



**Auditor of State
Betty Montgomery**

**CITY OF CIRCLEVILLE
PICKAWAY COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Circleville
Pickaway County
133 South Court Street
Circleville, Ohio 43113

To the Members of Council

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Circleville, Pickaway County, Ohio, (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Berger Health Systems, the City's discretely presented component unit. Other auditors audited those financial statements. They have furnished their report thereon to us, and we base our opinion, insofar as it relates to the amounts included for Berger Health Systems, on the report of the other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Circleville, Pickaway County, Ohio, as of December 31, 2003, and the respective changes in financial position and the respective budgetary comparisons for the General, Income Tax, Safety Forces Tax, Waterworks Operating, and Sewer Operating funds, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 21, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2005 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.

The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

January 17, 2005

CITY OF CIRCLEVILLE
Management's Discussion and Analysis
For The Year Ended December 31, 2003
(Unaudited)

The discussion and analysis of the City of Circleville's financial performance provides an overall review of the City's financial activities for the year-ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the City's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased \$973,623 which represents a 3.91 percent increase from 2002.
- General revenues of governmental activities accounted for \$7,102,756 or 52.34 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$6,467,077 or 47.66 percent of total revenues of \$13,569,833.
- Total assets of governmental activities increased by \$432,287. Capital assets increased by \$1,703,718 due to the recording of current year infrastructure. Equity in pooled cash and cash equivalents decreased \$560,663, while receivables and other current assets decreased by \$710,768 due primarily to the timing of receipts and the aggressive measures taken to collect income tax monies.
- The City had \$12,596,210 in expenses related to governmental activities; \$6,467,077 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily income taxes) of \$7,102,756 were more than adequate to provide for these programs.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the City of Circleville's financial situation as a whole and also give a detailed view of the City's fiscal condition.

The Statement of Net Assets and Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as the amount of funds available for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

CITY OF CIRCLEVILLE
Management's Discussion and Analysis
For The Year Ended December 31, 2003
(Unaudited)
(Continued)

REPORTING THE CITY AS A WHOLE

One of the most important questions asked about the City is “How did we do financially during 2003?” The *Statement of Net Assets* and the *Statement of Activities*, which appear first in the City’s financial statements, report information on the City as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the City’s net assets and changes in those assets. This change in net assets is important because it informs the reader that, for the City as a whole, the *financial position* of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City’s tax base and facility conditions.

In the *Statement of Net Assets* and the *Statement of Activities*, the City has only one kind of activity:

- Governmental Activities – All of the City’s services are reported here including security of persons and property, public health, leisure time activities, community development, basic utility services, transportation, and general government.

The financial activities of Berger Health System, a component unit of the City of Circleville, are presented in a separate column on the Statement of Net Assets and as a separately identified activity on the Statement of Activities. This discrete presentation is made in order to emphasize that it is a legally separate organization from the City of Circleville. However, the focus of the government-wide financial statements remains clearly on the City of Circleville as the primary government.

REPORTING THE CITY’S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the City’s major funds begins on page 8. Fund financial statements provide detailed information about the City’s major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City’s major funds, which include the General Fund, Income Tax Fund, Safety Forces Tax Fund, Waterworks Operating Fund, Sewer Operating Fund, General Obligation Bond Retirement Fund, and Capital Improvement Fund.

Governmental Funds –Most of the City’s services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the City’s general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

CITY OF CIRCLEVILLE
Management's Discussion and Analysis
For The Year Ended December 31, 2003
(Unaudited)
(Continued)

Fiduciary Funds –The City’s fiduciary funds are a private-purpose trust fund and five agency funds. All of the City’s fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

THE CITY AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City’s net assets for 2003 compared to 2002.

Table 1
Net Assets

| | Governmental Activities | |
|--------------------------------|----------------------------|--------------|
| | 2003 | 2002 |
| Assets | | |
| Current Assets | \$16,450,251 | \$17,721,682 |
| Nondepreciable Capital | | |
| Assets | 1,496,654 | 1,413,724 |
| Depreciable Capital | | |
| Assets, Net | 15,246,083 | 13,625,295 |
| Total Assets | 33,192,988 | 32,760,701 |
| Liabilities | | |
| Current and Other | | |
| Liabilities | 1,884,830 | 2,184,902 |
| Long-Term Liabilities | 5,452,942 | 5,694,206 |
| Total Liabilities | 7,337,772 | 7,879,108 |
| Net Assets | | |
| Invested in Capital | | |
| Assets, Net of Related Debt | 13,555,768 | 11,955,066 |
| Restricted for: | | |
| Capital Projects | 1,860,704 | 1,940,884 |
| Debt Service | 560,045 | 865,112 |
| Other Purposes | 7,289,236 | 7,486,162 |
| Unrestricted | 2,589,463 | 2,634,369 |
| Total Net Assets | \$25,855,216 | \$24,881,593 |

CITY OF CIRCLEVILLE
Management's Discussion and Analysis
For The Year Ended December 31, 2003
(Unaudited)
(Continued)

Total assets increased \$432,287. This is due primarily to an increase in capital assets due to the net effect of recording of current year infrastructure and depreciation, the timely receipting of grant monies, and the aggressive collection of income tax monies. Total liabilities decreased \$541,336 due primarily to current year debt payments being made and the manner in which pension is paid at the City. In the past, the City paid its pension quarterly. However, in 2003, the City began making monthly pension payments. Therefore, the liability was reduced from three months to include only one month. Invested in Capital Assets, Net of Related Debt increased \$1,600,702. This is due primarily to the net effect of an increase in capital assets of \$2,527,444, which consisted of \$1,418,220 of assets donated by developers and \$1,109,224 of purchased assets, and an increase in accumulated depreciation of \$823,726.

Table 2 shows the changes in net assets for the year ended December 31, 2003. Since this is the first year the City has prepared financial statements following *GASB Statement No. 34*, revenue and expense comparisons to 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes In Net Assets

| | Governmental Activities |
|---|----------------------------|
| Revenues | |
| Program Revenues: | |
| Charges for Services | \$4,173,280 |
| Operating Grants, Contributions and Interest | 585,909 |
| Capital Grants, Contributions and Interest | 1,707,888 |
| Total Program Revenues | 6,467,077 |
| General Revenues: | |
| Property Taxes | 1,119,667 |
| Income Taxes | 4,298,520 |
| Other Local Taxes | 144,492 |
| Unrestricted Grants and Entitlements not Restricted to Specific Programs | 1,325,585 |
| Investment Earnings | 141,140 |
| Miscellaneous | 73,352 |
| Total General Revenues | 7,102,756 |
| Total Revenues | \$13,569,833 |

(Continued)

CITY OF CIRCLEVILLE
Management's Discussion and Analysis
For The Year Ended December 31, 2003
(Unaudited)
(Continued)

Table 2
Changes In Net Assets
(Continued)

| | Governmental Activities |
|-----------------------------------|----------------------------|
| Program Expenses: | |
| Security of Persons and Property: | |
| Police | \$2,636,760 |
| Fire | 1,519,174 |
| Other | 454,928 |
| Public Health | 156,101 |
| Leisure Time Activities: | |
| Parks and Recreation | 213,091 |
| Swimming Pool | 151,701 |
| Other | 50,279 |
| Community Development | 584,605 |
| Basic Utility Services: | |
| Water | 1,264,985 |
| Sewer | 1,663,930 |
| Other | 62,004 |
| Transportation | 1,027,777 |
| General Government | 2,519,768 |
| Interest and Fiscal Charges | 291,107 |
| Total Expenses | 12,596,210 |
| Increase in Net Assets | \$973,623 |

Governmental Activities

The 1.5 percent income tax is the largest source of revenue for the City of Circleville, making up 31.68 percent of revenue for governmental activities for year-end 2003. Employee withholding contributes 85.27% of the revenue received in 2003. The City provides full tax credit for income taxes paid to another municipality up to one hundred percent of the City's current tax rate.

From 1992 through 2000, income tax revenue has increased annually an average of 8.52%. Local companies expanded and new businesses were added to the economic foundation. From 2001 to 2003, income tax revenue decreased annually at an average of 4.41%. The City of Circleville has experienced a deterioration of its tax base due to reorganization and downsizing in its employer sector. However, the City is aggressively pursuing economic development options and programs.

Grants and Entitlements not Restricted to Specific Programs made up 9.77 percent of revenue for governmental activities of the City of Circleville for year-end 2003. Property tax revenue made up 8.25 percent of revenue for governmental activities for a total of 49.70 percent of all revenue coming from income taxes, property taxes, and grant and entitlements not restricted to specific programs.

CITY OF CIRCLEVILLE
Management's Discussion and Analysis
For The Year Ended December 31, 2003
(Unaudited)
(Continued)

Governmental program expenses as a percentage of total governmental expenses for 2003 are expressed as follows:

| | |
|-----------------------------------|---------|
| Security of Persons And Property: | |
| Police | 20.94% |
| Fire | 12.06% |
| Other | 3.61% |
| Public Health | 1.24% |
| Leisure Time Activity: | |
| Parks and Recreation | 1.69% |
| Swimming Pool | 1.20% |
| Other | 0.40% |
| Community Development | 4.64% |
| Basic Utility Services: | |
| Water | 10.04% |
| Sewer | 13.21% |
| Other | 0.49% |
| Transportation | 8.16% |
| General Government | 20.01% |
| Interest And Fiscal Charges | 2.31% |
| | 100.00% |

The above chart clearly indicates the City's major source of expenses, 36.61%, is related to the implementation of safety forces. A distant second, 23.74%, is the administration of utility services to residents and businesses. All other forms of governmental operations represent 39.65% of expenditures.

When looking at the sources of income to support governmental activities, it should be noted that charges for services made up 30.75 percent of revenue, with the majority deriving from charges placed upon residents and businesses within the City for the provision of water and sanitary sewer services. Revenues provided by sources other than City residents in the form of operating and capital grants comprise another 16.90 percent. The remaining revenues are primarily generated through income taxes, property taxes, and grants and entitlements not restricted to specific programs. City Council relies on the income taxes to furnish the quality of life to businesses and citizens to which they and previous Councils have always been committed.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants.

CITY OF CIRCLEVILLE
Management's Discussion and Analysis
For The Year Ended December 31, 2003
(Unaudited)
(Continued)

Table 3
Governmental Activities

| | Total Cost of Services 2003 | Net Cost of Services 2003 |
|-----------------------------------|-----------------------------------|---------------------------------|
| Security of Persons and Property: | | |
| Police | \$2,636,760 | \$2,606,935 |
| Fire | 1,519,174 | 1,509,588 |
| Other | 454,928 | 427,969 |
| Public Health | 156,101 | 156,101 |
| Leisure Time Activity: | | |
| Parks and Recreation | 213,091 | 211,441 |
| Swimming Pool | 151,701 | 72,624 |
| Other | 50,279 | 50,219 |
| Community Development | 584,605 | 172,461 |
| Basic Utility Services: | | |
| Water | 1,264,985 | (530,395) |
| Sewer | 1,663,930 | 175,306 |
| Other | 62,004 | (341,569) |
| Transportation | 1,027,777 | (475,942) |
| General Government | 2,519,768 | 1,803,288 |
| Interest and Fiscal Charges | 291,107 | 291,107 |
| Total Expenses | \$12,596,210 | \$6,129,133 |

THE CITY'S FUNDS

Information about the City's major governmental funds begins on page 13. These funds are reported using the modified accrual basis of accounting. All governmental funds had total revenues of \$12,533,137 and expenditures of \$13,226,718. The General Fund balance increased by \$16,221.

