

**CITY OF CRESTLINE
CRAWFORD COUNTY, OHIO**

***BASIC
FINANCIAL STATEMENTS
(Audited)***

For The Year Ended
December 31, 2003

MS. JODY WAGONER, CITY AUDITOR



**Auditor of State
Betty Montgomery**

Members of Council
City of Crestline

We have reviewed the Independent Auditor's Report of the City of Crestline, Crawford County, prepared by Trimble, Julian & Grube, Inc. for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 16, 2005

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CITY OF CRESTLINE, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor's Report

Members of Council and Mayor
City of Crestline
100 North Seltzer Street
Crestline, OH 44827

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Crestline, Crawford 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 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 the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crestline, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund and street construction and maintenance fund major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2004, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of Council and Mayor
City of Crestline
Page Two

The management's discussion on pages 4 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Trimble, Julian & Grube, Inc.

Trimble, Julian & Grube, Inc.
December 23, 2004

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The discussion and analysis of the City of Crestline's financial performance provides an overview 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.

HIGHLIGHTS

Key highlights for 2003 are as follows:

In total, the City's net assets decreased \$278,314 which is just over 2 percent and not very significant. The decrease in governmental activities was less than 1 percent. The decrease in business-type activities was almost 4 percent and can be attributed entirely to the Sewer enterprise fund as both the Water and Ambulance enterprise funds reflect an operating income for 2003. Increased operating costs resulted in an operating loss in the Sewer enterprise fund for 2003.

Several capital projects were completed in 2003. Construction of the gazebo was completed. To finish up the project, landscaping and benches were installed in 2004. A Natureworks Grant was obtained to purchase lighting for the little league field. The City also resurfaced Thrush Avenue, Maple Drive, and Newton Street with funds provided through Issue II. A completely new software system was installed at the police department.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the City of Crestline's financial position.

The statement of net assets and the statement of activities provide information about the activities of the City as a whole, presenting both an aggregate and a longer-term view of the City.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. Fund financial statements report the City's most significant funds individually and the City's non-major funds in a single column. The City's major funds are the General, Street Construction and Maintenance, Capital Improvements, Swimming Pool Capital Projects, Water, and Sewer funds.

REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2003. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

These statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the City as a whole has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors can include changes in the City's property tax base and the condition of the City's capital assets. These factors must be considered when assessing the overall health of the City.

In the statement of net assets and the statement of activities, the City is divided into two types of activities:

- **Governmental Activities** - Most of the City's programs and services are reported here, including security of persons and property, leisure time activities, community environment, transportation, and general government. These services are primarily funded by property and income taxes and from intergovernmental revenues, including federal and state grants and other shared revenues.
- **Business-Type Activities** - These services are provided on a charge for services basis and are intended to recover all or most of the costs of the services provided. The City's water, sewer, and ambulance services are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the City's major funds, the General, Street Construction and Maintenance, Capital Improvements, Swimming Pool Capital Projects, Water, and Sewer funds. While the City uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - The City's governmental funds are used to account for essentially the same programs reported as governmental activities on the government-wide financial statements. Most of the City's basic services are reported in these funds and focus on how money flows into and out of the funds, as well as the balances available for spending at year end. These funds are reported on the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services being provided.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Enterprise Funds - The City's enterprise funds use the accrual basis of accounting, the same as that used for the business-type activities on the government-wide financial statements.

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2003
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Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the City's programs. These funds also use the accrual basis of accounting.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2003 compared to 2002.

Table 1
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>(Restated)</u>				<u>(Restated)</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<u>Assets</u>						
Current and Other Assets	\$2,639,041	\$2,875,560	\$1,401,010	\$1,496,695	\$4,040,051	\$4,372,255
Capital Assets, Net	5,624,004	5,535,150	6,376,569	6,272,177	12,000,573	11,807,327
Total Assets	<u>8,263,045</u>	<u>8,410,710</u>	<u>7,777,579</u>	<u>7,768,872</u>	<u>16,040,624</u>	<u>16,179,582</u>
<u>Liabilities</u>						
Current and Other Liabilities	735,995	718,410	1,088,974	1,199,617	1,824,969	1,918,027
Long-Term Liabilities	739,636	838,714	1,560,889	1,229,397	2,300,525	2,068,111
Total Liabilities	<u>1,475,631</u>	<u>1,557,124</u>	<u>2,649,863</u>	<u>2,429,014</u>	<u>4,125,494</u>	<u>3,986,138</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	4,875,290	4,629,380	3,961,380	4,008,020	8,836,670	8,637,400
Restricted	1,521,855	1,614,760	243,176	244,854	1,765,031	1,859,614
Unrestricted	390,269	609,446	923,160	1,086,984	1,313,429	1,696,430
Total Net Assets	<u>\$6,787,414</u>	<u>\$6,853,586</u>	<u>\$5,127,716</u>	<u>\$5,339,858</u>	<u>\$11,915,130</u>	<u>\$12,193,444</u>

With a less than 1 percent change in net assets for governmental activities, 2003 activity is almost exactly the same as that of 2002. The table above demonstrates just how comparable the various components of the statement of net assets are between the two years. The City did experience a 22 percent drop in the cash balances from year to year and is reflected in the decrease in unrestricted net assets as well. This is simply from the continued need to spend from the City's cash carry-over balances to meet current year expenses. One other item worth noting is that the City also had a sizable increase in taxes receivable. This is the result of the separation of the City of Crestline and Jackson Township. Taxes which used to be distributed to the Township for that area are now distributed to the City. As this increase is also reflected as an increase in current and other liabilities (deferred revenue), it has no effect on net assets.

A comparison of the business-type activities also reflects little change from the prior year. There was an increase in the City's long-term liabilities resulting from an increase in the loan from the Ohio Public Works Commission. The proceeds of this loan were used for the West Side Storm Sewer Separation project, which was completed in 2003.

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Table 2 reflects the changes in net assets from the prior year.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	(Restated) 2002	2003	2002	2003	2002
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$239,406	\$193,155	\$1,221,762	\$1,231,396	\$1,461,168	\$1,424,551
Operating Grants, Contributions, and Interest	267,458	201,999	0	0	267,458	201,999
Capital Grants and Contributions	89,792	42,201	0	0	89,792	42,201
Total Program Revenues	<u>596,656</u>	<u>484,103</u>	<u>1,221,762</u>	<u>1,231,396</u>	<u>1,818,418</u>	<u>1,715,499</u>
General Revenues						
Property Taxes Levied for General Purposes	106,879	106,379	0	0	106,879	106,379
Property Taxes Levied for Police and Fire Pension	24,790	24,566	0	0	24,790	24,566
Property Taxes Levied for Debt Service	165,257	108,907	0	0	165,257	108,907
Other Local Taxes	0	46,748	0	0	0	46,748
Municipal Income Taxes	1,315,066	1,343,048	0	0	1,315,066	1,343,048
Grants and Entitlements not Restricted to Specific Programs	330,980	394,067	0	0	330,980	394,067
Interest	35,444	65,492	1,219	2,797	36,663	68,289
Other	39,617	35,172	13,208	0	52,825	35,172
Total General Revenues	<u>2,018,033</u>	<u>2,077,631</u>	<u>14,427</u>	<u>2,797</u>	<u>2,032,460</u>	<u>2,080,428</u>
Total Revenues	<u>2,614,689</u>	<u>2,561,734</u>	<u>1,236,189</u>	<u>1,234,193</u>	<u>3,850,878</u>	<u>3,795,927</u>
Transfers	(24,152)	(61,052)	24,152	61,052	0	0
Total Revenues and Transfers	<u>2,590,537</u>	<u>2,500,682</u>	<u>1,260,341</u>	<u>1,295,245</u>	<u>3,850,878</u>	<u>3,795,927</u>
<u>Program Expenses</u>						
Security of Persons and Property						
Police	854,697	849,105	0	0	854,697	849,105
Fire	548,725	537,960	0	0	548,725	537,960
Other	14,935	16,044	0	0	14,935	16,044
Leisure Time Activities	15,153	46,592	0	0	15,153	46,592
Community Environment	257,759	85,946	0	0	257,759	85,946
Transportation	227,675	413,549	0	0	227,675	413,549
General Government						
Judicial	44,007	32,091	0	0	44,007	32,091
Other	644,800	566,504	0	0	644,800	566,504
Interest and Fiscal Charges	48,958	61,700	0	0	48,958	61,700
Water	0	0	598,232	592,225	598,232	592,225
Sewer	0	0	813,340	554,715	813,340	554,715
Other Enterprise						
Ambulance	0	0	60,911	67,660	60,911	67,660
Total Expenses	<u>2,656,709</u>	<u>2,609,491</u>	<u>1,472,483</u>	<u>1,214,600</u>	<u>4,129,192</u>	<u>3,824,091</u>
Increase (Decrease) in Net Assets	<u>(\$66,172)</u>	<u>(\$108,809)</u>	<u>(\$212,142)</u>	<u>\$80,645</u>	<u>(\$278,314)</u>	<u>(\$28,164)</u>

City of Crestline
Management's Discussion and Analysis
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For governmental activities, program revenues constitute almost 23 percent of total revenues and are up somewhat from the prior year. During 2003, the City received a Natureworks Grant, the resources of which were used for lighting at the little league ballpark. This grant helped to offset the costs of the leisure time activities program. In addition, the City received a CDBG Grant (the CHIP program for home improvements) which offset the costs of the community environment program. Lastly, the City received Issue II grant monies which were applied to the repaving of Thrush Avenue, Maple Drive, and Newton Street.

