

*CITY OF CIRCLEVILLE, OHIO*

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**Regular Audit**

**For the Year Ended December 31, 2004**

**J.L. UHRIG**  
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS







Mary Taylor, CPA  
Auditor of State

Members of City Council  
City of Circleville  
133 South Court Street  
Circleville, Ohio 43113

We have reviewed the *Independent Auditor's Report* of the City of Circleville, Pickaway County, prepared by J. L. Uhrig and Associates, Inc., for the audit period January 1, 2004 through December 31, 2004. 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 Circleville is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

February 21, 2007

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*For the Year Ended December 31, 2004*

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## Independent Auditor's Report

Members of Council  
City of Circleville  
133 South Court Street  
Circleville, OH 43113

We have audited the accompanying financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Circleville, Ohio, (the City) as of and for the year ended December 31, 2004, 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 did not audit the financial statements of Berger Health System. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for Berger Health System, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparisons for the General Fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 19, during the year ended December 31, 2004, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Technical Bulletin No. 2004-02, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liability by Cost-Sharing Employers*.

Members of Council  
City of Circleville, Ohio  
Independent Auditor's Report

In accordance with *Government Auditing Standards*, we have also issued a report dated January 31, 2007 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. While we do not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. 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 when considering the results of our audit.

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

*J. L. Uhrig and Associates, Inc.*

J. L. UHRIG AND ASSOCIATES, INC.

January 31, 2007

**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2004  
(Unaudited)

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The discussion and analysis of the City of Circleville's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

- ❑ The City's total net assets decreased \$315,737. Revenues of governmental activities failed to cover expenses by \$156,949. Net assets of business-type activities decreased by \$158,788.
- ❑ General revenues of governmental activities accounted for \$6,854,295 or 72.32 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$2,622,874 or 27.68 percent of total revenues of \$9,477,169.
- ❑ Enterprise funds reflected a total operating loss of \$177,129. The Waterworks Operating Fund reflected operating income of \$853, while the Sewer Operating Fund reflected an operating loss of \$177,982. The operating loss in the Sewer Operating Fund was a result of depreciation costs.
- ❑ The City had \$9,634,118 in expenses related to governmental activities; \$2,622,874 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily income taxes) of \$6,854,295 were not quite adequate to provide for these programs. The City had \$3,156,065 in expenses related to business-type activities; \$2,978,936 of these expenses were offset by program specific charges for services which, along with general revenues of \$18,341, were not quite sufficient to cover expenses.

**Using This Annual Financial Report**

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

**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2004  
(Unaudited)

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

### **Reporting the City as a Whole**

One of the most important questions asked about the City is "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities, which appear first in the City's financial statements, report information on the City as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in those assets. This change in net assets is important because it informs the reader that, for the City as a whole, the *financial position* of the City has improved or diminished. In evaluating the overall financial health, the reader of these financial statements needs to take into account non-financial factors that also impact the City's financial well-being. Some of these factors include the City's tax base and the condition of capital assets.

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

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

Business-Type Activities – These services include water and sewer operations. Service fees for these operations are charged based upon the amount of usage. The intent is that the fees charged recoup operational costs.

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

**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2004  
(Unaudited)

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**Reporting the City's Most Significant Funds**

*Fund Financial Statements*

The analysis of the City's major funds begins on page 10. Fund financial statements provide detailed information about the City's major funds – not the City as a whole. The City uses many funds to account for a multitude of financial transactions. Some funds are required by State law and bond covenants. Other funds may be established by the City Auditor, with the approval of Council, to help control, manage, and report money received for a particular purpose or to show that the City is meeting legal responsibilities for the use of grants. The City's major funds are the General Fund, the Income Tax Fund, the Safety Forces Tax Fund, the Small Cities Block Grant Fund, the General Obligation Bond Retirement Fund, and the Capital Improvement Fund.

*Governmental Funds*

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

*Enterprise Funds*

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

*Fiduciary Funds*

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

**City of Circleville**  
**Management's Discussion and Analysis**  
**For The Year Ended December 31, 2004**  
**(Unaudited)**

**The City as a Whole**

As stated previously, the Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets for 2004 compared to 2003.

Table 1  
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	Restated 2003	2004	Restated 2003	2004	Restated 2003	2004
<b>Assets</b>						
Current and Other						
Assets	\$10,131,018	\$9,585,763	\$5,772,492	\$6,016,072	\$15,903,510	\$15,601,835
Nondepreciable Capital						
Assets	1,376,464	1,040,300	141,440	141,440	1,517,904	1,181,740
Depreciable Capital						
Assets, Net	22,445,876	22,646,436	17,485,482	17,031,161	39,931,358	39,677,597
<b>Total Assets</b>	<b>\$33,953,358</b>	<b>\$33,272,499</b>	<b>\$23,399,414</b>	<b>\$23,188,673</b>	<b>\$57,352,772</b>	<b>\$56,461,172</b>
<b>Liabilities</b>						
Current and Other						
Liabilities	\$1,743,445	\$1,391,012	\$163,584	\$104,847	\$1,907,029	\$1,495,859
Long-Term Liabilities:						
Due Within One Year	426,203	439,866	51,497	54,490	477,700	494,356
Due in More Than						
One Year	4,938,193	4,753,053	37,049	40,840	4,975,242	4,793,893
<b>Total Liabilities</b>	<b>7,107,841</b>	<b>6,583,931</b>	<b>252,130</b>	<b>200,177</b>	<b>7,359,971</b>	<b>6,784,108</b>
<b>Net Assets</b>						
Invested in Capital						
Assets, Net Of						
Related Debt	20,432,371	20,394,132	17,626,922	17,172,601	38,059,293	37,566,733
Restricted for:						
Capital Outlay	1,913,361	1,484,609	0	0	1,913,361	1,484,609
Debt Service	71,531	22,789	0	0	71,531	22,789
Other Purposes	1,612,190	2,377,515	0	0	1,612,190	2,377,515
Unrestricted	2,816,064	2,409,523	5,520,362	5,815,895	8,336,426	8,225,418
<b>Total Net Assets</b>	<b>\$26,845,517</b>	<b>\$26,688,568</b>	<b>\$23,147,284</b>	<b>\$22,988,496</b>	<b>\$49,992,801</b>	<b>\$49,677,064</b>

**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2004  
(Unaudited)

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A slight decrease of 5.38 percent occurred within current and other assets of governmental activities when compared to the prior year. The only asset account which had a real affect on this decrease was a drop in cash and cash equivalents, largely the result of cash carryover spending due to fewer resources available to fund existing programs.

Reviewing liabilities of governmental activities demonstrates a 20.21 percent decrease in current and other liabilities. This decrease is primarily due to the payout of retainage for the completion of contractual commitments within the City and a significant decrease in the workers' compensation liability accrual. The workers' compensation liability accrual decrease was a result of a substantial lowering of the Bureau of Workers' Compensation rate for 2004. Long-term liabilities of the governmental activities decreased \$171,477 primarily due to principal payments made on debt held by the City.

Invested in Capital Assets, Net of Related Debt of governmental activities decreased \$38,239. This is due primarily to current year depreciation exceeding current year capital assets additions and principal payments made on debt related to capital asset construction.

While the City's governmental restricted net assets do not represent a very significant percentage of overall net assets, governmental restricted net assets, when viewed alone, did experience a substantial increase of \$287,831. The City had greater outstanding receivables for grants than in the prior year which caused this increase.

On the other hand, unrestricted governmental net assets had a somewhat significant decrease of 14.44 percent. A large percentage of this decrease is the result of cash carryover spending and lower cash balances.

Total assets of business-type activities decreased \$210,741. This is due primarily to a decrease in capital assets as a primary result of recording current year depreciation. Total liabilities of business-type activities decreased \$51,953 due primarily to decreases in accounts and contracts payables. Such decreases are simply due to the fact that the City received and paid invoices in a more timely manner. Total net assets of business-type activities decreased \$158,788. This is due primarily to a decrease in capital assets of \$454,321 related to an increase in accumulated depreciation.

**City of Circleville**  
**Management's Discussion and Analysis**  
**For The Year Ended December 31, 2004**  
**(Unaudited)**

Table 2 shows the changes in net assets for the years ended December 31, 2004 and 2003.

Table 2  
Changes In Net Assets

	Governmental Activities		Business-Type Activities		Total	
	Restated		Restated		Restated	
	2003	2004	2003	2004	2003	2004
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$1,198,912	\$1,430,468	\$2,974,368	\$2,978,936	\$4,173,280	\$4,409,404
Operating Grants, Contributions and Interest	585,909	658,092	0	0	585,909	658,092
Capital Grants, Contributions and Interest	1,698,362	534,314	9,526	0	1,707,888	534,314
Total Program Revenues	3,483,183	2,622,874	2,983,894	2,978,936	6,467,077	5,601,810
General Revenues:						
Property Taxes	1,119,667	866,899	0	0	1,119,667	866,899
Income Taxes	4,298,520	4,268,194	0	0	4,298,520	4,268,194
Other Local Taxes	144,492	196,831	0	0	144,492	196,831
Grants and Entitlements not Restricted to Specific Programs	1,325,585	1,076,834	0	0	1,325,585	1,076,834
Unrestricted Investment Earnings	141,140	229,421	0	7,447	141,140	236,868
Contributions and Donations	0	65,225	0	0	0	65,225
Miscellaneous	72,366	150,891	986	10,894	73,352	161,785
Total General Revenues	7,101,770	6,854,295	986	18,341	7,102,756	6,872,636
Total Revenues	\$10,584,953	\$9,477,169	\$2,984,880	\$2,997,277	\$13,569,833	\$12,474,446

*(continued)*

**City of Circleville**  
**Management's Discussion and Analysis**  
**For The Year Ended December 31, 2004**  
**(Unaudited)**

Table 2  
Changes In Net Assets  
(Continued)

	Governmental Activities		Business-Type Activities		Total	
	Restated		Restated		Restated	
	2003	2004	2003	2004	2003	2004
<b>Program Expenses:</b>						
Security of Persons and Property:						
Police	\$2,636,760	\$2,516,388	\$0	\$0	\$2,636,760	\$2,516,388
Fire	1,519,174	1,446,577	0	0	1,519,174	1,446,577
Other	454,928	412,993	0	0	454,928	412,993
Public Health	156,101	143,748	0	0	156,101	143,748
Leisure Time Activities:						
Parks and Recreation	213,091	129,586	0	0	213,091	129,586
Swimming Pool	151,701	136,910	0	0	151,701	136,910
Other	50,279	54,825	0	0	50,279	54,825
Community Development:						
City Funded	290,575	266,493	0	0	290,575	266,493
Grant Funded	294,030	232,905	0	0	294,030	232,905
Basic Utility Services	62,004	3,716	0	0	62,004	3,716
Transportation	1,027,777	1,829,016	0	0	1,027,777	1,829,016
General Government	2,519,768	2,183,437	0	0	2,519,768	2,183,437
Interest and						
Fiscal Charges	291,107	277,524	0	0	291,107	277,524
Waterworks Operating	0	0	1,264,985	1,374,402	1,264,985	1,374,402
Sewer Operating	0	0	1,663,930	1,781,663	1,663,930	1,781,663
Total Expenses	9,667,295	9,634,118	2,928,915	3,156,065	12,596,210	12,790,183
Increase (Decrease) in Net Assets	\$917,658	(\$156,949)	\$55,965	(\$158,788)	\$15,066,423	(\$315,737)

*Governmental Activities*

Program revenues, which are primarily represented by charges for permits, fines, and departmental services, as well as restricted intergovernmental revenues were 27.68 percent of total revenues for 2004 and were significantly lower than 2003. This decrease is largely related to the City receiving capital asset funding related to infrastructure in 2003.

