

City of Athens Basic Financial Statements

Single Audit

January 1, 2003 Through December 31, 2003

Fiscal Year Audited Under GAGAS: 2003



BALESTRA, HARR & SCHERER

CERTIFIED PUBLIC ACCOUNTANTS

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**Auditor of State
Betty Montgomery**

City Council
City of Athens
8 East Washington Street
Athens, Ohio 45701-2444

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 22, 2004

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CITY OF ATHENS, OHIO
Basic Financial Statements
For the Fiscal Year Ended December 31, 2003

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To the Offices, Boards and
City Council of the City of Athens
8 East Washington Street
Athens, Ohio 45701

Independent Auditors- Report

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 Athens, 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall 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, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and the Street Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Offices, Boards and
City Council of the City of Athens
Independent Auditor's Report
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 4 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Balestra, Harr & Scherer, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.

October 15, 2004

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

The discussion and analysis of the City of Athens's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. The purpose of this discussion and analysis is to look at the City's financial performance and discuss pertinent points to better help the reader understand our performance.

Financial Highlights

1. The City's total net assets increased \$1,833,332; net assets of the governmental activities increased \$2,491,803; and net assets of the business-type activities decreased \$658,471.
2. The General Fund fund balance of \$1,357,486 decreased \$205,938 or 13.17% from the previous year's balance of \$1,563,424.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Athens's basic financial statements. The City of Athens's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector businesses.

The *statement of net assets* presents information on all of the City of Athens's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the recent fiscal year.

Both of the government-wide financial statements distinguish functions of the City of Athens that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, transportation, community environment, and leisure time activities. The business-type activities include water, sewer, garbage, and parking garage operations.

The government-wide financial statements can be found starting on page 9 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State law and by bond covenants. However, the Auditor establishes many other funds to help control and manage money for particular purposes or to show that the City is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental fund statements use the modified accrual basis of accounting and provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information may be useful in evaluating a government's near term financing requirements. We describe the relationship (or differences) between governmental

City of Athens, Ohio
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activities (reported in the *statement of net assets* and the *statement of activities*) and governmental funds in a reconciliation which follows the fund financial statements.

The City of Athens maintains 40 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General Fund, Street Fund, Street Rehabilitation Fund, Capital Improvements Fund, and East State Street/ARC Fund, which are considered to be major funds. Data from the other 35 governmental funds are combined into a single, aggregated presentation.

Proprietary Funds - The City uses proprietary funds to account for its water, sewer, garbage and parking garage operations and internal service operations. Proprietary funds are reported in the same way that all activities are reported in the *statement of net assets* and the *statement of activities* using the full accrual basis of accounting. The enterprise funds are used to report the same activities presented as business-type activities in the government-wide financial statements.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for the proprietary funds.

Notes to the 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.

Government-Wide Financial Analysis

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.

The *statement of net assets* and the *statement of activities* include all assets and liabilities using the full accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

City of Athens, Ohio
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Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets:						
Current and Other Assets	\$12,786,739	\$15,935,812	\$2,145,279	\$2,109,026	\$14,932,018	\$18,044,838
Capital Assets, Net	21,093,688	15,425,599	20,384,384	20,531,964	41,478,072	35,957,563
Total Assets	33,880,427	31,361,411	22,529,663	22,640,990	56,410,090	54,002,401
Liabilities:						
Current and Other Liabilities	6,033,071	5,883,940	1,792,489	1,809,932	7,825,560	7,693,872
<i>Long-Term Liabilities:</i>						
Due Within One Year	790,068	803,728	514,369	331,272	1,304,437	1,135,000
Due in More Than One Year	5,514,829	5,623,087	4,374,585	3,993,095	9,889,414	9,616,182
Total Liabilities	12,337,968	12,310,755	6,681,443	6,134,299	19,019,411	18,445,054
Net Assets:						
Invested in Capital Assets, Net of Related Debt	12,008,688	5,600,599	14,917,892	15,552,474	26,926,580	21,153,073
Restricted	8,612,860	12,111,711	0	0	8,612,860	12,111,711
Unrestricted	920,911	1,338,346	930,328	954,217	1,851,239	2,292,563
Total Net Assets	\$21,542,459	\$19,050,656	\$15,848,220	\$16,506,691	\$37,390,679	\$35,557,347

Current assets decreased due to a decrease in cash and cash equivalents, which is the result of construction and debt payments made during 2003.

Capital assets increased due to construction activity during 2003 which is partially offset by the depreciation incurred for 2003.

As noted earlier, the City's net assets, when reviewed over time, may serve as a useful indicator of the City's financial position. By far, the largest portion of the City's net assets (72.01%) reflects its investments in capital assets (e.g., land, buildings, machinery and equipment, infrastructure), less any related debt used to acquire those assets that are 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 investments 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. An additional portion of the City's net assets represents resources that are subject to restrictions on how they can be used. These resources accounted for 23.04% of total assets. The remaining balance of \$1,851,239 or 4.95% which are unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net assets decreased from \$35,557,347 in 2002 to \$37,390,679 in 2003, a change of \$1,833,332 or 5.16%. This increase in the City's total net assets is the result of an increase in the net assets of the governmental activities of \$2,491,803 or 13.08% and a decrease in the net assets of the business-type activities of \$658,471 or 4.0%.

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In order to further understand what makes up the changes in net assets for the current year, Table 2 gives readers further details regarding the results of activities for the current year. However, since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
Revenues:			
<i>Program Revenues:</i>			
Charges for Services	\$3,002,612	\$6,108,066	\$9,110,678
Operating Grants and Contributions	1,563,635	0	1,563,635
Capital Grants and Contributions	687,090	0	687,090
Total Program Revenues	<u>5,253,337</u>	<u>6,108,066</u>	<u>11,361,403</u>
<i>General Revenues:</i>			
Property Taxes	593,864	0	593,864
Income Taxes	8,604,331	0	8,604,331
Lodging Taxes	190,679	0	190,679
Grants and Entitlements	997,371	0	997,371
Investment Earnings	205,459	23,792	229,251
Miscellaneous	656,486	23,203	679,689
Total General Revenues	<u>11,248,190</u>	<u>46,995</u>	<u>11,295,185</u>
Total Revenues	<u>16,501,527</u>	<u>6,155,061</u>	<u>22,656,588</u>
Expenses:			
General Government	4,806,291	0	4,806,291
<i>Security of Persons and Property:</i>			
Police	2,624,776	0	2,624,776
Fire	2,045,002	0	2,045,002
Transportation	1,322,646	0	1,322,646
Community Environment	799,645	0	799,645
Leisure Time Activities	1,922,895	0	1,922,895

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	Governmental Activities	Business-Type Activities	Total
Interest and Fiscal Charges	369,079	0	369,079
Garbage	0	880,153	880,153
Parking Garage	0	216,469	216,469
Water	0	2,914,622	2,914,622
Sewer	0	2,921,678	2,921,678
Total Expenses	13,890,334	6,932,922	20,823,256
Increase (Decrease) in Net Assets Before Transfers	2,611,193	(777,861)	1,833,332
Transfers	(119,390)	119,390	0
Change in Net Assets	2,491,803	(658,471)	1,833,332
Net Assets at Beginning of Year	19,050,656	16,506,691	35,557,347
Net Assets at End of Year	\$21,542,459	\$15,848,220	\$37,390,679

Governmental Activities

The most significant program expenses for the City are Transportation, General Government, Police, and Fire. These programs account for 77.74% of the total governmental activities. Transportation, which accounts for 9.52% of the total, represents costs associated with maintaining and improving the City's streets and operating the bus transit system. General Government, which accounts for 34.60% of the total, represents costs associated with the general administration of city government including the City Council, Mayor, City Auditor, and Municipal Court. Police, which accounts for 18.90% of the total, represents costs associated with the operation of the Police Department. Fire, which accounts for 14.72% of the total, represents costs associated with providing firefighting and emergency medical services.

Funding for the most significant programs indicated above is from income taxes and charges for services. The income tax revenue for 2003 was \$8,604,331. Of the \$16,501,527 in total revenues, income tax accounts for 52.14% of that total. Charges for services of \$3,002,612 accounts for 18.20% of total revenues. Operating and capital grants and contributions account for 13.64% of the total and grants and entitlements, property taxes, interest, and other revenue make up the remaining 16.02%.

The City monitors its source of revenues very closely for fluctuations.

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Business-Type Activities

To date, program revenues have been adequate to cover the costs of the City's business-type activities, which include the City's water, sewer, garbage, and parking garage operations. Net assets did decrease by \$658,471 or 3.99% for 2003. The majority of this decrease is due to an increase in depreciation expense for new assets in service in 2003.

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

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
General Government	\$4,806,291	\$1,968,044
<i>Security of Persons and Property:</i>		
Police	2,624,776	2,538,788
Fire	2,045,002	2,045,002
Transportation	1,322,646	147,506
Community Environment	799,645	482,936
Leisure Time Activities	1,922,895	1,085,642
Interest and Fiscal Charges	369,079	369,079
Total Expenses	<u>\$13,890,334</u>	<u>\$8,636,997</u>

It should be noted that 37.82% of the costs of services for governmental activities are derived from program revenues including charges for services, operating grants, capital grants, and other contributions.

As shown by the total net costs of \$8,636,997, the majority of the City's programs are funded by general revenues. A significant portion of the total general revenues consists of income taxes.

Financial Analysis of the City's Funds

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year. These funds are accounted for by using the modified accrual basis of accounting.

The General Fund is the chief operating fund of the City. At the end of 2003, the total fund balance for the General Fund was \$1,357,486 of which \$1,253,801 was unreserved. During the current year, the fund balance of the City's General

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Fund decreased by \$205,938 or 13.17%. The reduction in the General Fund balance is due primarily to revenues not keeping pace with expenditures.

For the other major funds of the City, the Street fund balance decreased by \$3,306 due to a slight increase in expenditures. The Street Rehabilitation fund balance increased by \$429,597 as transfers out of this fund were not as much as originally anticipated. The Capital Improvement fund balance decreased by \$78,072 due to an increase in capital expenditures during 2003. The East State Street/ARC Grant fund balance decreased by \$2,572,159 due to construction expenditures.

Proprietary Funds

The City's major proprietary funds are the Parking Garage, Water and Sewer funds. The City operates a parking garage with monthly and hourly spaces. Net Assets in the Parking Garage Fund increased \$51,164 or 3.28%, which is similar to last year. The City provides water and sewer services to city residents. Net assets in the Water Fund decreased by \$264,712 or 3.56%. Net assets in the Sewer Fund decreased by \$335,761 or 4.64%.

Major Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a budget basis of cash receipts (revenues), and disbursements and encumbrances (expenditures). The most significant budgeted fund is the General Fund. The City does allow small interdepartmental budget changes that modify line items within departments within the same fund.

