

**THE CITY OF WORTHINGTON
FRANKLIN COUNTY, OHIO**

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

For The Year Ended
December 31, 2003

STEVEN R. GANDEE, DIRECTOR OF FINANCE



**Auditor of State
Betty Montgomery**

Members of City Council and City Manager
City of Worthington
6550 N. High Street
Worthington, Ohio 43085

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 27, 2004

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

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor's Report

Members of Council and City Manager
The City of Worthington, Franklin County
6550 North High Street
Worthington, OH 43085

We have audited the accompanying financial statements of the governmental activities, each major fund and the remaining fund information of the City of Worthington, Franklin County, Ohio, (the “City”), as of and for the year ended December 31, 2003, which collectively comprise the City’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City’s management. Our responsibility is to express an opinion 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 basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Worthington as of December 31, 2003, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the 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, GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for the year ended December 31, 2003.

Management’s Discussion and Analysis on pages 3 through 10 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 the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of Council and Mayor
City of Worthington
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In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Trimble, Julian & Grube, Inc.
June 4, 2004

CITY OF WORTHINGTON, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2003***

Unaudited

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

FINANCIAL HIGHLIGHTS

Key financial highlights for 2003 are as follows:

- ❑ Net assets decreased \$2.7 million, which represents a 7% decrease from 2002.
- ❑ General revenues accounted for \$17.2 million in revenue or 86% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2.8 million or 14% of total revenues of \$20.0 million.
- ❑ The City had \$22.7 million in expenses related to governmental activities; only \$2.8 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$17.2 million were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$14.6 million in revenues and \$17.4 million in expenditures. The general fund's fund balance declined \$3.7 million to \$4.2 million. This decrease was due to a number of factors, including salary increases, additional hires and an increase in health care costs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

CITY OF WORTHINGTON, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2003***

Unaudited

Government-Wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net-assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as the City's tax base and the condition of the City's capital assets

The government-wide financial statements of the City reflect the following category of its activities:

- ***Governmental Activities*** – All of the City's program's and services are reported here including security of persons and property, public health and welfare services, leisure time activities, community environment, basic utility services, transportation, general government, interest and fiscal charges, and other expenditures.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

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

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets.

CITY OF WORTHINGTON, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2003***

Unaudited

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior year's information is not available. A comparative analysis will be provided in future years when prior year's information is available.

	<u>Governmental Activities</u>
	<u>2003</u>
Current and other assets	\$23,890,431
Capital assets, Net	<u>28,265,889</u>
Total assets	52,156,320
Long-term debt outstanding	11,428,615
Other liabilities	<u>3,521,672</u>
Total liabilities	14,950,287
Net assets	
Invested in capital assets, net of related debt	18,125,889
Restricted	13,920,467
Unrestricted	<u>5,159,677</u>
Total net assets	<u><u>\$37,206,033</u></u>

CITY OF WORTHINGTON, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2003*

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2003:

	<u>Governmental Activities</u>
	<u>2003</u>
Revenues	
Program revenues:	
Charges for Services and Sales	\$2,725,383
Operating Grants and Contributions	90,106
General revenues:	
Taxes	13,862,246
Grants and Entitlements not Restricted to Specific Programs	2,700,682
Investment Earnings	227,882
Miscellaneous	<u>387,406</u>
Total revenues	19,993,705
Program Expenses	
Security of Persons and Property	9,427,162
Public Health and Welfare Services	66,012
Leisure Time Activities	3,672,424
Community Environment	1,068,902
Basic Utility Services	1,409,856
Transportation	2,108,380
General Government	4,395,626
Other Expenditures	20,985
Debt Service:	
Interest and Fiscal Charges	<u>522,525</u>
Total expenses	<u>22,691,872</u>
Total Change in Net Assets	(2,698,167)
Beginning Net Assets	<u>39,904,200</u>
Ending Net Assets	<u>\$37,206,033</u>

Governmental Activities

Net assets of the City's governmental activities decreased by \$2,698,167. This was due to a combination of factors including first time operations of a fund designed to provide economic incentives to businesses within the City through the issuance of grants and loans. Also, there was an increase in labor and utility costs as the City's Community Center operated for an entire year for the first time during 2003.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

CITY OF WORTHINGTON, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2003

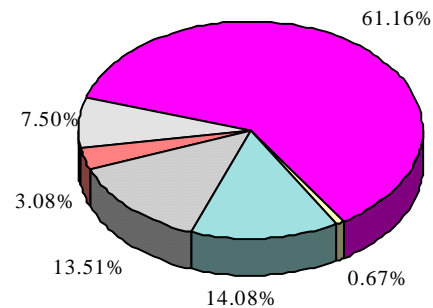
Unaudited

The City also receives an income tax and a hotel/motel tax. The income tax is based on 1.65% of all income earned within the City. In addition, the residents of the City are required to pay income tax on income earned outside of the City; however, the City allows a credit for income taxes paid to another municipality up to 100 percent of the City's current tax rate. The hotel/motel tax is based on 5.00% of all lodging revenues.

Property taxes and income taxes made up 7.50% and 61.16% respectively of revenues for governmental activities for the City in fiscal year 2003, while other local taxes made up 0.67%. The City's reliance upon tax revenues is demonstrated by the following graph indicating 69.33% of total revenues from general tax revenues:

Revenue Sources	2003	Percent of Total
Property Taxes	\$1,500,773	7.50%
Income Taxes	12,227,265	61.16%
Other Local Taxes	134,208	0.67%
Program Revenues	2,815,489	14.08%
Shared Revenues	2,700,682	13.51%
General Other	615,288	3.08%
Total Revenue	\$19,993,705	100.00%

2003



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$18,676,520, which is a decrease from last year's balance of \$23,052,589. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2003 and 2002:

	Fund Balance December 31, 2003	Fund Balance December 31, 2002	Increase (Decrease)
General	\$4,233,749	\$7,981,939	(\$3,748,190)
Special Assessment			
Bond Retirement	101,382	77,798	23,584
Capital Improvement	11,571,294	11,974,445	(403,151)
Other Governmental	2,770,095	3,018,407	(248,312)
Total	\$18,676,520	\$23,052,589	(\$4,376,069)

CITY OF WORTHINGTON, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2003

Unaudited

General Fund – The City's General Fund balance decrease is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2003 Revenues	2002 Revenues	Increase (Decrease)
Property Taxes	\$1,270,363	\$1,152,054	\$118,309
Municipal Income Tax	8,693,456	8,656,338	37,118
Other Local Taxes	134,208	125,173	9,035
Intergovernmental Revenues	2,069,235	1,616,618	452,617
Charges for Services	1,449,704	1,080,136	369,568
Licenses and Permits	159,514	218,488	(58,974)
Investment Earnings	217,777	496,006	(278,229)
Special Assessments	124,667	64,406	60,261
Fines and Forfeitures	243,090	194,952	48,138
All Other Revenue	191,207	160,155	31,052
Total	\$14,553,221	\$13,764,326	\$788,895

General Fund revenues in 2003 increased approximately 5.73% compared to revenues in fiscal year 2002. The most significant factor contributing to this increase was the rise in inheritance/estate tax collections from 2002 to 2003. Additionally, charges for services revenue increased by 34.21% in 2003 as a result of membership sales to the City's Community Center.