The Income Tax fund balance and the Safety Forces Tax fund balance decreased \$39,512 and \$231,509, respectively. The City has experienced a loss of income tax revenue, primarily due to the City's major employer implementing a reduction in force. As a result, an escalation of already declining revenues occurred.

CITY OF CIRCLEVILLE
Management's Discussion and Analysis
For The Year Ended December 31, 2003
(Unaudited)
(Continued)

The Waterworks Operating fund balance increased \$443,262, due to budget reductions implemented on a City-wide basis. These decreases in expenditures were extended to waterworks operations without regard for the revenue generation displayed by the Waterworks Operating Fund. The consequence was an increase in the amount of revenue generated versus expenditures.

The Sewer Operating fund balance decreased \$122,831, due to a reduction in revenue from the discontinuation of the processing of outside waste contracts.

The General Obligation Bond Retirement fund balance decreased \$169,610, due primarily to debt payments made by the City.

The Capital Improvement fund balance decreased \$297,368, due to a combination of factors. First of all, several capital projects were completed by the City during 2003. Also, the income tax revenue which is partially directed to the Capital Improvement Fund was decreased by Circleville City Council. In prior years, the City distributed 50% of municipal income taxes to this fund. In 2003, the percentage was altered to 42.5%. The modification was compounded by already declining revenues.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of receipts, disbursements and encumbrances. The City's budget is adopted on an object basis. During the course of 2003, the City revised its budget as it attempted to deal with unexpected changes in revenues and expenditures.

For the General Fund, actual budget basis revenue was \$5,291,746, with original budget estimates of \$4,269,218. The difference of \$1,022,528 was due primarily to the increased distribution from the Pickaway County Auditor in way of inheritance tax, real estate tax, and other County payments. Actual budget basis expenditures were \$5,259,406, with original budget estimates of \$6,021,791. The difference of \$762,385 was due primarily to the lowering of appropriations warranted to guarantee that expenditures did not exceed revenue projections and year-end balances.

The City's ending unobligated cash balances for the General Fund was \$1,921,482 above the final budgeted amount.

CITY OF CIRCLEVILLE
Management's Discussion and Analysis
For The Year Ended December 31, 2003
(Unaudited)
(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 3
Capital Assets
(Net of Depreciation)

| | Governmental Activities | |
|-------------------------------------|----------------------------|--------------|
| | 2003 | 2002 |
| Land | \$1,160,490 | \$1,119,670 |
| Construction in Progress | 336,164 | 294,054 |
| Land Improvements | 684,542 | 744,038 |
| Buildings and Building Improvements | 11,467,836 | 11,573,153 |
| Machinery and Equipment | 387,054 | 458,754 |
| Vehicles | 743,484 | 849,350 |
| Infrastructure | 1,963,167 | 0 |
| Totals | \$16,742,737 | \$15,039,019 |

The increase in infrastructure was the result of the first-time inclusion of \$2,053,132 of infrastructure (includes streets, curb and gutter, street lights, storm sewers and related structures) as part of the financial records pursuant to GASB 34. The City has reported only the amounts acquired in 2003. The City plans to report prior years' amounts in future years.

See Note 9 of the Notes to the Basic Financial Statements for more detailed information.

Debt

At December 31, 2003, the City of Circleville had \$5,005,000 in debt outstanding.

CITY OF CIRCLEVILLE
Management's Discussion and Analysis
For The Year Ended December 31, 2003
(Unaudited)
(Continued)

Table 4
Outstanding Debt at Year End

| | Governmental Activities | |
|---|----------------------------|-------------|
| | 2003 | 2002 |
| General Obligation Bonds: | | |
| 1997 Berger Health System Bonds | \$1,580,000 | \$1,655,000 |
| 1983 Justice Center Construction Bonds | 0 | 70,000 |
| 2000 Capital Facilities Improvement Safety Services Building Bonds | 2,970,000 | 3,080,000 |
| 2000 Capital Facilities Improvement City Services Building Bonds | 455,000 | 470,000 |
| Total | \$5,005,000 | \$5,275,000 |

On July 15, 1997, the City of Circleville issued \$2,000,000 in general obligation bonds for the purpose of construction and equipping a building addition to provide maternity services at Berger Health System. The bonds were issued for a twenty year period with final maturity on December 1, 2017.

On June 1, 1983, the City of Circleville issued \$1,475,000 in general obligation bonds for the purpose of constructing a municipal justice center. The serial bonds were issued for a twenty year period and matured on December 1, 2003.

On June 1, 2000, the City of Circleville issued \$3,285,000 in general obligation bonds for the purpose of constructing a new safety facility to house a fire station, an EMS facility, and fire department offices. The bonds were issued for a twenty year period with final maturity on December 1, 2020.

On June 1, 2000, the City of Circleville issued \$500,000 in general obligation bonds for the purpose of purchasing and renovating a service building. The bonds were issued for a twenty year period with final maturity on December 1, 2020.

Along with the bonds issued in 1997, the City entered into loan agreement with Berger Health System, in which Berger Health System is repaying the City for the bonds issued by the City on behalf of Berger Health System. The loan agreement is for the \$2,000,000 principal amount of bonds and the related interest. The loans receivable balance at December 31, 2003, is \$2,285,035.

CITY OF CIRCLEVILLE
Management's Discussion and Analysis
For The Year Ended December 31, 2003
(Unaudited)
(Continued)

Conduit Debt

During 2003, the City issued revenue bonds in the aggregate principal amount of \$26,000,000 for Berger Health System. The proceeds are to be used by Berger Health System for future capital expenditures and to retire \$9 million of old debt. The bonds are to be repaid by the recipients of the proceeds and do not represent an obligation of the City. There has not been, and currently is not any condition of default under the bonds or the related financing documents. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely from the City's debt presentation. Neither is the full faith and credit or taxing power of the City pledged to make repayment. The balance outstanding as of December 31, 2003, is \$25,100,833.

The City's overall 10.5 percent legal debt margin was \$23,306,261 as of December 31, 2003. The more restrictive unvoted legal debt margin within 5.5 percent was \$10,919,287 as of the same date. See Note 14 of the Notes to the Basic Financial Statements for more detailed information.

CURRENT ISSUES

The City of Circleville faced challenging financial times in 2003. In the prior two years, the City has experienced a steady decline in municipal income tax collections. In 2003, income tax represented 31.68% of the City's operating funds. Circleville City Council for the first time since before 1990 altered the distribution of municipal income tax to the General Fund (57.5%) and Capital Improvement Fund (42.5%) to a new distribution as follows: General Fund, Safety Tax Fund, General Obligation Bond Retirement Fund, and the Capital Improvement Fund. In the second half of the year, the City's major employer imposed a 40% reduction in its workforce. The loss of municipal income tax from this outsourcing of employment resulted in the escalation of already declining municipal income tax receipts.

The effect of declining resources resulted in a general reduction in all City non-contractual expenditure lines. Various City employee positions were designated to be unfilled and unfunded resulting in a reduction in the City workforce. Methods of operation were examined to streamline procedures and to generate services in a cost effective manner.

The City of Circleville was able to see the completion of several capital improvement projects in 2003. An Ohio Public Works Project in the realignment of Kingston Pike was finalized in 2003 greatly enhancing the safety and appearance of a dangerous intersection. A CDBG Curb Ramp Grant, Phase II Project was accomplished. The curb ramp upgrade increased handicap accessibility on South Court Street. A new City administration building was completed and occupied. The new building allowed for the consolidation of City departments into a one-stop operation increasing the convenience factor for constituents.

The City of Circleville continues to seek new ways of increasing revenues and decreasing expenditures. Residential development continues to advance the City's residential base. To promote future economic development the City has entered into a cooperative agreement with Pickaway County to acquire a director to promote the City of Circleville and Pickaway County.

CITY OF CIRCLEVILLE
Management's Discussion and Analysis
For The Year Ended December 31, 2003
(Unaudited)
(Continued)

CONTACTING THE CITY'S FINANCE DEPARTMENT

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Gayle Spangler, City Auditor, City of Circleville, 133 South Court Street, Circleville, Ohio 43113.

CITY OF CIRCLEVILLE
Statement of Net Assets
December 31, 2003

| | <u>Primary Government</u> <u>Governmental</u> <u>Activities</u> | <u>Component Unit</u> <u>Berger Health</u> <u>System</u> | <u>Total Reporting</u> <u>Entity</u> |
|---|---|--|---|
| <u>Assets:</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$10,217,532 | \$18,588,360 | \$28,805,892 |
| Cash and Cash Equivalents: | | | |
| In Segregated Accounts | 45,895 | 0 | 45,895 |
| With Fiscal Agents | 32,488 | 0 | 32,488 |
| With Escrow Agents | 157,586 | 0 | 157,586 |
| Investments | 0 | 26,857,140 | 26,857,140 |
| Accounts Receivable | 317,986 | 8,171,172 | 8,489,158 |
| Accrued Interest Receivable | 10,708 | 0 | 10,708 |
| Intergovernmental Receivable | 1,225,439 | 323,718 | 1,549,157 |
| Income Taxes Receivable | 631,252 | 0 | 631,252 |
| Property Taxes Receivable | 923,767 | 0 | 923,767 |
| Other Local Taxes Receivable | 61,196 | 0 | 61,196 |
| Materials and Supplies Inventory | 315,192 | 1,264,800 | 1,579,992 |
| Prepaid Items | 27,921 | 739,698 | 767,619 |
| Special Assessments Receivable | 116,504 | 0 | 116,504 |
| Loans Receivable | 2,285,035 | 0 | 2,285,035 |
| Deferred Charges | 81,750 | 0 | 81,750 |
| Donations and Bequests | 0 | 207,628 | 207,628 |
| Capital Assets: | | | |
| Nondepreciable Capital Assets | 1,496,654 | 2,856,220 | 4,352,874 |
| Depreciable Capital Assets, Net | 15,246,083 | 30,624,757 | 45,870,840 |
| Total Assets | \$33,192,988 | \$89,633,493 | \$122,826,481 |
| <u>Liabilities:</u> | | | |
| Accounts Payable | \$60,909 | \$3,167,800 | \$3,228,709 |
| Contracts Payable | 116,633 | 0 | 116,633 |
| Retainage Payable | 166,727 | 0 | 166,727 |
| Accrued Wages and Benefits Payable | 166,324 | 3,876,720 | 4,043,044 |
| Intergovernmental Payable | 448,131 | 0 | 448,131 |
| Deferred Revenue | 871,582 | 0 | 871,582 |
| Matured Interest Payable | 32,488 | 0 | 32,488 |
| Accrued Interest Payable | 22,036 | 0 | 22,036 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 477,700 | 3,676,667 | 4,154,367 |
| Due Within More Than One Year | 4,975,242 | 22,997,499 | 27,972,741 |
| Total Liabilities | 7,337,772 | 33,718,686 | 41,056,458 |
| <u>Net Assets:</u> | | | |
| Invested in Capital Assets, Net of Related Debt | 13,555,768 | 25,189,727 | 38,745,495 |
| Restricted for: | | | |
| Capital Projects | 1,860,704 | 0 | 1,860,704 |
| Debt Service | 560,045 | 0 | 560,045 |
| Other Purposes | 7,289,236 | 0 | 7,289,236 |
| Unrestricted | 2,589,463 | 30,725,080 | 33,314,543 |
| Total Net Assets | \$25,855,216 | \$55,914,807 | \$81,770,023 |