As previously mentioned, general revenues were 72.32 percent of total revenues for 2004. The 1.5 percent income tax is the largest source of revenue for the City of Circleville, making up 45.04 percent of revenues for governmental activities for the year ended 2004. The City provides full tax credit for income taxes paid to another municipality up to one hundred percent of the City's current tax rate.

**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2004  
(Unaudited)

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From 1992 through 2000, income tax revenue has increased annually an average of 8.52%. Local companies expanded and new businesses were added to the economic foundation. From 2001 to 2004, income tax revenue decreased annually an average of 4.81%. The City of Circleville has experienced a deterioration of its tax base due to reorganization and downsizing in its employer sector. However, the City is aggressively pursuing economic development options and programs.

Grants and Entitlements not Restricted to Specific Programs made up 11.36 percent of revenue for governmental activities of the City of Circleville for the year ended 2004. Property tax revenue made up 9.15 percent of revenue for governmental activities for a total of 65.55 percent of all revenue coming from income taxes, property taxes, and grant and entitlements not restricted to specific programs.

Governmental program expenses as a percentage of total governmental expenses for 2004 are expressed as follows:

Security of Persons And Property:	
Police	26.12%
Fire	15.02
Other	4.29
Public Health	1.49
Leisure Time Activities:	
Parks and Recreation	1.34
Swimming Pool	1.42
Other	0.57
Community Development:	
City Funded	2.77
Grant Funded	2.42
Basic Utility Services	0.04
Transportation	18.98
General Government	22.66
Interest And Fiscal Charges	2.88
	100.00%

The above chart clearly indicates the City's major source of expenses, 45.43%, is related to the implementation of safety forces. A distant second, 22.66%, is the administration of general government activities within the City. All other forms of governmental operations represent 31.91% of expenditures.

A comparison to the prior year demonstrates significant changes in two primary areas, transportation and general government. The increase in transportation expenses is tied to current year depreciation of City assets and the City beginning to report infrastructure. The decrease in general government expenses is attributable to a reduction in workforce and an overall reduction in expenses through implementation of cost savings measures.

**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2004  
(Unaudited)

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*Business-Type Activities*

The City's business-type activities include water and sewer services.

The Waterworks Operating Fund collects fees charged for the sale of water. Those fees are then used to maintain lines for delivery, to treat water for further consumption, and to maintain its treatment facility and storage towers.

The Sewer Operating Fund conducts the operations of the City's wastewater collection and treatment system. Money that is collected from the fees which are billed based on the number of gallons of water used is placed in this fund for use in the maintenance of the collection system and improvements to the treatment plant.

Program revenues for business-type activities, which are primarily represented by charges for water and sewer services provided to residents and businesses with the City, were not significantly different from the prior year. However, program expenses for business-type activities represented a 7.76 percent increase from the prior year. This was primarily the result of maintenance upgrades to the water and sanitary sewer distribution systems since these items were placed on hold in the past due to revenue constraints. Passage of a rate increase and reduced expenses in other areas allowed the Water and Sanitary Sewer Departments to put their respective maintenance programs back on schedule.

**The City's Funds**

Information about the City's major governmental funds begins on page 22. These funds are reported using the modified accrual basis of accounting. All governmental funds had total revenues of \$9,256,647 and expenditures of \$9,721,199. The General Fund balance decreased by \$258,688, primarily due to a continued decline in property tax revenues, income tax receipts, and inheritance tax distributions. The loss of industry continues to influence personal property taxes and income tax receipts in a negative manner. Inheritance tax revenues are volatile and are influenced by reforms implemented by the State of Ohio.

The Income Tax fund balance decreased \$36,065. This decrease was the result of a larger than anticipated refund issuance during the first of the year.

**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2004  
(Unaudited)

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The Safety Forces Tax fund balance increased \$258,313 as an effect of two prime factors. First, the City instituted a reduction in safety forces during 2004. Second, the City implemented a billing system for its emergency management services. The combination of these two factors allowed for the rise in fund balance.

The Small Cities Block Grant fund balance decreased \$34,760. This fund is totally dependent on the administration of grants provided through the Ohio Department of Development Office of Housing and Community Partnerships. The revenue and expenditures are contingent on the number of qualified applicants and to what degree of financial assistance is ascertained by grant administrators.

The General Obligation Bond Retirement fund balance decreased \$77,246, due primarily to debt payments made by the City.

The Capital Improvement fund balance decreased \$119,609, due to a combination of factors. First of all, the City was able to complete several capital projects in 2004 by spending cash carryovers in this fund. Also, income tax receipts reflect the primary source of revenue for the Capital Improvement fund. The continued decline in income tax receipts in 2004 hampered and will continue to impede the City's ability to implement significant capital improvement projects in the future.

*General Fund Budgeting Highlights*

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of receipts, disbursements and encumbrances. The City's budget is adopted on an object basis. During the course of 2004, the City revised its budget as it attempted to deal with unexpected changes in revenues and expenditures.

For the General Fund, final budgeted revenues, in the amount of \$4,538,533, were above original budgeted revenues, in the amount of \$4,419,515. The difference was due to larger than anticipated revenue accumulations of intergovernmental revenue and fines, licenses, and permits. The increase in fines, licenses, and permits was due to increases in building, planning, and zoning permit fees attributable to an increase in permit rates.

The decrease in expenditures from the original to the final budget was \$533,119. This decrease of over 8 percent was due primarily to the lowering of appropriations warranted to guarantee that expenditures did not exceed revenue projections and year-end balances. The difference in actual expenditures made from the final budget was over 10 percent and a somewhat significant reduction. The police department and the fire department experienced a loss of personnel in 2004. It was determined that due to declining revenues, these positions would be left vacant. General government expenditure curtailments were instituted across all departments. Personnel positions vacated during the year were not replaced. General building maintenance and utilities showed a significant reduction due to the closure of Fire Station #2 and the Emergency Management Services building, along with the lack of personnel to perform preventive maintenance duties.

**City of Circleville**  
Management's Discussion and Analysis  
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(Unaudited)

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Actual General Fund revenues were less than expenditures and other financing uses by \$325,009. With fewer resources coming in to fund existing programs, the City has been spending the cash carryover from the prior year. Major cuts have been implemented to slow the spending of cash reserves, but with minimal revenue growth and inflation even at a modest level, we have come full circle and will require additional revenues either through local or State funding to continue existing programs.

The City's ending unobligated cash balances for the General Fund was \$1,074,077 above the final budgeted amount.

### **Capital Assets and Debt Administration**

#### *Capital Assets*

At the end of 2004, the City had \$23,686,736 invested in capital assets (net of accumulated depreciation) for governmental activities, a decrease of \$135,604, or less than 1 percent from the prior year. Increases in capital assets included various land improvements, routine machinery and equipment purchases, the purchase of new police cruisers and a squad, sidewalk improvements, and street repairs. Disposals of capital assets included various pieces of machinery and equipment, vehicles, and street surfaces and bases. The decrease in capital assets is the result of annual depreciation exceeding additions for the year.

The City also had \$17,172,601 invested in capital assets (net of accumulated depreciation) for business-type activities, a decrease of \$454,321, or less than 3 percent from the prior year. Increases in capital assets included various building improvements, routine sewer line improvements, and the replacement/addition of fire hydrants within the City. Disposals of capital assets included various sewer lines and fire hydrants. The decrease in capital assets is the result of annual depreciation exceeding additions for the year.

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

#### *Debt*

The City's outstanding debt obligations at year-end included general obligation bonds in the amount of \$4,795,000 for governmental activities. The City's long-term obligations also included capital leases and compensated absences for governmental activities and compensated absences for business-type activities.

See Note 14 of the Notes to the Basic Financial Statements for more detailed information.

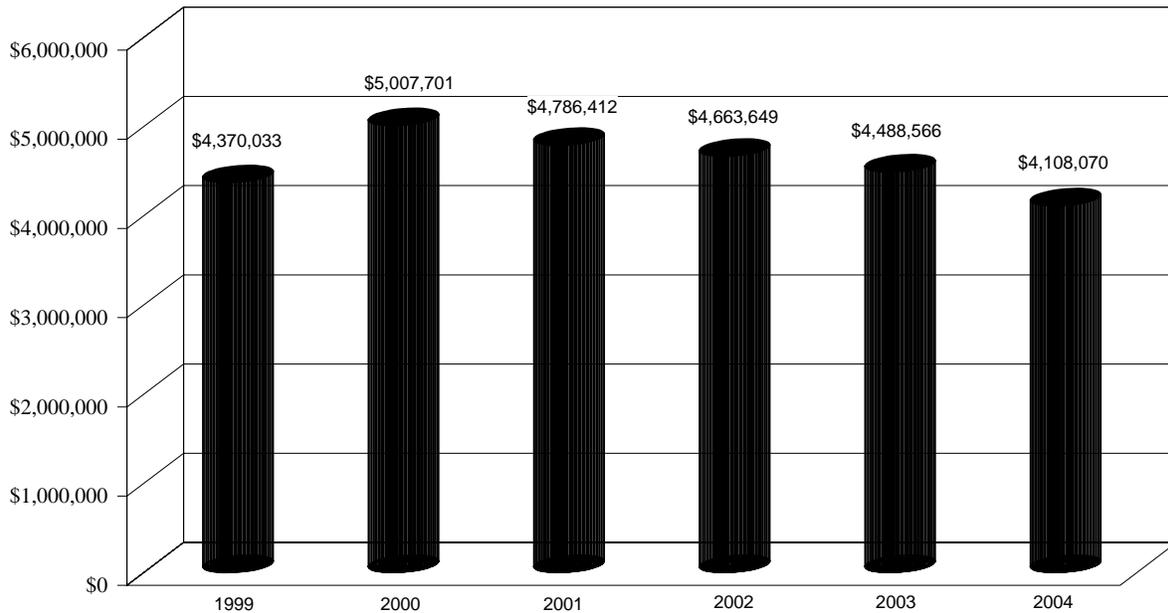
**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2004  
(Unaudited)

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**Current Issues**

The City of Circleville continued to face challenging financial times in 2004. The loss of the City's largest employer drove municipal income taxes to further deterioration, as can be seen in Table 5 below. For the second year in a row, the Circleville City Council altered the income tax distribution formulas to provide for critical City functions. In 2004, municipal income taxes represented 44 percent of the City's cash basis operating revenues. The loss of capital improvement revenues tremendously restricted the ability of the City to maintain and sustain its \$71,590,745 in capital assets. (See Table 6 below for further detail of operating revenues.) The City of Circleville has experienced the loss of a substantial portion of its industrial base. This loss will require a greater tax burden to be endured by City residents in order to provide for vital City services or see the deterioration of these critical services.