For the General Fund, the final budgeted revenues were \$8,347,175 representing a \$75,050 increase from the original budgeted estimates of \$8,272,125. The final budget reflected a 0.91% increase from the original budgeted amount. Most of this is due to the increase of estimates for municipal income tax receipts and property tax receipts which are partially offset by reductions in fines and forfeitures and intergovernmental receipts.

For the General Fund, the final budget basis expenditures were \$9,628,168 representing an increase of only \$50,152 or 0.52% from the original budget. There was a 6.02% positive variance in actual expenditures as compared to the final budget in the General Fund. This was due to the fact that the various departments kept their spending levels below their appropriations.

For the Street Fund, the final budgeted revenues were \$1,628,438 which was the same as the original budgeted revenues. The actual revenues received amounted to \$79,494 more than the final budget primarily in the income tax and intergovernmental receipt areas.

For the Street Fund, the final budget basis expenditures were \$1,806,075 which represented an increase of \$92,108 over the original budgeted expenditures. However, the actual expenditures amounted to \$1,680,071 which was \$126,004 less than budgeted.

Capital Assets and Debt Administration

The City's investment in capital assets for governmental and business-type activities as of December 31, 2003, amounts to \$26,926,580 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, improvements, equipment and infrastructure.

Total capital assets for governmental activities of the City of Athens for the year 2003 were \$21,093,688 or \$5,668,089 more than in 2002. This increase was mostly due to the construction projects during 2003 partially offset by annual depreciation expense.

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The decrease in business-type activities of \$147,580 to \$20,384,384 as of December 31, 2003 was due primarily to the annual depreciation expense.

Additional information concerning the City's capital assets can be found in note 10 of the notes to the basic financial statements.

As of December 31, 2003, the City of Athens had \$10,151,492 in bonds and loans outstanding with \$628,307 due within one year. The City's long-term liabilities increased by \$442,669 during 2003.

Outstanding general obligation bonds consists of a community center improvement issue. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged.

Long-term loans in the Water and Sewer funds are OWDA loans for improvements to water and sewer lines.

In addition to the bonded debt, the City's long-term obligations include compensated absences and landfill postclosure care obligations. Additional information concerning the City's debt can be found in note 12 of the notes to the basic financial statements.

Current Known Facts and Conditions

Ohio University continues to play an important role in the economic development of the City of Athens. As the City's largest employer, the City's income tax receipts fluctuate according to the University's activities, enrollment, and policies. Ohio University instituted a hiring freeze in 2003 that is still in effect. However, the University continues to implement capital improvement projects.

While the City of Athens has had significant new commercial construction, such as Walmart, Staples, and Ruby Tuesday's, the City has also experienced several major business closings including K-Mart, J.C. Penney's and Big Bear. The City has also lost some manufacturing jobs due to the closing of the local T.S. Trim factory in 2003.

There have been several major roadway improvements in the City of Athens done by the City and the Ohio Department of Transportation.

In spite of the recent decline in the economy, the City of Athens continues to see some growth in the area. Cuts in local and state funding are still a cause of concern for the community. Beginning January 1, 2004, the City income tax rate will go down .01%. The long-term impact of these cuts is unknown at this time.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and 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 questions about this report or need additional financial information, contact the City Auditor's Office, 8 East Washington Street, Athens, Ohio 45701.

CITY OF ATHENS, OHIO

Statement of Net Assets

December 31, 2003

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Equity in Pooled Cash & Cash Equivalents	\$8,696,104	\$1,599,579	\$10,295,683
Cash and Cash Equivalents in Segregated Accounts	64,976	0	64,976
Accrued Interest Receivable	28,008	5,082	33,090
Accounts Receivable	67,460	539,602	607,062
Internal Balances	240,000	(240,000)	0
Intergovernmental Receivable	1,355,020	0	1,355,020
Income Taxes Receivable	892,999	0	892,999
Property Taxes Receivable	766,287	0	766,287
Other Local Taxes Receivable	44,601	0	44,601
Notes Receivable	31,038	0	31,038
Loans Receivable	477,661	0	477,661
Special Assessments Receivable	14,260	37,441	51,701
Materials and Supplies Inventory	54,069	185,055	239,124
Prepaid Items	54,256	18,520	72,776
Nondepreciable Capital Assets	6,850,020	1,656,618	8,506,638
Depreciable Capital Assets, Net	14,243,668	18,727,766	32,971,434
<i>Total Assets</i>	<u>33,880,427</u>	<u>22,529,663</u>	<u>56,410,090</u>
Liabilities:			
Accounts Payable	165,328	106,732	272,060
Contracts Payable	966,466	82,885	1,049,351
Accrued Wages Payable	179,130	57,066	236,196
Intergovernmental Payable	127,374	73,382	200,756
Accrued Interest Payable	58,485	99,971	158,456
Claims Payable	167,426	0	167,426
Deferred Revenue	768,862	3,715	772,577
Notes Payable	3,600,000	1,368,738	4,968,738
<i>Long-Term Liabilities:</i>			
Due within One Year	790,068	514,369	1,304,437
Due in More Than One Year	5,514,829	4,374,585	9,889,414
<i>Total Liabilities</i>	<u>12,337,968</u>	<u>6,681,443</u>	<u>19,019,411</u>
Net Assets:			
Investments in Capital Assets, Net of Related Debt	12,008,688	14,917,892	26,926,580
<i>Restricted for:</i>			
Street Maintenance and Repair	962,397	0	962,397
Capital Projects	4,309,288	0	4,309,288
Other Purposes	3,341,175	0	3,341,175
Unrestricted	920,911	930,328	1,851,239
<i>Total Net Assets</i>	<u>\$21,542,459</u>	<u>\$15,848,220</u>	<u>\$37,390,679</u>

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

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

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$4,806,291	\$1,879,628	\$342,958	\$615,661
<i>Security of Persons and Property:</i>				
Police	2,624,776	66,825	19,163	0
Fire	2,045,002	0	0	0
Transportation	1,322,646	454,909	720,231	0
Community Environment	799,645	0	316,709	0
Leisure Time Activities	1,922,895	601,250	164,574	71,429
Interest and Fiscal Charges	369,079	0	0	0
<i>Total Governmental Activities</i>	<u>13,890,334</u>	<u>3,002,612</u>	<u>1,563,635</u>	<u>687,090</u>
Business-Type Activities:				
Garbage	880,153	760,120	0	0
Parking Garage	216,469	245,197	0	0
Water	2,914,622	2,535,082	0	0
Sewer	2,921,678	2,567,667	0	0
<i>Total Business-Type Activities</i>	<u>6,932,922</u>	<u>6,108,066</u>	<u>0</u>	<u>0</u>
<i>Totals</i>	<u>\$20,823,256</u>	<u>\$9,110,678</u>	<u>\$1,563,635</u>	<u>\$687,090</u>

General Revenues:

Property Taxes Levied for:

 General Purposes

Municipal Income Taxes Levied for:

 General Purposes

 Capital Outlay

Lodging Taxes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Year - Restated (See Note 4)

Net Assets at End of Year

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

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,968,044)	\$0	(\$1,968,044)
(2,538,788)	0	(2,538,788)
(2,045,002)	0	(2,045,002)
(147,506)	0	(147,506)
(482,936)	0	(482,936)
(1,085,642)	0	(1,085,642)
(369,079)	0	(369,079)
<u>(8,636,997)</u>	<u>0</u>	<u>(8,636,997)</u>
0	(120,033)	(120,033)
0	28,728	28,728
0	(379,540)	(379,540)
<u>0</u>	<u>(354,011)</u>	<u>(354,011)</u>
<u>0</u>	<u>(824,856)</u>	<u>(824,856)</u>
<u>(8,636,997)</u>	<u>(824,856)</u>	<u>(9,461,853)</u>
593,864	0	593,864
6,662,847	0	6,662,847
1,941,484	0	1,941,484
190,679	0	190,679
997,371	0	997,371
205,459	23,792	229,251
656,486	23,203	679,689
11,248,190	46,995	11,295,185
<u>(119,390)</u>	<u>119,390</u>	<u>0</u>
<u>11,128,800</u>	<u>166,385</u>	<u>11,295,185</u>
2,491,803	(658,471)	1,833,332
<u>19,050,656</u>	<u>16,506,691</u>	<u>35,557,347</u>
<u>\$21,542,459</u>	<u>\$15,848,220</u>	<u>\$37,390,679</u>

CITY OF ATHENS, OHIO
Balance Sheet
Governmental Funds
December 31, 2003

	General	Street	Street Rehabilitation	Capital Improvement	East State Street/ARC Grant
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$831,255	\$845,373	\$1,096,831	\$371,923	\$1,867,869
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0	0
Accounts Receivable	21,377	0	0	0	0
Accrued Interest Receivable	2,647	2,689	4,239	1,182	5,849
Interfund Receivable	0	0	0	240,000	0
Intergovernmental Receivable	488,919	146,348	0	169,558	0
Income Taxes Receivable	485,798	142,882	102,052	50,008	0
Property Taxes Receivable	766,287	0	0	0	0
Other Local Taxes Receivable	0	0	0	0	0
Notes Receivable	0	0	0	0	0
Loans Receivable	0	0	0	0	0
Special Assessments Receivable	482	0	0	0	0
Materials and Supplies Inventory	24,511	29,546	0	0	0
Prepaid Items	46,228	1,983	0	0	0
<i>Total Assets</i>	<u>\$2,667,504</u>	<u>\$1,168,821</u>	<u>\$1,203,122</u>	<u>\$832,671</u>	<u>\$1,873,718</u>
Liabilities:					
Accounts Payable	\$40,003	\$77,145	\$0	\$9,149	\$7,248
Contracts Payable	22,854	44,981	0	92,251	574,236
Accrued Wages and Benefits	133,341	24,540	0	0	0
Compensated Absences Payable	19,777	8,707	0	0	0
Accrued Interest Payable	0	0	0	0	26,880
Intergovernmental Payable	19,047	1,985	0	0	0
Deferred Revenue	1,074,996	124,664	14,554	7,132	0
Notes Payable	0	0	0	0	3,600,000
<i>Total Liabilities</i>	<u>1,310,018</u>	<u>282,022</u>	<u>14,554</u>	<u>108,532</u>	<u>4,208,364</u>
Fund Balances:					
Reserved for Encumbrances	103,685	96,771	0	210,073	4,288,725
Reserved for Notes Receivable	0	0	0	0	0
Reserved for Loans Receivable	0	0	0	0	0
<i>Unreserved:</i>					
<i>Undesignated, Reported in:</i>					
General Fund	1,253,801	0	0	0	0
Special Revenue Funds	0	790,028	0	0	0
Debt Service Funds	0	0	0	0	0
Capital Projects Funds	0	0	1,188,568	514,066	(6,623,371)
<i>Total Fund Balances</i>	<u>1,357,486</u>	<u>886,799</u>	<u>1,188,568</u>	<u>724,139</u>	<u>(2,334,646)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,667,504</u>	<u>\$1,168,821</u>	<u>\$1,203,122</u>	<u>\$832,671</u>	<u>\$1,873,718</u>