See Accompanying Notes to the Basic Financial Statements

CITY OF CIRCLEVILLE
Statement of Activities
For the Year Ended December 31, 2003

| | Expenses | Program Revenues | | |
|-----------------------------------|---------------------|----------------------|--|--|
| | | Charges for Services | Operating Grants, Contributions and Interest | Capital Grants, Contributions and Interest |
| Primary Government | | | | |
| Governmental Activities: | | | | |
| Security of Persons and Property: | | | | |
| Police | \$2,636,760 | \$29,350 | \$475 | \$0 |
| Fire | 1,519,174 | 8,436 | 1,150 | 0 |
| Other | 454,928 | 486 | 26,473 | 0 |
| Public Health | 156,101 | 0 | 0 | 0 |
| Leisure Time Activities: | | | | |
| Parks and Recreation | 213,091 | 1,650 | 0 | 0 |
| Swimming Pool | 151,701 | 79,077 | 0 | 0 |
| Other | 50,279 | 60 | 0 | 0 |
| Community Development | 584,605 | 335,144 | 0 | 77,000 |
| Basic Utility Services: | | | | |
| Water | 1,264,985 | 1,624,018 | 0 | 171,362 |
| Sewer | 1,663,930 | 1,350,350 | 0 | 138,274 |
| Other | 62,004 | 0 | 0 | 403,573 |
| Transportation | 1,027,777 | 28,229 | 557,811 | 917,679 |
| General Government | 2,519,768 | 716,480 | 0 | 0 |
| Interest and Fiscal Charges | 291,107 | 0 | 0 | 0 |
| Total - Primary Government | \$12,596,210 | \$4,173,280 | \$585,909 | \$1,707,888 |
| Component Unit | | | | |
| Berger Health System | \$60,043,281 | \$60,471,172 | \$117,564 | \$0 |

General Revenues:

Property Taxes Levied for:

 General Purposes

 Other Purposes

 Capital Projects

Income Taxes Levied for:

 General Purposes

 Other Purposes

 Debt Service

 Capital Projects

Other Local Taxes

Grants and Entitlements not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - See Note 21

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|--|-----------------------------------|
| Primary Government Governmental Activities | Component Unit Berger Health System | Total Reporting Entity |
| (\$2,606,935) | \$0 | (\$2,606,935) |
| (1,509,588) | 0 | (1,509,588) |
| (427,969) | 0 | (427,969) |
| (156,101) | 0 | (156,101) |
| (211,441) | 0 | (211,441) |
| (72,624) | 0 | (72,624) |
| (50,219) | 0 | (50,219) |
| (172,461) | 0 | (172,461) |
| 530,395 | 0 | 530,395 |
| (175,306) | 0 | (175,306) |
| 341,569 | 0 | 341,569 |
| 475,942 | 0 | 475,942 |
| (1,803,288) | 0 | (1,803,288) |
| (291,107) | 0 | (291,107) |
| <u>(6,129,133)</u> | <u>0</u> | <u>0</u> |
| 0 | 545,455 | 545,455 |
| 969,308 | 0 | 969,308 |
| 135,451 | 0 | 135,451 |
| 14,908 | 0 | 14,908 |
| 1,538,994 | 0 | 1,538,994 |
| 1,621,682 | 0 | 1,621,682 |
| 376,457 | 0 | 376,457 |
| 761,387 | 0 | 761,387 |
| 144,492 | 0 | 144,492 |
| 1,325,585 | 0 | 1,325,585 |
| 141,140 | 775,538 | 916,678 |
| 73,352 | 1,151,648 | 1,225,000 |
| <u>7,102,756</u> | <u>1,927,186</u> | <u>9,029,942</u> |
| 973,623 | 2,472,641 | 3,446,264 |
| <u>24,881,593</u> | <u>53,442,166</u> | <u>78,323,759</u> |
| <u>\$25,855,216</u> | <u>\$55,914,807</u> | <u>\$81,770,023</u> |

CITY OF CIRCLEVILLE
Balance Sheet
Governmental Funds
December 31, 2003

| | General Fund | Income Tax Fund | Safety Forces Tax Fund | Waterworks Operating Fund |
|--|-------------------------|----------------------------|---------------------------------------|--|
| <u>Assets:</u> | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$1,998,931 | \$64,047 | \$359,353 | \$3,398,780 |
| Cash and Cash Equivalents: | | | | |
| In Segregated Accounts | 34,493 | 0 | 0 | 60 |
| With Fiscal Agents | 0 | 0 | 0 | 0 |
| Receivables: | | | | |
| Accounts | 0 | 0 | 0 | 157,803 |
| Accrued Interest | 10,646 | 0 | 0 | 0 |
| Intergovernmental | 684,382 | 0 | 0 | 0 |
| Income Taxes | 226,034 | 41,599 | 196,551 | 0 |
| Property Taxes | 784,557 | 0 | 0 | 0 |
| Other Local Taxes | 33,135 | 0 | 0 | 0 |
| Loans | 0 | 0 | 0 | 0 |
| Special Assessments | 65,919 | 0 | 0 | 1,160 |
| Materials and Supplies Inventory | 29,688 | 0 | 0 | 59,334 |
| Prepaid Items | 12,608 | 214 | 5,920 | 3,016 |
| Restricted Assets: | | | | |
| Cash and Cash Equivalents with Escrow Agents | 0 | 0 | 0 | 0 |
| Total Assets | \$3,880,393 | \$105,860 | \$561,824 | \$3,620,153 |
| <u>Liabilities and Fund Balances</u> | | | | |
| <u>Liabilities:</u> | | | | |
| Accounts Payable | \$2,135 | \$1,233 | \$4,646 | \$16,035 |
| Contracts Payable | 0 | 0 | 0 | 2,174 |
| Retainage Payable | 0 | 0 | 0 | 0 |
| Accrued Wages and Benefits Payable | 91,919 | 1,483 | 18,885 | 19,139 |
| Intergovernmental Payable | 114,339 | 2,152 | 112,495 | 32,450 |
| Deferred Revenue | 1,534,300 | 28,495 | 134,637 | 50,190 |
| Matured Interest Payable | 0 | 0 | 0 | 0 |
| Total Liabilities | 1,742,693 | 33,363 | 270,663 | 119,988 |
| <u>Fund Balances:</u> | | | | |
| Reserved for Encumbrances | 73,714 | 1,904 | 11,707 | 38,040 |
| Reserved for Loans Receivable | 0 | 0 | 0 | 0 |
| Unreserved: | | | | |
| Undesignated, Reported in: | | | | |
| General Fund | 2,063,986 | 0 | 0 | 0 |
| Special Revenue Funds | 0 | 70,593 | 279,454 | 3,462,125 |
| Debt Service Funds | 0 | 0 | 0 | 0 |
| Capital Projects Funds | 0 | 0 | 0 | 0 |
| Total Fund Balances | 2,137,700 | 72,497 | 291,161 | 3,500,165 |
| Total Liabilities and Fund Balances | \$3,880,393 | \$105,860 | \$561,824 | \$3,620,153 |

See Accompanying Notes to the Basic Financial Statements

| <i>Sewer Operating Fund</i> | <i>General Obligation Bond Retirement Fund</i> | <i>Capital Improvement Fund</i> | <i>Nonmajor Funds</i> | <i>Total Governmental Funds</i> |
|-------------------------------------|--|---|---------------------------|---|
| \$1,909,629 | \$13,580 | \$1,000,484 | \$1,472,728 | \$10,217,532 |
| 0 | 0 | 0 | 11,342 | 45,895 |
| 0 | 32,488 | 0 | 0 | 32,488 |
| 160,183 | 0 | 0 | 0 | 317,986 |
| 0 | 0 | 0 | 62 | 10,708 |
| 0 | 0 | 0 | 541,057 | 1,225,439 |
| 0 | 55,266 | 111,802 | 0 | 631,252 |
| 0 | 0 | 0 | 139,210 | 923,767 |
| 0 | 0 | 0 | 28,061 | 61,196 |
| 0 | 2,285,035 | 0 | 0 | 2,285,035 |
| 9,300 | 0 | 40,125 | 0 | 116,504 |
| 69,337 | 0 | 0 | 156,833 | 315,192 |
| 3,890 | 0 | 2,273 | 0 | 27,921 |
| 0 | 0 | 12,252 | 145,334 | 157,586 |
| <u>\$2,152,339</u> | <u>\$2,386,369</u> | <u>\$1,166,936</u> | <u>\$2,494,627</u> | <u>\$16,368,501</u> |
| \$10,475 | \$0 | \$19,418 | \$6,967 | \$60,909 |
| 21,753 | 0 | 15,706 | 77,000 | 116,633 |
| 0 | 0 | 12,838 | 153,889 | 166,727 |
| 22,656 | 0 | 0 | 12,242 | 166,324 |
| 38,902 | 0 | 0 | 24,761 | 325,099 |
| 59,607 | 37,857 | 116,209 | 642,083 | 2,603,378 |
| 0 | 32,488 | 0 | 0 | 32,488 |
| <u>153,393</u> | <u>70,345</u> | <u>164,171</u> | <u>916,942</u> | <u>3,471,558</u> |
| 34,933 | 0 | 303,583 | 50,297 | 514,178 |
| 0 | 2,285,035 | 0 | 0 | 2,285,035 |
| 0 | 0 | 0 | 0 | 2,063,986 |
| 1,964,013 | 0 | 0 | 786,364 | 6,562,549 |
| 0 | 30,989 | 0 | 0 | 30,989 |
| 0 | 0 | 699,182 | 741,024 | 1,440,206 |
| <u>1,998,946</u> | <u>2,316,024</u> | <u>1,002,765</u> | <u>1,577,685</u> | <u>12,896,943</u> |
| <u>\$2,152,339</u> | <u>\$2,386,369</u> | <u>\$1,166,936</u> | <u>\$2,494,627</u> | <u>\$16,368,501</u> |

CITY OF CIRCLEVILLE
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2003

| | | |
|--|---------------------|--------------------------------|
| Total Governmental Fund Balances | | \$12,896,943 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of: | | |
| Land | 1,160,490 | |
| Construction in Progress | 336,164 | |
| Infrastructure | 2,053,132 | |
| Other Capital Assets | 24,290,147 | |
| Accumulated Depreciation | <u>(11,097,196)</u> | |
| Total | | 16,742,737 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | | |
| Income Taxes | 431,906 | |
| Property Taxes | 52,185 | |
| Other Local Taxes | 60,018 | |
| Intergovernmental | 971,846 | |
| Special Assessments | 116,504 | |
| Accounts | <u>99,337</u> | |
| Total | | 1,731,796 |
| Governmental funds report general obligation bond issuance costs as expenditures, whereas these amounts are deferred and amortized in the statement of activities. | | |
| | | 81,750 |
| Intergovernmental payables include contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds. | | |
| | | (123,032) |
| Some liabilities are not due and payable in the current portion and therefore are not reported in the funds: | | |
| Accrued Interest | (22,036) | |
| General Obligation Bonds | (5,005,000) | |
| Capital Leases Payable | (35,519) | |
| Compensated Absences | <u>(412,423)</u> | |
| Total | | <u>(5,474,978)</u> |
| <i>Net Assets of Governmental Activities</i> | | <u><u>\$25,855,216</u></u> |

