



**Auditor of State
Betty Montgomery**

**CITY OF JACKSON
JACKSON COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Jackson
Jackson County
145 Broadway Street
Jackson, Ohio 45640

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jackson, Jackson 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Jackson, Jackson County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The City also implemented GASB Statements 37, 38 and 41 and Interpretation 6 concurrently with GASB Statement 34.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine 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*. You should read it in conjunction with this report in considering the results of our audit.

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www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

January 7, 2005

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003**

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

FINANCIAL HIGHLIGHTS

Key financial highlights for 2003 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$31.8 million (net assets). Of this amount, \$15.0 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$2.6 million, or 8.8%
- The City's governmental funds reduced their deficit balance by \$239,809 or 27.4%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Jackson as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remains for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

Reporting the City of Jackson as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as the condition of the City capital assets will also need to be evaluated.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

- Governmental Activities – Most of the City's services are reported here including police, fire, administration, and all departments with the exception of our Water, Sewer, Garbage, Electric and Railroad.
- Business-Type Activities – The business-type activities of the City include water distribution, sewage collection and treatment, refuse collection, electric service and a railroad spur.

Reporting the City of Jackson's Most Significant Funds

Fund Financial Statements

The basic governmental fund financial statements begin on page 15. Fund financial reports provide detailed information about the City's major funds. Based upon restrictions on the use of monies, the City has established many funds which account for the multitude of services provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Jackson, our major funds are the General, Water, Sewer, Electric, Garbage, and Railroad Funds.

Governmental Funds

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

The City maintains 41 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, for the General Fund, which is considered to be a major fund. Data from the other 40 governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary Funds

When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

THE CITY OF JACKSON AS A WHOLE

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

TABLE 1

Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 3,583,521	\$ 3,477,646	\$ 17,435,149	\$ 15,964,375	\$ 21,018,670	\$ 19,442,021
Restricted assets	5,420	5,380	1,480,171	1,489,931	1,485,591	1,495,311
Investment in joint venture	-	-	563,601	514,030	563,601	514,030
Capital assets	8,054,021	9,108,892	14,476,586	14,189,913	22,530,607	23,298,805
Total Assets	11,642,962	12,591,918	33,955,507	32,158,249	45,598,469	44,750,167
Current liabilities	4,485,412	4,047,342	1,788,976	2,276,028	6,274,388	6,323,370
Long-term liabilities	479,928	1,323,851	7,069,684	7,896,885	7,549,612	9,220,736
Total Liabilities	4,965,340	5,371,193	8,858,660	10,172,913	13,824,000	15,544,106
Net Assets:						
Invested in capital assets, net of related debt	7,675,597	8,648,433	7,631,540	2,952,616	15,307,137	11,601,049
Restricted	1,382,228	303,153	-	677,843	1,382,228	980,996
Unrestricted	(2,380,203)	(1,730,861)	17,465,307	18,354,877	15,085,104	16,624,016
Total Net Assets	\$ 6,677,622	\$ 7,220,725	\$ 25,096,847	\$ 21,985,336	\$ 31,774,469	\$ 29,206,061

By far the largest portion of the City's net assets (48%) reflects its investment in capital assets (e.g. land, buildings, equipment, etc.), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The unrestricted net assets (\$15 million) may be used to meet the government's ongoing obligations to citizens and creditors. The City did not have any external restrictions placed on its net assets at this year-end.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

At the end of the current fiscal year, the City is able to report positive net asset balances in both of its business-type activities net asset classifications. In the City's governmental activities, it has a positive balance in its investment in capital assets, net of related debt, but a negative balance in unrestricted net assets. The City's total net assets increased by \$2,568,413 during 2003. This increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses.

Business-type activities increased the City's net assets by \$3,111,511, or 14.2%, thereby accounting for the total growth in the net assets of the City. The increase in net assets can be contributed mainly to an increase in cash from operating activities of the sewer and electric departments during 2003 and the retirement of outstanding long-term debt (\$1.2 million) during 2003.

Governmental-type activities decreased the City's net assets by \$543,098. This decrease was due mainly to a decline in net capital assets resulting from depreciation and the retirement of certain assets.

Table 2 shows the changes in net assets for the year ended December 31, 2003. Since this is the first year the City of Jackson has prepared financial statements following GASB Statement 34, revenue and expense comparisons to year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

TABLE 2

Changes in Net Assets

	Governmental Activities	Business-type Activities	Total
Program revenues:			
Charges for services	\$ 339,118	\$ 15,432,916	\$ 15,772,034
Grants and contributions	567,794	-	567,794
General revenues:			
Property taxes	1,531,548	-	1,531,548
Unrestricted grants	498,319	-	498,319
Investment earnings	221,348	15,974	237,322
Other	531	(76,885)	(76,354)
Total revenues	<u>3,158,658</u>	<u>15,372,005</u>	<u>18,530,663</u>
Expenses:			
General government	146,991	-	146,991
Security of Persons & Property	1,778,303	-	1,778,303
Public Health	272,626	-	272,626
Leisure Time Activities	135,854	-	135,854
Community Environment	608,736	-	608,736
Transportation	742,066	-	742,066
Interest on long-term debt	17,180	-	17,180
Water	-	1,864,059	1,864,059
Sewer	-	1,382,439	1,382,439
Electric	-	8,465,191	8,465,191
Garbage	-	492,478	492,478
Railroad	-	56,327	56,327
Total expenses	<u>3,701,756</u>	<u>12,260,494</u>	<u>15,962,250</u>
Increase in net assets before transfers	(543,098)	3,111,511	2,568,413
Transfers	-	-	-
Increase in net assets	(543,098)	3,111,511	2,568,413
Net Assets - 1/1/2003	7,220,725	21,985,336	29,206,061
Net Assets - 12/31/2003	<u>\$ 6,677,627</u>	<u>\$ 25,096,847</u>	<u>\$ 31,774,474</u>

Property taxes and grants are the biggest contributors of revenue for the City's governmental activities. Security of persons and property is a major activity of the city that accounts for 48% of governmental expenses. The city's transportation and community environment activities constitute 20% and 16%, respectively, of governmental expenses.

The City's business-type activities are water, sewer, electric, and garbage services, as well as a railroad spur. During 2003, charges for these activities exceeded expenses by \$3.1 million.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

Total Versus Net Cost of Services

The Statement of Activities shows the cost of program services and the charges for services and grants associated with those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues. When applicable, the net cost of program services must be supported by general revenues including tax revenue, investment earnings and unrestricted grants.

TABLE 3

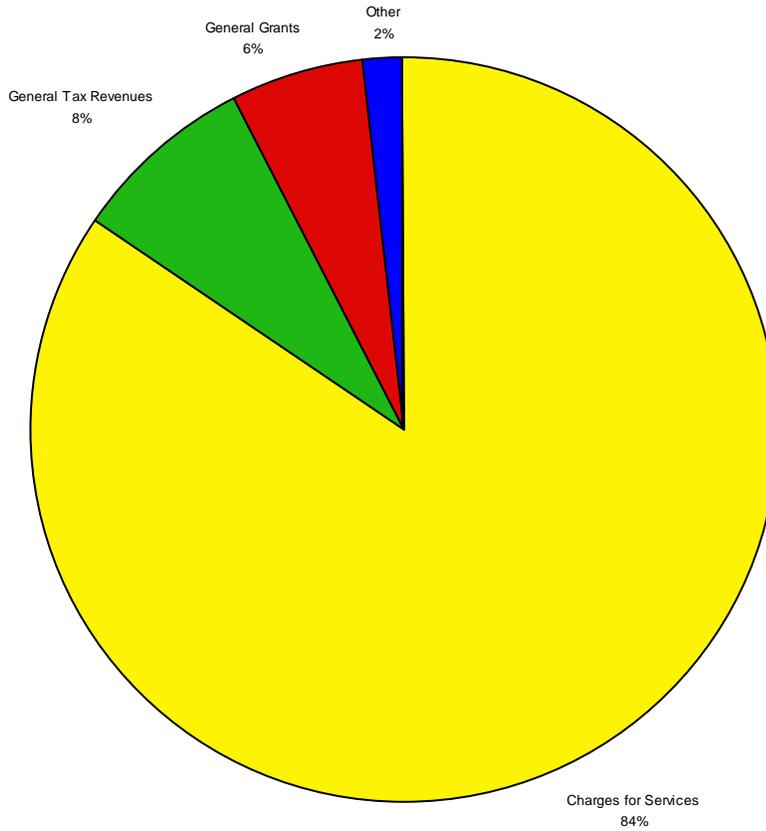
Functions/Programs	Total Cost of Services	Net Cost of Services
Governmental Activities:		
General government	\$ (146,991)	\$ 27,886
Security of Persons & Property	(1,778,303)	(1,700,599)
Public Health	(272,626)	(217,876)
Leisure Time activities	(135,854)	(80,780)
Community Environment	(608,736)	(365,281)
Transportation	(742,066)	(441,014)
Interest on long-term debt	(17,180)	(17,180)
Total Governmental Activities	<u>(3,701,756)</u>	<u>(2,794,844)</u>
Business-type Activities:		
Water	(1,864,059)	154,548
Sewer	(1,382,439)	1,270,183
Electric	(8,465,191)	1,681,630
Garbage	(492,478)	40,025
Railroad	(56,327)	26,036
Total Business-type Activities	<u>(12,260,494)</u>	<u>3,172,422</u>
Grand total	<u>\$ (15,962,250)</u>	<u>\$ 377,578</u>

In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

CITY OF JACKSON, OHIO
JACKSON COUNTY

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

CHART 1



The City's reliance upon program revenues is demonstrated by the graph above indicating 84% of total revenues from charges for services. The reliance on program revenues is indicated by the net cost of services column on the preceding page reflecting the need for only \$377,578 of support, as well as the graph above, indicating general revenues comprise only 16% of total revenues.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of 2003, the City's governmental funds reported combined ending fund balances of a negative \$635,198, a 27.4% increase from the prior year.