	2003 Expenditures	2002 Expenditures	Increase (Decrease)
Security of Persons and Property	\$7,795,487	\$7,519,909	\$275,578
Public Health and Welfare Services	\$66,012	\$69,555	(3,543)
Leisure Time Activities	\$2,710,002	\$2,012,398	697,604
Community Environment	517,815	469,579	48,236
Basic Utility Services	1,318,659	978,763	339,896
Transportation	1,202,113	1,067,390	134,723
General Government	3,814,638	3,545,727	268,911
Total	\$17,424,726	\$15,663,321	\$1,761,405

CITY OF WORTHINGTON, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2003

Unaudited

General Fund expenditures increased by \$1,761,405 over the prior year mostly due to the 4% salary increase and 18% health care cost increase for many of the City's employees. Additionally, expenditure increases were caused by the hiring of two employees to fill open positions, a rise in part-time employee wages, costs associated with operating the Community Center for an entire year, and costs related to the update of the City's Comprehensive Plan.

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2003 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of \$14.4 million did not significantly change over the original budget estimates of \$14.3 million. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2003 the City had \$28,265,889 net of accumulated depreciation invested in land, land improvements, buildings, infrastructure, equipment and furniture, and vehicles. The following table shows fiscal year 2003 and 2002 balances:

	Governmental Activities		Increase (Decrease)
	2003	2002	
Land	\$4,855,754	\$4,855,754	\$0
Construction In Progress	0	1,008,121	(1,008,121)
Land Improvements	164,786	164,786	0
Buildings	19,524,281	18,516,160	1,008,121
Infrastructure	1,841,959	0	1,841,959
Equipment and Furniture	6,518,483	6,098,282	420,201
Vehicles	3,090,289	2,939,085	151,204
Less: Accumulated Depreciation	(7,729,663)	(6,802,349)	(927,314)
Totals	\$28,265,889	\$26,779,839	\$1,486,050

The primary increases occurred in infrastructure and buildings. The increase in infrastructure resulted from the construction of, or improvements to, streets, sidewalks, paths, parking lots and storm sewers. An addition to the Municipal Police Complex led to the increase in buildings.

As of December 31, 2003, the City had contractual commitments of \$949,390 related to street improvements, an addition to the Community Center, improvements to the Municipal Police Complex, and other projects. Additional information on the City's capital assets can be found in Note 8.

CITY OF WORTHINGTON, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2003

Unaudited

Debt

At December 31, 2003, the City had \$10,140,000 in bonds outstanding, \$455,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Governmental Activities:		
General Obligation Bonds	\$9,914,418	\$10,289,272
Special Assessment Bonds	225,582	290,728
Compensated Absences	1,288,615	1,245,607
Total Governmental Activities	<u>11,428,615</u>	<u>11,825,607</u>

Additional information on the City's long-term debt can be found in Note 12.

ECONOMIC FACTORS

Despite an overall sluggish economy, the City was able to attract four major business facilities to the community. Worthington Industries located their corporate headquarters in the City, occupying 117,000 square feet of office on Old West Wilson Bridge Road. American Health Holding also relocated their corporate headquarters in Worthington, as did Whalen and Company, a CPA firm. Results International Systems, a software firm, announced their decision to return to Worthington, and the firm moved to 400 West Wilson Bridge Road in January 2004.

Assisting in our economic development efforts are the reforms enacted by City Council to streamline the decision-making process on planning and zoning approvals and building permits. In addition, City Council established an Economic Development Venture Fund to provide loans and grants for qualified firms locating and expanding in the City. The City surveyed over one-fourth of the businesses in the community to determine how the City can improve its services to meet the needs of business. The City is updating its Comprehensive Plan to determine redevelopment opportunities available in the community.

REQUESTS FOR INFORMATION

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

CITY OF WORTHINGTON, OHIO

Statement of Net Assets December 31, 2003

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 7,215,090
Investments	10,325,552
Receivables:	
Taxes	3,235,534
Accounts	59,969
Intergovernmental	1,220,009
Interest	64,912
Special Assessments	876,480
Loans	390,000
Prepaid Items	84,789
Restricted Assets:	
Cash and Cash Equivalents with Fiscal Agent	418,096
Capital Assets:	
Capital Assets Not Being Depreciated	4,855,754
Capital Assets Being Depreciated, Net	23,410,135
Total Assets	52,156,320
Liabilities:	
Accounts Payable	294,737
Accrued Wages and Benefits	312,828
Intergovernmental Payable	769,916
Contracts Payable	484,166
Retainage Payable	124,046
Matured Bonds & Interest Payable	166
Deferred Revenue	1,493,846
Accrued Interest Payable	41,967
Noncurrent liabilities:	
Due within one year	457,899
Due in more than one year	10,970,716
Total Liabilities	14,950,287
Net Assets:	
Invested in Capital Assets, Net of Related Debt	18,125,889
Restricted For:	
Capital Projects	12,457,627
Debt Service	668,888
Other Purposes	793,952
Unrestricted	5,159,677
Total Net Assets	\$ 37,206,033