See Accompanying Notes to the Basic Financial Statements

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CITY OF CIRCLEVILLE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2003

| | General Fund | Income Tax Fund | Safety Forces Tax Fund | Waterworks Operating Fund |
|---|-------------------------|----------------------------|---------------------------------------|--|
| <u>Revenues:</u> | | | | |
| Income Taxes | \$1,573,198 | \$289,560 | \$1,368,160 | \$0 |
| Property Taxes | 972,177 | 0 | 0 | 0 |
| Other Local Taxes | 87,804 | 0 | 0 | 0 |
| Special Assessments | 0 | 0 | 0 | 226 |
| Intergovernmental | 1,329,745 | 0 | 1,150 | 0 |
| Charges for Services | 247,261 | 0 | 8,399 | 1,622,962 |
| Fines and Forfeitures | 828,368 | 0 | 0 | 0 |
| Interest | 137,509 | 0 | 0 | 0 |
| Contributions and Donations | 0 | 0 | 5,000 | 0 |
| Miscellaneous | 15,345 | 50 | 5,807 | 648 |
| Total Revenues | 5,191,407 | 289,610 | 1,388,516 | 1,623,836 |
| <u>Expenditures:</u> | | | | |
| Current Operations and Maintenance: | | | | |
| Security of Persons and Property: | | | | |
| Police | 1,497,450 | 0 | 940,061 | 0 |
| Fire | 872,225 | 0 | 408,740 | 0 |
| Other | 32,540 | 0 | 262,521 | 0 |
| Public Health Services | 156,101 | 0 | 0 | 0 |
| Leisure Time Activities: | | | | |
| Parks and Recreation | 150,061 | 0 | 0 | 0 |
| Swimming Pool | 114,192 | 0 | 0 | 0 |
| Other | 9,870 | 0 | 0 | 0 |
| Community Development | 290,269 | 0 | 3,172 | 0 |
| Basic Utility Services: | | | | |
| Water | 0 | 0 | 0 | 1,180,574 |
| Sewer | 0 | 0 | 0 | 0 |
| Other | 3,060 | 0 | 0 | 0 |
| Transportation | 250,813 | 0 | 0 | 0 |
| General Government | 1,777,217 | 329,122 | 0 | 0 |
| Capital Outlay | 0 | 0 | 0 | 0 |
| Debt Service: | | | | |
| Principal Retirement | 9,438 | 0 | 4,048 | 0 |
| Interest and Fiscal Charges | 1,950 | 0 | 1,483 | 0 |
| Total Expenditures | 5,165,186 | 329,122 | 1,620,025 | 1,180,574 |
| Excess of Revenues Over (Under) Expenditures | 26,221 | (39,512) | (231,509) | 443,262 |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Transfers - In | 0 | 0 | 0 | 0 |
| Transfers - Out | (10,000) | 0 | 0 | 0 |
| Total Other Financing Sources (Uses) | (10,000) | 0 | 0 | 0 |
| Net Change in Fund Balance | 16,221 | (39,512) | (231,509) | 443,262 |
| Fund Balances at Beginning of Year | 2,121,479 | 112,009 | 522,670 | 3,056,903 |
| Fund Balances at End of Year | \$2,137,700 | \$72,497 | \$291,161 | \$3,500,165 |

See Accompanying Notes to the Basic Financial Statements

| <i>Sewer Operating Fund</i> | <i>General Obligation Bond Retirement Fund</i> | <i>Capital Improvement Fund</i> | <i>Nonmajor Funds</i> | <i>Total Governmental Funds</i> |
|-------------------------------------|--|---|---------------------------|---|
| \$0 | \$384,821 | \$778,805 | \$0 | \$4,394,544 |
| 0 | 0 | 14,908 | 135,957 | 1,123,042 |
| 0 | 0 | 0 | 53,920 | 141,724 |
| 0 | 0 | 33,041 | 0 | 33,267 |
| 0 | 0 | 0 | 1,064,603 | 2,395,498 |
| 1,343,465 | 0 | 0 | 13,958 | 3,236,045 |
| 0 | 0 | 0 | 161,157 | 989,525 |
| 0 | 0 | 1,315 | 2,316 | 141,140 |
| 0 | 0 | 0 | 0 | 5,000 |
| 338 | 0 | 5,657 | 45,507 | 73,352 |
| <u>1,343,803</u> | <u>384,821</u> | <u>833,726</u> | <u>1,477,418</u> | <u>12,533,137</u> |
| 0 | 0 | 1,071 | 76,598 | 2,515,180 |
| 0 | 0 | 0 | 68,877 | 1,349,842 |
| 0 | 0 | 7,993 | 29,216 | 332,270 |
| 0 | 0 | 0 | 0 | 156,101 |
| 0 | 0 | 0 | 875 | 150,936 |
| 0 | 0 | 0 | 0 | 114,192 |
| 0 | 0 | 0 | 39,289 | 49,159 |
| 0 | 0 | 0 | 289,734 | 583,175 |
| 0 | 0 | 0 | 0 | 1,180,574 |
| 1,454,837 | 0 | 0 | 0 | 1,454,837 |
| 0 | 0 | 3,000 | 0 | 6,060 |
| 0 | 0 | 6,434 | 652,755 | 910,002 |
| 0 | 0 | 261,070 | 130,540 | 2,497,949 |
| 11,797 | 0 | 873,958 | 469,336 | 1,355,091 |
| 0 | 270,000 | 0 | 0 | 283,486 |
| 0 | 284,431 | 0 | 0 | 287,864 |
| <u>1,466,634</u> | <u>554,431</u> | <u>1,153,526</u> | <u>1,757,220</u> | <u>13,226,718</u> |
| <u>(122,831)</u> | <u>(169,610)</u> | <u>(319,800)</u> | <u>(279,802)</u> | <u>(693,581)</u> |
| 0 | 0 | 47,432 | 35,000 | 82,432 |
| 0 | 0 | (25,000) | (47,432) | (82,432) |
| 0 | 0 | 22,432 | (12,432) | 0 |
| <u>(122,831)</u> | <u>(169,610)</u> | <u>(297,368)</u> | <u>(292,234)</u> | <u>(693,581)</u> |
| <u>2,121,777</u> | <u>2,485,634</u> | <u>1,300,133</u> | <u>1,869,919</u> | <u>13,590,524</u> |
| <u>\$1,998,946</u> | <u>\$2,316,024</u> | <u>\$1,002,765</u> | <u>\$1,577,685</u> | <u>\$12,896,943</u> |

CITY OF CIRCLEVILLE
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2003

Net Change in Fund Balances - Total Governmental Funds (\$693,581)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

| | | |
|--|-----------|---------|
| Capital Asset Additions | 1,109,224 | |
| Depreciation | (823,726) | |
| Excess of Capital Outlay over Depreciation Expense | | 285,498 |

Governmental funds do not report the revenue from the contribution of capital assets since they do not represent current financial resources. However, the revenue is reported in the statement of activities 1,418,220

Some revenues that will not be collected for several months after the City's year-end are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues changed by these amounts this year:

| | | |
|----------------------|-----------|-----------|
| Income Taxes | (96,024) | |
| Property Taxes | (3,375) | |
| Other Local Taxes | 2,768 | |
| Intergovernmental | (357,303) | |
| Special Assessments | 65,149 | |
| Charges for Services | 7,261 | |
| | | (381,524) |

Repayment of long-term obligations is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

| | | |
|--|---------|---------|
| General Obligation Bond Principal Payments | 270,000 | |
| Capital Lease Payments | 13,486 | |
| | | 283,486 |

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional amount of interest on the statement of activities is the result of the following:

| | | |
|----------------------------------|---------|---------|
| Net Decrease in Deferred Charges | (4,950) | |
| Net Decrease in Accrued Interest | 1,707 | |
| | | (3,243) |

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These activities consist of:

| | | |
|--------------------------------------|----------|--------|
| Increase in Compensated Absences | (42,222) | |
| Decrease in Due to Other Governments | 106,989 | |
| | | 64,767 |

Change in Net Assets of Governmental Activities \$973,623

See Accompanying Notes to the Basic Financial Statements

CITY OF CIRCLEVILLE
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2003

| | <u>Original Budget</u> | <u>Revised Budget</u> | <u>Budgetary Actual</u> | <u>Variance Positive (Negative)</u> |
|---|----------------------------|---------------------------|-----------------------------|---|
| <u>Revenues:</u> | | | | |
| Income Taxes | \$1,513,526 | \$1,569,759 | \$1,607,043 | \$37,284 |
| Property Taxes | 744,157 | 799,803 | 972,177 | 172,374 |
| Other Local Taxes | 76,224 | 76,224 | 88,246 | 12,022 |
| Intergovernmental | 962,937 | 998,714 | 1,391,685 | 392,971 |
| Charges for Services | 207,314 | 215,017 | 247,261 | 32,244 |
| Fines and Forfeitures | 539,589 | 561,409 | 825,841 | 264,432 |
| Interest | 193,769 | 200,968 | 144,148 | (56,820) |
| Miscellaneous | 31,702 | 43,380 | 15,345 | (28,035) |
| Total Revenues | <u>4,269,218</u> | <u>4,465,274</u> | <u>5,291,746</u> | <u>826,472</u> |
| <u>Expenditures:</u> | | | | |
| Current Operations and Maintenance: | | | | |
| Security of Persons and Property: | | | | |
| Police | 1,653,753 | 1,655,318 | 1,504,618 | 150,700 |
| Fire | 1,021,894 | 999,192 | 899,476 | 99,716 |
| Other | 35,143 | 35,143 | 31,993 | 3,150 |
| Public Health | 157,466 | 157,466 | 156,101 | 1,365 |
| Leisure Time Activities | | | | |
| Parks and Recreation | 212,030 | 201,434 | 154,274 | 47,160 |
| Swimming Pool | 153,940 | 140,240 | 115,094 | 25,146 |
| Other | 8,100 | 8,100 | 11,739 | (3,639) |
| Community Development | 330,672 | 328,672 | 291,887 | 36,785 |
| Basic Utility Services: | | | | |
| Other | 3,060 | 3,060 | 3,060 | 0 |
| Transportation | 486,575 | 339,006 | 254,368 | 84,638 |
| General Government | 1,959,158 | 2,018,058 | 1,836,796 | 181,262 |
| Total Expenditures | <u>6,021,791</u> | <u>5,885,689</u> | <u>5,259,406</u> | <u>626,283</u> |
| Excess of Revenues Over (under) Expenditures | (1,752,573) | (1,420,415) | 32,340 | 1,452,755 |
| <u>Other Financing Uses:</u> | | | | |
| Transfers - Out | (10,000) | (10,000) | (10,000) | 0 |
| Net Change in Fund Balance | (1,762,573) | (1,430,415) | 22,340 | 1,452,755 |
| Fund Balance at Beginning of Year | 1,836,956 | 1,836,956 | 1,836,956 | 0 |
| Prior Year Encumbrances | 62,186 | 62,186 | 62,186 | 0 |
| Fund Balance at End of Year | <u>\$136,569</u> | <u>\$468,727</u> | <u>\$1,921,482</u> | <u>\$1,452,755</u> |

See Accompanying Notes to the Basic Financial Statements

CITY OF CIRCLEVILLE
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
Sewer Operating Fund
For the Year Ended December 31, 2003

| | <u>Original Budget</u> | <u>Revised Budget</u> | <u>Budgetary Actual</u> | <u>Variance Positive (Negative)</u> |
|---|----------------------------|---------------------------|-----------------------------|---|
| <u>Revenues:</u> | | | | |
| Charges for Services | \$1,485,000 | \$1,300,000 | \$1,345,488 | \$45,488 |
| Miscellaneous | 0 | 0 | 338 | 338 |
| Total Revenues | 1,485,000 | 1,300,000 | 1,345,826 | 45,826 |
| <u>Expenditures:</u> | | | | |
| Current Operations and Maintenance: | | | | |
| Basic Utility Services: | | | | |
| Sewer | 2,315,979 | 2,528,979 | 1,509,809 | 1,019,170 |
| Excess of Revenues Over (Under) Expenditures | (830,979) | (1,228,979) | (163,983) | 1,064,996 |
| <u>Other Financing Uses:</u> | | | | |
| Transfers - Out | (65,000) | 0 | 0 | 0 |
| Net Change in Fund Balance | (895,979) | (1,228,979) | (163,983) | 1,064,996 |
| Fund Balance at Beginning of Year | 1,950,008 | 1,950,008 | 1,950,008 | 0 |
| Prior Year Encumbrances | 56,545 | 56,545 | 56,545 | 0 |
| Fund Balance at End of Year | <u>\$1,110,574</u> | <u>\$777,574</u> | <u>\$1,842,570</u> | <u>\$1,064,996</u> |