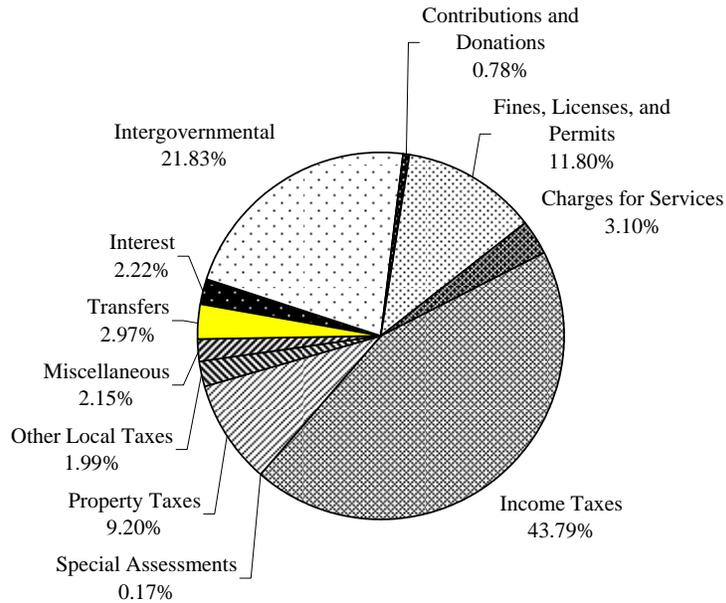
Table 5  
Municipal Income Tax Cash Basis Revenues  
January to December



**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2004  
(Unaudited)

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**Table 6**  
**Operating Revenue by Type**  
**General, Special, Debt, and Capital**

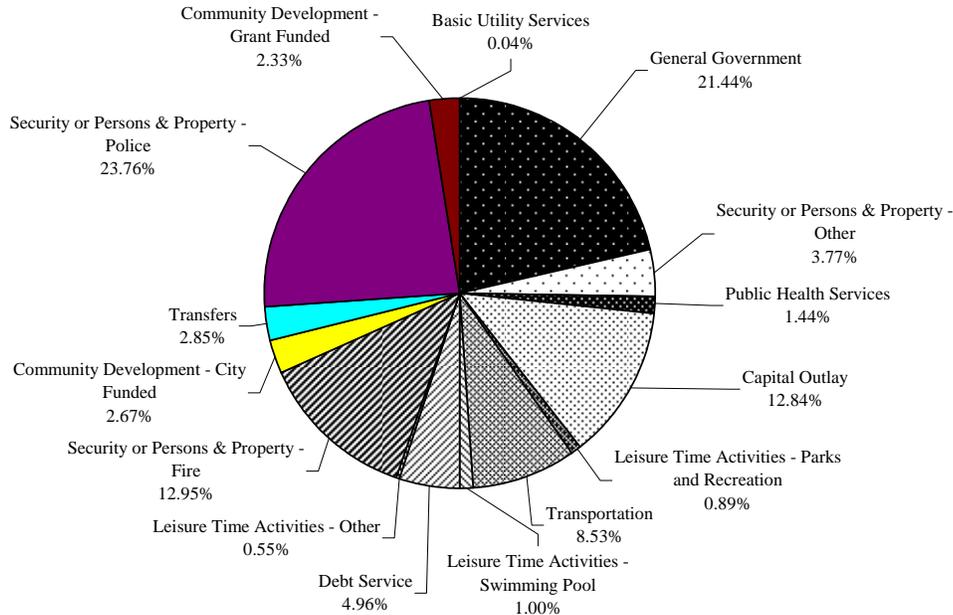


The resulting effect of declining revenues has resulted in a unilateral reduction in expenditures. Non-contractual appropriation accounts have been frozen. Personnel services represent 62 percent of total cash basis operating costs. Efforts to reduce these costs have resulted in a no replacement policy for vacant City positions and in a no salary increase provision for all administrative non-bargaining staff. Methods of operation have been examined and cost savings measures have been implemented to reduce expenditures. Such measures include outsourcing, reducing, and/or eliminating City operations. See Table 7 below for additional detail on operating expenditures.

**City of Circleville**  
**Management's Discussion and Analysis**  
**For The Year Ended December 31, 2004**  
**(Unaudited)**

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**Table 7**  
**Operating Expenditures by Types**  
**General, Special, Debt, and Capital**



While the City experienced significant budgetary constraints, it was able to complete some capital improvement projects through grants, cooperative agreements, and City resources. A cooperative partnership with the State of Ohio allowed for resurfacing of State Route 56 and State Route 188. A Community Development Block Grant to install Phase II of a multi-phase storm sewer project was obtained. Once completed, this extensive project will furnish storm sewer drainage to a section of the City previously not serviced. The Emergency Medical Services and the Police Department utilized grants to provide for enhanced equipment and training opportunities. Fleet enhancements were accomplished in the Police Department with the purchase of two new cruisers and the Emergency Medical Services with the procurement of a new squad.

The City of Circleville continues to examine new ways to enhance revenue and streamline expenditures. Cooperative agreements between the City, Pickaway County, Circleville Township, and the Circleville-Pickaway County Community Improvement Corporation are promoting economic development within the region.

**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2004  
(Unaudited)

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**Contacting the City's Finance Department**

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

**City of Circleville**  
Statement of Net Assets  
December 31, 2004

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	
<b><u>Assets:</u></b>			
Equity in Pooled Cash and Cash Equivalents	\$4,394,056	\$5,507,534	\$9,901,590
Cash and Cash Equivalents:			
In Segregated Accounts	49,619	0	49,619
With Fiscal Agents	34,822	0	34,822
Investments	0	0	0
Accounts Receivable	0	365,898	365,898
Accrued Interest Receivable	19,759	0	19,759
Intergovernmental Receivable	1,338,473	0	1,338,473
Income Taxes Receivable	945,570	0	945,570
Materials and Supplies Inventory	200,694	121,070	321,764
Prepaid Items	26,740	11,524	38,264
Property Taxes Receivable	819,296	0	819,296
Other Local Taxes Receivable	69,428	0	69,428
Special Assessments Receivable	54,012	10,046	64,058
Loans Receivable	1,556,494	0	1,556,494
Notes Receivable	0	0	0
Deferred Charges	76,800	0	76,800
Capital Assets:			
Nondepreciable Capital Assets	1,040,300	141,440	1,181,740
Depreciable Capital Assets, Net	22,646,436	17,031,161	39,677,597
<b><i>Total Assets</i></b>	<b>33,272,499</b>	<b>23,188,673</b>	<b>56,461,172</b>
<b><u>Liabilities:</u></b>			
Accounts Payable	55,592	2,567	58,159
Contracts Payable	62,989	0	62,989
Accrued Wages and Benefits Payable	141,391	50,747	192,138
Intergovernmental Payable	291,664	51,533	343,197
Deferred Revenue	783,200	0	783,200
Matured Bonds Payable	20,000	0	20,000
Matured Interest Payable	14,822	0	14,822
Accrued Interest Payable	21,354	0	21,354
Long-Term Liabilities:			
Due Within One Year	439,866	54,490	494,356
Due in More Than One Year	4,753,053	40,840	4,793,893
<b><i>Total Liabilities</i></b>	<b>6,583,931</b>	<b>200,177</b>	<b>6,784,108</b>
<b><u>Net Assets:</u></b>			
Invested in Capital Assets, Net of Related Debt	20,394,132	17,172,601	37,566,733
Restricted for:			
Capital Outlay	1,484,609	0	1,484,609
Debt Service	22,789	0	22,789
Other Purposes	2,377,515	0	2,377,515
Permanent Endowments	0	0	0
Unrestricted	2,409,523	5,815,895	8,225,418
<b><i>Total Net Assets</i></b>	<b>\$26,688,568</b>	<b>\$22,988,496</b>	<b>\$49,677,064</b>

See Accompanying Notes to the Basic Financial Statements

<u>Component Unit</u> <u>Berger Health</u> <u>System</u>	<u>Total Reporting</u> <u>Entity</u>
\$579,782	\$10,481,372
0	49,619
0	34,822
36,775,685	36,775,685
5,733,050	6,098,948
0	19,759
0	1,338,473
0	945,570
1,304,796	1,626,560
824,707	862,971
0	819,296
0	69,428
0	64,058
0	1,556,494
132,617	132,617
113,745	190,545
12,398,432	13,580,172
29,451,227	69,128,824
<u>87,314,041</u>	<u>143,775,213</u>
5,125,623	5,183,782
0	62,989
2,213,919	2,406,057
98,488	441,685
0	783,200
0	20,000
0	14,822
61,624	82,978
3,682,084	4,176,440
20,137,818	24,931,711
<u>31,319,556</u>	<u>38,103,664</u>
18,852,576	56,419,309
0	1,484,609
0	22,789
0	2,377,515
19,879	19,879
37,122,030	45,347,448
<u>\$55,994,485</u>	<u>\$105,671,549</u>

**City of Circleville**  
Statement of Activities  
For the Year Ended December 31, 2004

	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Operating Grants, Contributions and Interest</b>	<b>Capital Grants, Contributions and Interest</b>
<b>Primary Government</b>				
<b><u>Governmental Activities:</u></b>				
Security of Persons and Property:				
Police	\$2,516,388	\$39,476	\$6,120	\$20,372
Fire	1,446,577	4,048	2,850	0
Other	412,993	40,859	10,445	0
Public Health	143,748	0	0	0
Leisure Time Activities:				
Parks and Recreation	129,586	0	4,281	15,000
Swimming Pool	136,910	66,748	0	0
Other	54,825	310	0	0
Community Development:				
City Funded	266,493	433,333	0	0
Grant Funded	232,905	0	0	493,619
Basic Utility Services	3,716	0	0	628
Transportation	1,829,016	13,615	634,396	4,695
General Government	2,183,437	832,079	0	0
Interest and Fiscal Charges	277,524	0	0	0
<b>Total Governmental Activities</b>	<b>9,634,118</b>	<b>1,430,468</b>	<b>658,092</b>	<b>534,314</b>
<b><u>Business-Type Activities:</u></b>				
Waterworks Operating	1,374,402	1,375,255	0	0
Sewer Operating	1,781,663	1,603,681	0	0
<b>Total Business-Type Activities</b>	<b>3,156,065</b>	<b>2,978,936</b>	<b>0</b>	<b>0</b>
<b>Total - Primary Government</b>	<b>\$12,790,183</b>	<b>\$4,409,404</b>	<b>\$658,092</b>	<b>\$534,314</b>
<b>Component Unit</b>				
<b>Berger Health System</b>	<b>\$52,699,871</b>	<b>\$53,288,977</b>	<b>\$284,058</b>	<b>\$0</b>

**General Revenues:**

Property Taxes Levied for:

    General Purposes

    Other Purposes

Income Taxes Levied for:

    General Purposes

    Safety Forces

    Debt Service

    Capital Projects

Other Local Taxes

Grants and Entitlements not Restricted to Specific Programs

Unrestricted Investment Earnings

Contributions and Donations

Miscellaneous

**Transfers**

*Total General Revenues and Transfers*

Change in Net Assets

*Net Assets Beginning of Year - Restated (Notes 19 and 20)*

*Net Assets End of Year*

See Accompanying Notes to the Basic Financial Statements

<b>Net (Expense) Revenue and Changes in Net Assets</b>				
<b>Primary Government</b>			<b>Component Unit</b>	<b>Total Reporting Entity</b>
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Berger Health System</b>	
(\$2,450,420)	\$0	(\$2,450,420)	\$0	(\$2,450,420)
(1,439,679)	0	(1,439,679)	0	(1,439,679)
(361,689)	0	(361,689)	0	(361,689)
(143,748)	0	(143,748)	0	(143,748)
(110,305)	0	(110,305)	0	(110,305)
(70,162)	0	(70,162)	0	(70,162)
(54,515)	0	(54,515)	0	(54,515)
166,840	0	166,840	0	166,840
260,714	0	260,714	0	260,714
(3,088)	0	(3,088)	0	(3,088)
(1,176,310)	0	(1,176,310)	0	(1,176,310)
(1,351,358)	0	(1,351,358)	0	(1,351,358)
(277,524)	0	(277,524)	0	(277,524)
(7,011,244)	0	(7,011,244)	0	(7,011,244)
0	853	853	0	853
0	(177,982)	(177,982)	0	(177,982)
0	(177,129)	(177,129)	0	(177,129)
(7,011,244)	(177,129)	(7,188,373)	0	(7,188,373)
0	0	0	873,164	873,164
737,159	0	737,159	0	737,159
129,740	0	129,740	0	129,740
1,807,554	0	1,807,554	0	1,807,554
1,373,834	0	1,373,834	0	1,373,834
38,376	0	38,376	0	38,376
1,048,430	0	1,048,430	0	1,048,430
196,831	0	196,831	0	196,831
1,076,834	0	1,076,834	0	1,076,834
229,421	7,447	236,868	669,618	906,486
65,225	0	65,225	0	65,225
150,891	10,894	161,785	1,208,338	1,370,123
0	0	0	(2,098,025)	(2,098,025)
6,854,295	18,341	6,872,636	(220,069)	6,652,567
(156,949)	(158,788)	(315,737)	653,095	337,358
26,845,517	23,147,284	49,992,801	55,341,390	105,334,191
\$26,688,568	\$22,988,496	\$49,677,064	\$55,994,485	\$105,671,549

**City of Circleville**  
 Balance Sheet  
 Governmental Funds  
 December 31, 2004

	<b><i>General Fund</i></b>	<b><i>Income Tax Fund</i></b>	<b><i>Safety Forces Tax Fund</i></b>
<b><u>Assets:</u></b>			
Equity in Pooled Cash and Cash Equivalents	\$1,754,309	\$30,758	\$529,450
Cash and Cash Equivalents:			
In Segregated Accounts	33,251	0	0
With Fiscal Agents	0	0	0
Receivables:			
Accrued Interest	19,394	0	0
Intergovernmental	584,336	0	0
Income Taxes	363,377	37,130	302,813
Property Taxes	697,782	0	0
Other Local Taxes	53,968	0	0
Loans	0	0	0
Special Assessments	0	0	0
Materials and Supplies Inventory	39,844	610	0
Prepaid Items	12,970	861	7,561
<b><i>Total Assets</i></b>	<b><u>\$3,559,231</u></b>	<b><u>\$69,359</u></b>	<b><u>\$839,824</u></b>
<b><u>Liabilities and Fund Balances</u></b>			
<b><u>Liabilities:</u></b>			
Accounts Payable	\$10,057	\$25,189	\$1,564
Contracts Payable	0	0	0
Accrued Wages and Benefits Payable	102,138	1,312	19,268
Intergovernmental Payable	164,294	1,434	78,330
Deferred Revenue	1,478,862	27,191	204,088
Matured Bonds Payable	0	0	0
Matured Interest Payable	0	0	0
<b><i>Total Liabilities</i></b>	<b><u>1,755,351</u></b>	<b><u>55,126</u></b>	<b><u>303,250</u></b>
<b><u>Fund Balances:</u></b>			
Reserved for Encumbrances	75,325	0	4,418
Reserved for Loans Receivable	0	0	0
Unreserved:			
Undesignated, Reported in:			
General Fund	1,728,555	0	0
Special Revenue Funds (Deficit)	0	14,233	532,156
Debt Service Funds	0	0	0
Capital Projects Funds	0	0	0
<b><i>Total Fund Balances</i></b>	<b><u>1,803,880</u></b>	<b><u>14,233</u></b>	<b><u>536,574</u></b>
<b><i>Total Liabilities and Fund Balances</i></b>	<b><u>\$3,559,231</u></b>	<b><u>\$69,359</u></b>	<b><u>\$839,824</u></b>

See Accompanying Notes to the Basic Financial Statements

<i>Small Cities Block Grant Fund</i>	<i>General Obligation Bond Retirement Fund</i>	<i>Capital Improvement Fund</i>	<i>Nonmajor Funds</i>	<i>Total Governmental Funds</i>
\$61,703	\$13,692	\$848,284	\$1,155,860	\$4,394,056
0	0	0	16,368	49,619
0	34,822	0	0	34,822
0	0	0	365	19,759
434,771	0	0	319,366	1,338,473
0	20,051	222,199	0	945,570
0	0	0	121,514	819,296
0	0	0	15,460	69,428
0	1,500,000	0	56,494	1,556,494
0	0	54,012	0	54,012
0	0	0	160,240	200,694
0	0	2,447	2,901	26,740
<u>\$496,474</u>	<u>\$1,568,565</u>	<u>\$1,126,942</u>	<u>\$1,848,568</u>	<u>\$9,508,963</u>
\$0	\$0	\$14,851	\$3,931	\$55,592
60,784	0	2,205	0	62,989
0	0	0	18,673	141,391
0	0	17,765	29,841	291,664
407,825	0	208,965	409,713	2,736,644
0	20,000	0	0	20,000
0	14,822	0	0	14,822
<u>468,609</u>	<u>34,822</u>	<u>243,786</u>	<u>462,158</u>	<u>3,323,102</u>
32,958	0	46,169	85,362	244,232
0	1,415,000	0	53,138	1,468,138
0	0	0	0	1,728,555
(5,093)	0	0	927,614	1,468,910
0	118,743	0	0	118,743
0	0	836,987	320,296	1,157,283
<u>27,865</u>	<u>1,533,743</u>	<u>883,156</u>	<u>1,386,410</u>	<u>6,185,861</u>
<u>\$496,474</u>	<u>\$1,568,565</u>	<u>\$1,126,942</u>	<u>\$1,848,568</u>	<u>\$9,508,963</u>

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

<b>Total Governmental Fund Balances</b>	<b>\$6,185,861</b>
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:	
Land	1,040,300
Infrastructure	30,693,099
Other Capital Assets	11,393,168
Accumulated Depreciation	<u>(19,439,831)</u>
Total	23,686,736
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Income Taxes	650,883
Property Taxes	36,096
Other Local Taxes	65,722
Special Assessments	54,012
Intergovernmental	1,130,105
Interest	<u>16,626</u>
Total	1,953,444
Governmental funds report general obligation bond issuance costs as expenditures, whereas these amounts are deferred and amortized in the statement of activities.	
	76,800
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accrued Interest	(21,354)
General Obligation Bonds	(4,795,000)
Capital Leases Payable	(64,004)
Compensated Absences	<u>(333,915)</u>
Total	<u>(5,214,273)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$26,688,568</u></u>

See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2004

	<i>General Fund</i>	<i>Income Tax Fund</i>	<i>Safety Forces Tax Fund</i>
<b><u>Revenues:</u></b>			
Income Taxes	\$1,606,231	\$158,150	\$1,352,394
Property Taxes	750,834	0	0
Other Local Taxes	148,104	0	0
Special Assessments	0	0	0
Intergovernmental	1,109,511	0	2,800
Charges for Services	226,221	0	48,232
Fines, Licenses and Permits	905,682	0	0
Interest	126,310	0	0
Contributions and Donations	69,306	0	5,450
Miscellaneous	26,464	1,159	23,401
<i>Total Revenues</i>	<u>4,968,663</u>	<u>159,309</u>	<u>1,432,277</u>
<b><u>Expenditures:</u></b>			
Current Operations and Maintenance:			
Security of Persons and Property:			
Police	1,710,575	0	587,717
Fire	917,450	0	302,217
Other	71,089	0	278,673
Public Health Services	143,748	0	0
Leisure Time Activities:			
Parks and Recreation	88,337	0	0
Swimming Pool	99,772	0	0
Other	19,750	0	0
Community Development:			
City Funded	266,904	0	0
Grant Funded	0	0	0
Basic Utility Services	188	0	0
Transportation	206,596	0	0
General Government	1,680,799	195,374	390
Capital Outlay	58,164	0	0
Debt Service:			
Principal Retirement	8,838	0	3,847
Interest and Fiscal Charges	3,305	0	1,120
<i>Total Expenditures</i>	<u>5,275,515</u>	<u>195,374</u>	<u>1,173,964</u>
Excess of Revenues Over (Under) Expenditures	<u>(306,852)</u>	<u>(36,065)</u>	<u>258,313</u>
<b><u>Other Financing Sources (Uses):</u></b>			
Inception Of Capital Lease	58,164	0	0
Transfers In	0	0	0
Transfers Out	(10,000)	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>48,164</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(258,688)	(36,065)	258,313
<i>Fund Balances at Beginning of Year - Restated (Note 19)</i>	<u>2,062,568</u>	<u>50,298</u>	<u>278,261</u>
<i>Fund Balances at End of Year</i>	<u>\$1,803,880</u>	<u>\$14,233</u>	<u>\$536,574</u>

See Accompanying Notes to the Basic Financial Statements

<i>Small Cities Block Grant Fund</i>	<i>General Obligation Bond Retirement Fund</i>	<i>Capital Improvement Fund</i>	<i>Nonmajor Funds</i>	<i>Total Governmental Funds</i>
\$0	\$89,754	\$996,883	\$0	\$4,203,412
0	0	0	132,154	882,988
0	0	0	43,023	191,127
0	0	16,771	0	16,771
231,187	0	35,372	717,057	2,095,927
0	0	0	23,389	297,842
0	0	0	226,944	1,132,626
0	82,960	415	3,110	212,795
0	0	0	200	74,956
0	25,871	14,004	57,304	148,203
231,187	198,585	1,063,445	1,203,181	9,256,647
0	0	0	78,997	2,377,289
0	0	0	76,063	1,295,730
0	0	2,013	25,832	377,607
0	0	0	0	143,748
0	0	0	500	88,837
0	0	0	0	99,772
0	0	0	35,075	54,825
0	0	0	0	266,904
221,828	0	0	11,077	232,905
0	0	3,528	0	3,716
0	0	28,183	618,661	853,440
0	0	104,946	164,202	2,145,711
60,784	0	1,019,384	146,442	1,284,774
0	210,000	0	0	222,685
0	268,831	0	0	273,256
282,612	478,831	1,158,054	1,156,849	9,721,199
(51,425)	(280,246)	(94,609)	46,332	(464,552)
0	0	0	0	58,164
16,665	203,000	0	65,331	284,996
0	0	(25,000)	(249,996)	(284,996)
16,665	203,000	(25,000)	(184,665)	58,164
(34,760)	(77,246)	(119,609)	(138,333)	(406,388)
62,625	1,610,989	1,002,765	1,524,743	6,592,249
\$27,865	\$1,533,743	\$883,156	\$1,386,410	\$6,185,861

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**City of Circleville**  
 Reconciliation of the Statement of Revenues, Expenditures and Changes  
 in Fund Balances of Governmental Funds to the Statement of Activities  
 For the Year Ended December 31, 2004

**Net Change in Fund Balances - Total Governmental Funds** (\$406,388)

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

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

Capital Asset Additions	1,112,684	
Depreciation	(1,229,318)	
Excess of Capital Outlay over Depreciation Expense		(116,634)

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of capital assets is removed from the capital asset account in the statement of net assets and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the statement of activities.