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2003 and 2002.

	Fund Balance 12/31/2003	Fund Balance 12/31/2002	Increase (Decrease)
General	\$ (2,637,945)	\$ (2,529,929)	\$ (108,016)
Other Governmental	2,002,747	1,654,922	347,825
Total	\$ (635,198)	\$ (875,007)	\$ 239,809

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was a negative \$2.68 million, while total fund balance was a negative \$2.64 million.

The fund balance of the City's General Fund decreased \$108,016 during the current fiscal year. This decrease represents the slight degree to which increases in ongoing General Fund expenditures have outstripped similar increases in ongoing General Fund revenues.

The other governmental funds had a fund balance at year end of \$ 2,002,747 or an increase over year-end 2002 of \$347,825. There are 41 other governmental funds that account for many special programs. The increase in fund balance over the previous year-end demonstrates the degree by which revenues are growing in comparison to expenditures.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets in the Water Fund at the end of the year amounted to \$4,016,295. Total net assets increased \$177,829, or 3.2%, from the previous year.

Unrestricted net assets in the Sewer Fund at the end of the year amounted to \$6,101,756. Total net assets increased \$1,120,531 or 14.7%, from the previous year.

Unrestricted net assets in the Electric Fund at the end of the year amounted to \$6,933,554. Total net assets increased \$1,742,849, or 33.6%, from the previous year.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

GENERAL FUND BUDGETARY INFORMATION

The City's budget is prepared in accordance with Ohio law and is based on the budgetary basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

Differences between the original budget and the final amended budget in the General Fund were significant. The final amended revenue estimate exceeded the original estimate by \$678,481, or 35%, and the final appropriations exceeded the original resolution by \$274,936, or 10%. The City's actual revenues exceeded the final revenue estimate by \$178,004, or 6%, and the final amended appropriations exceeded actual expenditures by \$295,654, or 10%.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2003, amounts to \$14.5 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, equipment, vehicles, and infrastructure. Total acquisitions for 2003 were \$ 1.36 million, and total depreciation for the year was \$933,037. Detailed information regarding capital asset activity is included in the Note 7 to the basic financial statements.

DEBT

At the end of the 2003, the City had total debt outstanding of \$9,118,669. Of this amount, \$2,773,669 is backed by the full faith and credit of the City. The remaining \$6,345,000 of the City's debt represents bonds secured by specified revenue sources (i.e. mortgage revenue bonds).

The City's total debt decreased by \$1.35 million (12.9%) during 2003. Although new bonds were issued totaling \$.7 million, principal on existing bonds totaling \$2.1 million was retired. Detailed information regarding long-term debt is included in Note 8 to the basic financial statements.

CONTACTING THE CITY AUDITOR'S DEPARTMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

City of Jackson, Ohio
City Auditor
145 Broadway Street
Jackson, Ohio 45640-1656
740-286-2423

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City of Jackson
Statement of Net Assets
December 31, 2003

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and Cash Equivalents	\$ 1,884,211	\$ 12,280,376	\$ 14,164,587
Receivables:			
Taxes	746,954	-	746,954
Accounts	10,921	1,838,633	1,849,554
Due From Other Funds	46,926	2,748,045	2,794,971
Interfund Receivable	62,466	-	62,466
Accrued Interest	11,376	23	11,399
Intergovernmental Receivable	745,490	150,000	895,490
Materials & Supplies Inventory	16,963	206,493	223,456
Loans Receivable	26,400	111,900	138,300
Prepaid Items	31,814	32,124	63,938
Deferred Charges	-	67,557	67,557
Total Current Assets	3,583,521	17,435,151	21,018,672
Restricted Assets:			
Cash and Cash Equivalents	5,420	1,313,071	1,318,491
Cash and Cash Equivalents with Fiscal Agents	-	416	416
Customer Deposits	-	166,684	166,684
Total Restricted Assets	5,420	1,480,171	1,485,591
Investment in Joint Venture	-	563,601	563,601
Fixed Assets (Net of Accum. Depreciation)	8,054,021	14,476,584	22,530,605
Total Assets	11,642,962	33,955,507	45,598,469
Liabilities			
Accounts Payable	96,092	101,791	197,883
Contracts Payable	-	900	900
Accrued Wages and Benefits Payable	50,102	52,013	102,115
Due To Other Funds	2,748,045	46,926	2,794,971
Interfund Payable	-	62,466	62,466
Intergovernmental Payable	80,717	44,163	124,880
Deposits Held and Due to Others	-	169,274	169,274
Deferred Revenue	1,067,938	150,000	1,217,938
Accrued Interest Payable	7,170	27,732	34,902
Long-Term Liabilities			
Due Within One Year	435,348	1,133,711	1,569,059
Due in More Than One Year	479,928	7,069,684	7,549,612
Total Liabilities	4,965,340	8,858,660	13,824,000
Net Assets			
Investment in Capital Assets Net of Related Debt Restricted for Other Purposes	7,675,597	7,631,540	15,307,137
Unrestricted Net Assets	(2,380,203)	17,465,307	15,085,104
Total Net Assets	\$ 6,677,622	\$ 25,096,847	\$ 31,774,469

See accompanying notes to the basic financial statements.

City of Jackson
Statement of Net Activities
December 31, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General Government	\$ 146,991	\$ 174,877	\$ -	\$ -	\$ 27,886	\$ -	\$ 27,886
Security of Persons & Property	1,778,303	53,386	24,318	-	(1,700,599)	-	(1,700,599)
Public Health	272,626	54,767	(17)	-	(217,876)	-	(217,876)
Transportation	742,066	6,210	294,842	-	(441,014)	-	(441,014)
Community Environment	608,736	16,953	226,502	-	(365,281)	-	(365,281)
Leisure Time Activities	135,854	32,925	22,149	-	(80,780)	-	(80,780)
Interest on Long-Term Debt	17,180	-	-	-	(17,180)	-	(17,180)
Depreciation Expense, Unallocated	-	-	-	-	-	-	-
Total Governmental Activities	3,701,756	339,118	567,794	-	(2,794,844)	-	(2,794,844)
Business-Type Activities							
Water	1,864,059	2,018,607	-	-	-	154,548	154,548
Sewer	1,382,439	2,652,622	-	-	-	1,270,183	1,270,183
Garbage	492,478	532,503	-	-	-	40,025	40,025
Electrical	8,465,191	10,146,821	-	-	-	1,681,630	1,681,630
Railroad	56,327	82,363	-	-	-	26,036	26,036
Total Business-Type Activities	12,260,494	15,432,916	-	-	-	3,172,422	3,172,422
Total Government	\$ 15,962,250	\$ 15,772,034	\$ 567,794	\$ -	(2,794,844)	3,172,422	377,578
General Revenues:							
Taxes:							
Property and Other					1,531,548	-	1,531,548
Grants and Contributions Not Restricted to Specific Programs					498,319	-	498,319
Investment Earnings					221,348	15,974	237,322
Gain on Investment in Joint Venture					-	49,571	49,571
Miscellaneous					165,377	(129,489)	35,888
Gain (Loss) on Sale of Fixed Asset					(174,286)	3,033	(171,253)
Advances in					9,440	-	9,440
Total General Revenues, Special Items and Advances In					2,251,746	(60,911)	2,190,835
Change in Net Assets					(543,098)	3,111,511	2,568,413
Net Assets - Beginning of Year					7,220,725	21,985,336	29,206,061
Net Assets - End of Year					\$ 6,677,627	\$ 25,096,847	\$ 31,774,474

See accompanying notes to the basic financial statements.

**City of Jackson
Balance Sheet
Governmental Funds
December 31, 2003**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and Cash Equivalents	\$ -	\$ 1,884,211	\$ 1,884,211
Receivables:			
Taxes	380,382	366,572	746,954
Accounts	10,611	310	10,921
Loans	-	26,400	26,400
Interfund	62,466	-	62,466
Accrued Interest	11,107	269	11,376
Due From Other Funds	77,087		77,087
Intergovernmental Receivable	74,135	671,355	745,490
Materials and Supplies Inventory	922	16,041	16,963
Prepaid Items	24,962	6,853	31,815
Restricted Cash		5,420	5,420
 Total Assets	<u>\$ 641,672</u>	<u>\$ 2,977,431</u>	<u>\$ 3,619,103</u>
Liabilities, Fund Balance and Other Credits			
Liabilities			
Accounts Payable	\$ 35,930	\$ 60,152	\$ 96,082
Accrued Wages and Benefits	36,556	13,546	50,102
Compensated Absences Payable	13,464	4,650	18,114
Due to Other Funds	2,748,043	30,161	2,778,204
Intergovernmental Payable	49,703	31,014	80,717
Deferred Revenue	391,190	834,027	1,225,217
Accrued Interest Payable	4,731	1,134	5,865
 Total Liabilities	<u>3,279,617</u>	<u>974,684</u>	<u>4,254,301</u>
Fund Balance and Other Credits			
Fund Balance:			
Reserved for Encumbrances	44,806	15,891	60,697
Reserved for Inventory	922	16,041	16,963
Reserved for Perpetual Care	-	438,257	438,257
Reserved for Loans Receivable	-	26,400	26,400
Unreserved, Reported In:			
General Fund	(2,683,673)	-	(2,683,673)
Special Revenue Funds		1,242,862	1,242,862
Capital Projects Funds		263,296	263,296
 Total Fund Balance and Other Credits	<u>(2,637,945)</u>	<u>2,002,747</u>	<u>(635,198)</u>
 Total Liabilities, Fund Balance and Other Credits	<u>\$ 641,672</u>	<u>\$ 2,977,431</u>	<u>\$ 3,619,103</u>

See accompanying notes to the basic financial statements.