See Accompanying Notes to the Basic Financial Statements

CITY OF CIRCLEVILLE
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
Waterworks Operating Fund
For the Year Ended December 31, 2003

| | <u>Original Budget</u> | <u>Revised Budget</u> | <u>Budgetary Actual</u> | <u>Variance Positive (Negative)</u> |
|---|----------------------------|---------------------------|-----------------------------|---|
| <u>Revenues:</u> | | | | |
| Special Assessments | \$0 | \$0 | \$226 | \$226 |
| Charges for Services | 1,914,000 | 1,764,000 | 1,641,061 | (122,939) |
| Miscellaneous | 0 | 0 | 588 | 588 |
| Total Revenues | 1,914,000 | 1,764,000 | 1,641,875 | (122,125) |
| <u>Expenditures:</u> | | | | |
| Current Operations and Maintenance: | | | | |
| Basic Utility Services: | | | | |
| Water | 2,016,649 | 2,016,649 | 1,220,686 | 795,963 |
| Excess of Revenues Over (Under) Expenditures | (102,649) | (252,649) | 421,189 | 673,838 |
| <u>Other Financing Uses:</u> | | | | |
| Transfers - Out | (150,000) | 0 | 0 | 0 |
| Net Change in Fund Balance | (252,649) | (252,649) | 421,189 | 673,838 |
| Fund Balance at Beginning of Year | 2,871,030 | 2,871,030 | 2,871,030 | 0 |
| Prior Year Encumbrances | 50,470 | 50,470 | 50,470 | 0 |
| Fund Balance at End of Year | <u>\$2,668,851</u> | <u>\$2,668,851</u> | <u>\$3,342,689</u> | <u>\$673,838</u> |

See Accompanying Notes to the Basic Financial Statements

CITY OF CIRCLEVILLE
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
Safety Forces Tax Fund
For the Year Ended December 31, 2003

| | <u>Original Budget</u> | <u>Revised Budget</u> | <u>Budgetary Actual</u> | <u>Variance Positive (Negative)</u> |
|-------------------------------------|----------------------------|---------------------------|-----------------------------|---|
| <u>Revenues:</u> | | | | |
| Income Taxes | \$1,472,461 | \$1,363,703 | \$1,397,591 | \$33,888 |
| Intergovernmental | 1,242 | 1,150 | 1,150 | 0 |
| Charges for Services | 0 | 0 | 8,399 | 8,399 |
| Contributions and Donations | 0 | 0 | 5,000 | 5,000 |
| Miscellaneous | 0 | 0 | 5,807 | 5,807 |
| Total Revenues | <u>1,473,703</u> | <u>1,364,853</u> | <u>1,417,947</u> | <u>53,094</u> |
| <u>Expenditures:</u> | | | | |
| Current Operations and Maintenance: | | | | |
| Security of Persons and Property: | | | | |
| Police | 1,034,038 | 1,007,473 | 941,005 | 66,468 |
| Fire | 438,760 | 439,910 | 391,055 | 48,855 |
| Other | 295,496 | 320,496 | 274,278 | 46,218 |
| Community Development | 0 | 0 | 4,137 | (4,137) |
| Total Expenditures | <u>1,768,294</u> | <u>1,767,879</u> | <u>1,610,475</u> | <u>157,404</u> |
| Net Change in Fund Balance | (294,591) | (403,026) | (192,528) | 210,498 |
| Fund Balance at Beginning of Year | 514,707 | 514,707 | 514,707 | 0 |
| Prior Year Encumbrances | <u>21,640</u> | <u>21,640</u> | <u>21,640</u> | <u>0</u> |
| Fund Balance at End of Year | <u><u>\$241,756</u></u> | <u><u>\$133,321</u></u> | <u><u>\$343,819</u></u> | <u><u>\$210,498</u></u> |

See Accompanying Notes to the Basic Financial Statements

CITY OF CIRCLEVILLE
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
Income Tax Fund
For the Year Ended December 31, 2003

| | <u>Original Budget</u> | <u>Revised Budget</u> | <u>Budgetary Actual</u> | <u>Variance Positive (Negative)</u> |
|-------------------------------------|----------------------------|---------------------------|-----------------------------|---|
| <u>Revenues:</u> | | | | |
| Income Taxes | \$286,827 | \$286,827 | \$295,789 | \$8,962 |
| Miscellaneous | 0 | 0 | 50 | 50 |
| <i>Total Revenues</i> | 286,827 | 286,827 | 295,839 | 9,012 |
| <u>Expenditures:</u> | | | | |
| Current Operations and Maintenance: | | | | |
| General Government | 328,308 | 328,308 | 330,757 | (2,449) |
| Net Change in Fund Balance | (41,481) | (41,481) | (34,918) | 6,563 |
| Fund Balance at Beginning of Year | 63,098 | 63,098 | 63,098 | 0 |
| Prior Year Encumbrances | 32,730 | 32,730 | 32,730 | 0 |
| Fund Balance at End of Year | <u>\$54,347</u> | <u>\$54,347</u> | <u>\$60,910</u> | <u>\$6,563</u> |

See Accompanying Notes to the Basic Financial Statements

CITY OF CIRCLEVILLE
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2003

| | <u>Private Purpose Trust Fund William Renick Trust</u> | <u>Agency Funds</u> |
|---|--|---------------------|
| <u>Assets:</u> | | |
| Equity in Pooled Cash and Cash Equivalents | \$0 | \$24,985 |
| Cash and Cash Equivalents In Segregated Accounts | 11,598 | 54,360 |
| <i>Total Assets</i> | <u>\$11,598</u> | <u>\$79,345</u> |
| <u>Liabilities:</u> | | |
| Intergovernmental Payable | \$0 | \$3,612 |
| Undistributed Assets | 0 | 75,733 |
| <i>Total Liabilities</i> | <u>0</u> | <u>\$79,345</u> |
| <u>Net Assets:</u> | | |
| Held in Trust for Private Purposes | <u>\$11,598</u> | |

See Accompanying Notes to the Basic Financial Statements

CITY OF CIRCLEVILLE
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Year Ended December 31, 2003

| | <i>William Renick Trust</i> |
|--|--|
| <i>Additions:</i> | |
| Interest | \$400 |
| <i>Deductions:</i> | |
| Payments in Accordance with Trust Agreements | 600 |
| <i>Change in Net Assets</i> | (200) |
| <i>Net Assets Beginning of Year</i> | 11,798 |
| <i>Net Assets End of Year</i> | <u>\$11,598</u> |

See Accompanying Notes to the Basic Financial Statements

CITY OF CIRCLEVILLE
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Circleville (the “City”) is a non-chartered municipal corporation operating under the laws of the State of Ohio. The community was established in 1810 as part of Circleville Township; it became a village in 1811 before becoming a City in 1814. The municipal government is known as a Council/Mayor form of government. Legislative power is vested in an eight-member council: four members elected by wards, three elected at large, and an elected President, who only votes in the case of a tie vote. The Mayor is the chief executive officer and the head of the administrative agencies of the City. He appoints all department heads and employees, except the City Auditor, the Director of Law, and the Treasurer, who are elected to office.

Reporting Entity

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

The primary government of the City consists of all funds, departments and activities which are not legally separate from the City. They comprise the City’s legal entity which provides various services including public safety, planning, zoning, street maintenance and repair, parks and recreation, community development, public health and welfare, and water and sewer treatment. Administrative staff provides support (i.e., payroll processing, accounts payable, revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures.

The City is associated with an organization which is defined as a Jointly Governed Organization. This organization is the Multiple Agency Radio Communications System Board and is presented in Note 18 to the Basic Financial Statements.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units also include organizations that are fiscally dependent on the City in that the City approves the organization’s budget, the issuance of its debt or the levying of its taxes.

The component unit column in the combined financial statements identifies the financial data of the City’s discretely presented component unit, Berger Health System. Berger Health System is reported separately to emphasize that it is legally separate from the City.

Berger Health System

Berger Health System (the “System”) is operated by a Board of Governors pursuant to an agreement between the City of Circleville and Pickaway County. Four members of the Board of Governors are appointed by the Board of County Commissioners of Pickaway County and four members are appointed by the Mayor of the City with the consent of City Council. The Mayor of the City is the ninth and final member of the Board of Governors and serves as Chairman.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 1 –DESCRIPTION OF THE CITY AND REPORTING ENTITY (Continued)

The City is obligated for the bonded debt of the System. The City issued the bonds on behalf of the System, who is repaying the City for the bonds through a loan agreement. The bond agreement is between the City and the original purchasers. Based upon the significant services and resources provided by the City to Berger Health System, the System will be presented as a component unit of the City. Berger Health System operates on a fiscal year ending December 31. Separately issued financial statements can be obtained from Berger Health System, 600 North Pickaway Street, Circleville, Ohio 43113.

The information in Notes 2 through 21 relate to the primary government. Information related to the discretely presented component unit is presented in Note 22.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Circleville have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The City has no business-type activities. The most significant of the City's accounting policies are described below.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. The City has no business-type activities.

The Statement of Net Assets presents the financial condition of the governmental activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the City.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds utilized by the City: governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - This fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio. This fund also receives a portion of income tax collections.

Income Tax Fund – This fund accounts for the direct administration of the 1.5% income tax levied and collected by the City. The purpose of the tax is to provide for the municipal operations, maintenance of equipment, extension, enlargement and improvement of municipal services and facilities and capital improvements of the City.

Safety Forces Tax Fund – This fund accounts for the portion of the income tax which is used for safety purposes such as a portion of police and fire salaries and the emergency medical team salaries.

Waterworks Operating Fund – This fund is used to account for the provision of water service to certain residents and businesses within the City.

Sewer Operating Fund – This fund is used to account for the provision of sanitary sewer service to the residents and businesses of the City and a portion of income tax collections..

General Obligation Bond Retirement Fund - This fund accounts for the resources that are used for payment of principal and interest and fiscal charges on general obligation debt, and a portion of income tax..

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Improvement Fund – This fund accounts for the portion of the income tax which is used for capital projects as approved by Council.

The other governmental funds of the City account for grants and other resources whose use is restricted for a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The three types of trust funds should be used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments. These funds are distinguished by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held. The City has one private-purpose trust fund which is used to account for the money held for charities as authorized in the will of Josie Renick. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has five agency funds which are used to account for money held for individuals and organizations for fines and forfeitures, contracting fees, and deposits held to insure compliance with building codes.

Measurement Focus

A. Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

B. Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-Exchange Transactions

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 thirty-one days of year-end.

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. On an accrual basis, revenue from income tax is recognized in the year in which the income 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.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income taxes, interest on investments, intergovernmental revenues (including motor vehicle license tax, gasoline tax, and local government assistance), and grants.

Deferred Revenues

Deferred revenues arise 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, 2003, but were levied to finance 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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 governmental funds.