Gain on Early Trade-In of Capital Lease	2,688	
Loss on Disposal of Assets	(4,664)	
		(1,976)

Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. (58,164)

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

Income Taxes	64,782	
Property Taxes	(16,089)	
Other Local Taxes	5,704	
Special Assessments	(11,448)	
Intergovernmental	158,259	
Accrued Interest	16,626	
		217,834

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

General Obligation Bond Principal Payments	210,000	
Capital Lease Payments	12,685	
		222,685

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

Net Decrease in Deferred Charges	(4,950)	
Net Decrease in Accrued Interest	682	
		(4,268)

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

Increase in Compensated Absences		(10,038)
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*Change in Net Assets of Governmental Activities* (\$156,949)

See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Year Ended December 31, 2004

	<i><b>Original Budget</b></i>	<i><b>Revised Budget</b></i>	<i><b>Budgetary Actual</b></i>	<i><b>Variance Positive (Negative)</b></i>
<b><u>Revenues:</u></b>				
Income Taxes	\$1,484,021	\$1,521,791	\$1,578,706	\$56,915
Property Taxes	740,200	765,576	750,834	(14,742)
Other Local Taxes	92,847	95,210	145,576	50,366
Intergovernmental	965,185	989,750	1,162,396	172,646
Charges for Services	248,603	254,930	226,221	(28,709)
Fines, Licenses and Permits	735,481	754,200	906,495	152,295
Interest	147,229	150,976	135,401	(15,575)
Contributions and Donations	98	100	69,306	69,206
Miscellaneous	5,851	6,000	26,464	20,464
<i>Total Revenues</i>	<u>4,419,515</u>	<u>4,538,533</u>	<u>5,001,399</u>	<u>462,866</u>
<b><u>Expenditures:</u></b>				
Current Operations and Maintenance:				
Security of Persons and Property:				
Police	2,078,161	1,873,876	1,714,160	159,716
Fire	1,129,632	1,007,035	919,107	87,928
Other	81,918	80,018	77,301	2,717
Public Health	144,667	144,667	143,748	919
Leisure Time Activities:				
Parks and Recreation	164,644	120,146	91,770	28,376
Swimming Pool	154,206	112,296	101,243	11,053
Other	9,969	15,969	15,969	0
Community Development:				
City Funded	324,134	313,331	282,035	31,296
Basic Utility Services	3,060	3,060	1,364	1,696
Transportation	327,465	229,069	212,345	16,724
General Government	2,042,882	2,028,152	1,757,366	270,786
<i>Total Expenditures</i>	<u>6,460,738</u>	<u>5,927,619</u>	<u>5,316,408</u>	<u>611,211</u>
Excess of Revenues Under Expenditures	(2,041,223)	(1,389,086)	(315,009)	1,074,077
<b><u>Other Financing Uses:</u></b>				
Transfers Out	(10,000)	(10,000)	(10,000)	0
Net Change in Fund Balance	(2,051,223)	(1,399,086)	(325,009)	1,074,077
Fund Balance at Beginning of Year	1,921,482	1,921,482	1,921,482	0
Prior Year Encumbrances	75,838	75,838	75,838	0
Fund Balance (Deficit) at End of Year	<u>(\$53,903)</u>	<u>\$598,234</u>	<u>\$1,672,311</u>	<u>\$1,074,077</u>

See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non-GAAP Basis) and Actual  
Income Tax Fund  
For the Year Ended December 31, 2004

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Budgetary Actual</u>	<u>Variance Positive (Negative)</u>
<b><u>Revenues:</u></b>				
Income Taxes	\$368,926	\$193,344	\$161,315	(\$32,029)
Miscellaneous	0	0	1,159	1,159
<i>Total Revenues</i>	368,926	193,344	162,474	(30,870)
<b><u>Expenditures:</u></b>				
Current Operations and Maintenance:				
General Government	223,565	221,824	195,763	26,061
Net Change in Fund Balance	145,361	(28,480)	(33,289)	(4,809)
Fund Balance at Beginning of Year	60,910	60,910	60,910	0
Prior Year Encumbrances	3,137	3,137	3,137	0
Fund Balance at End of Year	<u>\$209,408</u>	<u>\$35,567</u>	<u>\$30,758</u>	<u>(\$4,809)</u>

See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non-GAAP Basis) and Actual  
Safety Forces Tax Fund  
For the Year Ended December 31, 2004

	<i><u>Original Budget</u></i>	<i><u>Revised Budget</u></i>	<i><u>Budgetary Actual</u></i>	<i><u>Variance Positive (Negative)</u></i>
<b><u>Revenues:</u></b>				
Income Taxes	\$1,461,624	\$1,268,009	\$1,315,583	\$47,574
Intergovernmental	3,228	2,800	2,800	0
Charges for Services	7,493	6,500	48,232	41,732
Contributions and Donations	5,239	4,545	5,450	905
Miscellaneous	5,763	5,000	23,401	18,401
<i>Total Revenues</i>	<u>1,483,347</u>	<u>1,286,854</u>	<u>1,395,466</u>	<u>108,612</u>
<b><u>Expenditures:</u></b>				
Current Operations and Maintenance:				
Security of Persons and Property:				
Police	658,383	699,832	608,749	91,083
Fire	359,756	367,703	315,457	52,246
Other	484,766	434,998	306,625	128,373
<i>Total Expenditures</i>	<u>1,502,905</u>	<u>1,502,533</u>	<u>1,230,831</u>	<u>271,702</u>
Net Change in Fund Balance	(19,558)	(215,679)	164,635	380,314
Fund Balance at Beginning of Year	343,819	343,819	343,819	0
Prior Year Encumbrances	15,534	15,534	15,534	0
Fund Balance at End of Year	<u><u>\$339,795</u></u>	<u><u>\$143,674</u></u>	<u><u>\$523,988</u></u>	<u><u>\$380,314</u></u>

See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non-GAAP Basis) and Actual  
Small Cities Block Grant Fund  
For the Year Ended December 31, 2004

	<i><u>Original Budget</u></i>	<i><u>Revised Budget</u></i>	<i><u>Budgetary Actual</u></i>	<i><u>Variance Positive (Negative)</u></i>
<b><u>Revenues:</u></b>				
Intergovernmental	\$80,000	\$209,380	\$228,183	\$18,803
<b><u>Expenditures:</u></b>				
Current Operations and Maintenance:				
Community Development:				
Grant Funded	33,241	255,991	254,786	1,205
Basic Utility Services	80,000	0	0	0
<i>Total Expenditures</i>	113,241	255,991	254,786	1,205
Excess of Revenues Under Expenditures	(33,241)	(46,611)	(26,603)	20,008
<b><u>Other Financing Sources:</u></b>				
Transfers In	0	16,665	16,665	0
Net Change in Fund Balance	(33,241)	(29,946)	(9,938)	20,008
Fund Balance at Beginning of Year	5,442	5,442	5,442	0
Prior Year Encumbrances	33,241	33,241	33,241	0
Fund Balance at End of Year	<u>\$5,442</u>	<u>\$8,737</u>	<u>\$28,745</u>	<u>\$20,008</u>

See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Fund Net Assets  
Enterprise Funds  
December 31, 2004

	<u>Waterworks Operating Fund</u>	<u>Sewer Operating Fund</u>	<u>Total</u>
<b><u>Assets:</u></b>			
<b><u>Current Assets:</u></b>			
Equity in Pooled Cash and Cash Equivalents	\$3,508,508	\$1,999,026	\$5,507,534
Receivables:			
Accounts	162,850	203,048	365,898
Special Assessments	0	10,046	10,046
Materials and Supplies Inventory	52,894	68,176	121,070
Prepaid Items	5,586	5,938	11,524
<i>Total Current Assets</i>	<u>3,729,838</u>	<u>2,286,234</u>	<u>6,016,072</u>
<b><u>Non-Current Assets:</u></b>			
Nondepreciable Capital Assets	51,490	89,950	141,440
Depreciable Capital Assets, Net	5,648,580	11,382,581	17,031,161
<i>Total Non-Current Assets</i>	<u>5,700,070</u>	<u>11,472,531</u>	<u>17,172,601</u>
<i>Total Assets</i>	<u>9,429,908</u>	<u>13,758,765</u>	<u>23,188,673</u>
<b><u>Liabilities:</u></b>			
<b><u>Current Liabilities:</u></b>			
Accounts Payable	2,000	567	2,567
Accrued Wages and Benefits Payable	22,774	27,973	50,747
Intergovernmental Payable	22,557	28,976	51,533
Compensated Absences Payable	26,927	27,563	54,490
<i>Total Current Liabilities</i>	74,258	85,079	159,337
<b><u>Long-Term Liabilities (Net of Current Portion):</u></b>			
Compensated Absences Payable	17,938	22,902	40,840
<i>Total Liabilities</i>	<u>92,196</u>	<u>107,981</u>	<u>200,177</u>
<b><u>Net Assets:</u></b>			
Invested in Capital Assets	5,700,070	11,472,531	17,172,601
Unrestricted	3,637,642	2,178,253	5,815,895
<i>Total Net Assets</i>	<u>\$9,337,712</u>	<u>\$13,650,784</u>	<u>\$22,988,496</u>

See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Enterprise Funds  
For the Year Ended December 31, 2004

	<i><b>Waterworks Operating Fund</b></i>	<i><b>Sewer Operating Fund</b></i>	<i><b>Total</b></i>
<i><b><u>Operating Revenues:</u></b></i>			
Charges for Services	\$1,375,255	\$1,603,681	\$2,978,936
<i><b><u>Operating Expenses:</u></b></i>			
Personal Services	512,744	658,557	1,171,301
Fringe Benefits	246,622	265,073	511,695
Materials and Supplies	230,726	207,126	437,852
Contractual Services	179,018	283,524	462,542
Depreciation	175,527	360,190	535,717
Miscellaneous	29,765	7,193	36,958
<i>Total Operating Expenses</i>	<u>1,374,402</u>	<u>1,781,663</u>	<u>3,156,065</u>
Operating Income (Loss)	<u>853</u>	<u>(177,982)</u>	<u>(177,129)</u>
<i><b><u>Non-Operating Revenues:</u></b></i>			
Interest Revenue	7,447	0	7,447
Other	0	10,894	10,894
<i>Total Non-Operating Revenues</i>	<u>7,447</u>	<u>10,894</u>	<u>18,341</u>
Income (Loss) Before Transfers	8,300	(167,088)	(158,788)
Transfers In	0	457	457
Transfers Out	<u>(457)</u>	<u>0</u>	<u>(457)</u>
Change in Net Assets	7,843	(166,631)	(158,788)
Net Assets Beginning of Year - Restated (Note 19)	<u>9,329,869</u>	<u>13,817,415</u>	<u>23,147,284</u>
Net Assets End of Year	<u><u>\$9,337,712</u></u>	<u><u>\$13,650,784</u></u>	<u><u>\$22,988,496</u></u>

See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Cash Flows  
Enterprise Funds  
For the Year Ended December 31, 2004