See accompanying notes to the basic financial statements

CITY OF WORTHINGTON, OHIO

Statement of Activities For the Year Ended December 31, 2003

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Current:				
Security of Persons and Property	\$ 9,427,162	\$ 501,503	\$ 20,862	\$ (8,904,797)
Public Health and Welfare Services	66,012	0	0	(66,012)
Leisure Time Activities	3,672,424	1,485,909	0	(2,186,515)
Community Environment	1,068,902	322,922	0	(745,980)
Basic Utility Services	1,409,856	126,179	0	(1,283,677)
Transportation	2,108,380	0	9,744	(2,098,636)
General Government	4,395,626	288,870	59,500	(4,047,256)
Other Expenditures	20,985	0	0	(20,985)
Interest and Fiscal Charges	522,525	0	0	(522,525)
Totals	\$ 22,691,872	\$ 2,725,383	\$ 90,106	(19,876,383)
General Revenues				
Taxes				13,862,246
Grants and Entitlements not Restricted to Specific Programs				2,700,682
Investment Earnings				227,882
Miscellaneous				387,406
Total General Revenues				17,178,216
Change in Net Assets				(2,698,167)
Net Assets Beginning of Year				39,904,200
Net Assets End of Year				\$ 37,206,033

See accompanying notes to the basic financial statements

CITY OF WORTHINGTON, OHIO

Balance Sheet Governmental Funds December 31, 2003

	General	Special Assessment Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and Cash Equivalents	\$ 1,061,556	\$ 255,120	\$ 3,133,712	\$ 2,764,702	\$ 7,215,090
Investments	2,525,094	0	7,521,260	279,198	10,325,552
Receivables:					
Taxes	2,658,893	0	332,142	244,499	3,235,534
Accounts	44,110	0	0	15,859	59,969
Intergovernmental	934,683	0	0	285,326	1,220,009
Interest	63,533	0	0	1,379	64,912
Special Assessments	0	400,276	476,204	0	876,480
Loans	0	0	390,000	0	390,000
Interfund Loans Receivable	165,000	0	153,738	0	318,738
Prepaid Items	32,159	0	45,501	7,129	84,789
Restricted Assets:					
Cash and Cash Equivalents with Fiscal Agent	0	116	417,930	50	418,096
Total Assets	\$ 7,485,028	\$ 655,512	\$ 12,470,487	\$ 3,598,142	\$ 24,209,169
Liabilities:					
Accounts Payable	\$ 211,411	\$ 0	\$ 47,897	\$ 35,429	\$ 294,737
Accrued Wages and Benefits Payable	292,781	0	0	20,047	312,828
Intergovernmental Payable	600,179	0	14,422	155,315	769,916
Contracts Payable	233,314	0	236,624	14,228	484,166
Retainage Payable	0	0	124,046	0	124,046
Matured Bonds and Interest Payable	0	116	0	50	166
Interfund Loans Payable	0	153,738	0	165,000	318,738
Deferred Revenue	1,910,695	400,276	476,204	437,978	3,225,153
Compensated Absences Payable	2,899	0	0	0	2,899
Total Liabilities	3,251,279	554,130	899,193	828,047	5,532,649
Fund Balances:					
Reserved for Encumbrances	179,505	0	737,763	102,205	1,019,473
Reserved for Prepaid Items	32,159	0	45,501	7,129	84,789
Reserved for Debt Service	0	101,382	0	600,592	701,974
Reserved for Loans Receivable	0	0	390,000	0	390,000
Reserved for Interfund Loans Receivable	165,000	0	0	0	165,000
Reserved for Restricted Assets	0	0	417,930	0	417,930
Undesignated/Unreserved:					
General Fund	3,857,085	0	0	0	3,857,085
Special Revenue Funds	0	0	0	1,685,020	1,685,020
Capital Projects Funds	0	0	9,980,100	375,149	10,355,249
Total Fund Balances	4,233,749	101,382	11,571,294	2,770,095	18,676,520
Total Liabilities and Funds Balances	\$ 7,485,028	\$ 655,512	\$ 12,470,487	\$ 3,598,142	\$ 24,209,169

See accompanying notes to the basic financial statements

CITY OF WORTHINGTON, OHIO

Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities December 31, 2003

Total Governmental Fund Balances	\$	18,676,520
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		28,265,889
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		1,731,307
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds Payable	(9,914,418)	
Special Assessment Bonds Payable	(225,582)	
Compensated Absences Payable	(1,285,716)	
Accrued Interest Payable	(41,967)	
	<hr/>	(11,467,683)
<i>Net Assets of Governmental Activities</i>	<hr/> \$	<hr/> 37,206,033 <hr/>

See accompanying notes to the basic financial statements

CITY OF WORTHINGTON, OHIO

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

	General	Special Assessment Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property Taxes	\$ 1,270,363	\$ 0	\$ 0	\$ 235,996	\$ 1,506,359
Municipal Income Taxes	8,693,456	0	3,533,809	0	12,227,265
Other Local Taxes	134,208	0	0	0	134,208
Intergovernmental Revenues	2,069,235	0	0	745,558	2,814,793
Charges for Services	1,449,704	0	0	727,344	2,177,048
Licenses, Permits and Fees	159,514	0	0	0	159,514
Investment Earnings	217,777	0	0	10,105	227,882
Special Assessments	124,667	110,171	40,805	0	275,643
Fines and Forfeitures	243,090	0	0	23,659	266,749
Contributions	0	0	0	133,632	133,632
All Other Revenue	191,207	0	10,417	78,747	280,371
Total Revenue	14,553,221	110,171	3,585,031	1,955,041	20,203,464
Expenditures:					
Current:					
Security of Persons and Property	7,795,487	0	0	469,906	8,265,393
Public Health and Welfare Services	66,012	0	0	0	66,012
Leisure Time Activities	2,710,002	0	0	496,021	3,206,023
Community Environment	517,815	0	0	539,126	1,056,941
Basic Utility Services	1,318,659	0	0	97,094	1,415,753
Transportation	1,202,113	0	0	746,274	1,948,387
General Government	3,814,638	0	48,638	474,574	4,337,850
Capital Outlay	0	0	3,297,944	0	3,297,944
Debt Service:					
Principal Retirement	0	65,146	0	374,854	440,000
Interest and Fiscal Charges	0	21,441	0	502,804	524,245
Total Expenditures	17,424,726	86,587	3,346,582	3,700,653	24,558,548
Excess (Deficiency) of Revenues Over Expenditures	(2,871,505)	23,584	238,449	(1,745,612)	(4,355,084)
Other Financing Sources (Uses):					
Transfers In	0	0	202,400	1,497,300	1,699,700
Transfers Out	(855,700)	0	(844,000)	0	(1,699,700)
Other Financing Uses	(20,985)	0	0	0	(20,985)
Total Other Financing Sources (Uses)	(876,685)	0	(641,600)	1,497,300	(20,985)
Net Change in Fund Balances	(3,748,190)	23,584	(403,151)	(248,312)	(4,376,069)
Fund Balances at Beginning of Year	7,981,939	77,798	11,974,445	3,018,407	23,052,589
Fund Balances End of Year	\$ 4,233,749	\$ 101,382	\$ 11,571,294	\$ 2,770,095	\$ 18,676,520