Overall, general revenues for governmental activities were down slightly from the prior year; however, the reduction was not that significant.

Like revenues, overall program expenses for governmental activities were very comparable to 2002. Again, the major program expenses are for police and fire services which account for 53 percent of governmental expenses. Community environment expenses increased from the prior year for CHIP program related projects. Transportation costs were cut fairly dramatically, almost 45 percent. In 2003, the City created a service department which combined personnel from the street, water, and sewer departments. As a result, personal services costs were cut in the street department.

As in 2002, the City's business-type activities were funded almost entirely from charges for services. While expenses were comparable to the prior year for both water and ambulance services, costs increased over 46 percent for sewer services.

Table 3, indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2003	2002	2003	(Restated) 2002
Security of Persons and Property				
Police	\$854,697	\$849,105	\$768,491	\$843,126
Fire	548,725	537,960	458,779	461,637
Other	14,935	16,044	14,935	16,044
Leisure Time Activities	15,153	46,592	(72,527)	(24,853)
Community Environment	257,759	85,946	193,102	67,936
Transportation	227,675	413,549	(31,007)	196,616
General Government				
Judicial	44,007	32,091	44,007	(55,766)
Other	644,800	566,504	635,315	558,948
Interest and Fiscal Charges	48,958	61,700	48,958	61,700
Total Expenses	<u>\$2,656,709</u>	<u>\$2,609,491</u>	<u>\$2,060,053</u>	<u>\$2,125,388</u>

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

For all governmental activities, over 77 percent of the revenues to provide these services are derived from general revenues; that being primarily municipal income taxes, property taxes, and State shared revenues. As mentioned earlier, program revenues were up slightly from the prior year which helped offset the City's costs in several programs. Leisure time activities, again this year, had program revenues in excess of the costs to provide this program. The Natureworks Grant received by the City combined with donations supporting the Harvest Festival make up the majority of the program revenues related to leisure time activities. For 2003, the transportation program also had program revenues in excess of costs which is somewhat unusual. The transportation program receives charges for services in the form of permissive motor vehicle license monies. This program also receives operating grants in the form of State levied motor vehicle and gas taxes and, in 2003, received grant monies for street resurfacing projects. Charges imposed in Mayor's court (fines and costs) offset the costs of running the court.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General, Street Construction and Maintenance, Capital Improvements, and Swimming Pool Capital Projects funds. Several of these funds saw significant changes from the prior year. The General Fund had a 70 percent decrease in its fund balance. Revenues were down from the prior year, primarily the result of lower municipal income tax revenues (the reduction in force at Geauga Plastics was a large factor) and less interest revenue in 2003. And, while expenditures in this fund were less than those of the prior year, expenditures again outpaced the revenues received in this fund. In contrast, the Street Construction and Maintenance fund reflected a substantial increase in its fund balance. Overall, revenues received in this fund remained consistent in total; however, municipal income tax revenues were down and amounts received from State shared revenues increased. This fund reduced its expenditures from the prior year by more than 27 percent due to decreased personal services costs associated with moving personnel from the street department to the service department. And finally, the Swimming Pool Capital Projects fund reflected an increase in fund balance; however, the fund continues to have a deficit fund balance. The activity within this fund is generally limited to debt repayment.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water, Sewer, and Ambulance funds. While the operating income and increase in net assets was not that great for either the Water or Ambulance funds, both of those funds had a positive year, particularly the Ambulance fund. In 2002, the Ambulance fund had an operating loss. In 2003, two employees obtained paramedic status. As such, the City is able to charge a higher fee for ambulance services.

The Sewer Fund had a combination of activities which contributed to its operating loss. Sewer consumption in several large accounts decreased from 2002 to 2003. A decrease in consumption led to a decrease in revenues. As stated earlier, much of the decrease was an increase in operating expenses.

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited
BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January. The City's most significant budgeted fund is the General Fund. Modifications from the original to the final budget were minimal. A review of actual revenues and expenditures compared to final estimates will also reflect little change.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2003, was \$4,875,290 and \$3,961,380, respectively (net of accumulated depreciation and related debt). This investment in capital assets includes land; construction in progress; buildings; land improvements; streets; bridges; equipment; vehicles; and water, sewer, and storm water lines. The most significant addition for governmental activities was street resurfacing. The most significant addition for business-type activities was the installation of storm water lines. For further information on the City's capital assets, see Note 9 to the basic financial statements.

Debt - At December 31, 2003, the City had \$210,000 in outstanding bond anticipation notes payable from governmental activities and \$996,000 in bond anticipation notes payable from business-type activities. The City also had a number of outstanding long-term obligations. These obligations included \$390,000 in general obligation bonds, \$985,000 of mortgage revenue bonds, and \$466,916 in Ohio Public Works Commission loans.

In addition to the debt outlined above, the City's long-term obligations also include capital leases, the liability for police and fire incurred when the State of Ohio established the statewide pension system, and compensated absences. For further information on the City's outstanding debt, see Notes 15 and 16 to the basic financial statements.

CURRENT ISSUES

In 2003, the City successfully split from Jackson Township and will be receiving a portion of the revenues previously directed to the township. With the successful implementation of an investment policy, the City is receiving higher interest rates than last year. City Hall is in need of major repairs such as, a new roof, paint, and carpet. Quotes are being obtained to have these repairs completed.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those interested in our City's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Jody Wagoner, City Auditor, 100 North Seltzer Street, Crestline, Ohio 44827.

City of Crestline
Statement of Net Assets
December 31, 2003

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,155,269	\$959,966	\$2,115,235
Cash and Cash Equivalents with Fiscal Agents	0	172,756	172,756
Cash and Cash Equivalents in Segregated Accounts	11,789	0	11,789
Accounts Receivable	57,462	260,748	318,210
Accrued Interest Receivable	527	0	527
Due from Other Governments	290,066	0	290,066
Municipal Income Taxes Receivable	720,150	0	720,150
Other Local Taxes Receivable	21,799	0	21,799
Prepaid Items	34,130	7,540	41,670
Property Taxes Receivable	324,283	0	324,283
Notes Receivable	23,566	0	23,566
Nondepreciable Capital Assets	409,406	111,558	520,964
Depreciable Capital Assets, Net	5,214,598	6,265,011	11,479,609
Total Assets	8,263,045	7,777,579	16,040,624
<u>Liabilities</u>			
Accrued Wages Payable	33,888	14,187	48,075
Accounts Payable	39,898	34,896	74,794
Due to Other Governments	65,850	15,513	81,363
Claims Payable	21,516	11,191	32,707
Accrued Interest Payable	3,304	17,187	20,491
Notes Payable	210,000	996,000	1,206,000
Deferred Revenue	361,539	0	361,539
Long-Term Liabilities			
Due Within One Year	129,348	124,887	254,235
Due in More Than One Year	610,288	1,436,002	2,046,290
Total Liabilities	1,475,631	2,649,863	4,125,494
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	4,875,290	3,961,380	8,836,670
Restricted for			
Capital Projects	732,460	0	732,460
Debt Service	176,777	0	176,777
Other Purposes	612,618	0	612,618
Revenue Bond Renewal and Replacement	0	60,000	60,000
Revenue Bond Future Debt Service	0	15,000	15,000
Revenue Bond Current Debt Service	0	168,176	168,176
Unrestricted	390,269	923,160	1,313,429
Total Net Assets	\$6,787,414	\$5,127,716	\$11,915,130

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Activities
For the Year Ended December 31, 2003

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$854,697	\$79,035	\$7,171	\$0
Fire	548,725	88,039	1,907	0
Other	14,935	0	0	0
Leisure Time Activities	15,153	12,840	48,117	26,723
Community Environment	257,759	6,976	57,681	0
Transportation	227,675	43,031	152,582	63,069
General Government				
Judicial	44,007	0	0	0
Other	644,800	9,485	0	0
Interest and Fiscal Charges	48,958	0	0	0
Total Governmental Activities	2,656,709	239,406	267,458	89,792
<u>Business-Type Activities</u>				
Water	598,232	643,600	0	0
Sewer	813,340	513,667	0	0
Other Enterprise				
Ambulance	60,911	64,495	0	0
Total Business-Type Activities	1,472,483	1,221,762	0	0
Total	\$4,129,192	\$1,461,168	\$267,458	\$89,792