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

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

Other Governmental Funds	Total Governmental Funds		
\$3,529,121	\$8,542,372	Total Governmental Funds Balances	\$6,000,134
64,976	64,976	<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
26,746	48,123	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,093,688
10,935	27,541		
0	240,000	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
550,195	1,355,020	Taxes	128,123
112,259	892,999	Intergovernmental Revenue	732,206
0	766,287	Total	860,329
44,601	44,601	Intergovernmental payables include contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(82,785)
31,038	31,038		
477,661	477,661	In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is reported when due.	(31,605)
13,778	14,260		
12	54,069	Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	
5,865	54,076	General Obligation Bonds	(5,485,000)
\$4,867,187	\$12,613,023	Landfill Postclosure Care Obligations	(36,117)
		Compensated Absences Payable	(730,214)
\$31,783	\$165,328	Internal service funds are used by management to charge the costs of services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.	(45,971)
212,023	946,345		
15,944	173,825	<i>Net Assets of Governmental Activities</i>	\$21,542,459
0	28,484	The notes to the basic financial statements are an integral part of this statement.	
0	26,880		
21,804	42,836		
407,845	1,629,191		
0	3,600,000		
689,399	6,612,889		
489,959	5,189,213		
8,204	8,204		
404,604	404,604		
0	1,253,801		
2,364,423	3,154,451		
13,033	13,033		
897,565	(4,023,172)		
4,177,788	6,000,134		
\$4,867,187	\$12,613,023		

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

	General	Street	Street Rehabilitation	Capital Improvement	East State Street/ARC Grant
Revenues:					
Property Taxes	\$602,105	\$0	\$0	\$0	\$0
Municipal Income Taxes	4,728,447	1,378,031	989,062	477,928	0
Other Local Taxes	0	0	0	0	0
Charges for Services	784,681	0	0	0	0
Licenses and Permits	383,712	0	0	0	0
Fines and Forfeitures	889,740	0	0	0	0
Intergovernmental	1,152,741	270,182	0	1,161,903	0
Special Assessments	1,345	0	5,451	0	0
Interest	21,105	15,362	22,084	10,756	63,845
Other	95,449	32,313	0	82,461	83,191
<i>Total Revenues</i>	<u>8,659,325</u>	<u>1,695,888</u>	<u>1,016,597</u>	<u>1,733,048</u>	<u>147,036</u>
Expenditures:					
<i>Current:</i>					
General Government	3,689,190	0	0	0	0
<i>Security of Persons and Property:</i>					
Police	2,526,638	0	0	0	0
Fire	1,938,872	0	0	0	0
Transportation	326,913	1,706,829	0	0	0
Community Environment	508,113	0	0	0	0
Leisure Time Activities	0	0	0	0	0
Capital Outlay	0	0	0	1,811,120	3,228,986
<i>Debt Service:</i>					
Principal Retirement	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	77,209
<i>Total Expenditures</i>	<u>8,989,726</u>	<u>1,706,829</u>	<u>0</u>	<u>1,811,120</u>	<u>3,306,195</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(330,401)</u>	<u>(10,941)</u>	<u>1,016,597</u>	<u>(78,072)</u>	<u>(3,159,159)</u>
Other Financing Sources (Uses):					
Transfers In	145,463	37,635	0	0	587,000
Transfers Out	(21,000)	(30,000)	(587,000)	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>124,463</u>	<u>7,635</u>	<u>(587,000)</u>	<u>0</u>	<u>587,000</u>
<i>Net Change in Fund Balances</i>	<u>(205,938)</u>	<u>(3,306)</u>	<u>429,597</u>	<u>(78,072)</u>	<u>(2,572,159)</u>
<i>Fund Balances (Deficit) at Beginning of Year - As Restated</i>	<u>1,563,424</u>	<u>890,105</u>	<u>758,971</u>	<u>802,211</u>	<u>237,513</u>
<i>Fund Balances at End of Year</i>	<u>\$1,357,486</u>	<u>\$886,799</u>	<u>\$1,188,568</u>	<u>\$724,139</u>	<u>(\$2,334,646)</u>

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

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

All Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	(\$2,443,487)
		<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
\$0	\$602,105	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:	
1,081,249	8,654,717	Capital Asset Additions	6,997,540
190,679	190,679	Current Year Depreciation	<u>(1,069,473)</u>
606,426	1,391,107		
73,978	457,690	Total	5,928,067
245,324	1,135,064	Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(259,978)
1,396,025	3,980,851	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
11,955	18,751	Property Taxes	(88,254)
69,876	203,028	Intergovernmental Revenue	<u>(733,520)</u>
363,072	656,486		
4,038,584	17,290,478	Total	(821,774)
		Repayment of principal of long-term (e.g. bonds, notes, leases) is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	240,000
420,369	4,109,559	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(6,614)
41,142	2,567,780	Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as an expenditure in the governmental funds.	
0	1,938,872	Compensated Absences Payable	(69,390)
521,824	2,555,566	Landfill Postclosure Care	2,775
260,684	768,797	Intergovernmental Payable	<u>9,638</u>
1,414,924	1,414,924		
630,836	5,670,942	Total	(56,977)
240,000	240,000	Internal service funds used by management to charges cost of services to individual funds are not reported in the government-wide Statement of Activities. Governmental expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the activities.	(87,434)
285,256	362,465	<i>Change in Net Assets of Governmental Activities</i>	<u>\$2,491,803</u>
3,815,035	19,628,905		
223,549	(2,338,427)		
39,050	809,148		
(276,208)	(914,208)		
(237,158)	(105,060)		
(13,609)	(2,443,487)		
4,191,397	8,443,621		
\$4,177,788	\$6,000,134		

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

CITY OF ATHENS, OHIO
*Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual (Budget Basis)*
General Fund
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$492,200	\$592,200	\$602,105	\$9,905
Municipal Income Taxes	4,669,687	4,719,687	4,750,092	30,405
Special Assessments	750	1,500	1,345	(155)
Charges for Services	448,075	452,875	449,458	(3,417)
Licenses and Permits	370,600	371,800	383,164	11,364
Fines and Forfeitures	949,000	894,000	905,168	11,168
Intergovernmental	1,272,901	1,215,801	1,206,723	(9,078)
Interest	28,000	25,000	21,516	(3,484)
Other	40,912	74,312	99,928	25,616
<i>Total Revenues</i>	8,272,125	8,347,175	8,419,499	72,324
Expenditures:				
<i>Current:</i>				
General Government	4,017,208	3,989,943	3,716,562	273,381
<i>Security of Persons and Property:</i>				
Police	2,649,108	2,703,803	2,546,959	156,844
Fire	2,014,815	2,039,946	1,944,310	95,636
Transportation	357,816	356,455	332,348	24,107
Community and Economic Development	528,349	538,021	508,289	29,732
Capital Outlay	10,720	0	0	0
<i>Total Expenditures</i>	9,578,016	9,628,168	9,048,468	579,700
<i>Excess of Revenues Over (Under) Expenditures</i>	(1,305,891)	(1,280,993)	(628,969)	652,024
Other Financing Sources (Uses):				
Transfers - In	478,661	480,641	480,686	45
Transfers - Out	(81,893)	(81,893)	(81,893)	0
<i>Total Other Financing Sources (Uses)</i>	396,768	398,748	398,793	45
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(909,123)	(882,245)	(230,176)	652,069
Fund Balances (Deficit) at Beginning of Year	797,489	797,489	797,489	0
Prior Year Encumbrances Appropriated	128,064	128,064	128,064	0
Fund Balances (Deficit) at End of Year	\$16,430	\$43,308	\$695,377	\$652,069

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

CITY OF ATHENS, OHIO
*Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual (Budget Basis)*
Street Fund
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income Taxes	\$1,373,438	\$1,373,438	\$1,397,086	\$23,648
Intergovernmental	240,000	240,000	263,209	23,209
Interest	14,000	14,000	15,230	1,230
Other	1,000	1,000	32,407	31,407
<i>Total Revenues</i>	<u>1,628,438</u>	<u>1,628,438</u>	<u>1,707,932</u>	<u>79,494</u>
Expenditures:				
<i>Current:</i>				
Transportation	1,713,967	1,806,075	1,680,071	126,004
<i>Total Expenditures</i>	<u>1,713,967</u>	<u>1,806,075</u>	<u>1,680,071</u>	<u>126,004</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(85,529)	(177,637)	27,861	205,498
Other Financing Sources (Uses):				
Transfers - In	0	0	37,635	37,635
Transfers - Out	(108,134)	(108,134)	(108,134)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(108,134)</u>	<u>(108,134)</u>	<u>(70,499)</u>	<u>37,635</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(193,663)	(285,771)	(42,638)	243,133
Fund Balances (Deficit) at Beginning of Year	661,455	661,455	661,455	0
Prior Year Encumbrances Appropriated	112,308	112,308	112,308	0
Fund Balances (Deficit) at End of Year	<u>\$580,100</u>	<u>\$487,992</u>	<u>\$731,125</u>	<u>\$243,133</u>

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

CITY OF ATHENS, OHIO
Statement of Fund Net Assets
Proprietary Funds
December 31, 2003

	Business-Type Activities				Totals	Governmental Activities - Internal Service Funds
	Parking Garage	Water	Sewer	All Other Enterprise Funds		
Assets:						
<i>Current:</i>						
Equity in Pooled Cash & Cash Equivalents	\$158,413	\$524,263	\$785,089	\$131,814	\$1,599,579	\$153,732
Accounts Receivable	3,105	224,197	239,045	73,255	539,602	19,337
Special Assessments Receivable	0	37,441	0	0	37,441	0
Materials and Supplies Inventory	0	163,167	20,490	1,398	185,055	0
Accrued Interest Receivable	571	1,597	2,495	419	5,082	467
Prepaid Items	2,007	11,865	4,565	83	18,520	180
<i>Noncurrent:</i>						
Nondepreciable Capital Assets	295,774	37,110	690,741	14,675	1,038,300	0
Depreciable Capital Assets, Net	2,017,917	7,194,177	10,127,680	6,310	19,346,084	0
Total Assets	2,477,787	8,193,817	11,870,105	227,954	22,769,663	173,716
Liabilities:						
<i>Current:</i>						
Accounts Payable	3,820	70,540	32,372	0	106,732	0
Contracts Payable	0	1	17,823	65,061	82,885	20,121
Accrued Wages Payable	0	30,558	26,404	104	57,066	5,305
Compensated Absences Payable	0	77,708	57,989	365	136,062	17,054
Intergovernmental Payable	51,614	10,380	11,388	0	73,382	1,753
Accrued Interest Payable	5,972	7,964	86,035	0	99,971	0
Interfund Payable	0	0	240,000	0	240,000	0
Claims Payable	0	0	0	0	0	167,426
Deferred Revenue	3,715	0	0	0	3,715	0
Notes Payable	800,000	568,738	0	0	1,368,738	0
OWDA Loans Payable	0	61,236	786,625	0	847,861	0
<i>Noncurrent:</i>						
Compensated Absences Payable	0	50,734	35,575	91	86,400	8,028
OWDA Loans Payable	0	136,917	3,681,714	0	3,818,631	0
Total Liabilities	865,121	1,014,776	4,975,925	65,621	6,921,443	219,687
Net Assets:						
Investments in Capital Assets, Net of Related Debt	1,513,691	7,033,134	6,350,082	20,985	14,917,892	0
Unrestricted	98,975	145,907	544,098	141,348	930,328	(45,971)
Total Net Assets	\$1,612,666	\$7,179,041	\$6,894,180	\$162,333	\$15,848,220	(\$45,971)