See accompanying notes to the basic financial statements

CITY OF WORTHINGTON, OHIO

Reconciliation Of The Statement Of Revenues, Expenditures And Changes In Fund Balances Of Governmental Funds To The Statement Of Activities For The Fiscal Year Ended December 31, 2003

Net Change in Fund Balances - Total Governmental Funds \$ (4,376,069)

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

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

Capital Outlay	2,544,402	
Depreciation Expense	(1,039,573)	
	1,504,829	

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.	(18,779)	(18,779)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (209,759)

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

General Obligation Bond Principal Payment	374,854	
Special Assessment Bond Principal Payment	65,146	
	440,000	

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 1,720

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

Compensated Absences	(40,109)	
	(40,109)	

Change in Net Assets of Governmental Activities \$ (2,698,167)

See accompanying notes to the basic financial statements

CITY OF WORTHINGTON, OHIO

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 1,128,669	\$ 1,255,377	\$ 1,270,363	\$ 14,986
Municipal Income Taxes	9,020,609	9,020,609	8,519,317	(501,292)
Other Local Taxes	160,000	160,000	135,877	(24,123)
Intergovernmental Revenue	973,277	991,154	2,111,940	1,120,786
Charges for Services	1,520,524	1,520,524	1,449,704	(70,820)
Licenses, Permits and Fees	197,000	197,000	163,027	(33,973)
Investment Earnings	850,000	850,000	240,449	(609,551)
Special Assessments	75,000	75,000	169,290	94,290
Fines and Forfeitures	250,000	250,000	240,024	(9,976)
All Other Revenues	96,213	96,213	191,807	95,594
Total Revenues	14,271,292	14,415,877	14,491,798	75,921
Expenditures:				
Current:				
Security of Persons and Property	8,015,182	8,092,170	7,915,708	176,462
Public Health and Welfare Services	98,697	98,697	96,638	2,059
Leisure Time Activities	2,911,324	2,856,224	2,703,214	153,010
Community Environment	506,975	541,975	528,671	13,304
Basic Utility Services	1,204,319	1,383,319	1,381,563	1,756
Transportation	1,209,584	1,282,434	1,258,791	23,643
General Government	4,027,963	4,003,063	3,894,520	108,543
Total Expenditures	17,974,044	18,257,882	17,779,105	478,777
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,702,752)	(3,842,005)	(3,287,307)	554,698
Other Financing Sources (Uses):				
Transfers In	20,000	20,000	0	(20,000)
Transfers Out	(303,300)	(855,700)	(855,700)	0
Other Financing Uses	(23,629)	(24,629)	(22,568)	2,061
Total Other Financing Sources (Uses):	(306,929)	(860,329)	(878,268)	(17,939)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(4,009,681)	(4,702,334)	(4,165,575)	536,759
Fund Balance at Beginning of Year	6,749,016	6,749,016	6,749,016	0
Prior Year Encumbrances	504,609	504,609	504,609	0
Fund Balance at End of Year	\$ 3,243,944	\$ 2,551,291	\$ 3,088,050	\$ 536,759

See accompanying notes to the basic financial statements

CITY OF WORTHINGTON, OHIO

Statement of Fiduciary Net Assets ***December 31, 2003***

	<u>Agency</u>
Assets:	
Cash and Cash Equivalents	\$ 44,509
Restricted Assets:	
Cash and Cash Equivalents with Fiscal Agent	<u>30,523</u>
Total Assets	<u>75,032</u>
Liabilities:	
Intergovernmental Payable	15,609
Due to Others	<u>59,423</u>
Total Liabilities	<u>\$ 75,032</u>

See accompanying notes to the basic financial statements

CITY OF WORTHINGTON, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Worthington (“the City”) is a charter municipal corporation operating under the laws of the State of Ohio. A charter was first adopted in November, 1956, before the Village of Worthington became a City. The City was incorporated on November 8, 1960.

The municipal government provided by the charter is known as a Council-Manager form of government. Legislative power is vested in a seven-member council, each elected to four-year terms. The Council appoints the Mayor and the City Manager. The City Manager is the chief executive officer and the head of the administrative agencies of the City. The City Manager appoints all department heads and employees, except as otherwise provided in the charter.

A. Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the City are not misleading. The primary government consists of all funds and departments that are not legally separate from the City. The City provides various services including police protection, fire protection, parks and recreation (including the community center), planning, zoning, street maintenance and repair, community development, public health and welfare, and refuse collection. These activities comprise the primary governmental unit of the City and are directly responsible to Council and the City Manager. Therefore, they are included in the reporting entity.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves their budget, the issuance of their debt or the levying of their taxes. The City does not have any component units included in its reporting entity.

The City of Worthington Mayor's Court has been included in the City's financial statements as an agency fund. The Mayor is an appointed City official who has a fiduciary responsibility for the collection and distribution of court fees and fines.

CITY OF WORTHINGTON, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

The City is a member of the Central Ohio Health Care Consortium, (the "Pool") a risk sharing self-insurance pool which provides health insurance to the City. The Pool, which commenced business on January 1, 1992, has twelve members consisting of various cities, villages, and townships. The members have entered into an irrevocable agreement to remain a member of the Pool for a minimum of three years. The Consortium established a new Pool, effective January 1, 1995, to continue its self-insurance program. The new Pool retained the major attributes of the original Pool. The Consortium transferred an amount from the original Pool Trust account to the new Pool Trust account in 1995, which was equal to a total of each member's average monthly contribution. The Consortium elected to distribute excess contributions from the original Pool to its participating members. The Pool is governed by a Board of Directors consisting of one director appointed by each member. The Board elects a chairman, a vice chairman and a secretary. The Board is responsible for its own financial matters, and the Pool maintains its own books of account. Budgeting and financing of the Pool is subject to the approval of the Board. The City has no explicit and measurable equity interest in the Pool. The City recently completed its fourth three-year term on December 31, 2003. The City has committed to a fifth three-year term that began on January 1, 2004. The City has no ongoing financial responsibility other than the three-year minimum membership. See Note 11.