	<b><i>Waterworks Operating Fund</i></b>	<b><i>Sewer Operating Fund</i></b>	<b><i>Total</i></b>
<b><u>Increase (Decrease) in Cash and Cash Equivalents:</u></b>			
<b><u>Cash Flows from Operating Activities:</u></b>			
Cash Received From Charges for Services	\$1,371,368	\$1,560,070	\$2,931,438
Cash Payments for Employee Services	(519,002)	(667,659)	(1,186,661)
Cash Payments for Employee Benefits	(245,081)	(259,830)	(504,911)
Cash Payments to Suppliers for Goods and Services	(422,083)	(518,273)	(940,356)
Cash Payments for Other Operating Expenses	(29,765)	(7,625)	(37,390)
Other Non-Operating Revenue	0	10,894	10,894
<i>Net Cash Provided by Operating Activities</i>	<u>155,437</u>	<u>117,577</u>	<u>273,014</u>
<b><u>Cash Flows from Noncapital Financing Activities:</u></b>			
Transfers In	0	457	457
Transfers Out	(457)	0	(457)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>(457)</u>	<u>457</u>	<u>0</u>
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>			
Acquisition of Capital Assets	(52,759)	(28,637)	(81,396)
<b><u>Cash Flows from Investing Activities:</u></b>			
Interest	7,447	0	7,447
<i>Net Increase in Cash and Cash Equivalents</i>	109,668	89,397	199,065
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>3,398,840</u>	<u>1,909,629</u>	<u>5,308,469</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$3,508,508</u>	<u>\$1,999,026</u>	<u>\$5,507,534</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u></b>			
Operating Income (Loss)	\$853	(\$177,982)	(\$177,129)
<b><u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:</u></b>			
Depreciation	175,527	360,190	535,717
Other Non-Operating Revenue	0	10,894	10,894
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(5,047)	(42,865)	(47,912)
(Increase) Decrease in Special Assessments Receivable	1,160	(746)	414
Decrease in Materials and Supplies Inventory	6,440	1,161	7,601
Increase in Prepaid Items	(2,570)	(2,048)	(4,618)
Decrease in Accounts Payable	(14,035)	(9,908)	(23,943)
Decrease in Contracts Payable	(2,174)	(21,753)	(23,927)
Increase in Accrued Wages and Benefits Payable	3,635	5,317	8,952
Decrease in Intergovernmental Payable	(9,893)	(9,926)	(19,819)
Increase in Compensated Absences Payable	1,541	5,243	6,784
<i>Net Cash Provided by Operating Activities</i>	<u>\$155,437</u>	<u>\$117,577</u>	<u>\$273,014</u>

See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
December 31, 2004

	<i>Private Purpose</i>	
	<u><i>Trust Fund</i></u>	
	<i>William Renick</i>	
	<i>Trust</i>	<i>Agency Funds</i>
<b><u>Assets:</u></b>		
Equity in Pooled Cash and Cash Equivalents	\$400	\$15,904
Cash and Cash Equivalents		
In Segregated Accounts	11,598	109,588
<i>Total Assets</i>	\$11,998	\$125,492
<b><u>Liabilities:</u></b>		
Intergovernmental Payable	\$0	\$3,603
Undistributed Assets	0	121,889
<i>Total Liabilities</i>	0	\$125,492
<b><u>Net Assets:</u></b>		
Held in Trust for Private Purposes	\$11,998	

See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Changes in Fiduciary Net Assets  
Private Purpose Trust Fund  
For the Year Ended December 31, 2004

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	<u><i>William Renick Trust</i></u>
<u><i>Additions:</i></u>	
Interest	\$400
<u><i>Deductions:</i></u>	
Payments in Accordance with Trust Agreements	<u>0</u>
<i>Change in Net Assets</i>	400
<i>Net Assets Beginning of Year</i>	<u>11,598</u>
<i>Net Assets End of Year</i>	<u><u>\$11,998</u></u>

See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

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**NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY**

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

**Reporting Entity**

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

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

The City is associated with one organization which is defined as a jointly governed organization. This organization is the Circleville-Pickaway County Community Improvement Corporation and is presented in Note 17 to the Basic Financial Statements.

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

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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

Berger Health System

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

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

The information in Notes 2 through 19 relate to the primary government. Information related to the discretely presented component unit is presented in Note 20.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

*Government-Wide Financial Statements*

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities.

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

*Fund Financial Statements*

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

**B. Fund Accounting**

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

*Governmental Funds*

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

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

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

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

Small Cities Block Grant Fund – This fund accounts for monies received through community development block grants for various projects.

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

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

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

*Proprietary Funds*

Proprietary funds focus on the determination of operating income, changes in net assets, financial position, and cash flows. The City's proprietary funds are enterprise funds.

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

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

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

*Fiduciary Funds*

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

**C. Measurement Focus**

*Government-wide Financial Statements*

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

*Fund Financial Statements*

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

Like the government-wide statements, all enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Fund Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its enterprise activities.

**D. Basis of Accounting**

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

*Revenues – Exchange and Non-Exchange Transactions*

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. “Measurable” means the amount of the transaction can be determined and “available” means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty-one days of year-end.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income tax is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 7.) Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

*Deferred Revenues*

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

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but were levied to finance 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met have also been recorded as deferred revenue.

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

*Expenses/Expenditures*

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

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**E. Budgets and Budgetary Accounting**

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

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

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

**F. Cash and Cash Equivalents**

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

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

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue credited to the General Fund during 2004 amounted to \$126,310, which includes \$103,652 assigned from other funds.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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

**G. Materials and Supplies Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventory consists of expendable supplies held for consumption.

**H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2004, 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/expense is reported in the year in which services are consumed.

**I. Capital Assets**

General capital assets are capital assets that are associated with and generally rise from governmental activities. They generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide Statement of Net Assets and in the respective funds.

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

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

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

The City's infrastructure consists of streets, curbs and gutters, sidewalks, street lighting, storm sewers, and water and sewer lines. For 2004, the City reported all infrastructure acquired in the current year and in prior years.

**J. Compensated Absences**

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

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Unamortized Bond Costs**

Issuance costs reported on the government-wide statements are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method and are recorded as deferred charges.

**M. Reserves of Fund Balance**

Reserves of fund equity in governmental funds indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for encumbrances and loans receivable.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**N. Interfund Transactions**

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

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

**O. Net Assets**

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

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

**P. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the City, these revenues are charges for services for water and sewer utility services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses that do not meet these definitions are reported as nonoperating.

**Q. 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 Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 3 – COMPLIANCE**

The General Fund, the Permissive Motor Vehicle Special Revenue Fund, and the Capital Improvement Capital Projects Fund had original appropriations in excess of original estimated revenues and available fund balances of \$53,903, \$15,017, and \$15,133, respectively, for the year ended December 31, 2004.

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

**NOTE 4 – BUDGETARY BASIS OF ACCOUNTING**

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- (c) Outstanding year-end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance.
- (d) Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

**NOTE 4 – BUDGETARY BASIS OF ACCOUNTING** *(continued)*

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

Net Change in Fund Balance				
	General Fund	Income Tax Fund	Safety Forces Tax Fund	Small Cities Block Grant Fund
GAAP Basis	(\$258,688)	(\$36,065)	\$258,313	(\$34,760)
Increases (decreases) Due To:				
Revenue Accruals	(27,786)	3,165	(36,811)	(3,004)
Expenditure Accruals	40,610	(389)	(51,405)	60,784
Encumbrances	(81,503)	0	(5,462)	(32,958)
Unrecorded Cash - 2003	36,104	0	0	0
Unrecorded Cash - 2004	(33,746)	0	0	0
Budget Basis	(\$325,009)	(\$33,289)	\$164,635	(\$9,938)

**NOTE 5 – DEPOSITS AND INVESTMENTS**

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

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

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

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 5 – DEPOSITS AND INVESTMENTS** *(continued)*

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

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

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

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

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 5 – DEPOSITS AND INVESTMENTS** *(continued)*

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

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

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

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

At year-end, the carrying amount of the City’s deposits was \$10,123,036, and the bank balance was \$10,364,385. Of the bank balance, \$400,000 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized. Although the balance was collateralized by securities held by the financial institutions’ trust departments in the City’s name and all State statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**NOTE 6 – MUNICIPAL INCOME TAX**

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

Income tax proceeds are to be used to pay the cost of administering the tax, General Fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council. In 2004, the proceeds were allocated to the General Fund, the Income Tax Special Revenue Fund, the Safety Forces Tax Special Revenue Fund, the General Obligation Bond Retirement Debt Service Fund, and the Capital Improvement Capital Projects Fund.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 7 – PROPERTY TAX**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utility property taxes represents collections of 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2004, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Property:	
Agricultural/Residential	\$155,327,770
Commercial/Industrial/Mineral	58,731,070
Public Utility Real	71,220
Tangible Personal Property:	
General	49,620,362
Public Utility Real	10,676,470
Total Assessed Value	<u><u>\$274,426,892</u></u>

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

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

**NOTE 7 – PROPERTY TAX** *(continued)*

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Circleville. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004, and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2004 operations, and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

**NOTE 8 – RECEIVABLES**

Receivables at December 31, 2004, consisted of interest, taxes, loans, special assessments, and intergovernmental receivables arising from grants, entitlements or shared revenues. All receivables are considered fully collectible, including water and sewer charges receivable which, if delinquent, may be certified and collected as a special assessment, subject to foreclosure for nonpayment. Special assessments expected to be collected in more than one year for the City amount to \$40,734. The City has \$10,547 in delinquent special assessments at December 31, 2004.

The City entered into a loan agreement with Berger Health System, in which Berger Health System is repaying the City for the bonds issued by the City on behalf of Berger Health System. The loan agreement is for the \$2,000,000 principal amount of bonds and the related interest. The loans receivable balance relating to this agreement at December 31, 2004, is \$1,500,000, of which \$85,000 is considered to be due within one year. The City also had loans receivable related to program housing. At December 31, 2004, the balance of these loans was \$56,494, of which \$3,356 is considered to be due within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Community Development Block Grants	\$193,271
Ohio HOME Investment Grant	241,500
Estate Taxes	100,961
Homestead and Rollback	40,500
Electric Deregulation	6,709
Permissive Motor Vehicle License Taxes	49,268
Gasoline Tax	179,881
Motor Vehicle License Tax	82,711
Local Government	317,810
Local Government Revenue Assistance	81,712
Undivided State Local Government	44,150
Total Intergovernmental Receivable	<u>\$1,338,473</u>

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

**NOTE 9 – CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2004, was as follows:

	Restated Balance At 12/31/2003	Additions	Deletions	Balance At 12/31/2004
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$1,040,300	\$0	\$0	\$1,040,300
Construction in Progress	336,164	90,508	(426,672)	0
Total Capital Assets Not Being Depreciated	<u>1,376,464</u>	<u>90,508</u>	<u>(426,672)</u>	<u>1,040,300</u>
Depreciable Capital Assets:				
Land Improvements	1,416,456	32,281	0	1,448,737
Buildings and Building Improvements	7,161,019	0	0	7,161,019
Machinery and Equipment	723,414	72,784	(55,819)	740,379
Vehicles	1,909,905	200,801	(67,673)	2,043,033
Infrastructure	29,770,874	1,142,982	(220,757)	30,693,099
Total Depreciable Capital Assets	<u>40,981,668</u>	<u>1,448,848</u>	<u>(344,249)</u>	<u>42,086,267</u>
Total Capital Assets At Historical Cost	<u>42,358,132</u>	<u>1,539,356</u>	<u>(770,921)</u>	<u>43,126,567</u>
Less Accumulated Depreciation:				
Land Improvements	(849,666)	(70,091)	0	(919,757)
Buildings and Building Improvements	(1,793,412)	(151,170)	0	(1,944,582)
Machinery and Equipment	(414,168)	(57,625)	41,513	(430,280)
Vehicles	(1,249,116)	(142,625)	63,161	(1,328,580)
Infrastructure	(14,229,430)	(807,807)	220,605	(14,816,632)
Total Accumulated Depreciation	<u>(18,535,792)</u>	<u>(1,229,318)</u>	<u>325,279</u>	<u>(19,439,831)</u>
Depreciable Capital Assets, Net	<u>22,445,876</u>	<u>219,530</u>	<u>(18,970)</u>	<u>22,646,436</u>
Governmental Activities Capital Assets, Net	<u>\$23,822,340</u>	<u>\$310,038</u>	<u>(\$445,642)</u>	<u>\$23,686,736</u>