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

CITY OF ATHENS, OHIO
*Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2003*

	Business-Type Activities				Totals	Governmental Activities - Internal Service Funds
	Parking Garage	Water	Sewer	All Other Enterprise Funds		
Operating Revenues:						
Charges for Services	\$245,197	\$2,535,082	\$2,567,667	\$760,120	\$6,108,066	\$2,052,011
Other Operating Revenue	1,200	2,957	1,657	6,969	12,783	19,337
<i>Total Operating Revenues</i>	<u>246,397</u>	<u>2,538,039</u>	<u>2,569,324</u>	<u>767,089</u>	<u>6,120,849</u>	<u>2,071,348</u>
Operating Expenses:						
Personal Services	0	805,299	741,394	7,735	1,554,428	149,618
Fringe Benefits	0	300,931	293,066	2,908	596,905	64,181
Contractual Services	70,576	517,491	529,745	840,191	1,958,003	521,086
Materials and Supplies	8,157	567,060	350,444	1,304	926,965	11,213
Utilities	18,460	216,803	181,163	0	416,426	0
Claims	0	0	0	0	0	1,403,636
Depreciation	102,333	483,414	648,457	27,799	1,262,003	0
Other Operating Expense	1,514	0	1,408	0	2,922	0
<i>Total Operating Expenses</i>	<u>201,040</u>	<u>2,890,998</u>	<u>2,745,677</u>	<u>879,937</u>	<u>6,717,652</u>	<u>2,149,734</u>
<i>Operating Income (Loss)</i>	<u>45,357</u>	<u>(352,959)</u>	<u>(176,353)</u>	<u>(112,848)</u>	<u>(596,803)</u>	<u>(78,386)</u>
Non-Operating Revenues (Expenses):						
Interest Income	3,238	7,744	9,523	3,287	23,792	2,431
Other Non-Operating Revenues	7,238	1,392	1,175	615	10,420	13,737
Interest and Fiscal Charges	(15,429)	(23,475)	(175,840)	0	(214,744)	0
Other Non-Operating Expenses	0	(149)	(161)	(216)	(526)	(10,886)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(4,953)</u>	<u>(14,488)</u>	<u>(165,303)</u>	<u>3,686</u>	<u>(181,058)</u>	<u>5,282</u>
<i>Income (Loss) Before Transfers</i>	<u>40,404</u>	<u>(367,447)</u>	<u>(341,656)</u>	<u>(109,162)</u>	<u>(777,861)</u>	<u>(73,104)</u>
Transfers - In	21,000	102,735	5,895	0	129,630	170
Transfers - Out	(10,240)	0	0	0	(10,240)	(14,500)
<i>Change in Net Assets</i>	51,164	(264,712)	(335,761)	(109,162)	(658,471)	(87,434)
Net Assets at Beginning of Year, As Restated	1,561,502	7,443,753	7,229,941	271,495	16,506,691	41,463
Net Assets at End of Year	<u>\$1,612,666</u>	<u>\$7,179,041</u>	<u>\$6,894,180</u>	<u>\$162,333</u>	<u>\$15,848,220</u>	<u>(\$45,971)</u>

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

CITY OF ATHENS, OHIO
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003

	Business-Type Activities				Totals	Governmental Activities - Internal Service Funds
	Parking Garage	Water	Sewer	All Other Enterprise Funds		
Cash Flows from Operating Activities:						
Cash Received from Customers	\$245,672	\$2,478,629	\$2,494,552	\$733,869	\$5,952,722	\$2,052,011
Cash from Other Receipts	0	2,957	1,657	6,969	11,583	0
Cash Payments to Employees	0	(1,101,483)	(1,051,452)	(10,161)	(2,163,096)	(209,905)
Cash Payments for Contractual Services	(89,258)	(769,379)	(692,494)	(819,911)	(2,371,042)	(503,626)
Cash Payments for Insurance Claims	0	0	0	0	0	(1,369,776)
Cash Payments for Supplies and Materials	(7,756)	(602,343)	(336,923)	(377)	(947,399)	(11,213)
Other Nonoperating Receipts	7,238	1,392	1,175	615	10,420	14,463
Other Nonoperating Payments	0	(149)	(161)	(216)	(526)	(10,886)
<i>Net Cash from Operating Activities</i>	<u>155,896</u>	<u>9,624</u>	<u>416,354</u>	<u>(89,212)</u>	<u>492,662</u>	<u>(38,932)</u>
Cash Flows from Noncapital Financing Activities:						
Advances - In from Other Funds	0	0	240,000	0	240,000	0
Transfers - In from Other Funds	21,000	102,735	5,895	0	129,630	170
Transfers - Out to Other Funds	(10,240)	0	0	0	(10,240)	(14,500)
<i>Net Cash from Noncapital Financing Activities</i>	<u>10,760</u>	<u>102,735</u>	<u>245,895</u>	<u>0</u>	<u>359,390</u>	<u>(14,330)</u>
Cash Flows from Capital and Related Financing Activities:						
Proceeds Received from Notes	800,000	143,997	945,469	0	1,889,466	0
Interest Paid on Notes and Loans	(17,640)	(35,738)	(183,290)	0	(236,668)	0
Principal Paid on Notes and Loans	(900,000)	(56,479)	(301,988)	0	(1,258,467)	0
Cash Paid to Acquire/Construct Capital Assets	0	(174,160)	(945,762)	0	(1,119,922)	0
Cash Received from Special Assessments	0	15,340	0	0	15,340	0
<i>Net Cash from Capital and Related Financing Activities</i>	<u>(117,640)</u>	<u>(107,040)</u>	<u>(485,571)</u>	<u>0</u>	<u>(710,251)</u>	<u>0</u>
Cash Flows from Investing Activities:						
Interest Received on Investments	3,072	7,781	9,009	3,586	23,448	2,639
<i>Net Cash from Investing Activities</i>	<u>3,072</u>	<u>7,781</u>	<u>9,009</u>	<u>3,586</u>	<u>23,448</u>	<u>2,639</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	52,088	13,100	185,687	(85,626)	165,249	(50,623)
Cash and Cash Equivalents at Beginning of Year	<u>106,325</u>	<u>511,163</u>	<u>599,402</u>	<u>217,440</u>	<u>1,434,330</u>	<u>204,355</u>
Cash and Cash Equivalents at End of Year	<u>\$158,413</u>	<u>\$524,263</u>	<u>\$785,089</u>	<u>\$131,814</u>	<u>\$1,599,579</u>	<u>\$153,732</u>

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

CITY OF ATHENS, OHIO
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003

	Business-Type Activities				Totals	Governmental Activities - Internal Service Funds
	Parking Garage	Water	Sewer	All Other Enterprise Funds		
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities:						
Operating Income (Loss)	\$45,357	(\$352,959)	(\$176,353)	(\$112,848)	(\$596,803)	(\$78,386)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:						
Depreciation Expense	102,333	483,414	648,457	27,799	1,262,003	0
Nonoperating Cash Receipts	7,238	1,392	1,175	615	10,420	14,463
Nonoperating Cash Payments	0	(149)	(161)	(216)	(526)	(10,886)
Changes in Assets and Liabilities:						
(Increase) Decrease in Accounts Receivable	(2,255)	(56,453)	(73,115)	(26,251)	(158,074)	(13,654)
(Increase) Decrease in Material and Supply Inventory	521	24,793	16,338	927	42,579	0
(Increase) Decrease in Prepaid Items	133	(4,398)	(747)	6	(5,006)	2,507
Increase (Decrease) in Accounts Payable	1,116	14,983	2,412	0	18,511	(409)
Increase (Decrease) in Contracts Payable	0	(105,404)	15,927	20,274	(69,203)	9,682
Increase (Decrease) in Accrued Wages and Benefits	0	5,836	4,789	26	10,651	1,665
Increase (Decrease) in Compensated Absences	0	(1,088)	(21,781)	456	(22,413)	2,226
Increase (Decrease) in Due to Other Governments	(77)	(343)	(587)	0	(1,007)	0
Increase (Decrease) in Deferred Revenue	1,530	0	0	0	1,530	0
Increase (Decrease) in Claims and Judgements Payable	0	0	0	0	0	33,860
<i>Net Cash from Operating Activities</i>	<u>\$155,896</u>	<u>\$9,624</u>	<u>\$416,354</u>	<u>(\$89,212)</u>	<u>\$492,662</u>	<u>(\$38,932)</u>

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

CITY OF ATHENS, OHIO
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
December 31, 2003

	<u>Agency</u>
Assets:	
Equity in Pooled Cash & Cash Equivalents	\$5,709
Cash and Cash Equivalents in Segregated Accounts	<u>173,873</u>
<i>Total Assets</i>	<u>179,582</u>
Liabilities:	
Deposits Held and Due to Others	<u>179,582</u>
<i>Total Liabilities</i>	<u><u>\$179,582</u></u>

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

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

NOTE 1 - DESCRIPTION OF THE ENTITY

The City of Athens, Ohio (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 was incorporated in 1811 and is a statutory municipal corporation under the laws of the State of Ohio. The City operates under a Council-Mayor form of government and provides various services including police and fire protection, parks and recreation, planning, zoning, street maintenance, and other governmental services. In addition, the City owns and operates a water treatment and distribution system, a wastewater treatment and collection system, and a public parking garage, which are reported as enterprise funds. Refuse collection services are also accounted for as an enterprise operation.

As required by generally accepted accounting principles, the combined financial statements present the City of Athens (the primary government) and any component units. In determining whether to include a governmental department, agency, commission or organization as a component unit, the City must evaluate each entity as to whether they are legally separate and financially accountable based on criteria set forth by the Governmental Accounting Standards Board (GASB). Legal separateness is evaluated on the basis of (1) its corporate name, (2) the right to sue or be sued and (3) the right to buy, sell, lease and mortgage property. Financial accountability is based on (1) the appointment of the governing authority and (2) the ability to impose will or (3) the providing of specific financial benefit or imposition of a specific financial burden. Another factor to consider in this evaluation is whether an entity is fiscally dependent on the City.

Based on the foregoing criteria, the following governmental entity is not considered legally separate and is financially accountable to the City. Therefore, it is included as part of the reporting entity of the City.