General Revenues

Property Taxes Levied for General Purposes
Property Taxes Levied for Police and Fire Pension
Property Taxes Levied for Debt Service
Municipal Income Taxes
Grants and Entitlements not Restricted to Specific Programs
Interest
Other

Total General Revenues

Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$768,491)	\$0	(\$768,491)
(458,779)	0	(458,779)
(14,935)	0	(14,935)
72,527	0	72,527
(193,102)	0	(193,102)
31,007	0	31,007
(44,007)	0	(44,007)
(635,315)	0	(635,315)
(48,958)	0	(48,958)
<u>(2,060,053)</u>	<u>0</u>	<u>(2,060,053)</u>
0	45,368	45,368
0	(299,673)	(299,673)
<u>0</u>	<u>3,584</u>	<u>3,584</u>
<u>0</u>	<u>(250,721)</u>	<u>(250,721)</u>
<u>(2,060,053)</u>	<u>(250,721)</u>	<u>(2,310,774)</u>
106,879	0	106,879
24,790	0	24,790
165,257	0	165,257
1,315,066	0	1,315,066
330,980	0	330,980
35,444	1,219	36,663
39,617	13,208	52,825
<u>2,018,033</u>	<u>14,427</u>	<u>2,032,460</u>
(24,152)	24,152	0
(66,172)	(212,142)	(278,314)
<u>6,853,586</u>	<u>5,339,858</u>	<u>12,193,444</u>
<u>\$6,787,414</u>	<u>\$5,127,716</u>	<u>\$11,915,130</u>

City of Crestline
Balance Sheet
Governmental Funds
December 31, 2003

	General	Street Construction and Maintenance	Capital Improvements	Swimming Pool Capital Projects
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$44,559	\$110,307	\$472,425	\$62,044
Cash and Cash Equivalents in Segregated Accounts	7,845	0	0	0
Accounts Receivable	54,179	0	0	0
Accrued Interest Receivable	422	0	0	42
Due from Other Governments	127,864	66,106	0	0
Municipal Income Taxes Receivable	473,995	91,715	154,440	0
Other Local Taxes Receivable	0	0	0	0
Interfund Receivable	48,463	0	0	0
Prepaid Items	22,197	10,323	1,610	0
Property Taxes Receivable	116,698	0	0	0
Notes Receivable	0	0	0	0
Total Assets	<u>\$896,222</u>	<u>\$278,451</u>	<u>\$628,475</u>	<u>\$62,086</u>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accrued Wages Payable	\$33,888	\$0	\$0	\$0
Accounts Payable	28,897	1,525	1,699	0
Due to Other Governments	23,426	0	0	0
Interfund Payable	0	0	0	0
Claims Payable	21,516	0	0	0
Accrued Interest Payable	0	0	0	575
Deferred Revenue	670,388	125,500	118,088	42
Total Liabilities	<u>778,115</u>	<u>127,025</u>	<u>119,787</u>	<u>617</u>
<u>Fund Balance</u>				
Reserved for Notes Receivable	0	0	0	0
Reserved for Encumbrances	4,163	2,245	15,920	0
Unreserved, Reported in				
General Fund	113,944	0	0	0
Special Revenue Funds	0	149,181	0	0
Debt Service Funds	0	0	0	0
Capital Projects Funds	0	0	492,768	61,469
Total Fund Balance	<u>118,107</u>	<u>151,426</u>	<u>508,688</u>	<u>61,469</u>
Total Liabilities and Fund Balance	<u>\$896,222</u>	<u>\$278,451</u>	<u>\$628,475</u>	<u>\$62,086</u>

See Accompanying Notes to the Basic Financial Statements

<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$465,934	\$1,155,269
3,944	11,789
3,283	57,462
63	527
96,096	290,066
0	720,150
21,799	21,799
0	48,463
0	34,130
207,585	324,283
23,566	23,566
<u>\$822,270</u>	<u>\$2,687,504</u>

\$0	\$33,888
7,777	39,898
0	23,426
48,463	48,463
0	21,516
0	575
261,825	1,175,843
<u>318,065</u>	<u>1,343,609</u>

16,309	16,309
17,379	39,707
0	113,944
268,668	417,849
160,594	160,594
41,255	595,492
<u>504,205</u>	<u>1,343,895</u>
<u>\$822,270</u>	<u>\$2,687,504</u>

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City of Crestline
 Reconciliation of Total Governmental Fund Balance
 to Net Assets of Governmental Activities
 December 31, 2003

Total Governmental Fund Balance \$1,343,895

Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 5,624,004

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	35,867	
Accrued Interest Receivable	527	
Due from Other Governments	197,838	
Municipal Income Taxes Receivable	550,642	
Other Local Taxes Receivable	18,990	
Property Taxes Receivable	10,440	
		814,304

Due to other governments includes contractually required pension contributions not expected to be paid with available expendable financial resources and, therefore, not reported in the funds. (42,424)

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Notes Payable	(210,000)	
Accrued Interest Payable	(2,729)	
General Obligation Bonds Payable	(390,000)	
Compensated Absences Payable	(85,103)	
Police and Fire Pension Liability	(115,819)	
Capital Leases Payable	(148,714)	
		(952,365)

Net Assets of Governmental Activities \$6,787,414

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Revenues, Expenditures,
and Change in Fund Balance
Governmental Funds
For the Year Ended December 31, 2003

	General	Street Construction and Maintenance	Capital Improvements	Swimming Pool Capital Projects
<u>Revenues</u>				
Property Taxes	\$106,987	\$0	\$0	\$0
Municipal Income Taxes	878,708	143,029	240,891	0
Other Local Taxes	0	0	0	0
Charges for Services	93,637	0	0	0
Fees, Licenses, and Permits	23,976	0	0	0
Fines and Forfeitures	68,644	0	0	0
Intergovernmental	314,805	133,760	26,723	0
Gifts and Donations	33,073	0	0	0
Interest	36,314	0	0	3,845
Other	47,127	372	2,800	0
Total Revenues	1,603,271	277,161	270,414	3,845
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	678,069	0	0	0
Fire	424,759	0	0	0
Other	14,935	0	0	0
Leisure Time Activities	33,756	0	0	0
Community Environment	79,603	0	0	0
Transportation	0	206,051	0	0
General Government				
Judicial	44,348	0	0	0
Other	529,283	0	0	0
Capital Outlay	0	0	176,725	1,663
Debt Service:				
Principal Retirement	1,732	0	32,056	0
Interest and Fiscal Charges	4,978	0	10,882	6,699
Total Expenditures	1,811,463	206,051	219,663	8,362
Excess of Revenues Over (Under) Expenditures	(208,192)	71,110	50,751	(4,517)
<u>Other Financing Sources (Uses)</u>				
Proceeds of Notes	0	0	0	0
Transfers In	0	0	0	277,009
Transfers Out	(66,543)	0	(24,152)	0
Total Other Financing Sources (Uses)	(66,543)	0	(24,152)	277,009
Change in Fund Balance	(274,735)	71,110	26,599	272,492
Fund Balance (Deficit) Beginning of Year	392,842	80,316	482,089	(211,023)
Fund Balance (Deficit) End of Year	<u>\$118,107</u>	<u>\$151,426</u>	<u>\$508,688</u>	<u>\$61,469</u>

See Accompanying Notes to the Basic Financial Statements

<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$190,238	\$297,225
0	1,262,628
43,307	43,307
0	93,637
0	23,976
7,892	76,536
248,839	724,127
0	33,073
5,234	45,393
3,405	53,704
498,915	2,653,606
137,432	815,501
76,223	500,982
0	14,935
1,957	35,713
178,156	257,759
109,710	315,761
0	44,348
2,907	532,190
11,170	189,558
65,000	98,788
26,731	49,290
609,286	2,854,825
(110,371)	(201,219)
210,000	210,000
66,543	343,552
(277,009)	(367,704)
(466)	185,848
(110,837)	(15,371)
615,042	1,359,266
\$504,205	\$1,343,895

City of Crestline
Reconciliation of Statement of Revenues, Expenditures,
and Change in Fund Balance
of Governmental Funds to Statement of Activities
For the Year Ended December 31, 2003

Change in Fund Balance - Total Governmental Funds (\$15,371)

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

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year.

Capital Outlay - Construction in Progress	28,761	
Capital Outlay - Depreciable Capital Assets	252,575	
Capital Contributions	26,723	
Depreciation	<u>(219,205)</u>	88,854

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.