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

**NOTE 9 – CAPITAL ASSETS** (continued)

	Restated Balance At 12/31/2003	Additions	Deletions	Balance At 12/31/2004
Business-Type Activities				
Capital Assets, Not Being Depreciated:				
Land	\$141,440	\$0	\$0	\$141,440
Depreciable Capital Assets:				
Land Improvements	322,752	0	0	322,752
Buildings and Building Improvements	12,110,974	46,765	0	12,157,739
Machinery and Equipment	430,070	0	0	430,070
Vehicles	239,963	0	0	239,963
Infrastructure	15,143,753	36,439	(7,978)	15,172,214
Total Depreciable Capital Assets	<u>28,247,512</u>	<u>83,204</u>	<u>(7,978)</u>	<u>28,322,738</u>
Total Capital Assets At Historical Cost	<u>28,388,952</u>	<u>83,204</u>	<u>(7,978)</u>	<u>28,464,178</u>
Less Accumulated Depreciation:				
Land Improvements	(205,000)	(16,137)	0	(221,137)
Buildings and Building Improvements	(6,017,002)	(274,932)	0	(6,291,934)
Machinery and Equipment	(341,427)	(14,138)	0	(355,565)
Vehicles	(157,268)	(9,827)	0	(167,095)
Infrastructure	(4,041,333)	(220,683)	6,170	(4,255,846)
Total Accumulated Depreciation	<u>(10,762,030)</u>	<u>(535,717)</u>	<u>6,170</u>	<u>(11,291,577)</u>
Depreciable Capital Assets, Net	<u>17,485,482</u>	<u>(452,513)</u>	<u>(1,808)</u>	<u>17,031,161</u>
Business-Type Activities Capital Assets, Net	<u>\$17,626,922</u>	<u>(\$452,513)</u>	<u>(\$1,808)</u>	<u>\$17,172,601</u>

Depreciation expense was charged to governmental programs as follows:

Security of Persons and Property - Police	\$94,003
Security of Persons and Property - Fire	136,318
Security of Persons and Property - Other	27,556
Leisure Time Activities - Parks and Recreation	30,086
Leisure Time Activities - Swimming Pool	37,138
Community Development - City Funded	1,055
Transportation	852,390
General Government	50,772
Total Depreciation Expense	<u>\$1,229,318</u>

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 10 – DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year-ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the year-ended December 31, 2004 and 2003 were \$300,635 and \$329,743, respectively; 84.95 percent has been contributed for 2004 and 100 percent for 2003. No contributions to the member-directed plan were made by the City or plan members during 2004.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 10 – DEFINED BENEFIT PENSION PLANS** *(continued)*

**B. Ohio Police and Fire Pension Fund**

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters were \$139,354 and \$122,843 for the year-ended December 31, 2004, and \$184,368 and \$182,804 for the year-ended December 31, 2003. The full amount has been contributed for 2003. 68.58 percent for police and 66.73 percent for firefighters has been contributed for 2004 with the remainder being reported as a liability.

**NOTE 11 – POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1.00 to 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 11 – POSTEMPLOYMENT BENEFITS** *(continued)*

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$125,921. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

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

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

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

**B. Ohio Police and Fire Pension Fund**

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 11 – POSTEMPLOYMENT BENEFITS** *(continued)*

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$91,914 for police and \$58,586 for firefighters. The OP&F's total health care expense for the year-ended December 31, 2003, (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

**NOTE 12 – EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

Sick leave is earned at the rate of four and six-tenths hours for every eighty hours worked and can be accumulated without limit. Upon termination from the City, accumulated, unused sick leave is paid up to a maximum number hours, depending on length of service and department policy, to employees who retire.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 12 – EMPLOYEE BENEFITS** *(continued)*

**B. Insurance Benefits**

Health, dental, and life insurance was provided by Anthem Blue Cross & Blue Shield of Ohio for the year. Vision insurance was provided by Vision Service Plan for the year. Additional life and accident insurance was provided by Colonial Life and Accident Insurance Company.

**C. Deferred Compensation**

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

**NOTE 13 – CAPITAL LEASES – LESSEE DISCLOSURE**

During 2004 and in prior years, the City has entered into capitalized leases for copiers. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “*Accounting for Leases*,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets acquired by lease were initially capitalized in the amount of \$78,580 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the Statement of Net Assets for governmental activities. During 2004, the City entered into new capital leases prior to the full retirement of the old capital leases. Therefore, the balance of \$16,994 remaining on the old leases was eliminated on the financial statements upon entering into the new leases. Principal payments in 2004 totaled \$12,685 in the governmental funds.

The assets acquired through capital leases as of December 31, 2004, are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Copier Equipment	\$78,580	\$23,882	\$54,698

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 13 – CAPITAL LEASES – LESSEE DISCLOSURE** *(continued)*

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2004:

Year Ending December 31,	_____
2005	\$18,870
2006	18,870
2007	17,214
2008	13,902
2009	6,581
Total	<u>75,437</u>
Less: Amount representing Interest	<u>(11,433)</u>
Present Value of Minimum Lease Payment	<u><u>\$64,004</u></u>

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

**NOTE 14 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS**

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

Types / Issues	Balance 12/31/2003	Issued	Retired	Balance 12/31/2004	Due Within One Year
<u>Business-Type Activities</u>					
Compensated Absences	\$88,546	\$74,627	\$67,843	\$95,330	\$54,490
<u>Governmental Activities</u>					
<u>General Obligation Bonds</u>					
1997 - Berger Health System					
Bonds \$2,000,000:					
Term Bonds 4.80% - 5.40%	\$1,235,000	\$0	\$0	\$1,235,000	\$0
Serial Bonds 3.80% - 4.75%	345,000	0	80,000	265,000	85,000
2000 - Capital Facilities Improvement					
Safety Services Building Bonds \$3,285,000					
Term Bonds 5.625%	2,060,000	0	0	2,060,000	0
Serial Bonds 4.45% - 5.950%	910,000	0	115,000	795,000	115,000
2000 - Capital Facilities Improvement					
City Bonds \$500,000					
Term Bonds 5.625%	315,000	0	0	315,000	0
Serial Bonds 4.45% - 5.950%	140,000	0	15,000	125,000	20,000
<b>Total General Obligation Bonds</b>	<b>5,005,000</b>	<b>0</b>	<b>210,000</b>	<b>4,795,000</b>	<b>220,000</b>
<u>Other Long-Term Obligations</u>					
Capital Leases	35,519	58,164	29,679	64,004	14,266
Compensated Absences	323,877	239,301	229,263	333,915	205,600
<b>Total Other Long-Term Obligations</b>	<b>359,396</b>	<b>297,465</b>	<b>258,942</b>	<b>397,919</b>	<b>219,866</b>
<b>Total Governmental Activities</b>	<b>\$5,364,396</b>	<b>\$297,465</b>	<b>\$468,942</b>	<b>\$5,192,919</b>	<b>\$439,866</b>

The City’s overall legal debt margin was \$26,189,222, with an unvoted debt margin of \$12,467,877 at December 31, 2004.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

**NOTE 14 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS**

*(continued)*

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

Year	Governmental Activities	
	General Obligation Bonds	
	Principal	Interest
2005	\$220,000	\$259,106
2006	235,000	248,766
2007	240,000	237,604
2008	250,000	226,084
2009	265,000	213,436
2010-2014	1,570,000	833,176
2015-2019	1,715,000	356,299
2020	300,000	16,875
Totals	\$4,795,000	\$2,391,346

Berger Health System Bonds

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

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

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 14 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS**

*(continued)*

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

Capital Facilities Safety Services Building Bonds

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

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

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

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

Capital Facilities City Services Building Bonds

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

**NOTE 14 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS**

*(continued)*

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

Year	Amount
2011	\$25,000
2012	25,000
2013	25,000
2014	30,000
2015	30,000
2016	30,000
2017	35,000
2018	35,000
2019	40,000
2020	40,000
Totals	\$315,000

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

**Conduit Debt**

During 2003, the City issued revenue bonds in the aggregate principal amount of \$26,000,000 for Berger Health System. The proceeds are to be used by Berger Health System for future capital expenditures and to retire \$9 million of old debt. The bonds are to be repaid by the recipient of the proceeds and do not represent an obligation of the City. There has not been, and currently is not any condition of default under the bonds or the related financing documents. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely from the City's debt presentation. Neither is the full faith and credit or taxing power of the City pledged to make repayment. The balance outstanding as of December 31, 2004, is \$21,504,167.

**Compensated Absences/Capital Leases**

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

**NOTE 15 – RISK MANAGEMENT**

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

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

**NOTE 16 – INTERFUND ACTIVITY**

Transfers made during the year ended December 31, 2004, were as follows:

		Transfers To				
		Small Cities Block Grant	General Obligation Bond Retirement	Nonmajor Governmental Funds	Sewer Operating	Total
Transfers From	General	\$0	\$0	\$10,000	\$0	\$10,000
	Capital Improvement	0	0	25,000	0	25,000
	Nonmajor Governmental Funds	16,665	203,000	30,331	0	249,996
	Waterworks Operating	0	0	0	457	457
	<b>Total</b>	<b>\$16,665</b>	<b>\$203,000</b>	<b>\$65,331</b>	<b>\$457</b>	<b>\$285,453</b>

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 16 – INTERFUND ACTIVITY** *(continued)*

Transfers from the General Fund to nonmajor governmental funds were made to maintain the fund balance in the Sick Leave Retirement Fund for the anticipation of future retirements. Transfers from the Capital Improvement Fund to nonmajor governmental funds were made to provide monies to the Emergency Medical Services Fund for capital expenditures. Transfers from nonmajor governmental funds to the Small Cities Block Grant Fund were made to provide monies from housing income to make expenditures for which additional sources of income had not yet been received. Transfers from nonmajor governmental funds to the General Obligation Bond Retirement Fund were made to make annual debt service payments. Transfers from nonmajor governmental funds to nonmajor governmental funds were made to establish a new fund under the Ohio Revised Code to account for housing income. Transfers from the Waterworks Operating Fund to the Sewer Operating Fund were made to distribute monies appropriately for the termination of water and sewer services for which initial deposits were held.