Athens Municipal Court - The City budgets and appropriates for the operation of the Court, establishes the compensation for certain Court employees and is ultimately responsible for any operating deficits sustained by the Court. The operations of the Court are presented as a separate Agency Fund in the City's financial statements.

However, the following organizations are not part of the City of Athens reporting entity and are excluded from the City's combined financial statements.

Athens City School District - The Athens City School District encompasses the City of Athens. The members of the Board of Education of the District are elected by the voters within the District. The Board is a legally separate body politic and corporate, capable of suing, contracting, possessing, acquiring, and disposing of real property. The Board controls its own operations and budget and has no financial accountability to the City.

Athens Public Library - The Library provides library services for the citizens of Athens County. The Library is a legally separate entity with no financial accountability to the City. It has a separately selected governing authority and a separate designation of management. The City has no ability to impose its will upon the Library. Additionally, the Library provides no financial benefit to nor does it impose any financial burden upon the City.

Athens Cable Access Center - The Center is a nonprofit organization that operates a public access channel for the citizens of Athens County and surrounding areas. It is a legally separate entity that appoints its own governing board. Although the City contributes a portion of its cable franchise fee revenue toward the operation of the Center, the City cannot impose its will upon the Center. While this organization is excluded from the reporting entity of the City, the contributions made to the Center are reflected in a separate Special Revenue Fund.

The accounting policies and financial reporting practices of the City conform to generally accepted accounting principles as applicable to governmental units.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements: The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service funds is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

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

Fund Accounting

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Street Fund: This fund accounts for that portion of the state gasoline and motor vehicle registration fees designated for maintenance and repair of streets within the City.

Street Rehabilitation Fund: This fund accounts for that portion of the municipal income tax earmarked for City street improvement projects.

Capital Improvement Fund: This fund accounts for that portion of the municipal income tax designated for the acquisition and improvement of City facilities and equipment.

East State Street/ARC Fund: This fund accounts for a grant from the Appalachian Regional Commission to make improvements to East State Street.

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

Proprietary Funds: Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The City's proprietary funds are classified as either enterprise or internal service. The following are the City's major enterprise funds:

Parking Garage Fund: This fund accounts for the operation of a public parking garage within the City.

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

Sewer Fund: This fund accounts for the provision of sanitary sewer treatment to residential and commercial users located within the City.

The other enterprise funds of the City account for activities for which a fee is charged to external users for goods or services. The internal service funds of the City account for the financing of services provided by one department or agency of the City to other departments or agencies of the City on a cost reimbursement basis.

Fiduciary Funds: Fiduciary fund reporting focuses on net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary fund is an agency fund which accounts for assets that are held pending determination of their disposition.

Measurement Focus

Government-Wide Financial Statements: The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include municipal income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from municipal income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: municipal income taxes, grants, state-levied shared taxes (including gasoline tax), fines and forfeitures, and investment earnings.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue: Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures: On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Budgetary Accounting and Control:

Under Ohio law, City Council must adopt an appropriations budget by January 1st of a given year, or adopt a temporary appropriation measure with final passage of a permanent budget by April 1st, for all funds except Agency Funds. Budgets are adopted for each organizational unit by fund.

Each City department prepares a budget which is approved by City Council. All modifications made throughout the year to the original department budgets must be requested by the departmental management and approved through legal resolution by City Council, except in the travel transportation, materials and supplies, and contractual services and miscellaneous or other expenditure categories of each department.

Several budget modifications and supplemental appropriations were made during the year and each revised budget amount reported in the budget to actual comparisons includes all modifications and supplemental appropriations that were necessary.

The City maintains budgetary control by fund and ordinance does not permit expenditures and encumbrances to exceed appropriations for each fund, function, department and object level. Unencumbered and unexpended appropriations lapse at year-end in all budgeted funds. Prior year encumbrances and corresponding prior year appropriations are carried forward as part of the budgetary authority for next year and are included in the original and revised budget amounts shown in the budget-to-actual comparisons.

A budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as original budgeted amounts on the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

The City's budgetary process accounts for certain transactions on a budgetary basis instead of a GAAP basis. The major differences between the budget basis and the GAAP basis are that revenues are recorded when actually received (budget basis) as opposed to when susceptible to accrual (GAAP basis), and expenditures are recorded when paid (budget basis) as opposed to when incurred (GAAP basis). Additionally, the City reflects outstanding encumbrances at year-end as expenditures on the budgetary basis.

Cash and Investments

Cash and investments of the City's funds, except those held in restricted asset accounts, are pooled and invested in short-term investments in order to provide improved cash management. During 2003, the City's funds were invested in interest bearing demand accounts and certificates of deposit with commercial banks. For purposes of the combined statement of cash flows, the enterprise funds' portion of cash and cash equivalents is considered a cash equivalent because the City is able to withdraw resources from the enterprise funds without prior notice or penalty.

For purposes of the statement of cash flows and for the presentation on the statement of net assets/balance sheet, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

Following the local ordinance of the City as well as State statutes, the City has specified the funds to receive an allocation of interest earnings. During 2003, the General Fund earned interest revenue of \$21,105, of which \$4,300 was assigned from other funds.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in the proprietary funds when used.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it is consumed.

Restricted Assets

Restricted assets in the enterprise funds represent cash and cash equivalents that are restricted in their use by legal or contractual requirements.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five hundred dollars. The City's infrastructure consists of streets, traffic signals, sidewalks, drainage systems, water and sewer lines, and valves and meters. The City has elected to use prospective reporting for infrastructure. They are in the process of inventorying infrastructure acquired prior to 2003 and will report such infrastructure prior to fiscal year 2007.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized. All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimate based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	20 - 40 years	20 - 40 years
Machinery and Equipment	5 - 20 years	5 - 20 years
Vehicles	5 - 10 years	5 - 10 years
Infrastructure	10 - 80 years	10 - 80 years

Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB No. 16, “*Accounting for Compensated Absences*”.

The City records a liability for sick leave, vacation, and compensatory time when the obligation is attributable to services previously rendered, to rights that vest or accumulate, and where payment of the obligation is probable and can be reasonably determined.

Employees earn vacation time at varying rates depending on the duration of their employment. Employees with a minimum of one (1) year of service become vested in accumulated unpaid vacation time. Vacation leave is to be taken by the employee in the year accrued unless administrative approval has been obtained to carry-over the accumulated time to the following year. Ohio law requires that vacation time not be accumulated for more than three (3) years. Unused vacation time is payable upon termination of employment. It is deemed that each employee will remain with the City for at least one year, therefore, the City accrues a liability for each employee based on their unused vacation time.

Unused sick leave may be accumulated until retirement. Employees with a minimum of ten (10) years of service under Public Employee Retirement System (PERS) and fifteen (15) years under Ohio Police and Fire Pension Fund (OP&F) are entitled to payment for accumulated sick leave credit upon retirement. Payment may be made at twenty-five (25) percent, up to a maximum of thirty (30) days, of accrued sick leave credit. The City uses a termination method to accrue a liability based on average sick leave rates paid to retirees and years worked by current employees.

Employees are awarded compensatory time off in lieu of overtime pay when overtime hours are worked, except in certain departments where employees have the option of being compensated for overtime hours worked. Compensatory time off must be used within a specified period of time. Upon termination of employment or retirement, employees may be entitled to payment for unused compensatory time in those departments which provide for payment of overtime hours. The City accrues a liability for each employee with unused compensatory time.

The entire compensated absence liability is reported on the government-wide financial statements. In governmental funds, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignation or retirement. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported on the fund financial statements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability on the fund financial statements.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, notes and loans.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are parking garage fees and charges for services for water, sanitary sewer, and garbage collection services. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund.

Interfund Transactions

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

Estimates

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

NOTE 3 - RECONCILIATION OF BUDGET BASIS TO GAAP BASIS

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The statement of revenues, expenditures and changes in fund balance - budget and actual (budget basis) is presented for the General Fund and the major special revenue fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the modified accrual GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- (c) Outstanding year end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP).
- (d) Proceeds from and principal payment on bond and tax anticipation notes are reported on the operating statement (budget basis) rather than on the balance sheet (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund and major special revenue fund.

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses/Net Change in Fund Balance	
	General	Street
Budget Basis	(\$230,176)	(\$42,638)
<i>Adjustments:</i>		
Revenue Accruals	(95,397)	(12,044)
Expenditure Accruals and Encumbrances	119,635	51,376
Other Financing Sources (Uses)	0	0
GAAP Basis	(\$205,938)	(\$3,306)

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

NOTE 4 - CHANGES IN ACCOUNTING BASIS AND RESTATEMENTS

Changes in Accounting Basis

For the year 2003, the City implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At December 31, 2002, there was no effect on fund balance/equity as a result of implementing GASB Statement Nos. 37 and 38, and GASB Interpretation No. 6.

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an 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 government-wide financial statements present the City's programs as governmental and business-type activities. The beginning net asset amount for governmental and business-type programs reflect the change in fund balance/equity at December 31, 2002, caused by the conversion to the accrual basis of accounting.

Restatement of Fund Balance/Equity

The restatements for fund reclassifications and GASB Statement No. 34 had the following effects on fund balance/equity of the major and nonmajor funds of the County as they were previously reported.

	General	Street	Street Rehabilitation	Capital Improvement	East State Street/ARC Grant	Nonmajor	Total Governmental Activities
Governmental Activities:							
Fund Balance at 12/31/02	\$1,563,424	\$890,105	\$995,987	\$802,211	\$237,513	\$4,186,144	\$8,675,384
Correction of Errors	0	0	(237,016)	0	0	977	(236,039)
Reclassification of Fund	0	0	0	0	0	4,276	4,276
Adjusted Fund Balance at 12/31/02	<u>1,563,424</u>	<u>890,105</u>	<u>758,971</u>	<u>802,211</u>	<u>237,513</u>	<u>4,191,397</u>	8,443,621
<i>GASB 34 Adjustments:</i>							
Intergovernmental Receivable							1,465,726
Taxes Receivable							216,377
Capital Assets							15,425,599
Accrued Interest Payable							(24,991)
Intergovernmental Payable							(92,423)
<i>Long-Term Obligations:</i>							
Compensated Absences Payable							(660,824)
Landfill Postclosure Care							(38,892)
Special Assessment Bonds Payable							(15,000)
General Obligation Bonds Payable							(5,710,000)
Internal Service Fund							41,463
Net Assets at 12/31/02							<u><u>\$19,050,656</u></u>

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

NOTE 4 - CHANGES IN ACCOUNTING BASIS AND RESTATEMENTS

	Parking Garage	Water	Sewer	Nonmajor	Total Business-Type Activities
Business-Type Activities:					
Fund Equity at December 31, 2002	\$1,561,502	\$7,443,753	\$7,537,160	\$271,495	\$16,813,910
Adjustments to Capital Assets	0	0	(307,219)	0	(307,219)
Net Assets at December 31, 2002	\$1,561,502	\$7,443,753	\$7,229,941	\$271,495	\$16,506,691

NOTE 5 - CASH, DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the two year period of designation of depositories. Inactive deposits must be either 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 moneys. Interim moneys are those moneys 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. Interim monies may be deposited or invested in the following securities:

- (1) United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- (2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- (3) Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value 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 Treasury Assets Reserve of Ohio (STAR Ohio); and

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

NOTE 5 - CASH, DEPOSITS AND INVESTMENTS (Continued)

- (7) Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time.