B. Basis of Presentation - Fund Accounting

The City uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories of governmental and fiduciary.

Governmental Fund Types

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

CITY OF WORTHINGTON, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

General Fund - This fund is the operating fund of the City and is used to account 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 and the Charter of the City.

Special Assessment Bond Retirement Fund - This fund is used to account for the accumulation of resources for, and the payment of, special assessment debt principal and interest.

Capital Improvement Fund - This fund is used to account for financial resources to be used for the acquisition of capital assets and the construction of major capital facilities.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Fiduciary funds are used to account for assets the City holds in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. The City's only fiduciary funds are agency funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

C. Basis of Presentation – Financial Statements

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 government-wide statements are prepared using the economic resources measurement focus. The governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, 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 governmental function is self-financing or draws from the general revenues of the City.

CITY OF WORTHINGTON, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. 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.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

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

The modified accrual basis of accounting is followed by the governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

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

Revenues considered susceptible to accrual at year end include income taxes withheld by employers, interest on investments and other local taxes (including hotel/motel tax and estate taxes). Other revenues, including licenses, permits, certain charges for services, fines and forfeitures, income taxes other than that withheld by employers and miscellaneous revenues, are recorded as revenues when received in cash because generally these revenues are not measurable until actually received.

CITY OF WORTHINGTON, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Special assessment installments and related accrued interest, which are measurable but not available at December 31, 2003 are recorded as deferred revenue.

Property taxes measurable as of December 31, 2003, but which are not intended to finance 2003 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 4.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than the agency funds, are legally required to be budgeted and appropriated. The City did not adopt a budget for the Subdivision Trust Special Revenue Fund because it is classified as an agency fund for cash reporting. This fund was classified as a special revenue fund for GAAP reporting. The legal level of budgetary control is at the object level (personal services and other expenditures) within each department. Budgetary modifications may only be made by resolution of the City Council.

1. Tax Budget

Prior to July 20 of each year, the City must submit to the County Budget Commission a Council-adopted operating budget of the City for the year commencing the following January 1. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

2. Estimated Resources

Prior to October 1, the City accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the estimated fund balance and the projected revenues 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. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the fiscal officer determines that the revenue collected is greater or less than the current estimates. The amounts reported on the budgetary statements reflect the amounts in the final amended certificate issued during 2003.

CITY OF WORTHINGTON, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

A temporary appropriation measure to control expenditures may be passed on or about January 1 of each year for the period from January 1 to March 31. The annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. Appropriations may not exceed current estimated resources, as certified in the Official Amended Certificate of Estimated Resources. Supplemental appropriations may be adopted during the year only by an ordinance of Council. During the year, several supplemental appropriation measures were passed. The budget figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual" represent the final appropriation amounts, including all amendments and modifications.

4. Encumbrances

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

5. Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding calendar year and need not be reappropriated.

6. Budgetary Basis of Accounting

While reporting financial position and results of operation on the basis of generally accepted accounting principles (GAAP), the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual" are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

CITY OF WORTHINGTON, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis). On a budgetary basis expenditures against carryover encumbrances are excluded. Expenditures are increased on the GAAP basis for these amounts.
4. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. State statute requires short-term note debt to be repaid from the debt service fund (budget basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual" for the General Fund:

	<u>Net Change in Fund Balance</u>
	<u>General Fund</u>
GAAP Basis (as reported)	(\$3,748,190)
Increase (Decrease):	
Accrued Revenues at December 31, 2003 received during 2004	(1,935,166)
Accrued Revenues at December 31, 2002 received during 2003	1,873,743
Accrued Expenditures at December 31, 2003 paid during 2004	1,340,584
Accrued Expenditures at December 31, 2002 paid during 2003	(1,167,985)
2002 Prepays for 2003	21,556
2003 Prepays for 2004	(32,159)
Outstanding Encumbrances	<u>(517,958)</u>
Budget Basis	<u><u>(\$4,165,575)</u></u>

CITY OF WORTHINGTON, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits. The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. See Note 3, "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. The City allocates interest among certain funds based upon the fund's cash balance at the date of investment. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," the City records all its investments at fair value except for nonparticipating investment contracts (repurchase agreements and certificates of deposit) which are reported at cost. See Note 3, "Cash, Cash Equivalents and Investments."

The City has invested funds in the STAR Ohio during 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2003

H. Prepaid Items

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

I. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,500.

CITY OF WORTHINGTON, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost. The capital asset values were initially determined at December 31, 1990, assigning original acquisition costs when such information was available. In cases where information supporting original costs was not available, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition. Donated capital assets are capitalized at fair market value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized. These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

2. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (in years)</u>
Land Improvements	30
Buildings	20 - 50
Infrastructure	15 - 40
Equipment and Furniture	5 - 20
Vehicles	3 - 15

J. Long-Term Obligations

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

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	General Obligation Bond Retirement Fund
Special Assessment Bonds	Special Assessment Bond Retirement Fund
Compensated Absences	General Fund

CITY OF WORTHINGTON, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences

The City accrues a liability for compensated absences in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences." Vacation benefits and compensatory time are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate employees for the benefits through time off or some other means. Sick leave benefits are accrued using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

City employees earn vacation leave at varying rates depending upon the length of service. City employees can earn compensatory time for any work in excess of their normal hours of work per day in lieu of overtime pay. Employees earn compensatory time at the rate of one and one-half times for overtime hours worked.

City employees earn sick leave at the rate of ten hours per month. Sick leave may be accumulated and carried forward from year to year without limit. An employee who is to be separated from City service through retirement, layoff, or resignation in good standing after completion of fifteen years continuous service with the City of Worthington and has accumulated more than 232 hours of sick leave, is eligible to be paid for one quarter of the total accrued hours up to a maximum of 640 hours paid.

For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable available financial resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

L. 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 of 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.

CITY OF WORTHINGTON, OHIO

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Pensions

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

N. Intergovernmental Revenues

In governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, and shared revenues are recorded as intergovernmental receivables and revenues when measurable and available. Reimbursable grants are recorded as intergovernmental receivables and revenues when the related expenditures are made.

O. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

P. Interfund Assets/Liabilities

Receivables and payables arising between funds for goods provided or services rendered are classified as "Due From/To Other Funds" on the balance sheet. Short-term interfund loans are classified as "Interfund Receivables/Payables," while long-term interfund loans are classified as "Interfund Loan Receivable/Payable."