Budgets and Budgetary Accounting

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each department. Budgetary modifications may only be made by resolution of Council.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts set forth in the financial statements represent estimates from the amended certificate in force at the time final appropriations were passed by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

Cash and Cash Equivalents

Cash balances of the City's funds, except cash in segregated accounts, are pooled and invested in short-term investments in order to provide improved cash management. Each fund's share of the pool is presented on the balance sheet in the account "Equity in Pooled Cash and Cash Equivalents." Cash and cash equivalents that are held separately within departments of the City and not held with the City Treasurer are recorded as "Cash and Cash Equivalents in Segregated Accounts." The City utilizes financial institutions to service bonded debt as principal and interest payments come due. The balances in these accounts are presented as "Cash and Cash Equivalents with Fiscal Agents." The City also utilizes an escrow agent to hold retainage on construction contracts. The balances in these accounts are presented on the financial statements as "Cash and Cash Equivalents with Escrow Agents."

During the year, investments were limited to certificates of deposit, which are reported at cost.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue credited to the General Fund during 2003 amounted to \$137,509, which includes \$112,123 assigned from other funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are reported as cash equivalents on the financial statements.

Materials and Supplies Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required to be set-aside for construction retainage.

Capital Assets

All of the City's capital assets are classified as general capital assets. General capital assets are capital assets that are associated with and generally rise from governmental activities. They generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values on the date donated. The City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expended.

All capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacements. Depreciation is computed using the straight-line method over the following useful lives:

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

| <u>Descriptions</u> | <u>Estimated Life</u> |
|------------------------------------|-----------------------|
| Land Improvements | 10-25 years |
| Building and Building Improvements | 20-50 years |
| Machinery and Equipment | 3-20 years |
| Vehicles | 5-20 years |
| Infrastructure | 10-60 years |

The City's infrastructure consists of streets, curbs and gutters, sidewalks, street lighting, storm sewers, and water and sewer lines. For 2003, the City reported infrastructure for the first time. The City has reported only the amounts acquired in 2003. The City plans to report prior years' amounts in future years.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees after one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims, contractually required pension contributions and compensated absences that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Long-term bonds and capital leases are recognized as liabilities on the governmental fund financial statements when due.

Reserves of Fund Balance

Reserves of fund equity in governmental funds 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 encumbrances and loans receivable.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in enterprise funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include funds for the operation of recreational activities, improving the living environment of the City, the operation of police programs, and the City's street repair/improvement programs.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Estimates

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

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

Accountability

The Community Development Special Revenue fund had a deficit fund balance of \$52,431 at December 31, 2003. This deficit is due to adjustments for accrued liabilities which generate expenditures that are greater than those recognized on a cash basis. The General Fund is liable for the deficits and provides operating transfers when cash is required, not when accruals occur.

Compliance

The Law Enforcement Special Revenue fund had original appropriations in excess of original estimated revenues and available fund balances of \$960 for the year ended December 31, 2003:

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

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE (Continued)

| Fund Name / Type | Appropriations | Expenditures plus Encumbrances | Excess |
|---|----------------|-----------------------------------|-----------|
| <i>General Fund:</i> | | | |
| Leisure Time Activities - Other | \$8,100 | \$11,739 | (\$3,639) |
| <i>Special Revenue Funds:</i> | | | |
| Income Tax Fund | | | |
| General Government | 328,308 | 330,757 | (2,449) |
| Safety Forces Tax Fund | | | |
| Community Development | 0 | 4,137 | (4,137) |
| Small Cities Block Grant 2000 | | | |
| Community Development | 287,553 | 289,728 | (2,175) |
| <i>Capital Project Funds:</i> | | | |
| Ohio Public Work Commission Kingston Pike | | | |
| Capital Outlay | 103,282 | 224,027 | (120,745) |
| Service Facility | | | |
| Capital Outlay | 14,346 | 23,596 | (9,250) |
| Public Safety Building | | | |
| Capital Outlay | 395,837 | 448,307 | (52,470) |

The City will monitor budgetary controls more closely in the future to alleviate such compliance issues.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position and results of operations on the basis of generally accepted accounting principles (GAAP), the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual is presented for the General Fund and major special revenue funds on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- (c) Outstanding year-end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (Continued)

- (d) Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis for the General fund and major special revenue funds is as follows:

| Net Change in Fund Balance | | | | | |
|-------------------------------|-----------------|-------------------|-------------------------|-------------------------|--------------------------------|
| | General | Income Tax | Safety Forces Tax | Waterworks Operating | Sanitary Sewer Operating |
| | <u>General</u> | <u>Income Tax</u> | <u>Tax</u> | <u>Operating</u> | <u>Operating</u> |
| GAAP Basis | \$16,221 | (\$39,512) | (\$231,509) | \$443,262 | (\$122,831) |
| Increases (decreases) Due To: | | | | | |
| Revenue Accruals | 136,443 | 6,229 | 29,431 | 18,099 | 2,023 |
| Expenditure Accruals | (18,382) | 1,502 | 25,084 | 15,979 | 23,884 |
| Encumbrances | (75,838) | (3,137) | (15,534) | (56,091) | (67,059) |
| Unrecorded Cash | (36,104) | 0 | 0 | (60) | 0 |
| Budget Basis | <u>\$22,340</u> | <u>(\$34,918)</u> | <u>(\$192,528)</u> | <u>\$421,189</u> | <u>(\$163,983)</u> |

NOTE 5 - DEPOSITS AND INVESTMENTS

The investment and deposit of City monies are governed by the Ohio Revised Code. State statutes classify monies held by the City into three categories.

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

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

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

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

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

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

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

At year-end, the City had \$485 in undeposited cash on hand which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents."

The following information classifies deposits and investments by categories of risk as defined in *GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreement."*

At year end, the carrying amount of the City's deposits was \$10,543,959, and the bank balance was \$10,885,963. Of the bank balance, \$400,000 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized. Although the balance was collateralized by securities held by the financial institutions' trust departments in the City's name and all State statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

NOTE 6 - MUNICIPAL INCOME TAX

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

Income tax proceeds are to be used to pay the cost of administering the tax, General Fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council. In 2003, the proceeds were allocated to the General Fund, the Income Tax special revenue fund, the Safety Forces Tax special revenue fund, the General Obligation Bond Retirement debt service fund, and the Capital Improvement capital projects fund.

NOTE 7 - PROPERTY TAX

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2003 for real and public utility property taxes represents collections of 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

2003 real property taxes are levied after October 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 7 - PROPERTY TAX (Continued)

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2003 public utility property taxes became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent of true value for inventory

The full tax rate for all City operations for the year ended December 31, 2003, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

| Category | Assessed Value |
|-------------------------------|----------------|
| Real Property: | |
| Agricultural/Residential | \$127,781,580 |
| Commercial/Industrial/Mineral | 57,053,940 |
| Public Utility Real | 44,900 |
| Tangible Personal Property: | |
| General | 55,136,044 |
| Public Utility Real | 7,723,020 |
| Total Assessed Value | \$247,739,484 |

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Circleville. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2003, and for which there is an enforceable legal claim. In the funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2003 operations, and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 8 - RECEIVABLES

Receivables at December 31, 2003, consisted of accounts (charges for services), interest, taxes, loans, special assessments, and intergovernmental receivables arising from grants, entitlements or shared revenues. All receivables are considered fully collectible, including water and sewer charges receivable which, if delinquent, may be certified and collected as a special assessment, subject to foreclosure for nonpayment. Special assessments expected to be collected in more than one year for the City amount to \$11,465. The City has \$50,217 in delinquent special assessments at December 31, 2003.

The City entered into loan agreement with Berger Health System, in which Berger Health System is repaying the City for the bonds issued by the City on behalf of Berger Health System. The loan agreement is for the \$2,000,000 principal amount of bonds and the related interest. The loans receivable balance at December 31, 2003, is \$2,285,035.

A summary of the principal items of intergovernmental receivables follows:

| | <i>Amount</i> |
|--|---------------|
| Governmental Activities | |
| Emergency Medical Services Grant | \$5,130 |
| Community Development Block Grants | 77,000 |
| Community Housing Improvement Grant | 169,335 |
| Estate Taxes | 168,779 |
| Homestead and Rollback | 42,353 |
| Electric Deregulation | 6,709 |
| Permissive Motor Vehicle License Taxes | 50,498 |
| Gasoline Tax | 155,841 |
| Motor Vehicle License Tax | 75,944 |
| Local Government | 338,592 |
| Local Government Revenue Assistance | 87,486 |
| Undivided State Local Government | 47,772 |
| Total Intergovernmental Receivable | \$1,225,439 |

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003, was as follows:

| | Balance At 12/31/2002 | Additions | Deletions | Balance At 12/31/2003 |
|---|--------------------------|-------------|-------------|--------------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$1,119,670 | \$40,820 | \$0 | \$1,160,490 |
| Construction in Progress | 294,054 | 504,962 | (462,852) | 336,164 |
| Total Capital Assets Not Being Depreciated | 1,413,724 | 545,782 | (462,852) | 1,496,654 |
| Depreciable Capital Assets: | | | | |
| Land Improvements | 1,714,089 | 25,119 | 0 | 1,739,208 |
| Buildings and Building Improvements | 18,952,592 | 319,401 | 0 | 19,271,993 |
| Machinery and Equipment | 1,129,078 | 0 | 0 | 1,129,078 |
| Vehicles | 2,103,006 | 46,862 | 0 | 2,149,868 |
| Infrastructure | 0 | 2,053,132 | 0 | 2,053,132 |
| Total Depreciable Capital Assets | 23,898,765 | 2,444,514 | 0 | 26,343,279 |
| Total Capital Assets At Historical Cost | 25,312,489 | 2,990,296 | (462,852) | 27,839,933 |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (970,051) | (84,615) | 0 | (1,054,666) |
| Buildings and Building Improvements | (7,379,439) | (424,718) | 0 | (7,804,157) |
| Machinery and Equipment | (670,324) | (71,700) | 0 | (742,024) |
| Vehicles | (1,253,656) | (152,728) | 0 | (1,406,384) |
| Infrastructure | 0 | (89,965) | 0 | (89,965) |
| Total Accumulated Depreciation | (10,273,470) | (823,726) | 0 | (11,097,196) |
| Depreciable Capital Assets, Net | 13,625,295 | 1,620,788 | 0 | 15,246,083 |
| Governmental Activities Capital Assets, Net | \$15,039,019 | \$2,166,570 | (\$462,852) | \$16,742,737 |

For 2003, the City's infrastructure consists only of the amounts acquired in 2003, which included \$1,418,220 of assets donated by developers.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 9 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental programs as follows:

| | |
|--|-----------|
| Security of Persons and Property - Police | \$93,306 |
| Security of Persons and Property - Fire | 136,319 |
| Security of Persons and Property - Other | 21,034 |
| Leisure Time Activity - Parks and Recreation | 34,079 |
| Leisure Time Activity - Swimming Pool | 37,509 |
| Leisure Time Activity - Other | 1,120 |
| Community Development | 5,068 |
| Basic Utility Services - Water | 95,528 |
| Basic Utility Services - Sewer | 228,252 |
| Basic Utility Services - Other | 10,591 |
| Transportation | 116,000 |
| General Government | 44,920 |
| Total Depreciation Expense | \$823,726 |

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

For the year-ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the year-ended December 31, 2003 was \$329,743; 85.02 percent has been contributed for 2003. No contributions to the member-directed plan were made by the City or plan members during 2003.

Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contribution to the Fund for the year-ended December 31, 2003 was \$367,173, equal to the required contributions for the year. 75.68 percent has been contributed for 2003 with the remainder being reported as a liability.

NOTE 11 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$192,832. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader 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.

Ohio Police and Fire Pension Fund

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

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$121,605 for police and \$87,184 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

NOTE 12 - EMPLOYEE BENEFITS

Compensated Absences

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Current policy credits vacation leave on the employee's anniversary date and allows the unused balance to be accrued at levels which depend upon years of service. City employees are paid for earned, unused vacation leave at the time of termination of employment.