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

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

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The amounts available for deposit and investment are as follows:

* Cash and Cash Equivalents (Carrying Amount)	\$10,301,392
* Cash and Cash Equivalents in Segregated Accounts (Carrying Amount)	238,849
* Reconciling Items (Net) to Arrive at Bank Balances of Deposits	<u>450,528</u>
Total Available for Deposit and Investment (Bank Balance of Deposits/Carrying Amount of Investments)	<u><u>\$10,990,769</u></u>

Any depository that receives a City deposit or investment is required to pledge to the investing authority as collateral eligible securities of aggregate fair value that, when added to the portion of the deposit by the Federal Deposit Insurance Corporation, equals or exceeds the amount of City funds deposited.

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

NOTE 5 - CASH, DEPOSITS AND INVESTMENTS (Continued)

A public depository may, at its option, pledge a single pool of eligible securities to secure the repayment of all public monies held by the depository. The pool of securities so pledged must have a current fair value at least equal to 105% of all public monies on deposit with the depository including the amount covered by federal insurance. GASB Statement No. 9 requires the City to report cash flows for its' proprietary funds. For purposes of the Statement of Cash Flows, proprietary fund participation in the State Treasurer's Investment Pool (STAR Ohio) is treated as a demand account and reported as a cash equivalent on the Balance Sheet. In addition, all highly liquid investments held with a maturity of three months or less when purchased, are considered cash equivalents. Only separate investments with a maturity of greater than three months are reported as investments on the Balance Sheet.

The Governmental Accounting Standards Board (GASB Statement No. 3) has established credit risk categories for deposits and investments as follows:

Category 1: Deposits that are insured or collateralized with securities held by the City or its agent in the City's name;

Investments that are insured or registered, or securities held by the City or its agent in the City's name;

Category 2: Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name;

Investments that are uninsured and unregistered, with securities held by the counter-party's trust department or agent in the City's name;

Category 3: Deposits that are uncollateralized or collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the City's name;

Investments that are uninsured and unregistered, with securities held by the counter-party or its trust department or agent but not in the City's name.

Based on the above criteria, the City's deposits and investments at December 31, 2003 are classified as follows:

	Category			Bank Balance	Carrying Amount
	1	2	3		
<i><u>Deposits:</u></i>					
Demand Deposits	\$564,976	\$0	\$8,425,793	\$8,990,769	\$8,540,241
Certificates of Deposit	0	0	2,000,000	2,000,000	2,000,000
Total Deposits	\$564,976	\$0	\$10,425,793	\$10,990,769	\$10,540,241

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. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3. For the City, there are no differences between the classification of cash and cash equivalents on the combined financial statements and the classifications of deposits per GASB Statement No. 3.

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

NOTE 6 - PROPERTY TAXES

Property taxes, include amounts levied against all real, public utility, and tangible personal (used in business) property located in the City. Real property taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value. Real property taxes are collected in and intended to finance the year following the year in which they are levied.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 50% of cost). Tangible personal property taxes attach as a lien and are levied January 1 of the current year, the same year in which collections are made. Tangible personal property assessments are 25% of true value for machinery and equipment and 24% of true value for inventory.

The assessed value upon which the 2003 taxes were collected was \$255,528,802. The full tax rate for all City operations that was applied to real property for the year ended December 31, 2003 was \$2.60 per \$1,000 of assessed valuation for City residents in Athens Township, and \$2.40 per \$1,000 of assessed valuation for City residents in Canaan Township. Real property owners' tax bills are reduced for inflationary increases in property values and when applicable, are further reduced by homestead and rollback deductions. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Real Property - 2002 Valuation:

Residential/Agricultural	\$136,114,590
Commercial/Industrial	90,448,580
Total Real Property	<u>226,563,170</u>

Tangible Personal Property - 2002 Valuation:

General	20,116,622
Public Utilities	8,849,010
Total Personal Property	<u>28,965,632</u>
Total Assessed Valuation	<u><u>\$255,528,802</u></u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due May 19; if paid semi-annually, the first payment is due May 19 with the remainder payable by August 25. Under certain circumstances, state statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due October 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due June 23; if paid semi-annually, the first payment is due June 23, with the remainder payable by October 20.

Accrued property taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable as of December 31, 2003. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not intended to finance 2003 operations. The receivable is therefore offset by a credit to deferred revenue.

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

NOTE 7 - INCOME TAX REVENUE

The City levies a tax of 1.65% on all salaries, wages, commissions, other compensation and net profits earned within the City, as well as, on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employees compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. In 2003, the income tax generated a total of \$8,654,717 in income tax revenue.

NOTE 8 - INTERFUND ACTIVITY

As of December 31, 2003, receivables and payables that resulted from various interfund transactions were as follows:

	Interfund Receivables	Interfund Payables
<i>Governmental Fund:</i>		
Capital Improvement Fund	\$240,000	\$0
<i>Enterprise Fund:</i>		
Sewer Fund	0	240,000
Total - All Funds	\$240,000	\$240,000

All balances resulted from the time lag between the dates that (1) reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

A summary of interfund transfers for 2003 were as follows:

Fund	Transfers In	Transfers Out
<i>Governmental Funds:</i>		
General Fund	\$145,463	\$21,000
Street Fund	37,635	30,000
Street Rehabilitation Fund	0	587,000
East State Street/ARC Grant Fund	587,000	0
Other Nonmajor Governmental Funds	39,050	276,208
<i>Enterprise Funds:</i>		
Parking Garage Fund	21,000	10,240
Water Fund	102,735	0
Sewer Fund	5,895	0
Internal Service Fund	170	14,500
Total - All Funds	\$938,948	\$938,948

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

NOTE 8 - INTERFUND ACTIVITY - (Continued)

In fiscal year 2003, the City made a transfer of \$587,000 from the Street Rehabilitation Fund to the East State Street/ARC Grant Fund for payment of notes.

NOTE 9 - INTERGOVERNMENTAL RECEIVABLE

Receivables at December 31, 2003 consisted of property taxes, income taxes, accounts (billings for user charged services), notes, loans, special assessments, interest and intergovernmental grants. All receivables are considered fully collectible.

A summary of the principal items of intergovernmental receivable follows:

Governmental Activities	
<i>General Fund:</i>	
Local Government Distributions	\$446,976
Grants and Other Revenue	41,943
	488,919
<i>Total General Fund</i>	
	488,919
 <i>Street Fund:</i>	
Street Maintenance Distributions	146,348
 <i>Capital Improvement Fund:</i>	
Bike Path Grant	169,558
Nonmajor Special Revenue Funds	464,162
Nonmajor Capital Projects Funds	86,033
	550,195
<i>Total Nonmajor Governmental Funds</i>	
	550,195
Total Intergovernmental Receivable	\$1,355,020

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

NOTE 10 - CAPITAL ASSETS

The following is a summary of changes in the capital assets of the governmental activities during the fiscal year:

	Restated Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003
<i>Governmental Activities:</i>				
<i>Nondepreciable Capital Assets:</i>				
Land	\$2,109,216	\$590,271	\$0	\$2,699,487
Construction in Progress	3,964,367	1,694,035	(1,507,869)	4,150,533
Total Nondepreciable Capital Assets	6,073,583	2,284,306	(1,507,869)	6,850,020
<i>Depreciable Capital Assets:</i>				
Buildings	12,005,370	44,539	0	12,049,909
Machinery, Equipment and Vehicles	6,723,051	965,107	(264,135)	7,424,023
Infrastructure	0	5,211,457	0	5,211,457
Total Depreciable Capital Assets	18,728,421	6,221,103	(264,135)	24,685,389
<i>Less Accumulated Depreciation for:</i>				
Buildings	(2,152,763)	(292,634)	0	(2,445,397)
Machinery, Equipment and Vehicles	(7,223,642)	(649,602)	4,157	(7,869,087)
Infrastructure	0	(127,237)	0	(127,237)
Total Accumulated Depreciation	(9,376,405)	(1,069,473)	4,157	(10,441,721)
Total Depreciable Capital Assets, Net	9,352,016	5,151,630	(259,978)	14,243,668
Governmental Activities Capital Assets, Net	<u>\$15,425,599</u>	<u>\$7,435,936</u>	<u>(\$1,767,847)</u>	<u>\$21,093,688</u>

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

NOTE 10 - CAPITAL ASSETS (Continued)

For governmental activities, depreciation expense was charged to functions as follows:

Governmental Activities	
General Government	\$247,347
<i>Security of Persons and Property:</i>	
Police	34,813
Fire	89,676
Transportation	211,921
Community Environment	5,206
Leisure Time Activities	480,510
Governmental Activities Depreciation Expense	\$1,069,473

The following is a summary of changes in the capital assets of the business-type activities for the fiscal year:

	Restated Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003
<u>Business-Type Activities:</u>				
<i>Nondepreciable Capital Assets:</i>				
Land	\$451,269	\$0	\$0	\$451,269
Construction in Progress	117,476	1,087,873	0	1,205,349
Total Nondepreciable Capital Assets	568,745	1,087,873	0	1,656,618
<i>Depreciable Capital Assets:</i>				
Buildings	12,128,277	0	0	12,128,277
Machinery, Equipment and Vehicles	2,388,716	196,817	(26,758)	2,558,775
Infrastructure	20,690,801	0	0	20,690,801
Total Depreciable Capital Assets	35,207,794	196,817	(26,758)	35,377,853
<i>Accumulated Depreciation:</i>				
Buildings	(4,256,776)	(291,141)	0	(4,547,917)
Machinery, Equipment and Vehicles	(1,603,429)	(707,609)	6,338	(2,304,700)
Infrastructure	(9,384,370)	(413,100)	0	(9,797,470)
Total Accumulated Depreciation	(15,244,575)	(1,411,850)	6,338	(16,650,087)
Depreciable Capital Assets, Net	19,963,219	(1,215,033)	(20,420)	18,727,766
Business-Type Activities Capital Assets, Net	\$20,531,964	(\$127,160)	(\$20,420)	\$20,384,384

The business-type activities of the City are the parking garage, water, sewer and garbage operations.

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

NOTE 11 - NOTES PAYABLE

The Ohio Revised Code provides that notes, including renewal notes, issued in anticipation of the issuance of general obligation bonds, may be issued and outstanding from time to time up to a maximum period of twenty (20) years from the date of issuance of the original notes (the maximum maturity for notes anticipating general obligation bonds payable from special assessments is five (5) years). Any period in excess of five (5) years must be deducted from the permitted maximum maturity of bonds anticipated, and portions of the principal amount of notes outstanding for more than five (5) years must be retired in amounts at least equal to, and payable not later than, those principal maturities that would have been required if the bonds had been issued at the expiration of the initial five (5) year period.

Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or available funds of the City, or a combination of these sources. All notes are backed by the full faith and credit of the City.

The following is a summary of the City's note obligation activity for the year ended December 31, 2003:

Purpose/ Description	Maturity Date	Interest Rate	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003	Amounts Due Within One Year
<u>Governmental Activities:</u>							
<i>Notes Payable:</i>							
East State Street	2003	1.96%	\$4,100,000	\$0	\$4,100,000	\$0	\$0
East State Street	2004	1.60%	0	3,600,000	0	3,600,000	3,600,000
Hawk Woods	2003	0.00%	0	50,000	50,000	0	0
Governmental Activities Notes Payable			<u>\$4,100,000</u>	<u>\$3,650,000</u>	<u>\$4,150,000</u>	<u>\$3,600,000</u>	<u>\$3,600,000</u>
<u>Business-Type Activities:</u>							
<i>Notes Payable:</i>							
Parking Garage Facility	2003	1.96%	\$900,000	\$0	\$900,000	\$0	\$0
Parking Garage Facility	2004	1.60%	0	800,000	0	800,000	800,000
EPA Litigation	2004	1.00%	424,742	143,996	0	568,738	568,738
Business-Type Activities Notes Payable			<u>\$1,324,742</u>	<u>\$943,996</u>	<u>\$900,000</u>	<u>\$1,368,738</u>	<u>\$1,368,738</u>

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

NOTE 12 - LONG-TERM DEBT AND OTHER OBLIGATIONS

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

Purpose/ Description	Maturity Date	Interest Rate	Restated Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003	Amounts Due Within One Year
<i>Governmental Activities:</i>							
<i>General Obligation Bonds Payable:</i>							
Community Center Original Issue Date - 2000 Original Issue Amount - \$6,085,000	2016	4.45%	\$5,710,000	\$0	\$225,000	\$5,485,000	\$250,000
<i>Special Assessment Bonds Payable:</i>							
State Route 56 Improvement Original Issue Date - 1983 Original Issue Amount - \$260,356	2003	8.88%	15,000	0	15,000	0	0
<i>Other Long-Term Obligations:</i>							
Compensated Absences			716,821	843,814	776,855	783,780	537,768
Landfill Postclosure Care			38,892	0	2,775	36,117	2,300
Governmental Activities Long-Term Obligations			<u>\$6,480,713</u>	<u>\$843,814</u>	<u>\$1,019,630</u>	<u>\$6,304,897</u>	<u>\$790,068</u>

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

NOTE 12 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Purpose/ Description	Maturity Date	Interest Rate	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003	Amounts Due Within One Year
<u>Business-Type Activities:</u>							
<i>OWDA Loans Payable:</i>							
Loan No. 1461 Original Issue Date - 1985 Original Issue Amount - \$356,339	2006	7.00%	\$112,471	\$0	\$28,865	\$83,606	\$31,452
Loan No. 1462 Original Issue Date - 1986 Original Issue Amount - \$384,827	2007	7.00%	142,161	0	27,614	114,547	29,784
Loan No. 2669 Original Issue Date - 1991 Original Issue Amount - \$3,943,837	2011	5.00%	2,255,064	0	203,981	2,051,083	214,307
Loan No. 2670 Original Issue Date - 1992 Original Issue Amount - \$1,282,133	2013	5.02%	861,920	0	59,825	802,095	62,978
Loan No. 2672/2673 Original Issue Dates - 1995 & 1996 Original Issue Amount - \$908,787	2016	4.16%	707,874	0	38,182	669,692	39,786
Loan No. 3873 Original Issue Date - 2003 Original Issue Amount - to be determined	2024	3.53%	0	945,469	0	945,469	0
<i>Other Long-Term Obligations:</i>							
Compensated Absences			244,875	178,975	201,388	222,462	136,062
Business-Type Activities							
Long-Term Obligations			<u>\$4,324,365</u>	<u>\$1,124,444</u>	<u>\$559,855</u>	<u>\$4,888,954</u>	<u>\$514,369</u>

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

NOTE 12 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

The City's long-term debt requirements as of December 31, 2003, are as follows:

Governmental Activities	
Year Ending December 31	General Obligation Bonds
2004	\$523,913
2005	537,662
2006	550,150
2007	561,350
2008	571,075
2009 - 2013	3,097,250
2014 - 2016	1,893,255
Total	7,734,655
Less: Amount Representing Interest	2,249,655
Principal Balance	\$5,485,000

Business-Type Activities	
Year Ending December 31	OWDA Loans
2004	560,387
2005	561,261
2006	542,737
2007	504,517
2008	485,277
2009 - 2013	1,797,958
2014 - 2018	201,552
Total	4,653,689
Less: Amount Representing Interest	932,666
Principal Balance	\$3,721,023

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

NOTE 12 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

The OWDA Loan No. 3873, authorized in the amount of \$2,659,572 is being used for renovations and improvements to the City's Sewer System. The loan activity is reflected in the Sewer Enterprise Fund which received the proceeds and which will repay the debt. Only \$954,469 of this loan has been drawn out as of December 31, 2003, and therefore, the final amount financed for the loan and the amortization schedule have not been established.

Defeased Debt: In December 1991, the City defeased an outstanding \$4,280,000 of Sewer Mortgage Revenue Bonds and fully funded the defeasance through the purchase of U.S. Government Securities which have amounts and maturities that are sufficient to generate a cash flow that will meet the principal and interest payments as they become due over the remaining life of the bonds. The investments and uninvested cash are being held in an irrevocable trust by First Star Bank, Cincinnati, Ohio and as of December 31, 2003 there was \$1,319,937 held in trust with the Bank.

The amount of debt considered to be defeased for the Sewer Mortgage Revenue Bonds at December 31, 2003 is \$1,700,000. Accordingly, the trust account and corresponding debt are not included in the basic financial statements.

Long-Term Bonds and Loans: All long-term debt issued for governmental purposes of the City (including special assessment debt with governmental commitment) is retired through the Debt Service Fund. OWDA enterprise loans are retired through the respective Enterprise Funds. OWDA loans are secured by revenues generated from enterprise operations. Special assessment bonds are secured by an unvoted property tax levy (special assessment), which constitutes a lien on assessed properties. In the event of default by the assessed property owners, the City would be obligated to pay the special assessment debt. These bonds are also backed by the full faith and credit of the City as additional security.

General obligations bonds are secured by .1% of the City's income tax. These bonds are also backed by the full faith and credit of the City.

NOTE 13 - PENSION OBLIGATIONS AND OTHER POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

Plan Description: The City contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State. 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, 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 and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established and emended by state statute and are contained in Chapter 145 of the Ohio Revised Code. The OPERS issues a stand-alone, publicly available annual financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800- 222-PERS (7377).

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

NOTE 13 - PENSION OBLIGATIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funding Policy: The Ohio Revised Code provides statutory authority for employee and employer contribution rates. The employee contribution rates are 8.5% for employees other than law enforcement and for 2003, the City is required to contribute 13.55%. In January 2001, House Bill 416 divided the OPERS law enforcement program into two separate division with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the OPERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9%. The City's required contributions to OPERS for the years ending December 31, 2003, 2002 and 2001 were \$465,001, \$464,416, and \$490,299, respectively; 90.22% has been contributed for 2003, 100% for 2002 and 100% for year 2001. Of the 2003 amount, \$45,493 was unpaid at December 31, 2003 and is recorded as a liability within the respective funds.

Postemployment Benefits: The OPERS also provides postemployment health care benefits to age and service retirants with ten (10) or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program was separated into two divisions; law enforcement and public safety, with separate employee contribution rates and benefits. The 2003 employer contribution rate for local government employer units was 13.55% of covered payroll; 5% was the portion that was used to fund health care for the year 2003. The 2003 employer rate was 16.7% and 5% was used to fund health care for both the law enforcement and public safety divisions.

Of the employer contributions made by the City for the year 2003, \$271,930 was the amount used to fund postemployment health care.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2002 was 8%. An annual increase of 4% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4% annually.

As of December 31, 2003, the number of active contributing participants was 364,881. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002 was \$10 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion respectively.

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

NOTE 13 - PENSION OBLIGATIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Ohio Police and Fire Pension Fund

Plan Description: 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. The OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. This report may be obtained by writing to Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43125-5164 or by calling (614) 228-2975.

Funding Policy: Plan members (both police officers and firefighters) are required to contribute 10% of their annual covered salary and the City is required to contribute 19.5% of annual covered payroll for police officers and 24% of annual covered payroll for firefighters. The City's contributions to OP&F for the years ending December 31, 2003, 2002 and 2001 were \$161,930, \$164,260 and \$161,489, for police officers; and \$196,355, \$201,988 and \$197,952, for firefighters, respectively; 68.06% has been contributed for 2003, 100% for 2002 and 100% for year 2001 for police officers; and 68.53% has been contributed for 2003, 100% for 2002 and 100% for year 2001 for firefighters. Of the 2003 amount, \$51,722 for police officers and \$61,788 for firefighters was unpaid at December 31, 2003 and is recorded as a liability within the respective funds.

Postemployment Benefits: The OP&F System of Ohio provides postemployment health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen (18) whether or not the child is attending school or under the age of twenty-two (22) if attending school full-time or on a two-thirds (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 that health care costs paid from the funds of the OP&F shall be included in the employer's contribution rate which is 19.5% of covered payroll for police officers and 24% of covered payroll for firefighters.

The Ohio Revised Code provides the statutory authority allowing the OP&F Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting are on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% and 7.75% of covered payroll in 2002 and 2003, respectively. The portion of the 2003 covered payroll that was used to fund postemployment health care benefits was \$106,805 for police officers and \$93,646 for firefighters. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

As of December 31, 2002 the number of participants eligible to receive health care benefits was 13,527 for police and 10,390 for firemen. The Fund's total health care expenses for the year ended December 31, 2002 were \$141,028,006.

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

NOTE 14 - EMPLOYEE BENEFITS

Compensated Absences

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, the City accrues a liability for sick leave and vacation when the obligation is attributable to services previously rendered, to rights that vest or accumulate, and where payment of the obligation is probable and can be reasonably determined.

Sick leave accumulates at the rate of .0575 hours of sick leave for each hour of work completed with a maximum of 80 hours per pay period. Employees who have ten years of service, hired prior to April 12, 1991 who have sick leave accumulated receive payment upon retirement at a rate of one hour for each hour of accumulated and unused sick leave, to a maximum of 960 hours. Employees who have ten years of service, hired after April 12, 1991 who have sick leave accumulated receives payment upon retirement at a rate of one hour for each four hours of accumulated and unused sick leave, to a maximum of 240 hours. Individuals leaving the employment of the City prior to retirement or at retirement with less than ten years of service lose their accumulated sick leave. A liability has been recognized in the accompanying financial statements for a portion of the sick leave hours of those employees who have ten years of service and are age 50 or older, or have thirty years with local government employment as well as other employees who are expected to become eligible in the future to receive such payments.