Property Taxes	(299)	
Municipal Income Taxes	52,438	
Other Local Taxes	(276)	
Charges for Services	(1,779)	
Fine and Forfeitures	2,391	
Fees, Licenses, and Permits	47	
Intergovernmental	(90,367)	
Interest	<u>(1,072)</u>	(38,917)

Repayment of principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

General Obligation Bonds Payable	65,000	
Police and Fire Pension Liability	1,732	
Capital Leases Payable	<u>32,056</u>	98,788

Interest is reported as an expenditure when due in governmental funds, but is accrued on outstanding debt on the statement of net assets. 332

Note proceeds are other financing sources in governmental funds, but the issuance increases long-term liabilities on the statement of net assets. (210,000)

Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Due to Other Governments	9,852	
Compensated Absences Payable	<u>290</u>	<u>10,142</u>

Change in Net Assets of Governmental Activities (\$66,172)

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Revenues, Expenditures,
and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Property Taxes	\$105,500	\$151,795	\$119,192	(\$32,603)
Municipal Income Taxes	901,000	862,000	878,130	16,130
Charges for Services	95,542	95,542	100,990	5,448
Fees, Licenses, and Permits	16,100	18,750	24,014	5,264
Fines and Forfeitures	90,400	80,900	70,004	(10,896)
Intergovernmental	291,411	284,395	300,160	15,765
Gifts and Donations	25,300	25,300	33,073	7,773
Interest	115,000	50,000	40,771	(9,229)
Other	17,600	17,990	25,200	7,210
Total Revenues	1,657,853	1,586,672	1,591,534	4,862
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	694,921	723,979	727,183	(3,204)
Fire	486,633	441,055	429,046	12,009
Other	16,000	16,897	16,897	0
Leisure Time Activities	52,503	37,253	33,799	3,454
Community Environment	56,200	81,295	79,824	1,471
General Government				
Judicial	46,869	44,562	43,531	1,031
Other	444,275	557,479	539,843	17,636
Total Expenditures	1,797,401	1,902,520	1,870,123	32,397
Excess of Revenues Under Expenditures	(139,548)	(315,848)	(278,589)	(37,259)
<u>Other Financing Sources (Uses)</u>				
Transfers In	0	60,396	60,450	54
Transfers Out	(22,679)	0	(66,543)	(66,543)
Total Other Financing Sources (Uses)	(22,679)	60,396	(6,093)	(66,489)
Change in Fund Balance	(162,227)	(255,452)	(284,682)	(29,230)
Fund Balance Beginning of Year	346,021	346,021	346,021	0
Prior Year Encumbrances Appropriated	31,497	31,497	31,497	0
Fund Balance End of Year	\$215,291	\$122,066	\$92,836	(\$29,230)

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Revenues, Expenditures,
and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
Street Construction and Maintenance Fund
For the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Municipal Income Taxes	\$135,000	\$151,000	\$142,920	(\$8,080)
Intergovernmental	120,000	128,000	132,212	4,212
Other	0	229	372	143
	<u>255,000</u>	<u>279,229</u>	<u>275,504</u>	<u>(3,725)</u>
<u>Expenditures</u>				
Current:				
Transportation	170,000	246,254	209,983	36,271
Excess of Revenues Over Expenditures	<u>85,000</u>	<u>32,975</u>	<u>65,521</u>	<u>32,546</u>
Fund Balance Beginning of Year	40,583	40,583	40,583	0
Prior Year Encumbrances Appropriated	<u>1,254</u>	<u>1,254</u>	<u>1,254</u>	<u>0</u>
Fund Balance End of Year	<u>\$126,837</u>	<u>\$74,812</u>	<u>\$107,358</u>	<u>\$32,546</u>

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Fund Net Assets
Enterprise Funds
December 31, 2003

	Water	Sewer	Other Enterprise	Total Enterprise Funds
<u>Assets</u>				
<u>Current Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$640,059	\$153,923	\$90,984	\$884,966
Accounts Receivable	104,792	91,856	64,100	260,748
Prepaid Items	5,881	1,494	165	7,540
Total Current Assets	<u>750,732</u>	<u>247,273</u>	<u>155,249</u>	<u>1,153,254</u>
<u>Non-Current Assets</u>				
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	75,000	0	0	75,000
Cash and Cash Equivalents with Fiscal Agent	172,756	0	0	172,756
Nondepreciable Capital Assets	74,323	37,235	0	111,558
Depreciable Capital Assets, Net	2,509,169	3,475,784	280,058	6,265,011
Total Non-Current Assets	<u>2,831,248</u>	<u>3,513,019</u>	<u>280,058</u>	<u>6,624,325</u>
Total Assets	<u>3,581,980</u>	<u>3,760,292</u>	<u>435,307</u>	<u>7,777,579</u>
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accrued Wages Payable	7,228	6,807	152	14,187
Accounts Payable	25,302	9,401	193	34,896
Due to Other Governments	7,700	7,641	172	15,513
Claims Payable	5,364	5,364	463	11,191
Notes Payable	0	996,000	0	996,000
Mortgage Revenue Bonds Payable	100,000	0	0	100,000
Capital Leases Payable	0	0	19,116	19,116
Compensated Absences Payable	2,771	2,771	229	5,771
Accrued Interest Payable	4,580	12,607	0	17,187
Total Current Liabilities	<u>152,945</u>	<u>1,040,591</u>	<u>20,325</u>	<u>1,213,861</u>
<u>Non-Current Liabilities</u>				
Mortgage Revenue Bonds Payable	885,000	0	0	885,000
Capital Leases Payable	0	0	64,536	64,536
OPWC Loans Payable	0	466,916	0	466,916
Compensated Absences Payable	9,775	9,775	0	19,550
Total Non-Current Liabilities	<u>894,775</u>	<u>476,691</u>	<u>64,536</u>	<u>1,436,002</u>
Total Liabilities	<u>1,047,720</u>	<u>1,517,282</u>	<u>84,861</u>	<u>2,649,863</u>
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	1,598,492	2,166,482	196,406	3,961,380
Restricted for				
Revenue Bond Renewal and Replacement	60,000	0	0	60,000
Revenue Bond Future Debt Service	15,000	0	0	15,000
Revenue Bond Current Debt Service	168,176	0	0	168,176
Unrestricted	692,592	76,528	154,040	923,160
Total Net Assets	<u>\$2,534,260</u>	<u>\$2,243,010</u>	<u>\$350,446</u>	<u>\$5,127,716</u>

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Revenues, Expenses,
and Change in Fund Net Assets
Enterprise Funds
For the Year Ended December 31, 2003

	Water	Sewer	Other Enterprise	Total Enterprise Funds
<u>Operating Revenues</u>				
Charges for Services	\$643,600	\$513,667	\$64,495	\$1,221,762
Other	2,678	5,773	4,757	13,208
Total Operating Revenues	<u>646,278</u>	<u>519,440</u>	<u>69,252</u>	<u>1,234,970</u>
<u>Operating Expenses</u>				
Personal Services	327,041	326,390	8,800	662,231
Contractual Services	104,056	172,093	8,227	284,376
Materials and Supplies	16,743	186,340	6,692	209,775
Depreciation	89,101	108,098	30,387	227,586
Other	1,378	1,086	684	3,148
Total Operating Expenses	<u>538,319</u>	<u>794,007</u>	<u>54,790</u>	<u>1,387,116</u>
Operating Income (Loss)	<u>107,959</u>	<u>(274,567)</u>	<u>14,462</u>	<u>(152,146)</u>
<u>Non-Operating Revenues (Expenses)</u>				
Interest Revenue	1,219	0	0	1,219
Interest Expense	(59,913)	(19,333)	(6,121)	(85,367)
Total Non-Operating Revenues (Expenses)	<u>(58,694)</u>	<u>(19,333)</u>	<u>(6,121)</u>	<u>(84,148)</u>
Gain (Loss) before Transfers	<u>49,265</u>	<u>(293,900)</u>	<u>8,341</u>	<u>(236,294)</u>
Transfers In	<u>0</u>	<u>0</u>	<u>24,152</u>	<u>24,152</u>
Change in Net Assets	49,265	(293,900)	32,493	(212,142)
Net Assets Beginning of Year	<u>2,484,995</u>	<u>2,536,910</u>	<u>317,953</u>	<u>5,339,858</u>
Net Assets End of Year	<u><u>\$2,534,260</u></u>	<u><u>\$2,243,010</u></u>	<u><u>\$350,446</u></u>	<u><u>\$5,127,716</u></u>