City of Jackson
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities
December 31, 2004

Total Fund Balances - Governmental Funds	\$ (635,198)
Cost of assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	8,054,021
Long-term liabilities are not due and payable in the current period; therefore they are not reported as liabilities in the funds.	(898,474)
Revenues collected in current period that are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	157,279
Total Net Assets - Governmental Activities	<u><u>\$ 6,677,628</u></u>

See accompanying notes to the basic financial statements.

City of Jackson
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
For the year ended December 31, 2003

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property and Other Taxes	\$ 1,088,420	\$ 443,128	\$ 1,531,548
Intergovernmental	346,057	940,899	1,286,956
Charges for Services	54,618	87,692	142,310
Fines, Licenses, and Permits	198,100	(1,292)	196,808
Interest	193,578	27,770	221,348
Donations	-	709	709
Other	53,494	120,614	174,108
Total Revenues	<u>1,934,267</u>	<u>1,619,520</u>	<u>3,553,787</u>
Expenditures:			
Current:			
Security of Persons and Property	1,560,715	76,798	1,637,513
Public Health Services		315,056	315,056
Leisure Time Activities		142,317	142,317
Community Environment		588,392	588,392
Transportation	91,218	452,758	543,976
General Government	97,386	8,651	106,037
Capital Outlay		93,147	93,147
Debt Service:			
Principal Retirement	94,728	950,157	1,044,885
Interest and Fiscal Charges	8,705	11,301	20,006
Total Expenditures	<u>1,852,752</u>	<u>2,638,577</u>	<u>4,491,329</u>
Excess of Revenues Over/ (Under) Expenditures	<u>81,515</u>	<u>(1,019,057)</u>	<u>(937,542)</u>
Other Financing Sources/(Uses):			
Proceeds of Notes	70,602	456,749	527,351
Sale of Fixed Assets	-	650,000	650,000
Operating Transfers - In	-	277,300	277,300
Operating Transfers - Out	(260,133)	(17,167)	(277,300)
Total Other Sources (Uses)	<u>(189,531)</u>	<u>1,366,882</u>	<u>1,177,351</u>
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Uses	(108,016)	347,825	239,809
Fund Balances (Deficit) at			
Beginning of Year	(2,529,929)	1,654,922	(875,007)
End of Year	<u>\$ (2,637,945)</u>	<u>\$ 2,002,747</u>	<u>\$ (635,198)</u>

See accompanying notes to the basic financial statements.

City of Jackson
Reconciliation of the Statement of Revenues, Expenditures and Changes if Fund Balances
of Governmental Funds to the Statement of Activities
December 31, 2004

Net Change in Fund Balances - Total Governmental Funds	\$	239,809
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period		(229,683)
Governmental funds report the sale of capital assets as another financing source. However in the statement of activities, the net book value of the asset sold is deducted from the sale price to arrive at the either a gain or loss on the sale. This is to reduce the fund balance by the proceeds not recognized under the full-accrual basis and to recognize the loss on the sale on the statement of net assets.		(824,286)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(220,843)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect		517,534
Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.		
Accrued Interest, Beginning		4,131
Accrued Interest, Not Recognized Under Modified Accrual		(1,305)
Compensated Absences		4,712
Retirement Incentives		(33,244)
Other		77
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>(543,098)</u>

See accompanying notes to the basic financial statements.

City of Jackson
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budget Basis)
General Fund
For the year ended December 31, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis)
	Original	Final	
Revenues			
Property and Other Taxes	\$ 1,029,278	\$ 904,983	\$ 961,408
Intergovernmental	241,966	279,395	395,707
Charges for Services	303,151	947,909	947,959
Fines, Licenses and Permits	157,263	195,054	195,969
Interest Received	113,309	191,401	195,633
Other Resources	49,149	53,855	53,925
Amounts Available for Appropriation	<u>1,894,116</u>	<u>2,572,597</u>	<u>2,750,601</u>
Expenditures			
General Government:			
Mayor	45,507	45,522	43,757
Auditor	211,138	227,138	212,542
Treasurer	6,301	16,685	15,387
Service Administration	287,388	394,895	377,178
Legislative	54,199	58,431	49,933
Civil Service	1,100	1,100	100
General Government	413,236	452,575	359,124
Public Safety:			
Police	1,516,797	1,608,820	1,496,137
Fire	42,600	44,600	6,903
Transportation:			
Engineer	94,850	98,286	91,338
Total Expenditures	<u>2,673,116</u>	<u>2,948,052</u>	<u>2,652,398</u>
Excess of Revenues Over/ (Under) Expenditures	<u>(779,000)</u>	<u>(375,455)</u>	<u>98,203</u>
Other Financing Sources (Uses)			
Transfers-In	-	2,135	2,135
Transfers-Out	<u>(60,000)</u>	<u>(260,133)</u>	<u>(260,133)</u>
Total Other Financing Sources (Uses)	<u>(60,000)</u>	<u>(257,998)</u>	<u>(257,998)</u>
Net Change in Fund Balance	(839,000)	(633,453)	(159,795)
Fund Balance Beginning of Year	(2,684,879)	(2,684,879)	(2,684,879)
Prior Year Encumbrances Appropriated	<u>134,463</u>	<u>134,463</u>	<u>134,463</u>
Fund Balance End of Year	<u>\$ (3,389,416)</u>	<u>\$ (3,183,869)</u>	<u>\$ (2,710,211)</u>

See accompanying notes to the basic financial statements.

**City of Jackson
Statement of Net Assets
Enterprise Funds
December 31, 2003**

	Water Fund	Sewer Fund	Garbage Fund	Electric Fund	Railroad Fund	Total
Assets						
Cash and Cash Equivalents	\$ 3,655,748	\$ 5,855,943	\$ 360,823	\$ 2,386,408	\$ 21,454	\$ 12,280,376
Investments in Segregated Accounts						
Receivables:						
Accounts	243,975	290,195	72,106	1,208,042	24,315	1,838,633
Accrued Interest				23		23
Due from Other Funds	-	-	-	2,748,043	-	2,748,043
Intergovernmental Receivable		150,000		-	-	150,000
Materials & Supplies Inventory	20,593	39,461	-	146,439	-	206,493
Loans Receivable	-	-	-	111,900	-	111,900
Prepaid Items	11,440	8,397	1,773	10,514	-	32,124
Deferred Charges	67,557	-	-	-	-	67,557
Total Current Assets	3,999,313	6,343,996	434,702	6,611,369	45,769	17,435,149
Restricted Assets:						
Cash and Cash Equivalents	237,510	156,408	-	919,153	-	1,313,071
Cash and Cash Equivalents with Fiscal Agents	416	-	-	-	-	416
Customer Deposits	25,491	22,064	3,604	115,525	-	166,684
Total Restricted Assets	263,417	178,472	3,604	1,034,678	-	1,480,171
Investment in Joint Venture				563,601		563,601
Fixed Assets (Net of Accum. Depreciation)	4,271,007	3,512,894	201,942	3,190,319	3,300,424	14,476,586
Total Assets	8,533,737	10,035,362	640,248	11,399,967	3,346,193	33,955,507
Liabilities						
Accounts Payable	26,239	25,234	13,934	36,384	-	101,791
Contracts Payable	900	-	-	-	-	900
Accrued Wages and Benefits Payable	16,068	13,979	5,984	15,982	-	52,013
Interfund Payable	-	-	-	62,466	-	62,466
Due to Other Funds	-	46,926	-	-	-	46,926
Intergovernmental Payable	13,484	11,929	4,201	14,549	-	44,163
Deposits Held and Due to Others	26,747	23,788	3,214	115,525	-	169,274
Deferred Revenue	-	150,000	-	-	-	150,000
Accrued Interest Payable	10,652	2,353	-	10,765	3,962	27,732
Notes Payable	359,296	593,848	85,164	3,872	178,668	1,220,848
Current Portion of Long-Term Debt	134,591	313,666	-	396,306	-	844,563
Total Current Liabilities	587,977	1,181,723	112,497	655,849	182,630	2,720,676
Long-Term (Net of Current)	2,167,754	120,588	39,078	3,810,564	-	6,137,984
Total Long-Term Liabilities	2,167,754	120,588	39,078	3,810,564	-	6,137,984
Total Liabilities	2,755,731	1,302,311	151,575	4,466,413	182,630	8,858,660
Net Assets						
Investment in Capital Assets Net of Related Debt	1,761,711	2,631,295	116,778	-	3,121,756	7,631,540
Unrestricted Net Assets	4,016,295	6,101,756	371,895	6,933,554	41,807	17,465,307
Total Net Assets	\$ 5,778,006	\$ 8,733,051	\$ 488,673	\$ 6,933,554	\$ 3,163,563	\$ 25,096,847

See accompanying notes to the basi financial statements.