Sick leave is earned at the rate of four and six-tenths hours for every eighty hours worked and can be accumulated without limit. Upon termination from the City, each employee with twenty or more years of service is entitled to receive payment for thirty-five percent of his or her accrued but unused sick leave, or the full balance may be transferred to another governmental agency. Each employee with less than twenty years of service with the City is entitled to receive payment for twenty-five percent of his or her accrued but unused sick leave, or the full balance may be transferred to another governmental agency. Also, any retiring full-time employee of the City with ten or more years of continuous service with the City will, upon application, be paid a one time bonus equal to one percent of his or her unused sick leave for each year of service. No employee shall receive payment for less than one-fourth of the value of the employee's accrued but unused sick leave up to a maximum of thirty days.

Insurance Benefits

Health, dental, and life insurance was provided by United Healthcare of Ohio for the year.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 12 - EMPLOYEE BENEFITS (Continued)

Deferred Compensation

City employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the City has entered into capitalized leases for copiers. The leases meet the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13, "Accounting for Leases,"* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General capital assets consisting of equipment have been capitalized in the amount of \$69,538. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in 2003 totaled \$13,486 in the governmental funds.

The assets acquired through capital leases as of December 31, 2003, are as follows:

| | Asset Value | Accumulated Depreiation | Net Book Value |
|------------------|----------------|----------------------------|-------------------|
| Copier Equipment | \$69,538 | \$42,982 | \$26,556 |

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2003:

| | Year Ending December 31, | |
|--|-----------------------------|----------|
| | 2004 | \$16,920 |
| | 2005 | 10,962 |
| | 2006 | 8,602 |
| | 2007 | 3,312 |
| Total | | 39,796 |
| Less: Amount representing Interest | | (4,277) |
| Present Value of Minimum Lease Payment | | \$35,519 |

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 14 - OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

The change in the City's long-term obligations during the year consisted of the following:

| <u>Types / Issues</u> | <u>12/31/02</u> | <u>Issued</u> | <u>Retired</u> | <u>12/31/03</u> | <u>One Year</u> |
|---|---------------------------|-------------------------|-------------------------|---------------------------|-------------------------|
| <u>Governmental Activities</u> | | | | | |
| <u>General Obligation Bonds</u> | | | | | |
| 1997 - Berger Health System | | | | | |
| Bonds \$2,000,000: | | | | | |
| Term Bonds 4.80% - 5.40% | \$1,235,000 | \$0 | \$0 | \$1,235,000 | \$0 |
| Serial Bonds 3.80% - 4.75% | 420,000 | 0 | 75,000 | 345,000 | 80,000 |
| 1983 - 9.25% Justice Center | | | | | |
| Construction Serial Bonds \$1,475,000 | 70,000 | 0 | 70,000 | 0 | 0 |
| 2000 - Capital Facilities Improvement | | | | | |
| Safety Services Building Bonds \$3,285,000 | | | | | |
| Term Bonds 5.625% | 2,060,000 | 0 | 0 | 2,060,000 | 0 |
| Serial Bonds 4.45% - 5.950% | 1,020,000 | 0 | 110,000 | 910,000 | 115,000 |
| 2000 - 4.45%-5.625% Capital | | | | | |
| Facilities Improvement City Bonds \$500,000 | | | | | |
| Term Bonds 5.625% | 315,000 | 0 | 0 | 315,000 | 0 |
| Serial Bonds 4.45% - 5.950% | 155,000 | 0 | 15,000 | 140,000 | 15,000 |
| Total General Obligation Bonds | <u>5,275,000</u> | <u>0</u> | <u>270,000</u> | <u>5,005,000</u> | <u>210,000</u> |
| <u>Other Long-Term Obligations</u> | | | | | |
| Capital Leases | 49,005 | 0 | 13,486 | 35,519 | 14,605 |
| Compensated Absences | 370,201 | 353,079 | 310,857 | 412,423 | 253,095 |
| Total Other Long-Term Obligations | <u>419,206</u> | <u>353,079</u> | <u>324,343</u> | <u>447,942</u> | <u>267,700</u> |
| Total Governmental Activities | <u><u>\$5,694,206</u></u> | <u><u>\$353,079</u></u> | <u><u>\$594,343</u></u> | <u><u>\$5,452,942</u></u> | <u><u>\$477,700</u></u> |

The City's overall legal debt margin was \$23,306,261, with an unvoted debt margin of \$10,919,287 at December 31, 2003.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 14 - OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS (Continued)

Annual debt service requirements to maturity for general long-term obligations are:

| <u>Year</u> | <u>Governmental Activities</u> | |
|-------------|---------------------------------|-----------------|
| | <u>General Obligation Bonds</u> | |
| | <u>Principal</u> | <u>Interest</u> |
| 2004 | \$210,000 | \$268,831 |
| 2005 | 220,000 | 259,106 |
| 2006 | 235,000 | 248,766 |
| 2007 | 240,000 | 237,604 |
| 2008 | 250,000 | 226,084 |
| 2009-2013 | 1,485,000 | 914,875 |
| 2014-2018 | 1,780,000 | 455,130 |
| 2019-2020 | 585,000 | 49,781 |
| Totals | \$5,005,000 | \$2,660,177 |

Berger Health System Bonds

On July 15, 1997, the City of Circleville issued \$2,000,000 in general obligation bonds for the purpose of construction and equipping a building addition to provide maternity services at Berger Health System. The bonds were issued for a twenty year period with final maturity on December 1, 2017.

The term bonds, issued at \$1,235,000, maturing on December 1, 2017, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amounts as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2008 | \$95,000 |
| 2009 | 100,000 |
| 2010 | 105,000 |
| 2011 | 115,000 |
| 2012 | 120,000 |
| 2013 | 125,000 |
| 2014 | 135,000 |
| 2015 | 140,000 |
| 2016 | 145,000 |
| 2017 | 155,000 |
| Totals | \$1,235,000 |

The serial bonds, issued at \$765,000 with a maturity date of December 1, 2017, are subject to optional redemption, in whole or in part, on any date at the option of the Issuer on or after December 1, 2007.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 14 - OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS (Continued)

Justice Center Construction Bonds

On June 1, 1983, the City of Circleville issued \$1,475,000 in general obligation bonds for the purpose of constructing a municipal justice center. The serial bonds were issued for a twenty year period and matured on December 1, 2003.

Capital Facilities Safety Services Building Bonds

On June 1, 2000, the City of Circleville issued \$3,285,000 in general obligation bonds for the purpose of constructing a new safety facility to house a fire station, an EMS facility, and fire department offices. The bonds were issued for a twenty year period with final maturity on December 1, 2020.

The term bonds, issued at \$2,060,000 maturing on December 1, 2020, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amounts as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------------------|
| 2011 | \$160,000 |
| 2012 | 170,000 |
| 2013 | 180,000 |
| 2014 | 185,000 |
| 2015 | 195,000 |
| 2016 | 210,000 |
| 2017 | 220,000 |
| 2018 | 235,000 |
| 2019 | 245,000 |
| 2020 | 260,000 |
| Totals | <u><u>\$2,060,000</u></u> |

The serial bonds, issued at \$1,225,000 with a maturity date of December 1, 2010, are subject to optional redemption, in whole or in part, on any date at the option of the Issuer on or after December 1, 2009, and no later than December 1, 2012.

Capital Facilities City Services Building Bonds

On June 1, 2000, the City of Circleville issued \$500,000 in general obligation bonds for the purpose of purchasing and renovating a service building. The bonds were issued for a twenty year period with final maturity on December 1, 2020.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 14 - OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS (Continued)

The term bonds, issued at \$315,000 maturing on December 1, 2020, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amounts as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------------|
| 2011 | \$25,000 |
| 2012 | 25,000 |
| 2013 | 25,000 |
| 2014 | 30,000 |
| 2015 | 30,000 |
| 2016 | 30,000 |
| 2017 | 35,000 |
| 2018 | 35,000 |
| 2019 | 40,000 |
| 2020 | 40,000 |
| Totals | <u><u>\$315,000</u></u> |

The serial bonds, issued at \$185,000 with a maturity date of December 1, 2010, are subject to optional redemption, in whole or in part, on any date at the option of the Issuer on or after December 1, 2009, and no later than December 1, 2012.

Conduit Debt

During 2003, the City issued revenue bonds in the aggregate principal amount of \$26,000,000 for Berger Health System. The proceeds are to be used by Berger Health System for future capital expenditures and to retire \$9 million of old debt. The bonds are to be repaid by the recipients of the proceeds and do not represent an obligation of the City. There has not been, and currently is not any condition of default under the bonds or the related financing documents. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely from the City's debt presentation. Neither is the full faith and credit or taxing power of the City pledged to make repayment. The balance outstanding as of December 31, 2003, is \$25,100,833.

Compensated Absences/Capital Leases

Compensated absences will be paid from the General Fund, Income Tax Fund, Street Construction Fund, State Highway Improvement Fund, City Permissive Motor Vehicle Fund, Safety Forces Tax Fund, Sick Leave Retirement Fund, Waterworks Operating Fund and Sanitary Sewer Operating Fund. Capital leases will be paid from the General Fund and the Safety Forces Tax Fund.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 15 - CONSTRUCTION COMMITMENTS

The City has entered into various contracts for the construction of capital assets. At December 31, 2003, the only significant outstanding construction commitment is:

| <u>Project</u> | <u>Contract Amount</u> | <u>Amount Expended</u> | <u>Balance At 12/31/03</u> |
|-------------------------------|----------------------------|----------------------------|--------------------------------|
| S.I.P. Mill and Fill Contract | \$334,954 | \$244,754 | \$90,200 |

NOTE 16 - RISK MANAGEMENT

The City maintains comprehensive insurance coverage with private carriers for real property, building contents, vehicles, general liability insurance, crime and police professional liability insurance. The City also carries Public Officials liability insurance. Settlements have not exceeded coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

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

NOTE 17 - INTERFUND ACTIVITY

Transfers made during the year ended December 31, 2003 were as follows:

| | | Transfers To | | |
|----------------|--------------------------|------------------------|-----------------------------|-----------------|
| | | Capital Improvement | All Other Nonmajor Funds | Total |
| Transfers From | General | \$0 | \$10,000 | \$10,000 |
| | Capital Improvement | 0 | 25,000 | 25,000 |
| | All Other Nonmajor Funds | 47,432 | 0 | 47,432 |
| | Total | \$47,432 | \$35,000 | \$82,432 |

Transfers from the General Fund to other nonmajor funds were made to maintain the fund balance in the Sick Leave Retirement Fund for the anticipation of future retirements. Transfers from the Capital Improvement Fund to other nonmajor funds were made to provide monies to Emergency Management Services for capital and operating expenditures. Transfers from other nonmajor funds to the Capital Improvement Fund were made to return an unspent portion of a matching requirement necessary for an Ohio Public Works Commission project that was provided by the Capital Improvement Fund.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 18 – JOINTLY GOVERNED ORGANIZATION/ RELATED PARTY

The Multiple Agency Radio Communications System Board (the “Board”) is a jointly governed organization established for the purpose of monitoring the emergency radio system of Pickaway County. Representatives from the City and Pickaway County signed an agreement to establish the Board and to share the cost of building the tower for the emergency radio system. Members from both the City and Pickaway County serve on the Board giving joint control to the entities. The City does not have an on-going financial interest or responsibility to the Board.

City issued the Hospital Improvement Bonds in 1998 for the benefit of the component unit, Berger Health Systems (the Hospital). The Hospital remits to the City, upon billing, monies for payment on the semi-annual debt payments due on the bond issuance. Reference Note 14.