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2003

	Water	Sewer	Other Enterprise	Total Enterprise Funds
Increases (Decreases) in Cash and Cash Equivalents				
<u>Cash Flows from Operating Activities</u>				
Cash Received from Customers	\$636,625	\$510,442	\$56,522	\$1,203,589
Cash Payments for Personal Services	(324,987)	(324,815)	(8,636)	(658,438)
Cash Payments for Contractual Services	(91,163)	(180,896)	(8,409)	(280,468)
Cash Payments to Vendors	(66,024)	(186,081)	(6,892)	(258,997)
Cash Received from Other Revenues	2,598	11,360	4,757	18,715
Cash Payments for Other Expenses	(1,378)	(1,086)	(684)	(3,148)
Net Cash Provided by (Used for) Operating Activities	<u>155,671</u>	<u>(171,076)</u>	<u>36,658</u>	<u>21,253</u>
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers In	<u>0</u>	<u>0</u>	<u>24,152</u>	<u>24,152</u>
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal Paid on Bond Anticipation Notes	0	(1,056,000)	0	(1,056,000)
Principal Paid on Mortgage Revenue Bonds	(95,000)	0	0	(95,000)
Principal Paid on Capital Leases	0	0	(18,031)	(18,031)
Interest Paid on Bond Anticipation Notes	0	(26,327)	0	(26,327)
Interest Paid on Mortgage Revenue Bonds	(60,316)	0	0	(60,316)
Interest Paid on Capital Leases	0	0	(6,121)	(6,121)
Proceeds of Notes	0	996,000	0	996,000
Proceeds of OPWC Loans	0	440,442	0	440,442
Acquisition of Capital Assets	(15,530)	(279,829)	(36,619)	(331,978)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(170,846)</u>	<u>74,286</u>	<u>(60,771)</u>	<u>(157,331)</u>
<u>Cash Flows from Investing Activities</u>				
Interest	<u>1,219</u>	<u>0</u>	<u>0</u>	<u>1,219</u>
Increase (Decrease) in Cash and Cash Equivalents	(13,956)	(96,790)	39	(110,707)
Cash and Cash Equivalents Beginning of Year	<u>901,771</u>	<u>250,713</u>	<u>90,945</u>	<u>1,243,429</u>
Cash and Cash Equivalents End of Year	<u>\$887,815</u>	<u>\$153,923</u>	<u>\$90,984</u>	<u>\$1,132,722</u>

City of Crestline
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2003
(continued)

	Water	Sewer	Other Enterprise	Total Enterprise Funds
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Operating Income (Loss)	\$107,959	(\$274,567)	\$14,462	(\$152,146)
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Depreciation	89,101	108,098	30,387	227,586
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(7,055)	2,362	(7,973)	(12,666)
Increase in Prepaid Items	(2,151)	(40)	(165)	(2,356)
Increase in Accrued Wages Payable	3,148	2,727	11	5,886
Decrease in Accounts Payable	(34,497)	(6,164)	(227)	(40,888)
Decrease in Due to Other Governments	(3,290)	(5,949)	(106)	(9,345)
Increase in Claims Payable	332	333	436	1,101
Increase (Decrease) in Compensated Absences Payable	2,124	2,124	(167)	4,081
Net Cash Provided by (Used for) Operating Activities	<u>\$155,671</u>	<u>(\$171,076)</u>	<u>\$36,658</u>	<u>\$21,253</u>

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2003

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$18,229	\$0
Cash and Cash Equivalents in Segregated Accounts	0	1,173
Total Assets	18,229	1,173
 <u>Liabilities:</u>		
Undistributed Assets	0	\$1,173
 <u>Net Assets:</u>		
Held in Trust for Community Projects	\$18,229	

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Change in Fiduciary Net Assets
Private Purpose Trust Fund
For the Year Ended December 31, 2003

<u>Additions:</u>	
Gifts and Donations	\$7,000
 <u>Deductions:</u>	
Other	2,000
	<hr/>
Change in Net Assets	5,000
 Net Assets at Beginning of Year	 13,229
Net Assets at End of Year	<hr/> <hr/> \$18,229

See Accompanying Notes to the Basic Financial Statements

NOTE 1 - DESCRIPTION OF THE CITY OF CRESTLINE AND THE REPORTING ENTITY

A. The City

The City of Crestline is a statutory municipal corporation operating under the laws of the State of Ohio. Crestline was incorporated as a city on April 29, 2001, by proclamation of the Secretary of State of Ohio as a result of the federal census of 2000.

The City operates under a mayor-council form of government. Legislative power is vested in a seven member council plus a council president, each elected to four-year terms. The Mayor, Auditor, Treasurer, and Solicitor are elected to four-year terms. The Service-Safety Director and Magistrate are appointed by the Mayor.

The City of Crestline is divided into various departments and financial management and control systems. Services provided include police protection, fire protection, street construction and maintenance, parks and recreation, and water, sewer, and ambulance services as well as a staff to provide support (i.e., payroll processing, accounts payable, and 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.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City of Crestline consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City, this includes the Mayor's Court and all departments and activities that are directly operated by the elected City officials.

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; (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Crestline in 2003.

The City of Crestline participates in the Ohio Government Risk Management Plan, an insurance purchasing pool. This organization is presented in Note 19 to the basic financial statements.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Crestline have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The City does not apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its business-type activities or to its enterprise funds. Following are the more significant of the City's accounting policies.

A. Basis of Presentation

The City's basic financial statements consist of government-wide financial 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 statement of net assets presents the financial condition of the governmental and business-type 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 and business-type 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 or business activity is self-financing or draws from the general revenues of the City.

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 and enterprise 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. 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. For the City, there are three categories of funds; governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the City 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 - The General 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.

Street Construction and Maintenance Fund - This fund accounts for 92.5 percent of the state gasoline tax and motor vehicle registration fees as well as a portion of municipal income taxes designated for maintenance of streets within the City.

Capital Improvements Fund - This fund accounts for a portion of municipal income taxes designated for large equipment purchases.

Swimming Pool Capital Projects Fund - This fund accounts for swimming pool improvements.

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, change in net assets, financial position, and cash flows.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water Fund - This fund accounts for the provision of water treatment and distribution to residential and commercial users within the City.

Sewer Fund - This fund accounts for the provision of wastewater treatment service to residential and commercial users within the City.

The other enterprise fund of the City accounts for ambulance services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City's private purpose trust fund accounts for resources provided to various organizations which are then generally used to benefit the community. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency fund accounts for mayor's court monies due to third-parties, excluding the City of Crestline.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all 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.

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 are generally included on the balance sheet. The statement of revenues, expenditures, and change in fund balance reflects 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 financial statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses, and change in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.

D. 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 are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; enterprise funds and fiduciary funds use the 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues - Exchange and Nonexchange Transactions

Revenues 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 the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means 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 after year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from income taxes is recognized in the year in which the income is earned. 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: income taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, and interest.

Deferred Revenues

Deferred revenues arise when assets are recognized before the revenue recognition criteria has been satisfied.

Property taxes for which there was an enforceable legal claim at December 31, 2003, but were levied to finance 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis, 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process

All funds, except agency funds, are required to be budgeted and appropriated. The major documents prepared are the statement of fund activities, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The statement of fund activities indicates the projected revenues and expenditures for those funds receiving tax monies. The certificate of estimated resources establishes a limit on the amount City Council may appropriate. The appropriations ordinance is City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by City Council. The legal level of control has been established by City Council at the fund and department level for the General Fund and the fund level for all other funds.

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 reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by City Council.

The appropriations ordinance 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 ordinance 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 City Council during the year.

F. Cash and Investments

To improve cash management, cash received by the City, except cash in segregated accounts or held by a trustee, is pooled and invested. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents that are held separately within departments of the City are recorded as "Cash and Cash Equivalents in Segregated Accounts".

The City utilizes a financial institution as trustee to service its mortgage revenue bonded debt as principal and interest payments come due. Money held by the trustee is invested in mutual funds and is presented as "Cash and Cash Equivalents with Fiscal Agent".

During 2003, the City invested in nonnegotiable certificates of deposit, federal agency securities, mutual funds, and STAR Ohio. Investments are reported at fair value, except for nonnegotiable certificates of deposit, which are reported at cost. Fair value is based on quoted market prices or current share price for mutual funds. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2003.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest earnings are allocated to City funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2003 was \$36,314, which includes \$31,785 assigned from other City funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. 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 by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. 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 certain resources which are segregated from other resources of the City to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of the City or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column on the government-wide statement of net assets and in the respective funds.

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 value 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 not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings	50 years	50 years
Land Improvements	20-50 years	100 years
Streets	10-75 years	N/A
Bridges	50 years	N/A
Water, Sewer, and Storm Water Lines	N/A	50 years
Equipment	8-40 years	10-50 years
Vehicles	8-15 years	8-15 years

J. Interfund Receivables/Payables

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "Interfund Receivables/Payables". Interfund balances are eliminated on the statement of net assets.

K. 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 the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees with ten or more years of service with the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise funds are reported on the enterprise fund 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, contractually required pension contributions and compensated absences that are 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. The police and fire pension liability and capital leases are recognized as liabilities on the fund financial statements when due.

M. 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 balance of any borrowing 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 constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for construction, repair, and maintenance of streets and highways, the community development block grant program, and various police and fire department grants and programs. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The City's Water enterprise fund has restricted net assets relative to those resources necessary to comply with various covenants of bond financing agreements.

N. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Fund balance reserves have been established for notes receivable and encumbrances.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the City, these revenues are charges for services for water, sewer, and ambulance services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

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.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. The City had no extraordinary or special items in 2003.

R. Estimates

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2003, the Police Pension and Fire Pension special revenue funds had deficit fund balances, in the amount of \$1,694 and \$589, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (continued)

B. Compliance

The following departments had expenditures/expenses in excess of appropriations for the year ended December 31, 2003.