A liability for accrued vacation has been recognized based on the amount of unused vacation hours for each employee. Vacation is accumulated based upon length of service as follows:

<u>Employee Service</u>	<u>Vacation Credit</u>
After 1 year	2 weeks
After 10 years	3 weeks
After 15 years	4 weeks
After 22 years	5 weeks

Vacation leave must be used within the current calendar year unless the employee is unable to use his vacation due to the operational needs of the employer. Without this, such excess leave is eliminated from the employee's leave balance. In the case of death, termination, or retirement, an employee (or his estate) is paid for the unused vacation.

All sick leave and vacation is compensated at the employee's current rate of pay at the time of retirement or termination.

Health Care Benefits

The City has elected to provide employee medical/surgical and prescription drug benefits through Medical Mutual of Ohio Insurance Company. The employees share the cost of the monthly premium with the City.

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

NOTE 15 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries and natural disasters. The City has addressed these various types of risk by participating in a risk-sharing pool and by purchasing comprehensive insurance through a commercial carrier.

General liability insurance is maintained in the amount of \$7,000,000 in the aggregate, which includes \$7,000,000 law enforcement professional liability, \$2,000,000 for public official errors and omissions liability, \$7,000,000 for automobile liability, and \$40,000 for uninsured and \$40,000 for underinsured motorist liability.

In addition, the City maintains replacement cost insurance on buildings and contents in the amount of \$66,754,081. Other property insurance includes the following: \$677,033 for contractor's equipment. Supplemental boiler and machinery coverage is carried in the amount of \$100,000 with business interruption and extra expense/actual loss provisions.

Insurance deductibles on any of the above coverages do not exceed \$10,000. The City maintains comprehensive insurance coverage for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured. Workers' compensation benefits are provided through the State Bureau of Workers' Compensation. The City pays all public officials' bonds by statute.

The City has not incurred any significant reductions in insurance coverage from coverage in the prior year by major category of risk. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The City participates in a medical self-insurance plan for employees which covers medical claims and prescription drugs. The medical portion is a limited risk health plan with a third party administrator, Harrington Benefit Services. The prescription drug coverage is administered by Claimspro, with the employee paying a deductible amount, then Claimspro paying the balance and billing the City. All claims are paid by the third party administrator under policies established by the City. The City pays an administrative fee to Harrington Benefit to service the claims. All funds contribute to the Medical Internal Service Fund based on fees legislatively set by Council to insure historical and anticipated claims coverage in relation to the number of employees paid from each fund. This fund is presented in the financial statements and reflects all fees paid into the fund and all claims and administrative costs paid out of the fund. The City also carries a specific excess coverage (stop-loss) policy for medical claims in excess of \$65,000 per person and \$1,717,560 in the aggregate. The specific and aggregate excess loss insurance is carried with Guarantee Life and Mutual Company through the third party administrator.

The City maintains a minimum reserve for claims in the Medical Internal Service Fund that is set legislatively by Council at one-fourth of the projected annual claims, based on actuarial forecasts developed by the third party administrator.

Changes in the fund's claims liability in 2002 and 2003 were as follows:

	Beginning Year Balance	Current Year Claims	Claim Payments	Ending Year Balance
2002	\$161,547	\$1,254,872	\$1,282,853	\$133,566
2003	133,566	1,571,062	1,537,202	167,426

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

NOTE 15 - RISK MANAGEMENT (Continued)

The City carries a separate coverage for life insurance with a private commercial carrier, Great West Life Assurance Company, for each employee. The amounts of coverage are \$25,000 for life insurance and \$25,000 for AD&D insurance for all employees.

The City participates in the Workers' Compensation Group Rating Plan sponsored by the Ohio Municipal League. Eligibility and continued participation of member municipalities is determined annually based on the members' claims. It is a rating plan only with no risk assumed directly by the City. Claims are paid directly by the Ohio Bureau of Workers' Compensation. The savings under this plan totaled \$64,379 for 2003, compared to the regular premium rates.

NOTE 16 - LANDFILL CLOSURE AND POST CLOSURE CARE COSTS

The City owns one landfill which was closed prior to 1975. State and federal laws and regulations require that certain maintenance and monitoring functions at landfill sites be performed for 20 to 30 years. In 1995, the City was required to begin maintenance and monitoring functions at the landfill site for 20 years. While there were some preliminary planning costs in 1995, the City installed its monitoring system in 1996 and 1997, but began monitoring in 1996. The City is required to obtain quarterly monitoring samples for the first five years, and semi-annual monitoring samples for the next 15 years. The sampling costs for 2004 are expected to be \$2,300. The City has projected costs, with built-in inflation, for the remaining 15 years.

The City has recorded a liability of \$36,117 as an estimate of future post closure care costs of the landfill. The actual cost of postclosure care may be higher depending upon results from surveying and required well testing, changes in technology, or changes in landfill laws and regulations. The City has partially funded this liability through the Internal Service Fund and Capital Improvements (Capital Projects) Fund.

NOTE 17 - ACCOUNTABILITY

Deficit Fund Balances/Fund Equity

The following funds had deficit fund balance/fund equity as of December 31, 2003:

East State Street/ARC Grant Fund	\$2,334,646
Internal Service Funds	45,971

The deficit fund balance in the East State Street/ARC Grant Fund, which is a major fund, is due to the issuance of a general obligation note to finance this project. Once the note is retired, the deficit will be eliminated.

The deficit in the Internal Service Funds is the result of the application of generally accepted accounting principles and the requirement to accrue claims liabilities when incurred. The City anticipates that this deficit will be eliminated through future increases in medical premiums. The General Fund is liable for any deficit in this fund and provides operating transfers when cash is required, not when accruals occur. This deficit does not exist on the cash basis.

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

NOTE 18 - CONTINGENCIES

The City is a defendant in several claims and legal proceedings which may be classified as routine litigation in which minimal damages are being sought. The City believes that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

In addition, the City participates in several federal and state assisted grants and programs that are subject to financial and compliance audits by grantor agencies or their representatives. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. The City believes that disallowed claims, if any, will not have a material adverse effect on the City's financial condition.

NOTE 19 - SUBSEQUENT EVENTS

In July 2004, the City issued General Obligation Bond Anticipation Notes for the East State Street improvement project and Parking Garage Facility improvement project to pay retiring notes. These notes will be renewed annually at reduced principal amounts so that they will be retired entirely over the next several years.

In June 2004, the City issued General Obligation Bond Anticipation Notes for EPA litigation to pay retiring notes.

**CITY OF ATHENS
ATHENS COUNTY**

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

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Disbursements
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Pass through Ohio Department of Development:</i>			
Community Development Block Grants	14.228	A-F-01-086-1	\$ 58,225
Community Development Block Grants	14.228	A-F-02-086-1	32,132
Community Development Block Grants	14.228	A-L-02-086-1	42,975
Community Development Block Grants	14.228	A-L-03-086-1	14,325
Total Community Development Block Grants			<u>147,657</u>
Total United States Department of Housing and Urban Development			147,657
UNITED STATES DEPARTMENT OF JUSTICE			
<i>Passed through the Governor's Office of Criminal Justice Services</i>			
Violence Against Women Formula Grants	16.588	01-WF-VA7-8414A	20,659
Violence Against Women Formula Grants	16.588	02-WF-VA8-8414	50,000
Total Violence Against Women Formula Grants			<u>70,659</u>
Byrne Formula Grant Program	16.579	2001-DG-G01-9133	50,000
Total United States Department of Justice			<u>120,659</u>
UNITED STATES DEPARTMENT OF TRANSPORTATION			
<i>Pass through Ohio Department of Transportation:</i>			
Public Transportation for Nonurbanized Areas	20.509	RPT-4005-020-031	127,841
Public Transportation for Nonurbanized Areas	20.509	RPT-0005-022-032	34,425
Total Public Transportation for Nonurbanized Areas			<u>162,266</u>
Highway Planning and Construction	20.205	N/A	546,602
Total United States Department of Transportation			<u>708,868</u>
DEPARTMENT OF HOMELAND SECURITY			
<i>Pass through Ohio Department of Public Safety:</i>			
Public Assistance Grants	97.036	009-02736	121,148
TOTAL FEDERAL AWARDS EXPENDITURES			<u><u>\$1,098,332</u></u>

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

**CITY OF ATHENS
ATHENS COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A - - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – SUBRECIPIENTS

The City passes through certain Federal Emergency Shelter Grants Program assistance from the State Department of Development to Good Works, Inc., a not-for-profit corporation. As described in Note 1, the City records expenditures of federal awards to subrecipients when paid cash.

The subrecipient agency has certain compliance responsibilities related to administering this federal program. Under OMB Circular A-133, the City is responsible for monitoring subrecipients to help assure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and the performance goals are achieved.

NOTE C – COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG) REVOLVING LOAN PROGRAM

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low to moderate income households. The Federal Department of Housing and Urban Development (HUD) grants the money for these loans to the City, passed through the State Department of Development. The initial loan of this money is recorded as a disbursement on the Schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized by accounts receivable, equipment, inventory, mortgages, and vehicles. At December 31, 2003, the gross amount of loans outstanding under this program was \$477,659.

NOTE D – MATCHING REQUIREMENTS

Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

BALESTRA, HARR & SCHERER

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

To the Offices, Boards and
City Council of the City of Athens
8 East Washington Street
Athens, Ohio 45701

We have audited the financial statements of the City of Athens, Ohio, (the City) as of and for the year ended December 31, 2003, and have issued our report thereon dated October 15, 2004, in which we indicated the City implemented GA SB Statements No. 34, 37, 38, 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 of Athens's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error in fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated October 15, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Athens's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain other instances of non-compliance that we have reported to the management of the City in a separate letter dated October 15, 2004.

To the Offices, Boards and
City Council of the City of Athens
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.

October 15, 2004

BALESTRA, HARR & SCHERER

CERTIFIED PUBLIC ACCOUNTANTS

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Offices, Boards and
City Council of the City of Athens
8 East Washington Street
Athens, Ohio 45701

Compliance

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

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

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

Internal Control Over Compliance

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

To the Offices, Boards and

City Council of the City of Athens

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A - 133

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.

October 15, 2004

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505**

**CITY OF ATHENS
ATHENS COUNTY
DECEMBER 31, 2003**

1. SUMMARY OF AUDITOR-S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs = Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Highway Planning and Construction, CFDA #20.205
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505**

**CITY OF ATHENS
ATHENS COUNTY
DECEMBER 31, 2003**

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

Finding Number	None
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3. FINDINGS FOR FEDERAL AWARDS

Finding Number	None
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**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505**

**CITY OF ATHENS
ATHENS COUNTY
DECEMBER 31, 2003**

Finding Number	None
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**Auditor of State
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CITY OF ATHENS

ATHENS 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
DECEMBER 30, 2004**