Ohio PERS for the years ending December 31, 2002, 2001 and 2000 were \$462,617, \$445,424 and \$341,601, respectively, which were equal to the required contributions for each year.

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

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

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2002, 2001 and 2000 were \$373,179, \$331,389 and \$342,473 for police and \$392,339, \$303,473 and \$324,577 for firefighters, respectively, which were equal to the required contributions for each year.

**NOTE 9 – POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System (the “Ohio PERS”)**

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2002 employer contribution rate (identified above) that was used to fund health care for the year 2002 was 5.0% of covered payroll which amounted to \$170,707.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.0%. 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 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

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

**A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)**

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2001 is \$11.6 billion. 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.

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 coverages. 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.

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

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2002 covered payroll that was used to fund postemployment health care benefits was \$148,315 representing 7.75% of covered payroll for police and \$126,693 representing 7.75% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. As of December 31, 2001, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,174 for police and 10,239 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2001 were \$122,298,771, which was net of member contributions of \$6,874,699.

**NOTE 10 – COMPENSATED ABSENCES**

The costs of vacation and sick leave benefits are recorded as they are earned. Employees earn sick and vacation leave at varying rates based upon length of service. Upon retirement, and in certain instances, termination, an individual will be compensated for their accumulated sick leave at a maximum rate of 45% of the balance.

As of December 31, 2002, the liability for unpaid compensated absences was \$642,110 for all funds of the City. The entire balance of compensated absences was considered long-term since no payments were anticipated which would require the use of current available financial resources. The liability has been reported in the General Long-Term Obligations Account Group.

**NOTE 11 - CONSTRUCTION COMMITMENTS**

As of December 31, 2002, the City had the following commitments with respect to capital projects:

Project	Remaining Construction Commitment	Expected Date of Completion
Aquatic Center	\$1,415,114	May 2003
Sewer Rehabilitation	516,508	May 2003
Total	<u>\$1,931,622</u>	

**NOTE 12 - NOTES PAYABLE**

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to, and payable no later than, those principal maturities required if the bonds had been issued at the expiration of the initial five year period. Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or from available funds of the City or a combination of these sources.

Issue	Balance 1/1/2002	Issued (Retired)	Balance 12/31/2002
<b>Bond Anticipation Notes:</b>			
3.600% Street Improvement	\$650,000	(\$650,000)	\$0
1.950% Street Improvement	0	650,000	650,000
3.600% Community Center	1,200,000	(1,200,000)	0
1.950% Community Center	0	900,000	900,000
1.700% Recreation Facilities	0	2,750,000	2,750,000
Total Notes Payable	<u>\$1,850,000</u>	<u>\$2,450,000</u>	<u>\$4,300,000</u>

**NOTE 13 - LONG-TERM OBLIGATIONS**

Activity in the General Long-Term Obligations Account Group in 2002 was as follows:

		Balance December 31, 2001	Issued (Retired)	Balance December 31, 2002
<b>General Long-Term Debt:</b>				
General Obligation Bonds:				
Ohio Public Works Commission				
Euclid Creek		\$5,625	(\$5,625)	\$0
5.625% Street Improvement	1977			
Various Purpose Bonds		1,325,000	(470,000)	855,000
Total General Obligation Bonds		<u>1,330,625</u>	<u>(475,625)</u>	<u>855,000</u>
Special Assessment Bonds:				
10.000% Richmond Road Sewer	1984	6,000	(2,000)	4,000
8.000% Portage Commodore	1989	34,000	(5,000)	29,000
Total Special Assessment Bonds with Governmental Commitment		<u>40,000</u>	<u>(7,000)</u>	<u>33,000</u>
Total General Long-Term Debt		<u>1,370,625</u>	<u>(482,625)</u>	<u>888,000</u>
<b>Other Long-Term Obligations:</b>				
Compensated Absences		623,225	18,885	642,110
Intergovernmental Payable - Accrued Pension		308,326	4,766	313,092
Total Other Long-Term Obligations		<u>931,551</u>	<u>23,651</u>	<u>955,202</u>
Total General Long-Term Debt and Other Long-Term Obligations		<u>\$2,302,176</u>	<u>(\$458,974)</u>	<u>\$1,843,202</u>

Special assessment debt service is financed by assessments to affected property owners. However, the City is ultimately responsible for the debt service if the assessments are not collected. Delinquent special assessments related to outstanding special assessment bonded debt at year end were \$185.

The City's future long-term obligation funding requirements, including principal and interest payments as of December 31, 2002, follow:

Years	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2003	\$495,000	\$37,545	\$7,000	\$2,720
2004	360,000	16,020	6,000	2,120
2005	0	0	4,000	1,600
2006	0	0	4,000	1,280
2007-2011	0	0	12,000	1,920
Totals	<u>\$855,000</u>	<u>\$53,565</u>	<u>\$33,000</u>	<u>\$9,640</u>

**NOTE 14 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During 2002 the City contracted with several different insurance providers for various insurance coverages, as follows:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Deductible</u>
Clarendon Insurance Company	Automobile	\$100 Comprehensive; \$1,000 Collision
Clarendon Insurance Company	General Liability	\$0
Clarendon Insurance Company	Property Casualty	\$1,000
Clarendon Insurance Company	Inland Marine	\$0
Arkwright Insurance Company	Boiler and Machinery	\$2,500
Clarendon Insurance Company	Police Liability	\$10,000

Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years. There has been no significant reduction in insurance coverages from coverages in the prior year.

Workers' compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

**NOTE 15 - CONTINGENCIES**

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect on the financial condition of the City.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members of City Council  
City of Lyndhurst  
Lyndhurst, Ohio

We have audited the general purpose financial statements of the City of Lyndhurst, Ohio as of and for the year ended December 31, 2002, and have issued our report thereon dated June 2, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated June 2, 2003.

**Internal Controls 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 general purpose 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 general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated June 2, 2003.**

**This report is intended for the information and use of management, the honorable Mayor and members of city council, and is not intended to be and should not be used by anyone other than these specified parties.**

***Charles E. Harris & Associates, Inc.***  
**June 2, 2003**

**STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS**

The prior audit report, for the period ending December 31, 2001, included no material citations or recommendations.





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**CITY OF LYNDHURST**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 9, 2003**