Fund/Department	Appropriations	Expenditures/Expenses	Excess
Governmental Activities			
General Fund			
Mayor	\$11,576	\$11,657	\$81
Treasurer	3,190	3,210	20
Administration/Safety Service Director	52,533	52,834	301
Police	720,059	723,263	3,204
Permissive Tax	50,000	100,248	50,248
Business-Type Activities			
Sewer	1,671,377	2,061,436	390,059

The City Auditor will review appropriations to ensure they are sufficient prior to expenditures being made.

At December 31, 2003, the Permissive Tax, Police Pension, and Fire Pension special revenue funds had a deficit cash balance, in the amount of \$46,172, \$1,698, and \$593, respectively.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and change in fund balance 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 Statements of Revenues, Expenditures, and Change in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual - for the General Fund and Street Construction and Maintenance special revenue fund are presented 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:

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

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

Adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis are as follows:

	Change in Fund Balance	
	General	Street Construction and Maintenance
GAAP Basis	(\$274,735)	\$71,110
<u>Increases (Decreases) Due To</u>		
Revenue Accruals:		
Accrued 2002, Received in Cash 2003	90,201	30,664
Accrued 2003, Not Yet Received in Cash	(102,770)	(32,321)
Expenditure Accruals:		
Accrued 2002, Paid in Cash 2003	(112,576)	(5,612)
Accrued 2003, Not Yet Paid in Cash	107,727	1,525
Cash Adjustments:		
Unrecorded Activity 2002	195	0
Unrecorded Activity 2003	4,262	0
Prepaid Items	7,116	3,104
Excess of Revenues Under Expenditures for Nonbudgeted Funds	346	0
Encumbrances Outstanding at Year End (Budget Basis)	(4,448)	(2,949)
Budget Basis	(\$284,682)	\$65,521

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Inactive deposits are public deposits the City 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 passbook accounts.

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

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

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and 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) 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 (STAR Ohio).

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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.

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 Treasurer or qualified trustee 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 \$1,125 in undeposited cash on hand which is included 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 (including Repurchase Agreements), and Reverse Repurchase Agreements".

At year end, the carrying amount of the City's deposits was \$1,123,384. The bank balance was \$1,133,208, of which \$233,208 was covered by the federal depository insurance and \$900,000 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC. The City also had a deposit with Raymond James Financial Services, in the amount of \$227,010, which was covered by the Securities Investor Protection Corporation.

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

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

	Category 1	Category 3	Fair Value
Federal Home Loan Mortgage Corporation Notes	\$0	\$200,361	\$200,361
Federal National Mortgage Association Notes	272,990	294,138	567,128
	<u>\$272,990</u>	<u>\$494,499</u>	767,489
Mutual Funds			227,010
STAR Ohio			200,174
			<u>\$1,194,673</u>

The classification of cash and cash equivalents and investments on the financial statements is based on the criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$2,319,182	\$0
Cash on Hand	(1,125)	0
Investments:		
Federal Home Loan Mortgage Corporation Notes	(200,361)	200,361
Federal National Mortgage Association Notes	(567,128)	567,128
Mutual Funds	(227,010)	227,010
STAR Ohio	(200,174)	200,174
GASB Statement No. 3	<u>\$1,123,384</u>	<u>\$1,194,673</u>

NOTE 6 - RECEIVABLES

Receivables at December 31, 2003, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; interfund; property taxes, and notes.

Notes receivable represent low interest loans for development projects granted to eligible City businesses under the Federal Community Development Block Grant program. The notes have an annual interest rate of 5 percent and are repaid over periods ranging from 7 to 10 years. Notes receivable, in the amount of \$16,309, will not be received within one year.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 6 - RECEIVABLES (continued)

A summary of the items due from other governments receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Personal Property Exemption	\$33
Homestead and Rollback	7,984
Local Government	9,869
Local Government Revenue Assistance	107,759
Beer and Liquor Permits	2,059
Cigarette Tax	75
Crawford County	85
Total General Fund	127,864
Street Construction and Maintenance	
Gasoline Tax	47,506
Motor Vehicle License Tax	18,600
Total Street Construction and Maintenance	66,106
Total Major Funds	193,970
Nonmajor Funds	
State Highway	
Gasoline Tax	3,852
Motor Vehicle License Tax	1,508
Total State Highway	5,360
Permissive Tax	
Permissive Tax	63,069
Drug Law Enforcement	
Crawford County	100
Law Enforcement and Education	
Crawford County	44
DARE	
DARE Grant	3,556
	(continued)

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 6 - RECEIVABLES (continued)

	Amount
Nonmajor Funds (continued)	
Community Development Block Grant	
HOME	\$234
CHIP	9,488
Total Community Development Block Grant	9,722
Police Pension	
Personal Property Exemption	4
Homestead and Rollback	922
Total Police Pension	926
Fire Pension	
Personal Property Exemption	4
Homestead and Rollback	922
Total Fire Pension	926
Swimming Pool Bond Retirement	
Personal Property Exemption	23
Homestead and Rollback	5,534
Total Swimming Pool Bond Retirement	5,557
Mayor's Court Improvements	
Crawford County	50
City Hall Bond Retirement	
Personal Property Exemption	28
Homestead and Rollback	6,758
Total City Hall Bond Retirement	6,786
Total Nonmajor Funds	96,096
Total Governmental Activities	\$290,066

NOTE 7 - MUNICIPAL INCOME TAXES

The City levies and collects an income tax of 2 percent based on all income earned within the City as well as on the income of residents earned outside the City. In the latter case, the City allows a credit of 75 percent of the tax paid to another municipality. 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. The City's income tax is distributed to the General Fund, Street Construction and Maintenance special revenue fund, and Capital Improvements capital projects fund.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 8 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2003 represent the collection of 2002 taxes. Real property taxes received in 2003 were levied after October 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2003 represent the collection of 2002 taxes. Public utility real and tangible personal property taxes received in 2003 became a lien on December 31, 2001, were levied after October 1, 2002, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in 2003 (other than public utility property) represent the collection of 2003 taxes. Tangible personal property taxes received in 2003 were levied after October 1, 2002, on the true value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2003, and for which there was an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2003 operations.

Collectible delinquent real property taxes have been recorded as a receivable and revenue on the full accrual basis. On the modified accrual basis, the revenue is deferred.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 8 - PROPERTY TAXES (continued)

The full tax rate for all City operations for the year ended December 31, 2003, was \$7.20 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2003 property tax receipts were based are as follows:

Category	Amount
Real Property	
Agricultural	\$37,120
Residential	35,534,750
Commercial	7,257,970
Industrial	1,167,190
Public Utility Property	
Real	138,460
Personal	2,169,500
Tangible Personal Property	4,264,232
Total Assessed Value	\$50,569,222

NOTE 9 - CAPITAL ASSETS

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

	Balance December 31, 2002	Additions	Reductions	Balance December 31, 2003
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$380,645	\$0	\$0	\$380,645
Construction in Progress	0	28,761	0	28,761
Total Nondepreciable Capital Assets	380,645	28,761	0	409,406
Depreciable Capital Assets				
Buildings	1,730,500	0	0	1,730,500
Land Improvements	39,478	35,788	0	75,266
Streets	4,961,321	206,321	0	5,167,642
Bridges	56,486	0	0	56,486
Equipment	217,440	37,189	0	254,629
Vehicles	960,503	0	0	960,503
Total Depreciable Capital Assets	7,965,728	279,298	0	8,245,026

(continued)

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 9 - CAPITAL ASSETS (continued)

	Balance December 31, 2002	Additions	Reductions	Balance December 31, 2003
Governmental Capital Assets (continued)				
Less Accumulated Depreciation for				
Buildings	(\$629,524)	(\$33,000)	\$0	(\$662,524)
Land Improvements	(39,478)	(716)	0	(40,194)
Streets	(1,495,141)	(101,185)	0	(1,596,326)
Bridges	(25,990)	(1,130)	0	(27,120)
Equipment	(119,613)	(14,057)	0	(133,670)
Vehicles	(501,477)	(69,117)	0	(570,594)
Total Accumulated Depreciation	<u>(2,811,223)</u>	<u>(219,205)</u>	<u>0</u>	<u>(3,030,428)</u>
Total Depreciable Capital Assets, Net	<u>5,154,505</u>	<u>60,093</u>	<u>0</u>	<u>5,214,598</u>
Governmental Activities Capital Assets, Net	<u>\$5,535,150</u>	<u>\$88,854</u>	<u>\$0</u>	<u>\$5,624,004</u>

The City accepted a contribution of depreciable capital assets for governmental activities with a fair value of \$26,723 during 2003.