Q. Restricted Assets

Cash with fiscal agent is classified as restricted assets on the balance sheet because these funds are being held for specified purposes.

R. Reservations of Fund Balance

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

S. 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.

CITY OF WORTHINGTON, OHIO

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

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS

A. Changes in Accounting Principles

For fiscal year 2003, the City has implemented GASB Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.*”

For fiscal year 2003, the City has 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*”; GASB Statement No. 41, “*Budgetary Comparison Schedule – Perspective Differences*”, and GASB Interpretation No. 6, “*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement.*” At December 31, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 and 41, or 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.

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

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the City not being able to present budgetary comparisons for the general and each major special revenue fund.

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

The government-wide financial statements report the governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, caused by conversion to the accrual basis of accounting.

CITY OF WORTHINGTON, OHIO

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

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS (Continued)

B. Restatement of Fund Balance

The changes to the beginning fund balance, as well as the transition from fund balance to net assets of the governmental activities are as follows:

	<u>Governmental Activities</u>
Fund Balance at December 31, 2002	\$23,052,589
GASB 34 Adjustments:	
Capital Assets	26,779,839
Long-Term Liabilities	(11,869,294)
Long-Term (Deferred) Assets	<u>1,941,066</u>
Net Assets, December 31, 2002	<u><u>\$39,904,200</u></u>

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. Statutes require the classification of funds held by the City into three categories:

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

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

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

- 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;

CITY OF WORTHINGTON, OHIO

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

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

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

CITY OF WORTHINGTON, OHIO

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

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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

Deposits:

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

Investments:

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

At year end, the City had \$417,930 on deposit with the Franklin County Treasurer. The data regarding insurance and collateralization can be obtained from the Franklin County Comprehensive Annual Financial Report for the year ended December 31, 2003.

A. Deposits

At year end the carrying amount of the City's deposits was \$10,721,213 and the bank balance was \$10,821,911. The Federal Deposit Insurance Corporation (FDIC) covered \$500,000 of the bank balance. All remaining deposits were classified as Category 3. In addition, the City had \$1,000 cash on hand. The deposit balance does not include cash on deposit with the Franklin County Treasurer reported in the Capital Projects Funds. (See above).

B. Investments

The City's Investments at December 31, 2003 are:

<u>Categorized Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Carrying/ Fair Value</u>
Federal Home Loan Mortgage Corporation	\$3,479,950	\$0	\$3,479,950
Federal National Mortgage Association	1,574,596	0	1,574,596
Repurchase Agreement	0	70,804	70,804
Total Categorized Investments	5,054,546	70,804	5,125,350
 <u>Noncategorized Investments</u>			
STAR Ohio	N/A	N/A	1,769,277
Total Investments	5,054,546	\$70,804	\$6,894,627

CITY OF WORTHINGTON, OHIO

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

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Reconciliation of Cash, Cash Equivalents and Investments

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

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Combined Balance Sheet	\$7,290,288	\$10,325,552
STAR Ohio	(1,769,277)	1,769,277
Repurchase Agreement	(70,804)	70,804
Certificates of Deposit (with maturities of more than 3 months)	<u>5,271,006</u>	<u>(5,271,006)</u>
Per GASB Statement No. 3	<u>\$10,721,213</u>	<u>\$6,894,627</u>

* Includes Cash with Fiscal Agent less funds on deposit with the Franklin County Treasurer of \$417,930.

NOTE 4 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reevaluated every six years and equalization adjustments made in the third year following the reappraisal. The last revaluation was completed in 1999. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20.

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

CITY OF WORTHINGTON, OHIO

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

NOTE 4 – TAXES (Continued)

A. Property Taxes (Continued)

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 35 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Worthington. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2003, was \$3.00 per \$1,000 of assessed value. Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is .30% (3.00 mills) of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

<u>Category</u>	<u>Amount</u>
Real Property Tax	
Residential	\$350,389,690
Commercial	107,892,480
Industrial	22,873,830
Public Utility Real	58,500
Tangible Personal Property	60,175,677
Public Utility Tangible Personal	15,437,900
Total Assessed Valuation	<u>\$556,828,077</u>

Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are 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 subject to reasonable estimation at December 31, nor are they intended to finance 2003 operations. The receivable is therefore offset by a credit to deferred revenue.

B. Income Tax

The City levies and collects an income tax of 1.65 percent on all income earned within the City. In addition, the residents of the City are required to pay income tax on income earned outside of the City; however, the City allows a credit for income taxes paid to another municipality up to 100 percent of the City's current tax rate.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City monthly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

CITY OF WORTHINGTON, OHIO

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

NOTE 4 – TAXES (Continued)

B. Income Tax (Continued)

The City entered into an agreement with the Regional Income Tax Agency (R.I.T.A.) for the administration and collection of all City income tax effective July 1, 2002. Collections are distributed twice per month to the City less a 3.0% collection fee. An annual reconciliation is performed each year to determine each community's proportionate share of the collection expense and an adjustment is made at the time of the fixed 3.0% collection fee.

NOTE 5 - RECEIVABLES

Receivables at December 31, 2003, consisted of taxes, intergovernmental receivables arising from shared revenues, special assessments, interest, and utility accounts. The City also has loans receivable at December 31, 2003 in the amount of \$390,000. This is a result of a loan in the amount of \$600,000 given to Swim Inc. by the City for renovations to the swimming facilities. The loan is to be repaid over a twenty-year period at \$30,000 per year with no interest charges.