City of Jackson
Statement of Revenues, Expenses and Changes in
Net Assets
Enterprise Funds
For the year ended December 31, 2003

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Electric Fund</u>	<u>Railroad Fund</u>	<u>Total</u>
Operating Revenues:						
Charges for Services	\$ 2,007,357	\$ 2,491,797	\$ 511,132	\$ 10,090,433	\$ -	\$ 15,100,719
Tap-In Fees	11,250	-	-	-	-	11,250
Other Operating Revenues	-	160,825	21,371	56,388	82,363	320,947
Total Operating Revenues	<u>2,018,607</u>	<u>2,652,622</u>	<u>532,503</u>	<u>10,146,821</u>	<u>82,363</u>	<u>15,432,916</u>
Operating Expenses:						
Salaries and Wages	602,609	535,256	180,345	618,740	-	1,936,950
Fringe Benefits	242,064	245,909	78,438	273,432	-	839,843
Contractual Services	275,461	188,235	137,223	5,968,326	1,241	6,570,486
Travel Transportation	1,573	1,077	-	2,616	-	5,266
Materials & Supplies	191,959	130,551	20,567	(29,522)	-	313,555
Utilities	66,777	16,210	15,336	6,868	-	105,191
Other	174,467	73,758	22,242	605,617	2,800	878,884
Depreciation	184,702	179,907	35,860	115,445	40,978	556,892
Capital outlay	-	(10,808)	998	-	-	(9,810)
Total Operating Expenses	<u>1,739,612</u>	<u>1,360,095</u>	<u>491,009</u>	<u>7,561,522</u>	<u>45,019</u>	<u>11,197,257</u>
Operating Income/(Loss)	<u>278,995</u>	<u>1,292,527</u>	<u>41,494</u>	<u>2,585,299</u>	<u>37,344</u>	<u>4,235,659</u>
Non-Operating Revenues/(Expenses):						
Other Financing Uses	-	(152,768)	-	-	-	(152,768)
Interest Income	3,057	2,182	-	10,735	-	15,974
Gain/(Loss) on Disposal of Assets	(3,055)	935	4,240	913	-	3,033
Investment in Joint Venture	-	-	-	49,571	-	49,571
Other	23,279	-	-	-	-	23,279
Interest and Fiscal Charges	(124,447)	(22,345)	(1,469)	(903,669)	(11,307)	(1,063,237)
Total Non-Operating Revenue/(Expenses)	<u>(101,166)</u>	<u>(171,996)</u>	<u>2,771</u>	<u>(842,450)</u>	<u>(11,307)</u>	<u>(1,124,148)</u>
Income/(Loss) Before Transfers	<u>177,829</u>	<u>1,120,531</u>	<u>44,265</u>	<u>1,742,849</u>	<u>26,037</u>	<u>3,111,511</u>
Transfers - In	30,000	220,000	12,000	-	-	262,000
Transfers - Out	(30,000)	(220,000)	(12,000)	-	-	(262,000)
Change in Net Assets	<u>177,829</u>	<u>1,120,531</u>	<u>44,265</u>	<u>1,742,849</u>	<u>26,037</u>	<u>3,111,511</u>
Total Net Assets - Beginning	<u>5,600,177</u>	<u>7,612,520</u>	<u>444,408</u>	<u>5,190,705</u>	<u>3,137,526</u>	<u>21,985,336</u>
Total Net Assets - Ending	<u>\$ 5,778,006</u>	<u>\$ 8,733,051</u>	<u>\$ 488,673</u>	<u>\$ 6,933,554</u>	<u>\$ 3,163,563</u>	<u>\$ 25,096,847</u>

See accompanying notes to the basic financial statements.

City of Jackson
Statement of Cash Flows
Enterprise Funds
December 31, 2003

	Water Fund	Sewer Fund	Garbage Fund	Electric Fund	Railroad Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 2,074,156	\$ 2,641,381	\$ 544,045	\$ 10,453,786	\$ 65,619	\$ 15,778,987
Payments to employees	(808,491)	(779,324)	(249,865)	(924,902)	-	(2,762,582)
Payments to other funds	(127,634)	(447)	(34,014)	(569,177)	(2,800)	(734,072)
Payments to suppliers	(469,305)	(338,753)	(180,788)	(6,688,203)	(1,241)	(7,678,290)
Net cash provided (used) by operating activities	<u>668,726</u>	<u>1,522,857</u>	<u>79,378</u>	<u>2,271,504</u>	<u>61,578</u>	<u>4,604,043</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Interest paid	(126,367)	(23,316)	(2,660)	(996,402)	(15,067)	(1,163,812)
Other	23,279					23,279
Net cash provided (used) by noncapital financing activities	<u>(103,088)</u>	<u>(23,316)</u>	<u>(2,660)</u>	<u>(996,402)</u>	<u>(15,067)</u>	<u>(1,140,533)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Debt principle retirement	(121,708)	(296,571)	(25,058)	(358,791)	(77,067)	(879,195)
Acquisition of capital assets	(121,806)	(491,834)	(3,798)	(342,718)		(960,156)
Sale of fixed assets			9,000	800		9,800
Net cash flows provided (used) by capital and related financing activities	<u>(243,514)</u>	<u>(788,405)</u>	<u>(19,856)</u>	<u>(700,709)</u>	<u>(77,067)</u>	<u>(1,829,551)</u>
CASH FLOWS FORM INVESTING ACTIVITIES						
Interest income	3,057	2,182		10,712		15,951
Net cash flows provided (used) by investing activities	<u>3,057</u>	<u>2,182</u>	<u>-</u>	<u>10,712</u>	<u>-</u>	<u>15,951</u>
Net increase (decrease) in cash	325,181	713,318	56,862	585,105	(30,556)	1,649,910
Cash and cash equivalents beginning	3,593,984	5,321,097	307,565	2,835,981	52,010	12,110,637
Cash and cash equivalents ending	<u>\$ 3,919,165</u>	<u>\$ 6,034,415</u>	<u>\$ 364,427</u>	<u>\$ 3,421,086</u>	<u>\$ 21,454</u>	<u>\$ 13,760,547</u>

Reconciliation of operating income to net cash provided (used) by operating activities:

Operating income	\$ 278,995	\$ 1,292,527	\$ 41,494	\$ 2,585,299	\$ 37,344	\$ 4,235,659
Adjustments to reconcile operating income to net income provided (used) by operating activities:						
Depreciation expense	184,702	179,907	36,858	115,445	40,978	557,890
(Increase) decrease in accounts receivable	(243,975)	5,232	11,260	197,624	(16,744)	(46,603)
(Increase) decrease in interfund receivable	353,816	14,716	-	(109,840)	-	258,692
(Increase) decrease in inventory	58,118	27,217	-	(42,489)	-	42,846
(Increase) decrease in loans receivable	-	-	-	33,068	-	33,068
(Increase) decrease in prepaid items	(1,288)	(1,382)	100	(1,684)	-	(4,254)
Increase (decrease) in accounts payable	6,802	18,940	(14,786)	(371,527)	-	(360,571)
Increase (decrease) in contracts payable	900	(7,042)	-	(182,264)	-	(188,406)
Increase (decrease) in accrued wages and benefits payable	7,819	6,176	3,037	5,170	-	22,202
Increase (decrease) in compensated absences	9,654	11,257	2,857	(23,441)	-	327
Increase (decrease) in intergovernmental payable	(1,572)	(1,551)	(740)	(3,483)	-	(7,346)
Increase (decrease) in interfund payable	-	-	-	62,466	-	62,466
Increase (decrease) in deposits held for others	131	554	(702)	4,385	-	4,368
Increase (decrease) in retirement benefits payable	14,624	(23,694)	-	2,775	-	(6,295)
Net cash provided by operating activities	<u>\$ 668,726</u>	<u>\$ 1,522,857</u>	<u>\$ 79,378</u>	<u>\$ 2,271,504</u>	<u>\$ 61,578</u>	<u>\$ 4,604,043</u>

See accompanying notes to the basic financial statements.

City of Jackson
Statement of Fiduciary Assets and
Liabilities
Agency Funds
December 31, 2003

Assets

Cash and Cash Equivalents	\$	21,080
Due from Other Funds		-
Total Assets	<u>\$</u>	<u>21,080</u>

Liabilities

Refunds Payable	\$	6,875
Deposits Held		14,205
Total Liabilities	<u>\$</u>	<u>21,080</u>

See accompanying notes to the basic financial statements.

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**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The City of Jackson (the City), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio. The City is operated under a statutory form of government and is a municipal corporation under the laws of the State of Ohio.

The City operates under a Council-Mayor form of government and provides the following services: public safety, public services, recreation and development. Education services are provided by Jackson City School District. The School District is a separate governmental entity and its financial statements are not included in these financial statements.

This report includes all activities considered by management to be part of the City by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for legally separate organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support, the organization; or (c) is obligated in some manner for the debt of the entity. The financial statements of the reporting entity allow the users to distinguish between the primary government and its component units.

All component units are so intertwined with the primary government that they are reported in a manner similar to the balances and transactions of the primary government itself (this method is known as blending).

The City provides various services including police and fire protection, water, sewer, electric, and garbage services, parks and recreation services, street maintenance, and other governmental services. The Council directly controls the operation of each of these activities through the budgetary process. These City operations form the legal entity of the City and are included as the primary government.

Management believes the financial statements included in this report represent all of the funds of the City over which the City has the ability to exercise direct operating control.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses have a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough after to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The government reports the following major Governmental Funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major Proprietary Funds:

The *Water Fund* accounts for the activities of the water department. The water department operates the water distribution system.

The *Sewer Fund* accounts for the activities of the sewer department. The sewer department operates the sewage treatment plant, sewage pumping stations and sewage collection systems.

The *Electric Fund* accounts for the activities of the electric department. The electric department operates the electric distribution system.