	Balance December 31, 2002	Additions	Reductions	Balance December 31, 2003
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$111,558	\$0	\$0	\$111,558
Construction in Progress	77,862	279,829	(357,691)	0
Total Nondepreciable Capital Assets	<u>189,420</u>	<u>279,829</u>	<u>(357,691)</u>	<u>111,558</u>
Depreciable Capital Assets				
Buildings	2,159,900	0	0	2,159,900
Land Improvements	133,000	0	0	133,000
Water, Sewer, and Storm Water Lines	1,669,298	357,691	0	2,026,989
Equipment	4,463,388	36,619	0	4,500,007
Vehicles	461,686	15,530	0	477,216
Total Depreciable Capital Assets	<u>8,887,272</u>	<u>409,840</u>	<u>0</u>	<u>9,297,112</u>

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 9 - CAPITAL ASSETS (continued)

	Balance December 31, 2002	Additions	Reductions	Balance December 31, 2003
Business-Type Activities (continued)				
Less Accumulated Depreciation for				
Buildings	(\$609,760)	(\$43,090)	\$0	(\$652,850)
Land Improvements	(110,390)	(1,330)	0	(111,720)
Water, Sewer, and Storm Water Lines	(757,450)	(40,540)	0	(797,990)
Equipment	(1,142,908)	(114,254)	0	(1,257,162)
Vehicles	(184,007)	(28,372)	0	(212,379)
Total Accumulated Depreciation	(2,804,515)	(227,586)	0	(3,032,101)
 Total Depreciable Capital Assets, Net	 6,082,757	 182,254	 0	 6,265,011
 Business-Type Activities Capital Assets, Net	 \$6,272,177	 \$462,083	 (\$357,691)	 \$6,376,569

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$34,905
Security of Persons and Property - Fire	51,471
Leisure Time Activities	6,266
Transportation	118,013
General Government - Other	8,550
Total Depreciation Expense - Governmental Activities	\$219,205

NOTE 10 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2003, the General Fund had an interfund receivable and other governmental funds had an interfund payable, in the amount of \$48,463, to provide cash flow resources for operations. All amounts are expected to be repaid within one year.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2003, the City contracted for the following insurance coverage.

Type of Coverage	Coverage	Deductible
General Liability		
Each Occurrence	\$1,000,000	\$0
Annual Aggregate	3,000,000	0
Employers Liability	1,000,000	0
Employee Benefits Liability		
Each Occurrence	1,000,000	0
Annual Aggregate	3,000,000	0
Law Enforcement Officers Liability		
Each Occurrence	1,000,000	2,500
Annual Aggregate	3,000,000	2,500
Public Officials Liability		
Each Occurrence	1,000,000	2,500
Annual Aggregate	3,000,000	2,500
Property (building and contents)	12,265,348	1,000
Boiler and Machinery	12,210,348	1,000 - 10,000
Inland Marine		
Special Property	474,459	1,000
Electronic Equipment	138,000	500
Automobile Coverage		
Liability	1,000,000	0
Medical Payments	5,000	0

There has been no significant reduction in insurance coverage from 2002, and no insurance settlement has exceeded insurance coverage during the last three years.

For 2003, the City participated in the Ohio Government Risk Management (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

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

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 11 - RISK MANAGEMENT (continued)

The City provides employee health insurance benefits through a partially self-insured program. The City pays claims from the funds from which employee's salaries are paid. The City makes payments based upon actual amounts needed to pay prior and current-year claims. For 2003, the City used E.B.S. of Ohio, Incorporated to process all claims.

Under the City's self-insured program, the City pays claims up to a maximum of \$15,000 per individual. Claims ranging from \$15,000 to \$1,000,000 are paid by Spectrum Underwriting Managers, Inc. Settled claims have not exceeded the stop-loss coverage for the last three years.

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2003, is estimated by the third party administrator at \$32,707. The changes in the claims liability for 2003 were as follows:

Year	Beginning Balance	Claims and Changes in Estimates	Claims Payments	Ending Balance
2003	\$41,398	\$305,859	\$314,550	\$32,707
2002	22,110	312,329	293,041	41,398

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City contributes to 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 percent 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 OPERS 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.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

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 publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

For the year ended December 31, 2003, members of all three plans were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The City's contribution rate for pension benefits for 2003 was 8.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2003, and 2002 were \$68,145 and \$70,620, respectively; 89 percent has been contributed for 2003 and 100 percent has been contributed for 2002. The unpaid contribution for 2003, in the amount of \$7,765 is recorded as a liability. Contributions to the member-directed plan for 2003 were \$373 made by the City and \$234 made by the plan members.

B. Ohio Police and Fire Pension Fund

The City participates in the Ohio Police and Fire Pension Fund (OPF), a cost-sharing multiple-employer defined benefit pension plan. OPF provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial statements and required supplementary information. The 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 and 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 contributions to the OPF for the years ended December 31, 2003, and 2002 were \$91,314 and \$88,278, respectively; 71 percent has been contributed for 2003 and 100 percent has been contributed for 2002. The unpaid contribution for 2003, in the amount of \$26,471, is recorded as a liability.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. 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 OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 employer contribution rate was 13.55 percent of covered payroll; 5.00 percent was the portion used to fund health care.

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 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

All investments are carried at market value. 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 was \$40,069. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2002 (the latest information available), was \$10 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the OPERS 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. The Choices Plan will incorporate a cafeteria approach offering a broader range of health care options. The Choices 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 Choices 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.

NOTE 13 - POSTEMPLOYMENT BENEFITS (continued)

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OPF) 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 eighteen, whether or not the child is attending school, or under the age of twenty-two if attending school full-time or on a two-thirds basis.

The health care coverage provided by OPF is considered an Other Postemployment Benefit (OPB) 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 OPF shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total employer contribution rate for police is 19.5 percent of covered payroll and for firefighters is 24 percent of covered payroll; 7.75 percent 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 \$27,532 for police and \$23,642 for firefighters. The OPF'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 OPF participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

NOTE 14 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws.

City employees earn and accumulate vacation at varying rates depending on length of service. Current policy credits vacation leave on the employee's anniversary date. Employees are paid for 100 percent of earned unused vacation leave upon termination.

Sick leave is earned at various rates as defined by City policy and union contracts. All employees with ten or more years of full-time service with the City, who elect to retire, are entitled to receive one-third of the value of their accumulated unused sick leave up to a maximum of three hundred twenty hours, except for the police and fire departments. Police department employees are entitled to receive one-half of the value of their accumulated unused sick leave up to a maximum of 1,440 hours. Fire department employees are entitled to receive one-third of the value of their accumulated unused sick leave.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 15 - NOTES PAYABLE

The City's note transactions for the year ended December 31, 2003, were as follows:

	Interest Rate	Balance December 31, 2002	Additions	Reductions	Balance December 31, 2003
<u>Governmental Activities</u>					
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
Capital Projects Fund					
2002 Swimming Pool Note	2.60%	\$270,000	\$0	\$270,000	\$0
2003 Swimming Pool Note	2.00	0	210,000	0	210,000
Total Governmental Activities		<u>\$270,000</u>	<u>\$210,000</u>	<u>\$270,000</u>	<u>\$210,000</u>
<u>Business-Type Activities</u>					
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
Enterprise Fund					
2002 Sewer Improvement Note	2.50%	\$1,056,000	\$0	\$1,056,000	\$0
2003 Sewer Improvement Note	1.68	0	996,000	0	996,000
Total Business-Type Activities		<u>\$1,056,000</u>	<u>\$996,000</u>	<u>\$1,056,000</u>	<u>\$996,000</u>

According to Ohio law, notes can be issued in anticipation of bond proceeds and levies or for up to 50 percent of anticipated revenue collections. The liability for all notes is presented in the fund receiving the proceeds.

All of the City's bond anticipation notes are backed by the full faith and credit of the City of Crestline and have a maturity of one year. The swimming pool notes were issued for improving the swimming pool facility by reconstructing and renovating the pool and bathhouse, installing a new filter system, and improving the site. The sewer improvement notes were issued for improving the quality and capacity of treatment and retention capacity at the wastewater treatment plant by constructing an aeration tank, sludge holding tanks, and providing pumping, piping, and electrical facilities.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 16 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2003, was as follows:

	Interest Rate	Balance December 31, 2002	Additions	Reductions	Balance December 31, 2003	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bonds						
1992 City Hall Bonds	5.88%	\$455,000	\$0	\$65,000	\$390,000	\$65,000
Other Long-Term Obligations						
Capital Leases Payable		180,770	0	32,056	148,714	33,985
Police and Fire Pension Liability		117,551	0	1,732	115,819	1,806
Compensated Absences Payable		85,393	2,780	3,070	85,103	28,557
Total Other Long-Term Obligations		383,714	2,780	36,858	349,636	64,348
Total Governmental Activities		\$838,714	\$2,780	\$101,858	\$739,636	\$129,348
<u>Business-Type Activities</u>						
Mortgage Revenue Bonds						
1996 Water Bonds	4.1-5.9%	\$1,080,000	\$0	\$95,000	\$985,000	\$100,000
Other Long-Term Obligations						
Capital Leases Payable		101,683	0	18,031	83,652	19,116
OPWC Loans Payable	0.00	26,474	440,442	0	466,916	0
Compensated Absences Payable		21,240	7,151	3,070	25,321	5,771
Total Other Long-Term Obligations		149,397	447,593	21,101	575,889	24,887
Total Business-Type Activities		\$1,229,397	\$447,593	\$116,101	\$1,560,889	\$124,887

General Obligation Bonds

The City Hall Bonds were issued for constructing, furnishing, and equipping new facilities to house municipal operations, including the police and fire departments. The bonds pledge the full faith and credit and taxing ability of the City. As of December 31, 2003, the balance of unpaid principal was \$390,000, with future annual payments of \$65,000 through 2009.