NOTE 6 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2003:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$0	\$855,700
Capital Improvement Fund	202,400	844,000
Nonmajor Governmental Funds:		
Police Pension Fund	303,300	0
Economic Development Fund	350,000	0
General Obligation Bond Retirement Fund	844,000	0
Total Nonmajor Governmental Funds	<u>1,497,300</u>	<u>0</u>
Total All Funds	<u>\$1,699,700</u>	<u>\$1,699,700</u>

CITY OF WORTHINGTON, OHIO

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

NOTE 7 - INTERFUND RECEIVABLES/PAYABLES

Individual interfund receivable and payable balances at December 31, 2003, were as follows:

	Interfund Loan Receivables	Interfund Loan Payables
General Fund	\$165,000	\$0
S.A. Bond Retirement Fund	0	153,738
Capital Improvement Fund	153,738	0
Nonmajor Governmental Fund:		
Bicentennial Trust Fund	0	165,000
Totals	<u>\$318,738</u>	<u>\$318,738</u>

NOTE 8 - CAPITAL ASSETS

Summary by category of changes in governmental activities capital assets at December 31, 2003:

<i>Historical Cost:</i>				
Class	December 31, 2002	Additions	Deletions	December 31, 2003
<i>Capital assets not being depreciated:</i>				
Land	\$4,855,754	\$0	\$0	\$4,855,754
Construction in Progress	1,008,121	0	(1,008,121)	0
<i>Capital assets being depreciated:</i>				
Land Improvements	164,786	0	0	164,786
Buildings	18,516,160	1,008,121	0	19,524,281
Infrastructure	0	1,841,959	0	1,841,959
Equipment and Furniture	6,098,282	420,201	0	6,518,483
Vehicles	2,939,085	282,242	(131,038)	3,090,289
Total Cost	<u>\$33,582,188</u>	<u>\$3,552,523</u>	<u>(\$1,139,159)</u>	<u>\$35,995,552</u>
<i>Accumulated Depreciation:</i>				
Class	Restated December 31, 2002	Additions	Deletions	December 31, 2003
Land Improvements	(\$126,336)	(\$5,493)	\$0	(\$131,829)
Buildings	(2,488,551)	(398,588)	0	(2,887,139)
Infrastructure	0	(16,501)	0	(16,501)
Equipment and Furniture	(2,752,160)	(374,061)	0	(3,126,221)
Vehicles	(1,435,302)	(244,930)	112,259	(1,567,973)
Total Depreciation	<u>(\$6,802,349)</u>	<u>(\$1,039,573) *</u>	<u>\$112,259</u>	<u>(\$7,729,663)</u>
<i>Net Value:</i>	<u>\$26,779,839</u>			<u>\$28,265,889</u>

CITY OF WORTHINGTON, OHIO

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

NOTE 8 - CAPITAL ASSETS (Continued)

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$403,928
Leisure Time Activities	412,717
Community Environment	10,888
Transportation	153,970
General Government	58,070
Total Depreciation Expense	<u>\$1,039,573</u>

Under GASB Statement No. 34, the City has elected to “phase in” the retroactive reporting of infrastructure assets. The City plans to retroactively report infrastructure capital assets in the 2004 basic financial statements. Only infrastructure capital assets acquired or constructed in 2003 are reflected in the basic financial statements for the fiscal year ended December 31, 2003.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

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

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

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

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD 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 MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

CITY OF WORTHINGTON, OHIO

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the "Ohio PERS") (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2003 employer contribution rate for local government employer units was 13.55%, of covered payroll, 8.55% to fund the pension and 5.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2003, 2002 and 2001 were \$751,184, \$649,263 and \$582,266, respectively, which were equal to the required contributions for each year.

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2003 employer contribution rate (identified above) that was used to fund health care for the year 2003 was 5.0% of covered payroll which amounted to \$277,190.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 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 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 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 364,881. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2002 is \$10.0 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 WORTHINGTON, OHIO

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (the "OP&F Fund")

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

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2003, 2002 and 2001 were \$438,253, \$425,302 and \$409,282 for police and \$574,901, \$545,737 and \$560,023 for firefighters, respectively, which were equal to the required contributions for each year.

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

The portion of the 2003 covered payroll that was used to fund postemployment health care benefits was \$174,177 representing 7.75% of covered payroll for police and \$185,645 representing 7.75% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2002, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,527 for police and 10,396 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2002 were \$141,028,006, which was net of member contributions of \$12,623,875.

CITY OF WORTHINGTON, OHIO

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

NOTE 10 - COMPENSATED ABSENCES

City employees earn sick leave at the rate of ten hours per month. Sick leave may be accumulated and carried forward from year to year without limit. An employee who is to be separated from City service through retirement, layoff, or resignation in good standing after completion of fifteen years continuous service with the City of Worthington and has accumulated more than 232 hours of sick leave, is eligible to be paid for one quarter of the total accrued hours up to a maximum of 640 hours paid.

City employees earn vacation leave at varying rates depending upon the length of service. City employees can earn compensatory time for any work in excess of their normal hours of work per day in lieu of overtime pay. Employees earn compensatory time at the rate of one and one-half times for overtime hours worked.

At December 31, 2003, the total liability for accumulated unpaid compensated absences reported as long-term obligations of the City was as follows:

	<u>Hours</u>	<u>Amount</u>
Sick Leave	25,671	\$604,039
Vacation / Compensatory Time	<u>29,947</u>	<u>681,677</u>
Total	<u><u>55,618</u></u>	<u><u>\$1,285,716</u></u>

NOTE 11 - RISK MANAGEMENT

A. Insurance

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

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
General Liability	\$2,000,000	\$5,000
Automobile	1,000,000	250/500
Property	29,166,254	5,000
Boiler and Machinery	2,500,000	5,000
Crime	100,000	1,000
Public Officials	5,000,000	10,000
Law Enforcement	1,000,000	10,000
Umbrella	4,000,000	0

Settled claims have not exceeded this commercial coverage in any of the past three years.

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

CITY OF WORTHINGTON, OHIO

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

NOTE 11 - RISK MANAGEMENT (Continued)

B. Health Care Benefits

The City participates in the Central Ohio Health Care Consortium, a risk-sharing pool, which provides employee health care benefits for all full-time employees who wish to participate in the plan. The pool consists of thirteen political subdivisions who pool risk for basic hospital, surgical and prescription drug coverage. The Pool is governed by a Board of Directors consisting of one director appointed by each member. The Board elects a chairman, a vice-chairman and a secretary. The Board is responsible for its own financial matters and the Pool maintains its own books of account. Budgeting and financing of the Pool is subject to the approval of the Board.

The City pays monthly contributions to the Pool, which are used to purchase excess loss insurance for the Pool, pay current claims and related claim settlement expenses and to establish and maintain sufficient reserves. The monthly contribution is determined for each member in accordance with the number of covered officers and employees, and the prior loss experience of the respective member group. The members' contributions represent 115 percent of the expected costs of the Pool, which will allow the Pool to establish excess reserves for future operations. The funds are maintained in a bank trust account established for the sole purpose and benefit of the Pool's operations.