**NOTE 17 – JOINTLY GOVERNED ORGANIZATION**

The Circleville-Pickaway Community Improvement Corporation (CIC) was created as a not for profit corporation under Section 1724.01 et. seq., Ohio Revised Code. The CIC is governed by a fifteen member Board of Trustees, three of which are elected or appointed officials of the City, three are appointed by Pickaway County, one is a representative of the North Gate Alliance Cooperative Economic Development Agreement, and eight volunteer citizens. The CIC operates to increase the opportunities for employment and strengthen the economic development of the Circleville area. Because the CIC is subject to joint control and the participants have no equity interest in the CIC, the CIC is a jointly governed organization of the City.

**NOTE 18 – CONTINGENT LIABILITIES**

**A. Litigation**

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

**B. Federal and State Grants**

For the period January 1, 2004, to December 31, 2004, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 19 – RESTATEMENT OF PRIOR YEAR NET ASSETS**

For 2004, the City has implemented GASB Statement No. 39, “*Determining Whether Certain Organizations are Component Units*” and GASB Technical Bulletin No. 2004-02, “*Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liability by Cost-Sharing Employers*”.

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans.

The implementation of GASB Statement No. 39 did not affect the presentation of the financial statements. The City has also chosen to include all infrastructure capital assets on its Statement of Net Assets and to report the Waterworks Operating Fund and the Sewer Operating Fund as proprietary funds. For 2004, errors were discovered that related to the understatement of income taxes receivable, loans receivable, and accounts payable in prior years. It was also found that the governmental special assessments receivable was overstated and should actually be accounted for in the Capital Improvement Fund, not the General Fund. The effect of these changes resulted in the following restatements of net assets and fund balances:

**City of Circleville**  
**Notes To The Basic Financial Statements**  
**For The Year Ended December 31, 2004**

**NOTE 19 – RESTATEMENT OF PRIOR YEAR NET ASSETS** *(continued)*

	Governmental Activities	Business-Type Activities	Total
Net Assets, December 31, 2003	\$25,855,216	\$0	\$25,855,216
Change in Fund Classification	(5,557,883)	5,557,883	0
Restatement of Special Assessments Receivable	(40,584)	0	(40,584)
Restatement of Income Taxes Receivable	154,195	0	154,195
Restatement of Loans Receivable	(660,352)	0	(660,352)
Restatement of Capital Assets	7,079,603	17,626,922	24,706,525
Restatement of Accounts Payable	(22,199)	0	(22,199)
Restatement of Long-Term Liabilities - Due Within One Year	472	(472)	0
Restatement of Long-Term Liabilities - Due In More Than One Year	37,049	(37,049)	0
Net Assets, December 31, 2003 as Restated	<u>\$26,845,517</u>	<u>\$23,147,284</u>	<u>\$49,992,801</u>

	General Fund	Income Tax Fund	Safety Forces Tax Fund	Small Cities Block Grant Fund	Waterworks Operating Fund
Fund Balances, December 31, 2003	\$2,137,700	\$72,497	\$291,161	\$62,625	\$3,500,165
Restatement of Special Assessments Receivable	(65,919)	0	0	0	0
Restatement of Income Taxes Receivable	55,180	10,161	48,011	0	0
Restatement of Loans Receivable	0	0	0	0	0
Restatement of Accounts Payable	0	(22,199)	0	0	0
Restatement of Intergovernmental Payable	(75,132)	0	(12,900)	0	0
Restatement of Deferred Revenue	10,739	(10,161)	(48,011)	0	0
Change in Fund Classification	0	0	0	0	(3,500,165)
Fund Balances, December 31, 2003 as Restated	<u>\$2,062,568</u>	<u>\$50,298</u>	<u>\$278,261</u>	<u>\$62,625</u>	<u>\$0</u>

**City of Circleville**  
**Notes To The Basic Financial Statements**  
**For The Year Ended December 31, 2004**

**NOTE 19 – RESTATEMENT OF PRIOR YEAR NET ASSETS** *(continued)*

	Sewer Operating Fund	General Obligation Bond Retirement Fund	Capital Improvement Fund	Nonmajor Funds	Total
Fund Balances, December 31, 2003	\$1,998,946	\$2,316,024	\$1,002,765	\$1,515,060	\$12,896,943
Restatement of Special Assessments Receivable	0	0	25,335	0	(40,584)
Restatement of Income Taxes Receivable	0	13,521	27,322	0	154,195
Restatement of Loans Receivable	0	(705,035)	0	44,683	(660,352)
Restatement of Accounts Payable	0	0	0	0	(22,199)
Restatement of Intergovernmental Payable	0	0	0	(35,000)	(123,032)
Restatement of Deferred Revenue	0	(13,521)	(52,657)	0	(113,611)
Change in Fund Classification	(1,998,946)	0	0	0	(5,499,111)
Fund Balances, December 31, 2003 as Restated	<u>\$0</u>	<u>\$1,610,989</u>	<u>\$1,002,765</u>	<u>\$1,524,743</u>	<u>\$6,592,249</u>

	Water Operating Fund	Sewer Operating Fund	Total
Fund Balances, December 31, 2003	\$3,500,165	\$1,998,946	\$5,499,111
Restatement of Capital Assets	5,822,838	11,804,084	17,626,922
Restatement of Deferred Revenue	50,190	59,607	109,797
Restatement of Long-Term Liabilities - Due Within One Year	(24,652)	(26,845)	(51,497)
Restatement of Long-Term Liabilities - Due In More Than One Year	(18,672)	(18,377)	(37,049)
Net Assets, December 31, 2003 as Restated	<u>\$9,329,869</u>	<u>\$13,817,415</u>	<u>\$23,147,284</u>

**NOTE 20 – BERGER HEALTH SYSTEM**

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

**A. Basis of Accounting**

Berger Health System uses the government model of GASB Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*,”. The System follows the “business-type” activities reporting requirements of GASB Statement No. 34, which provides a comprehensive one-line look at the System’s financial activities. The System also applies the Financial Accounting Standards Board Statements and Interpretations to the extent that they do not conflict with or contradict GASB pronouncements.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 20 – BERGER HEALTH SYSTEM** *(continued)*

**B. Budgetary Basis of Accounting**

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

**C. Deposits and Investments**

Deposits – At December 31, 2004, the carrying amount of the System’s bank deposits for all funds is \$579,782 as compared to the bank balance of \$2,098,000. Of the bank balance, \$426,000 is covered by federal insurance programs and \$1,672,000 is collateralized with securities held in a pooled collateral account at the pledging banks.

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

	Category 1	Carrying/ Fair Value
Government Securities	\$36,775,685	\$36,775,685

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

**NOTE 20 – BERGER HEALTH SYSTEM** *(continued)*

**D. Capital Assets**

Capital assets activity for the year ended December 31, 2004, was as follows:

	Restated Balance At 12/31/2003	Additions	Deletions	Balance At 12/31/2004
Capital Assets, Not Being Depreciated:				
Land and Land Improvements	\$2,122,010	\$334,074	\$0	\$2,456,084
Construction in Progress	723,189	9,219,159	0	9,942,348
Total Capital Assets Not Being Depreciated	<u>2,845,199</u>	<u>9,553,233</u>	<u>0</u>	<u>12,398,432</u>
Depreciable Capital Assets:				
Buildings and Building Improvements	35,332,107	659,008	(370,107)	35,621,008
Equipment	28,012,250	2,805,133	(29,570)	30,787,813
Total Depreciable Capital Assets	<u>63,344,357</u>	<u>3,464,141</u>	<u>(399,677)</u>	<u>66,408,821</u>
Total Capital Assets At Historical Cost	<u>66,189,556</u>	<u>13,017,374</u>	<u>(399,677)</u>	<u>78,807,253</u>
Less Accumulated Depreciation:				
Buildings and Building Improvements	(14,752,332)	(1,586,888)	370,107	(15,969,113)
Equipment	(18,143,208)	(2,874,843)	29,570	(20,988,481)
Total Accumulated Depreciation	<u>(32,895,540)</u>	<u>(4,461,731)</u>	<u>399,677</u>	<u>(36,957,594)</u>
Depreciable Capital Assets, Net	<u>30,448,817</u>	<u>(997,590)</u>	<u>0</u>	<u>29,451,227</u>
Capital Assets, Net	<u><u>\$33,294,016</u></u>	<u><u>\$8,555,643</u></u>	<u><u>\$0</u></u>	<u><u>\$41,849,659</u></u>

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

**NOTE 20 – BERGER HEALTH SYSTEM** *(continued)*

**E. Long-Term Obligations**

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

Types / Issues	Balance 12/31/2003	Issued	Retired	Balance 12/31/2004	Due Within One Year
1997 - 5.036% - 5.400% City of Circleville Loan \$2,000,000	\$1,573,333	\$0	\$80,417	\$1,492,916	\$85,417
<u>Revenue Bonds</u>					
2003 - City of Circleville Hospital Facilities Revenue Bonds Series 2003A	6,005,000	0	1,980,000	4,025,000	1,980,000
2003 - City of Circleville Hospital Facilities Revenue Bonds Series 2003B	9,833,333	0	666,666	9,166,667	666,667
2003 - City of Circleville Hospital Facilities Revenue Bonds Series 2003C	9,262,500	0	950,000	8,312,500	950,000
Total Revenue Bonds	<u>25,100,833</u>	<u>0</u>	<u>3,596,666</u>	<u>21,504,167</u>	<u>3,596,667</u>
<u>Other Long-Term Obligations</u>					
Compensated Absences	707,434	2,257,470	2,142,085	822,819	0
Total Long-Term Obligations	<u>\$26,674,166</u>	<u>\$0</u>	<u>\$3,677,083</u>	<u>\$23,819,902</u>	<u>\$3,682,084</u>

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

Year	Principal	Interest
2005	\$3,682,084	\$724,541
2006	3,686,666	615,353
2007	1,743,810	526,284
2008	1,739,524	471,171
2009	1,716,667	415,898
Thereafter	10,428,332	437,326
Total	<u>\$22,997,083</u>	<u>\$3,190,573</u>

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2004

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**NOTE 20 – BERGER HEALTH SYSTEM** *(continued)*

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

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

In conjunction with the Series 2003A, Series 2003B, and Series 2003C Bonds, the System is required to maintain certain financial covenants as defined in the debt agreements. Management believes it is in compliance with all such financial covenants.

**F. Prior Period Adjustment**

Net assets at the beginning of 2004 have been restated to correct an error related to amounts due to/from affiliates which have been determined to be transfers of assets in prior years. Had the error not been made, net assets would have decreased by \$14,539,753 for the System in prior years.

Net Assets, December 31, 2003	\$69,881,143
Prior Period Adjustment	<u>(14,539,753)</u>
Net Assets, December 31, 2003 as Restated	<u><u>\$55,341,390</u></u>

**Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Required by  
Government Auditing Standards**

Members of Council  
City of Circleville  
133 South Court Street  
Circleville, OH 43113

We have audited the accompanying financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Circleville, Ohio (City), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 31, 2007, which we noted the City implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Technical Bulletin No. 2004-02, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liability by Cost-Sharing Employers*. 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 of America.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that we did not deem a reportable conditions, that we have reported to management of the City in a separate letter dated January 31, 2007.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we did note certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated January 31, 2007.

Members of Council  
City of Circleville  
Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Required by  
Government Auditing Standards

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

*J. L. Uhrig and Associates, Inc.*

J. L. UHRIG AND ASSOCIATES, INC.

January 31, 2007



**Mary Taylor, CPA**  
Auditor of State

**CITY OF CIRCLEVILLE**

**PICKAWAY COUNTY**

**CLERK'S CERTIFICATION**

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 8, 2007**