Mortgage Revenue Bonds

Mortgage revenue bonds are special obligations of the City secured by a mortgage upon all assets of the respective system. These bonds are payable solely from the gross revenues of the respective system after provisions for reasonable operating and maintenance expenses. The bond indentures have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for services to customers be in sufficient amounts to satisfy the obligations under the indenture agreements. In addition, special provisions exist regarding covenant violations, redemptions of principal, and maintenance of properties.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 16 - LONG-TERM OBLIGATIONS (continued)

Fund assets, whose use are restricted under the bond indenture, are presented as restricted assets on the statement of fund net assets. At December 31, 2003, restricted assets relating to the 1996 water mortgage revenue bonds were as follows:

Restricted Assets Held by the City	
Renewal and Replacement	\$60,000
Future Debt Service	15,000
Restricted Assets Held by the Trustee	
Current Debt Service	172,756

Water Mortgage Revenue Bonds

The Water Mortgage Revenue Bonds were issued in 1996 to finance improvements to the water system. Payment of the bonds is secured by a pledge of the net revenues of the Water enterprise fund. As of December 31, 2003, the balance of unpaid principal was \$985,000, with future annual payments ranging from \$100,000 to \$150,000 through 2011.

The bonds maturing on or after December 1, 2007, are subject to prior redemption, by and at the sole option of the City, either in whole or in part, on any date on or after December 1, 2006, in integral multiple of \$5,000, at the following redemption prices (expressed as percentages of the principal amount redeemed) plus accrued interest to the redemption date:

Redemption Dates	Redemption Price
December 1, 2006 through November 30, 2007	102 percent
December 1, 2007 through November 30, 2008	101 percent
December 1, 2008 and thereafter	100 percent

Capital Leases Payable

Capital lease obligations will be paid from the fund that maintains custody of the related assets.

Police and Fire Pension Liability

The City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire personnel in 1967. The liability is payable semiannually from the Police Pension and Fire Pension special revenue funds.

Compensated Absences Payable

The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, Street Construction and Maintenance special revenue fund, and the Water, Sewer, and Ambulance enterprise funds.

OPWC Loans

OPWC loans consist of money owed to the Ohio Public Works Commission for the replacement of the West Side Storm Sewer and upgrades to the City's wastewater treatment plant. The loans are interest free. OPWC loans are payable solely from the gross revenues of the Sewer enterprise fund.

The City's legal debt margin was \$4,870,362 at December 31, 2003.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 16 - LONG-TERM OBLIGATIONS (continued)

The upgrades funded by the OPWC loans have not been completed. An amortization schedule for repayment of the loans will not be available until the projects are completed and, therefore, are not included in the following schedules.

The following is a summary of the City's future annual debt service requirements for governmental activities:

Year	Governmental Activities			
	City Hall Bonds		Police and Fire Pension	
	Principal	Interest	Principal	Interest
2004	\$65,000	\$22,913	\$1,806	\$4,903
2005	65,000	19,094	1,884	4,826
2006	65,000	15,275	1,965	4,745
2007	65,000	11,465	2,049	4,660
2008	65,000	7,638	2,137	4,572
2009-2013	65,000	3,819	12,145	21,404
2014-2018	0	0	14,988	18,562
2019-2023	0	0	18,493	15,053
2024-2028	0	0	22,822	10,727
2029-2033	0	0	28,162	5,387
2034-2035	0	0	9,368	394
	\$390,000	\$80,204	\$115,819	\$95,233

The City's future annual debt service requirements payable from the enterprise funds are as follows:

Year	Business-Type Activities	
	Mortgage Revenue Bonds	
	Principal	Interest
2004	\$100,000	\$54,955
2005	105,000	49,755
2006	115,000	44,190
2007	120,000	37,980
2008	125,000	31,380
2009-2011	420,000	50,200
	\$985,000	\$268,460

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 17 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for equipment. 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 are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for the governmental funds and as a reduction of the liability in the enterprise funds.

Principal payments in 2003 were \$32,056 for governmental funds and \$18,031 for the enterprise funds.

	Governmental Activities	Business-Type Activities
Property under Capital Lease	\$299,944	\$169,187
Less Accumulated Depreciation	(59,988)	(33,837)
Total	\$239,956	\$135,350

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

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2004	\$33,985	\$8,953	\$19,116	\$5,036
2005	36,031	6,907	20,267	3,885
2006	38,199	4,738	21,487	2,665
2007	40,499	2,438	22,782	1,370
Total	148,714	23,036	83,652	12,956

NOTE 18 - INTERFUND TRANSFERS

During 2003, the General Fund made transfers to other governmental funds, in the amount of \$66,543 to subsidize various programs in other funds.

The Capital Improvements capital projects fund made transfers to the other business-type activities fund, in the amount of \$24,152, to pay for activities within that fund.

Other governmental funds made transfers to the Swimming Pool capital projects fund, in the amount of \$277,009, as debt payments became due.

NOTE 19 - INSURANCE PURCHASING POOL

The City participates in the Ohio Government Risk Management Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by an eleven member board consisting of public officials selected from the membership. Financial information can be obtained from Ohio Government Risk Management Plan, 420 Madison Avenue, Toledo, Ohio 43204.

NOTE 20 - CONTINGENT LIABILITIES

A. Litigation

The City is party to other legal proceedings as a defendant. The outcome of the legal proceedings is not presently determinable.

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 disallowances, if any, would be immaterial.

NOTE 21 - SUBSEQUENT EVENT

On March 1, 2004, the City issued bond anticipation notes, in the amount of \$936,000, to retire notes previously issued for sewer improvements. The notes have an interest rate of 5 percent and mature on March 30, 2005.

On November 10, 2004, the City issued bond anticipation notes, in the amount of \$150,000, to retire notes previously issued for improving the swimming pool facility. The notes have an interest rate of 2.8 percent and mature on November 10, 2005.

NOTE 22 - GOING CONCERN ISSUE

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America which contemplates continuation of the City's General Fund as a going concern. The City has seen deteriorating fund balance in the General Fund over the last four years. The City had a \$16,157 deficit balance at December 21, 2004. The City does have available the opportunity to advance monies from other funds but must address the future of its General Fund operations and making it fiscally sound. The City's management has not implemented a General Fund operating expense containment plan.

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TRIMBLE, JULIAN & GRUBE, INC.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of Council and Mayor
City of Crestline
100 North Seltzer Street
Crestline, OH 44827

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crestline (the “City”), Crawford County, as of and for the year ended December 31, 2003, which collectively comprise the City’s basic financial statements and have issued our report thereon dated December 23, 2004. 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.

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 an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Crestline in a separate letter dated December 23, 2004.

Members of Council and Mayor
City of Crestline

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City 's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2003-COC-001 and 2003-COC-002. We also noted certain immaterial instances of noncompliance that we have reported to the management of the City in a separate letter dated December 23, 2004.

This report is intended solely for the information and use of management and the City of Crestline, and is not intended to be and should not be used by anyone other than these specified parties.



Trimble, Julian & Grube, Inc.
December 23, 2004

**CITY OF CRESTLINE
CRAWFORD COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2003-COC-001
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Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.

It was noted during the audit that at December 31, 2003, the City had a negative cash balance in the Permissive Tax, Police Pension, and Fire Pension funds of \$46,172, \$1,698, and \$593, respectively.

The City has spent monies not available to that fund and thus causing noncompliance. No fund should have a negative cash fund balance throughout the year or at year end.

We recommend that the City properly record receipts as deposits in transit only after funds have been received and subsequent to proper appropriation. If funds are anticipated, but not yet received and expenditures are necessary, the City should advance or transfer funds from the General Fund with proper Council approval.

**CITY OF CRESTLINE
CRAWFORD COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2003-COC-002

Ohio Revised Code Section 5705.41(B) in part requires that expenditures shall not exceed appropriations.

It was noted during the audit that in the year ended December 31, 2003, the City had expenditures in excess of appropriations in the following line items:

<u>Fund/Department</u>	<u>Appropriations</u>	<u>Expenditures/Expenses</u>	<u>Excess</u>
Governmental Activities:			
General Fund			
Mayor	\$11,576	\$11,657	\$81
Treasurer	3,190	3,210	20
Administration/Safety Service Director	52,533	52,834	301
Police	720,059	723,263	3,204
Permissive Tax	50,000	100,248	50,248
Business-Type Activities:			
Sewer	1,671,377	2,061,436	390,059

With expenditures exceeding appropriations, the City is expending monies that have not been appropriated and approved by Council. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

We recommend that the City comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.



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**CITY OF CRESTLINE
CRAWFORD 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**