The *Garbage Fund* accounts for the activities of the refuse department. The refuse department collects and disposes of the City's resident's garbage.

The *Railroad Fund* accounts for the activities of the City's Railroad. The Railroad operates a rail spur.

Additionally, the government reports the following fund types:

The *Agency Funds* are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

C. Deposits and Investments

To improve cash management, cash received by the City is pooled, except as specifically stipulated by ordinance. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "Cash and Cash Equivalents" on the combined balance sheet.

State statutes authorize the City to invest in obligations of the U.S. Treasury, repurchase agreements, bonds of the State of Ohio and STAROhio. Investments are reported at fair value, which is based on quoted market prices. STAROhio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio 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.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2003.

For purposes of the statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

D. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

E. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories and prepaid items are offset by a fund balance reserve in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

F. Restricted Assets

"Restricted Assets: Cash and Cash Equivalents with Fiscal and Escrow Agents" in the Enterprise Funds represent monies legally restricted as part of the bond indenture for current and future debt service payments until the debt is retired. All other restricted asset accounts represent customer deposits.

G. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. The government defines capital assets as assets with an initial, individual cost of more than \$1,000 (\$5,000 for infrastructure) and an estimated useful life exceeding one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**CITY OF JACKSON, OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets and Depreciation (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is not included as part of the capitalized value of the assets constructed.

Property, plant, and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets. Depreciable lives used for property items within each property classification are as follows:

<u>Classification</u>	<u>Useful Life</u>
Buildings and Other Improvements	25-50 years
Infrastructure	25-60 years
Vehicles	5-12 years
Machinery & Equipment	5-20 years

H. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All accumulated vacation leave and vested accumulated sick leave is recorded as a liability in the government-wide, proprietary, and fiduciary fund financial statements. In the governmental funds, accumulated vacation leave and vested accumulated sick leave that is expected to be liquidated with available financial resources are recorded as an expenditure and a fund liability of the governmental fund that will pay it.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**CITY OF JACKSON, OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Interfund Transactions

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

During the normal course of operations, the City has numerous transactions between funds. Transfers represent movement of resources from a fund receiving revenue to a fund through which those resources will be expended and are recorded as other financing sources (uses) in the governmental funds and as transfers in proprietary funds. Interfund transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the City are treated similarly when involving other funds of the City.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either interfund receivable/interfund payable” for the current portion of interfund loans or advances to/from other funds for the non-current portion of interfund loans. These amounts are eliminated in the Statement of Net Assets, except for any residual balances outstanding between the governmental activities and business-type activities, which are reported in the government-wide financial statements as “internal balances”.

Long-term advances between funds, as reported in the governmental fund financial statements, are often offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

L. Estimates

The preparation of financial statements in conformity with U.S. 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 - BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations, and changes in fund balances on the basis of United States 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 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budget Basis) – for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

**CITY OF JACKSON, OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING (Continued)

Excess (Deficiency) of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses

	General Fund
GAAP basis	\$ (108,016)
Accrued revenues at December 31, 2002	66,904
Accrued revenues at December 31, 2003	(147,516)
Accrued expenses at December 31, 2002	(40,860)
Accrued expenses at December 31, 2003	109,769
Accrued interest charges	4,730
Outstanding encumbrances	(44,806)
Budget basis	\$ (159,795)

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the 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 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 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.

**CITY OF JACKSON, OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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 securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Cash on Hand At fiscal year end, the City had \$2,750 in undeposited cash on hand which is included on the balance sheet of the City as part of equity in pooled cash and cash equivalents.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Deposits At fiscal year end, the carrying amount of the City's deposits was \$6,733,790 and the bank balance was \$6,781,518. Of the bank balance:

1. \$400,000 was covered by federal depository insurance; and
2. \$2,269,729 was collateralized with securities held by the pledging financial institution's trust department in the City's name.
3. \$4,111,789 was uncollateralized or collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the entity's name.

Investments The City's investments are required to be categorized below to give an indication of the level of risk assumed by the City at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which 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 is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

Investment	Fair Value
STAROhio	\$7,616,227
Money Market Accounts	\$1,318,491
Total	\$8,934,718

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments and the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$ 15,671,258	\$ -
Cash on Hand	(2,750)	
Pooled Investments:		
STAROhio	(7,616,227)	7,616,227
Money Market Accounts	(1,318,491)	1,318,491
GASB Statement 3	\$ 6,733,790	\$ 8,934,718

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 5 - TAXES

Property Taxes

Property taxes are levied and assessed on a calendar year basis. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the City. All property is required to be revalued every six years. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Public utility property taxes, attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes.

Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

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

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

The City receives property taxes from Jackson County. The County Auditor periodically advances to the City its portion of the taxes collected. Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which became measurable as of December 31, 2003. The assessed valuations of the City for tax year 2002, which were used to collect taxes in calendar year 2003, are as follows:

	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$ 86,323,130	75%
Tangible Personal	<u>28,221,376</u>	<u>25%</u>
Total Assessed Value	<u>\$114,544,506</u>	<u>100%</u>

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 6 - RECEIVABLES

Receivables at December 31, 2003, consisted of taxes, accounts (billings for user charged services including unbilled utility services), accrued interest, loans, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered collectible in full.

Loans receivable represent monies due from a revolving loan program for the improvement of homes in the City. Notes receivable represent monies due from local industries for work performed by the City.

A summary of the principal items of intergovernmental receivables for Governmental Activities follows:

<u>Intergovernmental Receivables:</u>	<u>Amount</u>
General Fund:	
Local Government	<u>\$74,135</u>
 Total General Fund	 <u>74,135</u>
 Other Governmental Funds:	
Street	127,293
State Highway	10,352
Community Housing Improvement Program	524,899
FEMA	<u>8,811</u>
Total Other Governmental Funds	<u>671,355</u>
 Total	 <u><u>\$745,490</u></u>

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 7 - CAPITAL ASSETS

An adjustment to beginning balances has been made to reflect the City's addition of infrastructure assets as required with the implementation of GASB Statement No. 34.

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

Description	Beginning Balance	Prior Period Restate	Restated Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciated assets:						
Land	\$ 998,791	\$ 46,424	\$ 1,045,215	\$ -	\$ 174,309	\$ 870,906
Capital assets, being depreciated:						
Buildings	2,531,983	50,124	2,582,107	71,301	680,274	1,973,134
Improvements	35,535	121,105	156,640	-	-	156,640
Equipment	2,490,440	92,353	2,582,793	84,440	30,054	2,637,179
Construction in Progress	245	-	245	-	245	-
Infrastructure	-	8,001,132	8,001,132	-	-	8,001,132
Total	6,056,994	8,311,138	14,368,132	155,741	884,882	13,638,991
Less accumulated depreciation for:						
Governmental Assets	1,814,826	3,444,414	5,259,240	376,140	50,410	5,584,970
Total	1,814,826	3,444,414	5,259,240	376,140	50,410	5,584,970
Total governmental capital assets, net	\$ 4,242,168	\$ 4,866,724	\$ 9,108,892	\$ (220,399)	\$ 834,472	\$ 8,054,021

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 37,337
Transportation	177,104
Security of Persons & Prop.	126,848
Public Health	4,670
Community Environment	16,639
Leisure	13,542
Total	\$ 376,140

**CITY OF JACKSON, OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 7 - CAPITAL ASSETS (Continued)

Business-Type capital asset activity for the year ended December 31, 2003, was as follows:

Description	Beginning Balance	Prior Period Restate	Restated Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciated assets:						
Land	\$ 2,973,145	\$ (46,424)	\$ 2,926,721	\$ -	\$ -	\$ 2,926,721
Capital assets, being depreciated:						
Land Improvements	-	-	-	-	-	-
Buildings	1,006,552	(50,124)	956,428	2,725	-	959,153
Improvements	12,770,123	(121,105)	12,649,018	822,805	10,000	13,461,823
Equipment	1,286,870	(92,353)	1,194,517	116,844	16,703	1,294,658
Vehicles	1,607,370	-	1,607,370	11,174	75,589	1,542,955
Construction in Progress	337,850	-	337,850	246,580	337,850	246,580
Total	19,981,910	(310,006)	19,671,904	1,200,128	440,142	20,431,890
Less accumulated depreciation for:						
Business-Type Activities	5,602,662	(109,005)	5,493,657	556,897	95,250	5,955,304
Total business-type capital assets, net	\$ 14,379,248	\$ (201,001)	\$ 14,178,247	\$ 643,231	\$ 344,892	\$ 14,476,586

Depreciation expense was charged to business-type programs as follows:

Water	\$184,707
Sewer	179,906
Electric	115,445
Garbage	35,860
Railroad	40,979
Total	<u>\$556,897</u>