NOTE 19 - CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grants

For the period January 1, 2003, to December 31, 2003, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE 20 - SUBSEQUENT EVENT

On June 1, 2004, the City adopted a resolution in which the City would begin paying both its portion along with the employees’ portion of retirement for the police and fire departments. This pension pickup was established to be 10% of the employees’ wages for the City.

NOTE 21 – CHANGE IN ACCOUNTING PRINCIPLES

For the year-ended December 31, 2003, the City has presented for the first time financial statements that conform to generally accepted accounting principles.

The implementation of this change had the following effect on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 21 – CHANGE IN ACCOUNTING PRINCIPLES (Continued)

| | General Fund | Income Tax Fund | Safety Forces Tax Fund | Waterworks Operating Fund | Sewer Operating Fund |
|---------------------------------|--------------------|--------------------|------------------------------|---------------------------------|----------------------------|
| Cash Balances December 31, 2002 | \$1,899,142 | \$95,828 | \$536,347 | \$2,921,500 | \$2,006,553 |
| GAAP Adjustments | 222,337 | 16,181 | (13,677) | 135,403 | 115,224 |
| Fund Balances December 31, 2002 | <u>\$2,121,479</u> | <u>\$112,009</u> | <u>\$522,670</u> | <u>\$3,056,903</u> | <u>\$2,121,777</u> |

| | General Obligation Bond Retirement Fund | Capital Improvement Fund | Nonmajor Funds | Total |
|---------------------------------|---|--------------------------------|--------------------|---------------------|
| Cash Balances December 31, 2002 | \$13,720 | \$1,257,934 | \$2,039,261 | \$10,770,285 |
| GAAP Adjustments | 2,471,914 | 42,199 | (169,342) | 2,820,239 |
| Fund Balances December 31, 2002 | <u>\$2,485,634</u> | <u>\$1,300,133</u> | <u>\$1,869,919</u> | <u>\$13,590,524</u> |

GASB Statement No. 34 Adjustments:

Deferred Assets:

| | |
|--|---------------------|
| Delinquent Property Taxes | 55,560 |
| Other Local Taxes | 57,250 |
| Accounts Receivable | 92,076 |
| Special Assessments | 51,355 |
| Municipal Income Tax | 527,930 |
| Intergovernmental Receivable | 1,329,149 |
| Deferred Charges | 86,700 |
| Capital Assets, Net | 15,039,019 |
| Intergovernmental Payables | (230,021) |
| Accrued Interest Payable | (23,743) |
| Long-Term Liabilities | <u>(5,694,206)</u> |
| Governmental Activities, Net Assets December 31, 2002 | <u>\$24,881,593</u> |

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 22 – BERGER HEALTH SYSTEM

As indicated in Note 1 to the Basic Financial Statements, the following disclosures are made on behalf of Berger Health System.

Basis of Accounting

Berger Health System uses the government model of GASB Statement No. 29, "The Use of Not-For-Profit Accounting and Financial Reporting Principles by Governmental Entities." The System does not apply Statement of Financial Accounting Standards and Interpretations whose provisions are limited to not-for-profit organizations or address issues concerning primarily such organizations. The System also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements.

In 2003, the System adopted GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," which requires the basic financial statements for general purpose governments consist of management's discussion and analysis.

Budgetary Basis of Accounting

Budgetary information for the System is not presented because it is not included in the entity for which the "appropriated budget" is adopted and does not maintain separate budgetary financial records.

Deposits and Investments

Deposits – At December 31, 2003, the carrying amount of the System's bank deposits for all funds is \$18,588,360 as compared to the bank balance of \$19,574,000. The differences in carrying amounts and bank balances are caused by outstanding checks and deposits in transits. Of the bank balances, \$712,000 is covered by federal insurance programs and \$18,862,000 is collateralized with securities held by the financial institution or by its trust department or agent in the System's name.

Investments – The System's investments are classified as available for sale and are recorded at fair market value. *GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements,"* requires that local governments disclose the carrying amounts and fair value of investments, classified by risk. The System's investments are categorized as either (1) insured or registered or for which the securities are held by the System or its agent in the System's name, (2) uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the System's name or (3) uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent but not in the System's name.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 22 – BERGER HEALTH SYSTEM (Continued)

| | Category 1 | Carring/ Fair Value |
|-----------------------|--------------|------------------------|
| Government Securities | \$26,817,407 | \$26,857,140 |

In 2003, the System elected to contract with an external asset funds management company. This company makes investment decisions on behalf of the System and follows the guidelines set forth in the System's investment policy.

Capital Assets

Capital asset activity for the year ended December 31, 2003, was as follows:

| | Balance At 12/31/2002 | Balance At 12/31/2003 |
|---|--------------------------|--------------------------|
| Capital Assets, Not Being Depreciated: | | |
| Land and Land Improvements | \$1,629,240 | \$2,122,010 |
| Construction in Progress | 1,730,301 | 734,210 |
| Total Capital Assets Not Being Depreciated | 3,359,541 | 2,856,220 |
| Depreciable Capital Assets: | | |
| Buildings and Fixed Equipment | 35,132,173 | 39,002,242 |
| Major Moveable Equipment | 21,398,473 | 24,669,541 |
| Total Depreciable Capital Assets | 56,530,646 | 63,671,783 |
| Total Capital Assets At Historical Cost | 59,890,187 | 66,528,003 |
| Less Accumulated Depreciation | (28,794,969) | (33,047,026) |
| Depreciable Capital Assets, Net | 27,735,677 | 30,624,757 |
| Capital Assets, Net | \$31,095,218 | \$33,480,977 |

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 22 – BERGER HEALTH SYSTEM (Continued)

Long-Term Obligations

The change in the System's long-term obligations during the year consisted of the following:

| <i>Types / Issues</i> | <i>12/31/02</i> | <i>Issued</i> | <i>Retired</i> | <i>12/31/03</i> |
|--|-----------------|---------------|----------------|-----------------|
| 1997 - 5.036% - 5.400% City of Circleville Loan \$2,000,000 | \$1,648,750 | \$0 | \$75,417 | \$1,573,333 |
| 2002 - City of Circleville Hospital Facilities Revenue Bonds | 5,454,291 | 0 | 5,454,291 | 0 |
| 2002 - City of Circleville Hospital Facilities Revenue Bonds Series 2002B | 4,000,000 | 0 | 4,000,000 | 0 |
| 2003 - City of Circleville Hospital Facilities Revenue Bonds Series 2003A | 0 | 6,005,000 | 0 | 6,005,000 |
| 2003 - City of Circleville Hospital Facilities Revenue Bonds Series 2003B | 0 | 9,833,333 | 0 | 9,833,333 |
| 2003 - City of Circleville Hospital Facilities Revenue Bonds Series 2003C | 0 | 9,262,500 | 0 | 9,262,500 |
| Total Long-Term Obligations | 11,103,041 | 25,100,833 | 9,529,708 | 26,674,166 |
| Less: Due Within One Year | (1,953,938) | (1,722,729) | 0 | (3,676,667) |
| Total Due in More than One Year | \$9,149,103 | \$23,378,104 | \$9,529,708 | \$22,997,499 |

Scheduled principal payments of long-term obligations are as follows:

| | <u>Amount</u> |
|------------|---------------------|
| 2004 | \$3,676,667 |
| 2005 | 3,681,667 |
| 2006 | 3,686,667 |
| 2007 | 1,743,810 |
| 2008 | 1,739,524 |
| Thereafter | 12,145,831 |
| Total | <u>\$26,674,166</u> |

On September 1, 2003, the System entered into a financing agreement with the City of Circleville in which the City issued \$6,500,000 of Hospital Facilities Revenue Bonds (Series 2003A Bonds). The Series 2003A Bonds mature in quarterly principal installments ranging from \$495,000 in March 2004 to \$9,000 in September 2008, at a rate of 2.80 percent.

CITY OF CIRCLEVILLE
Notes To The Basic Financial Statements
For The Year Ended December 31, 2003
(Continued)

NOTE 22 – BERGER HEALTH SYSTEM (Continued)

On September 1, 2003, the System entered into a financing agreement with the City of Circleville in which the City issued \$10,000,000 of Hospital Facilities Revenue Bonds (Series 2003B Bonds). The Series 2003B Bonds mature in quarterly principal installments ranging from \$167,000 in March 2004 to \$3,500,000 in September 2013, at a rate of 4.10 percent.

On September 1, 2003, the System entered into a financing agreement with the City of Circleville in which the City issued \$9,500,000 of Hospital Facilities Revenue Bonds (Series 2003C Bonds). The Series 2003C Bonds mature in quarterly principal installments of \$238,000 in March 2004 through September 2013, at a rate of LIBOR plus 1.5 percent.

In conjunction with the Series 2003A, Series 2003B, and Series 2003C Bonds, the System is required to maintain certain financial covenants.

**CITY OF CIRCLEVILLE
PICKAWAY COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Disbursements |
|--|---|------------------------------------|-------------------------|
| U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | |
| <i>Community Development Block Grants:</i> | | | |
| <i>Passed through the Ohio Department of Development</i> | | | |
| Home Repair | A-C-02-105-1 | 14.228 | \$120,488 |
| <i>Passed through Pickaway County</i> | | | |
| Community Development Block Grant | B-F-02-060-1 | 14.228 | <u>71,081</u> |
| Total Community Development Block Grants | | | 191,569 |
| <i>Passed through the Ohio Department of Development</i> | | | |
| HOME Improvements Partnerships Programs | A-C-02-105-2 | 14.239 | 135,999 |
| Total U. S. Department of Housing and Urban Development | | | <u>327,568</u> |
| Total Federal Awards Expenditures | | | <u>\$327,568</u> |

The Notes to the Schedule of Federal Awards Expenditures are an integral part of the Schedule.

**CITY OF CIRCLEVILLE
PICKAWAY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED DECEMBER 31, 2003**

NOTE A- SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

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Auditor of State Betty Montgomery

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

City of Circleville
Pickaway County
133 South Court Street
Circleville, Ohio 43113

To the Members of Council:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Circleville, Pickaway County, Ohio, (the City) as of and for the year ended December 31, 2003, which collectively comprises the City's basic financial statements and have issued our report thereon dated January 17, 2005, wherein we noted the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. We further noted we did not audit the financial statements of Berger Health Systems, the City's discretely presented component unit. 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 financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect 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 instance of noncompliance that we must report under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated January 17, 2005.

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 opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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www.auditor.state.oh.us

However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the City's management in a separate letter dated January 17, 2005.

This report is intended for the information and use of management, the audit committee, City Council and federal awarding agencies and pass-through entities, 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

January 17, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City of Circleville
Pickaway County
133 South Court Street
Circleville, Ohio 43113

To the Members of Council:

Compliance

We have audited the compliance of the City of Circleville, Pickaway County, Ohio, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2003. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Circleville, Pickaway County, Ohio complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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www.auditor.state.oh.us

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities, 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

January 17, 2005

**CITY OF CIRCLEVILLE
PICKAWAY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505
DECEMBER 31, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs= Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under ' .510? | No |
| (d)(1)(vii) | Major Programs (list): | Community Development Block Grant CFDA # 14.228 |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**CITY OF CIRCLEVILLE
PICKAWAY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|----------------|--|------------------|--|
| 2002-001 | Ohio Admin. Code Section 117-2-03(B) requires that all cities are to report and prepare its financial statements in accordance with generally accepted accounting principles | Corrected | The City prepared GAAP financial statements and implemented GASB 34 at December 31, 2003. |



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**CITY OF CIRCLEVILLE
PICKAWAY 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
MARCH 29, 2005**