The Pool has entered into an agreement for individual and aggregate excess loss coverage with a commercial insurance carrier. The individual excess loss coverage has been structured to indemnify the Pool for medical claims paid to an individual in excess of \$150,000, with an individual lifetime maximum of \$2,000,000. The aggregate excess loss coverage has been structured to indemnify the Pool for aggregate claims paid in excess of \$7,728,535, to a maximum of \$1,000,000 annually. In the event that the losses of the consortium in any year exceeds amounts paid to the Pool, together with all stop-loss, reinsurance and other coverage then in effect, then the payment of all uncovered losses shall revert to and be the sole obligation of the political subdivision against which the claim was made. No such loss has occurred in the past three years.

The City currently has no specified percentage share of the Pool. The only time at which a percentage share would be calculated occurs if the Pool votes to terminate. After a vote to terminate the Pool, the Board would wind-up the Pool's business as quickly as practicable, but in any event would complete this process no later than twelve months after the termination date. During such period, the Pool would continue to pay all claims and expenses until the Pool's funds are exhausted. After payment of all claims and expenses, or upon the termination of the aforesaid twelve month period, any remaining surplus funds held by the Pool would be paid to the members of the Pools who are members as of the termination date. The Board would determine the manner in which such surplus funds would be distributed, and would consider the percentage relationship which each member's contributions to the Pool for the prior three calendar years of the Pool bore to all members' contributions to the Pool for that same period. The City's payment for health insurance coverage to the Central Ohio Health Care Consortium in 2003 was \$1,370,722.

CITY OF WORTHINGTON, OHIO

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

NOTE 12 - LONG-TERM OBLIGATIONS

Detail of the changes in the bonds and compensated absences of the City for the year ended December 31, 2003, were as follows:

	Balance December 31, 2002	Issued	(Retired)	Balance December 31, 2003	Amount Due Within One Year
Governmental Activities:					
General Obligation Bonds:					
1987 7.375% Huntley Road	\$124,272	\$0	(\$24,854)	\$99,418	\$24,855
2001 4.921% Various Purpose	10,165,000	0	(350,000)	9,815,000	365,000
Total General Obligation Bonds	<u>10,289,272</u>	<u>0</u>	<u>(374,854)</u>	<u>9,914,418</u>	<u>389,855</u>
Special Assessment Bonds:					
1986 7.375% East Wilson Bridge Road	140,000	0	(35,000)	105,000	35,000
1987 7.375% Huntley Road	150,728	0	(30,146)	120,582	30,145
Total Special Assessment Bonds with Governmental Commitment	<u>290,728</u>	<u>0</u>	<u>(65,146)</u>	<u>225,582</u>	<u>65,145</u>
Compensated Absences	<u>1,245,607</u>	<u>151,958</u>	<u>(108,950)</u>	<u>1,288,615</u>	<u>2,899</u>
Total General Long-Term Debt and Other Long-Term Obligations	<u>\$11,825,607</u>	<u>\$151,958</u>	<u>(\$548,950)</u>	<u>\$11,428,615</u>	<u>\$457,899</u>

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and the refinancing of bond anticipation notes. General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. All general obligation bond issues will be paid through the General Obligation Debt Retirement Fund.

The principal amount of the City's special assessment debt outstanding at December 31, 2003 \$225,582, is general obligation debt (backed by the full faith and credit of the City) that is being retired with the proceeds from special assessments levied against benefited property owners. The City is obligated to repay the debt irrespective of the amount of special assessments collected from property owners. Delinquent special assessments at year end were \$1,854.

CITY OF WORTHINGTON, OHIO

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

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

A. Principal and Interest Requirements

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2003, follows:

Years	General Obligation Bonds		Special Assessment Bonds		Totals
	Principal	Interest	Principal	Interest	
2004	\$389,855	\$486,971	\$65,145	\$16,637	\$958,608
2005	399,854	470,538	65,146	11,832	947,370
2006	419,855	453,705	65,145	7,028	945,733
2007	434,854	436,072	30,146	2,223	903,295
2008	425,000	417,839	0	0	842,839
2009-2013	2,425,000	1,809,914	0	0	4,234,914
2014-2018	3,140,000	1,134,931	0	0	4,274,931
2019-2021	2,280,000	249,400	0	0	2,529,400
Totals	<u>\$9,914,418</u>	<u>\$5,459,370</u>	<u>\$225,582</u>	<u>\$37,720</u>	<u>\$15,637,090</u>

NOTE 13 - CONSTRUCTION COMMITMENTS

The City had the following outstanding commitments at December 31, 2003:

Project	Amount
Design Cultural Arts Center	\$21,159
Huntley/Wilson Bridge Study	40,251
2000 New and Replacement Equipment	6,000
South Olentangy Recreation Path	5,031
Community Center Addition	108,413
Rush Creek Channelization	9,500
2003 Street Improvement Program	177,468
Highland Complex Parking	26,937
Huntley/Schrock Resurface	6,857
W.G./Schrock Road Resurface	18,248
Linworth Park/CBD Irrigation	10,319
Sanitary Sewer Extension	6,530
2003 Sidewalk Program	34,948
2002 Sidewalk Program	6,750
Granville Boulevard Improvement	2,844
Municipal Police Complex	135,635
2002 New and Replacement Equipment	37,954
Flora Villa/SAMADA Storm Sewer	2,979
2000 Waterline Improvement Projects	490
2001-2002 Street Improvement Program	122,818
2003 New & Replacement Equipment	62,346
Perry Playground Equipment/Safety Surface	54,137
Community Center Roof Replacement	30,050
Renovation 374 Highland	21,726
	<u>\$949,390</u>

CITY OF WORTHINGTON, OHIO

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

NOTE 14 - CONTINGENT LIABILITIES

A. Litigation

The City is of the opinion that ultimate disposition of all claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

B. State and Federal Grants

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

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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

Members of Council and City Manager
The City of Worthington, Franklin County
6550 North High Street
Worthington, OH 43085

We have audited the basic financial statements of City of Worthington (the “City”) as of and for the year ended December 31, 2003, and have issued our report thereon dated June 4, 2004. During the year ended December 31, 2003, 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 and Management’s Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City’s basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Members of Council and Mayor
City of Worthington

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic 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 certain matters involving the internal control over financial reporting that do not receive inclusion in this report that we have reported to the City of Worthington in a separate letter dated June 4, 2004.

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

Trimble, Julian & Grube, Inc.
June 4, 2004



**Auditor of State
Betty Montgomery**

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CITY OF WORTHINGTON

FRANKLIN 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
AUGUST 5, 2004**