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 8 - LONG-TERM OBLIGATIONS

Long-term liability activity for the year ended December 31, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Business-Type Activities:					
Mortgage Rev Bonds:					
1992 Sewer System –3.0 – 6.4%	\$260,000	\$0	\$125,000	\$135,000	\$135,000
1993 Electric System-2.7- 5.5%	1,215,000	0	175,000	1,040,000	185,000
1993 Water System-2.8- 5.6%	2,240,000	0	90,000	2,150,000	95,000
1996 Electric System-4.15- 6.4%	3,195,000	0	175,000	3,020,000	180,000
Total bonds payable	<u>6,910,000</u>	<u>0</u>	<u>565,000</u>	<u>6,345,000</u>	<u>595,000</u>
Loans and Notes Payable:					
2001 Railroad Rehab.-4.0%	121,155	0	28,885	92,270	30,269
2002 Railroad Ind. Park Loan – 1.5%	113,782	0	27,383	86,399	26,080
Railroad Locomotive shop – 4.5%	20,798	0	20,798	0	0
2001 Holzer Hospital Water Tower 0%	24,896	0	5,824	19,072	5,824
2001 Holzer Hospital Water Lines – 0%	285,125	0	8,772	276,353	8,772
Holzer Hospital Sewer Lift Station – 0%	569,049	0	19,073	549,976	19,073
Real Estate Improv. Bond Antic. Note-1.64-6.0%	125,709	0	125,709	0	0
Real Estate Improv. Bond Antic. Note-1.64-6.0%	0	96,776	0	96,776	96,776
Various Purpose Bond Antic. Note-2.82-4.26%	150,000	0	150,000	0	0
Various Purpose Bond Antic. Note-2.82-4.26%	0	100,000	0	100,000	100,000
1993 Ohio Water Dev. Authority- 2.2%	302,198	0	149,446	152,752	152,752
Total loans and notes	<u>1,712,712</u>	<u>196,776</u>	<u>535,890</u>	<u>1,373,598</u>	<u>439,546</u>
Early Retirement Incentive	186,096	29,998	68,743	147,351	96,811
Compensated Absences	257,710	79,736	0	337,446	0
Total Business Activity Obligations	<u>\$9,066,518</u>	<u>\$306,510</u>	<u>\$1,169,633</u>	<u>\$8,203,395</u>	<u>\$1,131,357</u>

**CITY OF JACKSON, OHIO
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 8 – LONG-TERM OBLIGATIONS (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Governmental Activity Obligations					
Real Estate Improv. Bond Antic. Note-1.64-6.0%	\$204,291	\$0	\$204,291	\$0	\$0
Real Estate Improv. Bond Antic. Note-1.64-6.0%		153,224		153,224	153,224
Various Purpose Bond Antic. Note-2.82-4.26%	300,000	0	300,000	0	0
Various Purpose Bond Antic. Note-2.82-4.26%		225,000		225,000	225,000
Rural Industrial Park Loan – 0.0-3.0%	390,875	149,125	540,000	0	0
Police/Fire Pension Liab.	40,744	0	592	40,152	616
Early Retirement Incentive Payable	100,329	94,128	60,884	133,573	38,394
Compensated Absences	<u>368,037</u>	<u>46,382</u>	<u>51,094</u>	<u>363,325</u>	<u>18,114</u>
Total Governmental Activity Obligations	<u>\$1,404,276</u>	<u>\$777,859</u>	<u>\$1,266,861</u>	<u>\$915,274</u>	<u>\$435,348</u>
Total Long-term Obligations	<u>\$10,470,794</u>	<u>\$1,084,369</u>	<u>\$2,436,494</u>	<u>\$9,118,669</u>	<u>\$1,569,059</u>

Water, Sewer and Electric Mortgage Revenue Bonds are for utility construction projects. Property and revenue of the utility facilities have been pledged to repay these debts.

Proprietary loans and notes are for the construction and acquisition of proprietary fund capital assets. The City backs these loans and notes and it has pledged its full faith and credit toward repayment.

General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City.

A summary of the City's future debt service requirements as of December 31, 2003 were as follows:

<u>Year</u>	<u>Business Type</u>		<u>Business Type</u>		<u>General</u>	
	Mortgage Revenue Bonds		Early Retirement Incentive		Early Retirement Incentive	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 595,000	\$ 373,400	\$96,811	*	38,394	*
2005	485,000	339,028	50,540		38,395	
2006	510,000	311,708	0		38,395	
2007	545,000	282,580	0		18,389	
2008	580,000	251,235	0		0	
2009-2013	2,040,000	859,428	0		0	
2014-2018	1,590,000	225,640	0		0	
TOTAL	<u>\$6,345,000</u>	<u>\$2,643,019</u>	<u>\$147,351</u>		<u>\$133,573</u>	

* Interest rates vary by individual based on the transaction date and is charged to the appropriate funds.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 8 – LONG-TERM OBLIGATIONS (Continued)

The compensated absences liability represents accrued bonus, compensatory time, vacation and sick leave benefits as of December 31, 2003 (See Note 10). The compensated absences will be paid from the funds in which the salaries are paid.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

For the year ended December 31, 2003, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The City's contribution rate for pension benefits for 2003 was 13.55 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$416,669, \$427,149, and \$336,079, respectively; 100 percent has been contributed for 2002 and 2001. There is balance due of \$11,042 for 2003, which is included in the intergovernmental payables.

B. Ohio Police and Fire Pension Fund

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

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters was \$141,780 for the year ended December 31, 2003, \$132,284 for the year ended December 31, 2002, and \$140,780 for the year ended December 31, 2001. The full amount has been contributed for 2002 and 2001. There is balance due of \$6,411 for 2003, which is included in the intergovernmental payables.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2003, the unfunded police liability of the City was \$39,607 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

NOTE 10 - 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 the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll; 5.00 percent of covered payroll was the portion that was 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 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$159,332. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

A. Ohio Public Employees Retirement System (Continued)

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

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

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits was \$62,684 for police. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 11 - EMPLOYEE BENEFITS

A. Deferred Compensation Plans

City employees and elected officials participate in a statewide deferred-compensation plan created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

B. Additional Insurance

The City provides \$20,000 in life insurance and accidental death and dismemberment insurance to its full-time employees and part-time employees working a minimum of twenty hours per week through Anthem Life.

The City provides comprehensive major medical insurance through United Health Care. The City pays \$947.75 of the total monthly premium of \$1,008.24 for family coverage and \$350.57 of the total monthly premium of \$372.75 for single coverage. Premiums are paid from the same funds that pay the employees' salaries.

C. Early Retirement Incentive

The City has approved a Retirement Incentive Plan that is available to five percent of the employees of the City who are members of OPERS. The plan is based on provisions of Section 145.297 of the Ohio Revised Code and Administrative Rule 145-15-04. Presently, six employees have elected to participate. Pursuant to the terms of the plan, service credit for each participant employee was purchased by the City in the amount equal to the lesser of the following:

1. Five (5) years of service credit, or
2. An amount equal to 1/5 of the total service of record credited to the participating employee in OPERS, exclusive of the service credit purchased under this plan.

On July 12, 2004, City Council adopted Ordinance 95-04 terminating the Early Retirement Incentive Plan effective September 1, 2004.

D. Compensated Absences

The criteria for determining vested vacation and sick leave benefits are derived from negotiated agreements and State laws. Upon retirement, all employees with more than 5 years but less than 10 years of service will be paid 50 percent of their accumulated, unused sick leave. Employees with 10 or more years of services will be paid 100 percent of their accumulated, unused sick leave. Upon voluntary termination, death, or retirement, all employees will receive 100% of vacation earned and not previously taken.

At December 31, 2003, the City's liability for compensated absences was \$703,421. A liability of \$363,140 has been recognized in the governmental activities and \$338,281 has been recognized in the business-type activities.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 12 – JOINT VENTURE

The City is a participant, with forty-two other subdivisions within the State of Ohio, in a joint venture to construct a hydroelectric plant and associated transmission facilities in West Virginia (on the Ohio River at the Belleville Locks and Dam) and receive electricity from its operation. The Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) was created for that purpose. On dissolution of the joint venture, the net assets of JV5 will be shared by the participants on a percentage basis. The JV5 is managed by AMP-Ohio who acts as the joint venture's agent. The participants are obligated by the agreement to remit, on a monthly basis, those costs incurred from using electricity generated by the joint venture and a portion of the \$138,420,000 Certificates of Beneficial Interest debt that was issued to construct the fixed asset. In accordance with the joint venture agreement, the City remitted \$742,020 to the joint venture for 2003. The City's net investment and its share of the operating results of JV5 are reported in the City's Electric enterprise fund. The City's equity interest in JV5 was \$563,601 at December 31, 2003. Financial information for JV5 may be obtained from AMP-Ohio, 2600 Airport Drive, Columbus, Ohio 43219, or from the City's utility department.

A. Litigation

At December 31, 2003, the City was the defendant in a class action lawsuit requesting injunctive relief and damages, due to the alleged overcharging of the City's Utilities for its services. On June 24, 2004, the Jackson County Court of Common Pleas dismissed this case with prejudice. The results of the suit are not subject to disclosure, however, the City believes the outcome was favorable.

The City, along with Auditor of State Jim Petro/Betty Montgomery, are defendants in a lawsuit seeking a declaratory judgment action to void an audit finding against the City. Plaintiffs in this action are the City's Mayor and Service/Safety Director. On September 23, 2002, the City Auditor made adjustments to the January 1, 2001 beginning equity to reflect the adjustments contained in the special audit report. These adjustments relate to the City's practice of transferring Water, Electric, and Sewer Fund cash to the General Fund. In the opinion of the Auditor of State, these payments to the General Fund are contrary to Ohio Law. On September 27, 2002, the City's Mayor, then John T. Evans, filed a motion for a restraining order and preliminary injunction to restrain the execution of the State Auditor's findings from the special audit report against the general fund. As of January 1, 2004, John T. Evans is no longer the mayor of the City of Jackson. The Court has allowed the City to exit from the suit so far as the suit was being carried out by the former, as the newly elected mayor had no desire to continue the lawsuit. It is the opinion of the City's Law Director that the City of Jackson is no longer an active party in this lawsuit.

There are issues and actions pending before the State Employment Relations Board involving an agreement between the City of Jackson and the Ohio Association of Public Employees, AFSCME Local 4, AFL-CIO and its Local 410, which is a union to consist of supervisors employed by the City. The City has hired outside counsel to provide expert representation in this specialized area. Matters pending include a suit concerning the recognition and approval of the proposed agreement, as well as numerous and sundry unfair labor practices. Counsel representing the City is D. Lewis Clark, Jr., Squire, Sanders and Dempsey, L.L.P., 1300 Huntington Center, 41 South High Street, Columbus, OH 43125.

NOTE 13 – LIABILITY INSURANCE

The City maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 100% insured with a \$1,000 deductible. Settled claims have not exceeded this commercial coverage in any of the last three years. There have been no significant reductions in insurance coverage from last year.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 13 – LIABILITY INSURANCE (Continued)

A blanket bond covers all employees of the City, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage. The City pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

NOTE 14 – CONTINGENT LIABILITIES

The City is a defendant in several lawsuits, the outcome of which cannot be determined. It is the opinion of the City's Law Director that any judgment against the City would not have a material adverse effect on the City's financial position.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

NOTE 15 - CONDUIT DEBT OBLIGATIONS

From time to time, the City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2003, there was one series of Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$1,126,590 and one series of Hospital Facilities Revenue Bonds outstanding with an aggregate principal amount payable of \$25 million.

NOTE 16 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The following funds had deficit fund balances as of December 31, 2003:

	Deficit Balances
General Fund	<u>\$2,637,945</u>
<u>Special Revenue Funds:</u>	
Program Income	\$21,548
Permissive Tax	\$1,081
FEMA Fire Gear	\$25

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 16 - ACCOUNTABILITY AND COMPLIANCE (Continued)

A. Accountability (Continued)

The deficits in the Permissive Tax and FEMA Fire Gear funds are the result of the recognition of payables in accordance with Generally Accepted Accounting Principles. However, contrary to Ohio law, the following funds had fund cash deficits at December 31, 2003: General Fund in the amount of \$2,790,382, Program Income (HOME) Fund in the amount of \$21,548, CHIP Round 13 Fund in the amount of \$8,613 and Wood Avenue Sanitary Sewer Lining Fund in the amount of \$46,926. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The City is currently monitoring its financial condition and is taking steps to increase revenue and reduce spending in order to alleviate the deficit in the General Fund.

B. Statutory Compliance

Section 5705.39, Revised Code requires that total appropriations be limited by total estimated resources. The General Fund had appropriations in excess of estimated receipts plus available balances for the year ended December 31, 2003, in the amount of \$375,455.

NOTE 17 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

A. Changes in Accounting Principles

The City has implemented GASB Statements No. 34 “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.” GASB 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include entity-wide financial statements prepared on the accrual basis of accounting, and fund financial statements, which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. The beginning net asset amount for governmental programs reflects the change in fund balance for the governmental funds at December 31, 2002, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management’s Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arise, or potentially could arise, in interpretation and practice.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

**NOTE 17 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES
(Continued)**

B. Restatement of Fund Balances

As presented below, several prior period restatements were recorded in fiscal year 2003. The compensated absences restatement is required to reclassify a portion of the previous years' liability recorded in the general long-term debt account group as a fund liability; the deferred revenue restatement is recorded to eliminate intergovernmental receivables recorded in error.

The transition from governmental fund balance to net assets of the governmental activities is also presented, as follows:

	General Fund	Other Governmental Funds	Total
Fund Balance December 31, 2002	\$(2,663,676)	\$ 338,583	\$ (2,325,093)
Prior Period Restatements:			
Compensated Absences	16,512	6,247	22,759
Notes Payable	94,135	410,155	504,290
Deferred Revenue	27,516		27,516
Accrued Interest Payable	1,138	2,556	3,694
Adjust Beginning Cash	(5,554)		(5,554)
Reclassifications as Governmental Fund Types:			
Permanent Fund	-	437,373	437,373
Expendable Trust		442,555	442,555
Recreation and Swimming Pool Funds		17,453	17,453
Adjusted Balance December 31, 2002	<u><u>\$(2,529,929)</u></u>	<u><u>\$ 1,654,922</u></u>	<u><u>\$ (875,007)</u></u>
GASB 34 Adjustments:			
Capital Assets			9,108,892
Long-Term Liabilities			(870,631)
Deferred Revenue			378,122
Accrued Interest Payable			(4,131)
Other			(12,241)
Notes Payable			(504,293)
Net Assets, December 31, 2002			<u><u>\$ 7,220,725</u></u>

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

**NOTE 17 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES
(Continued)**

The Enterprise Funds have been restated to reflect the reclassification of the Recreation and Swimming Pool Funds, as Governmental Funds, and to correct the notes receivable to record a credit to a sewer note receivable not previously recorded.

	Enterprise Funds
Business-Type Activities	
Fund Equity at December 31, 2002	\$ 22,341,590
Fund Reclassifications	(218,454)
Correction of Note Receivable	(149,465)
Correction of Accumulated Depreciation	11,665
Net Assets, December 31, 2002	<u>\$ 21,985,336</u>

NOTE 18 – DEFICIT FUND BALANCES

Due To and Due From Other Funds at December 31, 2003 consisted of the following:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 77,087	\$2,748,045
Program Income	-	21,548
Chip Round 13	-	<u>8,613</u>
Total Other Governmental Funds	-	30,161
Wood Avenue Sanitary Sewer Fund	-	46,926
Electric Fund	2,748,045	
Total Advances	<u>\$ 2,825,132</u>	<u>\$ 2,825,132</u>

Interfund Receivables and Interfund Payable at December 31, 2003, consisted of the following:

Interfund Receivables and Payables	Receivables	Payables
General Fund	\$ 62,466	\$ -
Electric Fund	-	\$ 62,466
Total Interfund Receivables/Payables	<u>\$ 62,466</u>	<u>\$ 62,466</u>

The interfund amount due is the Kilowatt Hour Tax collected by the Electric Fund and due to the General Fund at December 31, 2003. Due To and From Other Funds represents advances to cover Fund deficit cash balances at December 31, 2003.

**CITY OF JACKSON, OHIO
JACKSON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

NOTE 19 – FISCAL WATCH

The State Auditor's Office declared the City in fiscal watch on November 18, 2002, due to the City's financial condition. On December 21, 2004, the Jackson County Court of Common Pleas approved a petition to transfer \$2,817,000 from the City's Electric Fund to the General Fund in accordance with Ohio Revised Code Section 5705.15. This transfer brought the City's General Fund balance to (\$88,335) as of December 31, 2004.

On January 10, 2005, the State Auditor's office terminated the City's fiscal watch status. Their report states that the fiscal watch conditions which existed as of December 31, 2003 have been corrected. The improvement in the City of Jackson's financial condition justifies the City's release from fiscal watch.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

City of Jackson
Jackson County
145 Broadway Street
Jackson, Ohio 45640

To the City Council:

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Jackson, Jackson County, Ohio (the City), 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 January 7, 2005, wherein we noted the City adopted Governmental Accounting Standards Board Statements 34, 37, 38, and 41 and Interpretation 6. 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 to determine our auditing procedures to express our opinion on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 do not require inclusion in this report, that we have reported to the City's management in a separate letter dated January 7, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2003-001 through 2003-007. We also noted certain immaterial instances of noncompliance that we have reported to the City's management in a separate letter dated January 7, 2005.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

January 7, 2005

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003**

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

FINDING NUMBER 2003-001

Finding for Recovery

The City of Jackson's Department of Administrative Services position description for the Executive Assistant specifically states that Robin Bissell's duties include filling in for the Safety/Service Director in his absence. However, throughout the audit period, she was paid an additional \$6.33 per hour when performing the duties of the Safety/Service Director in his absence.

The following represents hours paid as Acting Safety/Service Director, the rate of pay in excess of the approved hourly rate for those hours, and the amount of the overpayment due to the General Fund:

Pay Period Ending	Approved Rate of Pay per Pay Status Form	Regular Hours	Overtime Hours "Paid"	Recalc'd Gross	Actual Gross Pay	Over/(Under) Payment	
03/05/03	\$15	80	17.8	\$1,562.72	\$1,714.64	\$151.92	(1)
03/19/03	14.65	80	17.9	1,565.35	1,669.17	103.82	(1)
04/02/03	14.65	80	11.3	1,420.32	1,522.59	102.27	(1)
04/16/03	14.65	80	15.6	1,514.81	1,546.46	31.65	(1)
04/30/03	14.65	80	16.9	1,544.84	1,696.77	151.93	(2)
06/25/03	14.65	80	5.5	1,292.86	1,303.80	10.94	(2)
07/09/03	14.75	80	-	1,180.00	1,280.48	100.48	(2)
07/23/03	14.75	80	-	1,180.00	1,362.97	182.97	(2)
08/20/03	14.75	80	-	1,180.00	1,382.57	202.57	(2)
09/03/03	14.75	80	-	1,180.00	1,230.65	50.65	(2)
09/17/03	14.75	80	-	1,180.00	1,211.65	31.65	(2)
10/29/03	14.75	80	9.0	1,379.13	1,770.00	390.88	(2)
11/12/03	14.75	80	-	1,180.00	1,549.06	369.06	(2)
12/24/03	14.75	80	-	1,180.00	1,281.28	101.28	(2)
						1,982.06	

(1) Per a letter dated 3/5/03 to Robin Bissell and from Mayor Evans, she was appointed Assistant Service/Safety Director. However, Steve Benson, City Engineer, was approved by the Mayor and Council to this position with the specific statement that no additional compensation was attached to this position (1996). Mayor Evans relieved Mr. Benson of this appointment per a letter dated June 12, 2002. The position was approved, however, compensation relating to it was never approved as required by Council. As a result, the Mayor had the authority to appoint Robin Bissell to fill this position, however, he was not authorized to assign compensation to the position.

(2) While City employees covered under the AFSCME agreement are to receive 'Supervisor Pay' if they assume their immediate supervisor's responsibilities and duties for a period of four consecutive hours or more, no mention of this is reflected in the Employee Policy and Procedures Manual in effect during 2003. In addition, Ordinance 147-02 specifically outlined the benefits and rights relating to the position of executive assistant and specifically stated that no benefits, other than mentioned in the Ordinance were due the person holding this position. As a result, Robin Bissell was not afforded this same right to receive 'Supervisor Pay' since she was not an employee covered by the AFSCME agreement.

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2003-001
(Continued)**

Finding for Recovery (Continued)

In accordance with the foregoing facts pursuant to Ohio Rev. Code Section 117.28, we hereby issue a finding for recovery against Robin Bissell, in the amount of \$1,982.06, for public moneys illegally expended, in favor of the General Fund.

FINDING NUMBER 2003-002

Finding for Recovery

Section 6.01(F)(2) of the City of Jackson's Personnel Policies and Procedures Manual adopted January, 1999 (the most recent approved version) states that, unless otherwise provided in a negotiated agreement, a mileage allowance of not more than twenty-five cents (\$0.25) per mile may be allowed and paid for the use of private automobiles. A revision to the City's Policies and Procedures Manual, drafted October, 2002, proposed an increase to the reimbursement rate to thirty-one cents (\$0.31) per mile, the same rate as agreed in the Master contract between the City and the non-uniformed employees contract (AFSCME/AFL-CIO). However, this revision was not adopted by the Legislative Authority until January, 2004. Since the Master Contract between the City and the non-uniformed employees did not apply to the position of Mayor, John T Evans' 2003 mileage should have been reimbursed at a rate of twenty-five cents rather than thirty-one cents. The following table supports the finding for recovery in the amount of \$115.98:

Total Miles Reimbursed in 2003	Total Amount Reimbursed in 2003 (at \$0.31)	Total per Allowable Rate in 2003 (\$0.25)	Amount of Finding
1,933	\$599.23	\$483.25	\$115.98

In accordance with the foregoing facts pursuant to Ohio Rev. Code Section 117.28, we hereby issue a finding for recovery against John T. Evans in the amount of \$115.98, for public moneys illegally expended, in favor of the General Fund.

FINDING NUMBER 2003-003

Finding for Recovery

The City entered into a Short Line Lease Agreement ("Agreement") with Great Miami & Scioto Railway (the "Railroad") on 4/30/2001 for the lease of the Short Line properties to the Railroad. This Agreement was approved by Ordinance 20-01 on April 30, 2001. The term of the Agreement was December 31, 2002 until December 31, 2012. Under Section C5 of the Agreement, the Railroad was to remit payments monthly to the City of Jackson in the amount of 13% of the freight revenue from the prior month. Ordinance 72-04, approved by City Council on May 10, 2004 and effective as of May 11, 2004, amended the Agreement and changed the monthly payments to 11% of the freight revenue from the prior month.

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2003-003 (Continued)

Finding for Recovery (Continued)

The following represents the gross freight income received by the Railroad Companies, as confirmed by Great Miami, the amount due to the City per the original Agreement, the amount remitted to the City by the Railroad and the underpayment due to the Railroad fund:

Date Received	For Month	Gross Freight Income	13% Per Ordinance 20-01	Amount Paid	Amount Due
4/9/03	January	\$39,186.00	\$5,094.18	\$4,310.46	\$783.72
4/9/2003	February	69,378.00	9,019.14	7,631.58	1,387.56
7/7/2003	March	49,203.00	6,396.39	5,412.33	984.06
6/20/2003	April	96,057.59	12,487.49	10,566.38	1,921.11
6/20/03	May	59,495.51	7,734.42	6,544.56	1,189.96
8/1/2003	June	56,295.20	7,318.38	6,192.72	1,125.66
9/9/2003	July	68,277.29	8,876.05	7,510.50	1,365.55
10/27/2003	August	57,752.37	7,507.81	6,341.76	1,166.05
1/6/2004	September	59,999.15	7,799.89	6,599.91	1,199.98
1/16/04	October	70,866.13	9,212.60	7,795.27	1,417.33
1/29/2004	November	47,928.07	6,230.65	5,272.09	958.56
2/20/04	December	41,779.25	5,431.30	4,595.72	835.58
					\$14,335.00

In accordance with the foregoing facts pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money due but not collected, is hereby issued against Great Miami & Scioto Railway in the amount of \$14,335.00, for noncompliance with lease terms and obligations, in favor of the City of Jackson Railroad Fund.

FINDING NUMBER 2003-004

Noncompliance Citation

Ohio Rev. Code Section 721.03 states, in part, that no contract for the sale or lease of real estate belonging to a municipal corporation shall be made unless authorized by an ordinance, approved by a two-thirds vote of the members of the legislative authority of such municipal corporation, and by the board or officer having supervision or management of such real estate. When the contract is so authorized, it shall be made in writing by such board or officer, and, except as provided in Section 721.27 of the Revised Code, only with the highest bidder, after advertisement once a week for five consecutive weeks in a newspaper of general circulation within the municipal corporation. Such board or officer may reject any bids and re-advertise until all such real estate is sold or leased.

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2003-004 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 721.03 (Continued)

The former Mayor entered into a contract for the sale of the City-owned Rural Industrial Park Speculative Building. The City sold the building for \$650,000 and transferred the title to the purchaser on October 24, 2003. The Mayor did not obtain authorization by Council in the form of an ordinance approved by two-thirds of the members. In addition, no bids were requested, advertised or awarded by the City Council.

Noncompliance with this Code section can result in the contract being declared void by the purchasing party.

We recommend the City follow all authorizations and approvals mandated by the Revised Code prior to executing contracts involving the sale or lease of real property.

FINDING NUMBER 2003-005

Noncompliance Citation

Ohio Rev. Code Section 5705.10 states, in part, that money paid into any fund shall be used only for the purposes for which such fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another Fund.

At December 31, 2003, the City had negative fund cash balances as follows:

Fund	Negative Balances at December 31, 2003	Unaudited Balances at December 31, 2004
General Fund	(\$2,790,382)	(\$47,387)
Special Revenue Funds:		
Program Income (Home)	(\$21,548)	67,115
CHIP Round 13	(\$8,613)	283
Capital Projects Fund:		
Wood Ave Sanitary Sewer Lining	(\$46,926)	17,850

We recommend the City establish procedures to monitor fund balances to assure expenditures do not exceed available resources. Also, we recommend the City budget grants in such a manner that there will be sufficient available revenue to cover the expenditures.

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2003-006

Noncompliance Citation

Ohio Rev. Code Section 5705.39 states that total appropriations from each fund shall not exceed the total estimated resources for that fund.

Appropriations exceeded estimated resources throughout the year and at December 31, 2003 by \$3,308,847 in the General Fund, \$33,598 in the CDBG Formula Grant Fund, and \$5,858 in the Alternate Access Road Project.

Appropriations exceeded estimated resources at March 31, 2003 by \$3,512,258 in the General Fund, \$24,616 in the Street Construction, Maintenance, and Repair Fund, and \$24,440 in the Community Improvement Fund.

Appropriations exceeded estimated resources at July 22, 2003 in the General Fund by \$3,654,536.

We recommend the City establish procedures to monitor appropriations so that they are less than estimated receipts. This will allow the City to reduce or at least maintain the negative general fund balance.

FINDING NUMBER 2003-007

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) states that no contract or expenditure of money is to be made unless there is a certificate of the fiscal officer attached that the amount required for the order or contract had been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. Then and Now Certificate - If the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

If the amount involved is less than \$1,000 dollars (which was increased to \$3,000 on April 7, 2003), the City Auditor may authorize payment through a Then and Now Certificate without affirmation of the City Council, if such expenditure is otherwise valid. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

CITY OF JACKSON
JACKSON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2003
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2003-007 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.41(D)(1) (Continued)

2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The City Auditor’s Office did not always certify funds prior to the obligation being incurred. Of the expenditures tested, 35.2% contained the City Auditor’s certification (or Deputy Auditor) of availability of funds after the commitment was made and there was no evidence that the City followed the aforementioned exceptions. None of the General Fund expenditures were certified by the City Auditor. Per inquiry with the City Auditor, he was advised by his legal council not to certify the availability of funds for purchases paid from the General Fund due to the fund deficit. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City’s funds exceeding budgetary spending limitations, we recommend that the City Auditor certify that the funds are or will be available prior to obligation by the City. When prior certification is not possible, “then and now” certification should be used.

We recommend the City certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the City incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**CITY OF JACKSON
JACKSON COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.10 for negative fund balances	No	Not Corrected: This item is repeated in the current audit Schedule of Findings as Finding 2003-005.
2002-002	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.39 for appropriations exceeding estimated resources.	No	Not Corrected: This item is repeated in the current audit Schedule of Findings as Finding 2003-006.
2002-003	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.41(D) for not properly certifying the availability of funds.	No	Not Corrected: This item is repeated in the current audit Schedule of Findings as Finding 2003-007.
2002-004	Cash Management Noncompliance relating to the 15 day, \$5,000 rule for the prompt disbursement of funds for the Community Development Block Grant (CDBG).	Yes	NA



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CITY OF JACKSON

JACKSON 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
APRIL 12, 2005**