



**Auditor of State
Betty Montgomery**

**CITY OF CELINA
MERCER COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

City of Celina
Mercer County
PO Box 297
202 North Main Street
Celina, Ohio 45822

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Celina, Mercer County, (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

July 26, 2004

**CITY OF CELINA
MERCER COUNTY**

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

The discussion and analysis of the City of Celina's financial performance provides an overview of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Key highlights for 2003 are as follows:

In total, the City's net assets increased \$1,123,087, an increase of only 3.5 percent. Changes for both governmental activities and business-type activities were insignificant.

The police department is providing a police officer to the Celina City School District as part of the School Resource Officer - COPS in Schools grant program. The City was awarded a \$125,000 grant through the U. S. Department of Justice on December 1, 1999. Actual services relating to the grant were not started until July 1, 2002. The City received \$55,429 of the grant during 2003.

The City was awarded an Issue II and Federal Highway Administration grants during 2002, in the amount of \$900,000, to widen Havemann Road. Engineering services were acquired during 2002; however, the bidding of the contracts did not occur until 2003. The City received \$877,370 of the grants during 2003.

The City also received approval for a U. S. Department of Commerce Economic Development Administration grant, in the amount of \$889,000, and an Ohio Public Works Commission interest free loan, in the amount of \$500,000, to construct a new 1.5 million gallon water tower and install new lines from the new tower to the existing water system. Engineering services were acquired during 2001 and 2002; however, the bidding of the contracts did not occur until 2003. The total amount of the grant and interest-free loan received during 2003 was \$426,322 and \$338,534, respectively

The City issued \$3.6 million in general obligation notes during 2003 and used the proceeds and other resources to retire \$4 million in general obligation notes issued during 2002. The notes were issued for constructing and equipping a new substation, refurbishing an existing transformer, installing new transmission lines, and acquiring and installing a generator. Actual work was started during 2002 and the projects are nearing completion.

Although electric rates have not been increased, increases in usage had provided sufficient revenues for operations in the past. During 2003, the operating revenues had an insignificant decrease; however, operating expenses increased by \$556,050, an increase of 5.6 percent.

Water and sewer rates increased during February 2001. The water rates were sufficient to maintain an operating income; however, the increased sewer rates were not sufficient to cover its costs of operations. Additional increases in sewer rates occurred during 2003, along with an additional increase during 2004.

**CITY OF CELINA
MERCER COUNTY**

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

USING THIS ANNUAL REPORT

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

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole, presenting both an aggregate and a longer-term view of the City.

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

REPORTING THE CITY AS A WHOLE

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

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

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the City's major funds, the General, Electric, Water, and Sewer funds. While the City uses many funds to account for its financial transactions, these are the most significant.

**CITY OF CELINA
MERCER COUNTY**

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

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

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

Proprietary Funds - The City's enterprise funds use the accrual basis of accounting, the same as that used for the business-type activities on the government-wide financial statements. The internal service fund is an accounting device used to accumulate and allocate costs internally among the City's other programs and activities.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the City's programs. These funds also use the accrual basis of accounting.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

**Table 1
Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets						
Current and Other Assets	\$3,389,101	\$3,534,365	\$10,461,574	\$13,028,174	\$13,850,675	\$16,562,539
Capital Assets, Net	13,321,859	12,584,619	21,929,308	18,981,194	35,251,167	31,565,813
Total Assets	16,710,960	16,118,984	32,390,882	32,009,368	49,101,842	48,128,352
Liabilities						
Current and Other Liabilities	2,234,450	2,156,209	5,641,864	5,811,397	7,876,314	7,967,606
Long-Term Liabilities	948,861	966,871	7,309,997	7,350,292	8,258,858	8,317,163
Total Liabilities	3,183,311	3,123,080	12,951,861	13,161,689	16,135,172	16,284,769
Net Assets						
Invested in Capital Assets, Net of Related Debt	11,965,432	11,047,348	11,152,779	9,856,221	23,118,211	20,903,569
Restricted	662,525	541,326	1,935,067	2,001,651	2,597,592	2,542,977
Unrestricted	899,692	1,407,230	6,351,175	6,989,807	7,250,867	8,397,037
Total Net Assets	\$13,527,649	\$12,995,904	\$19,439,021	\$18,847,679	\$32,966,670	\$31,843,583

There was an insignificant change between 2002 and 2003 in the Statement of Net Assets for governmental and business-type activities.

**CITY OF CELINA
MERCER COUNTY**

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

Table 2 reflects the changes in net assets for 2003 compared to 2002.

**Table 2
Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues						
Program Revenues						
Charges for Services	\$931,228	\$922,990	\$13,359,130	\$13,303,532	\$14,290,358	\$14,226,522
Operating Grants, Contributions, and Interest	538,677	441,818	0	0	538,677	441,818
Capital Grants and Contributions	1,021,039	147,350	426,322	144,563	1,447,361	291,913
Total Program Revenues	<u>2,490,944</u>	<u>1,512,158</u>	<u>13,785,452</u>	<u>13,448,095</u>	<u>16,276,396</u>	<u>14,960,253</u>
General Revenues						
Property Taxes	380,017	368,579	0	0	380,017	368,579
Municipal Income Taxes	2,250,890	2,121,379	0	0	2,250,890	2,121,379
Other Local Taxes	485,652	499,394	263,398	270,786	749,050	770,180
Franchise Fees	89,006	84,881	0	0	89,006	84,881
Grants and Entitlements not Restricted to Specific Programs	643,237	1,082,142	0	0	643,237	1,082,142
Interest	60,847	87,719	35,269	50,146	96,116	137,865
Other	84,037	106,652	169,059	47,862	253,096	154,514
Total General Revenues	<u>3,993,686</u>	<u>4,350,746</u>	<u>467,726</u>	<u>368,794</u>	<u>4,461,412</u>	<u>4,719,540</u>
Total Revenues	<u>6,484,630</u>	<u>5,862,904</u>	<u>14,253,178</u>	<u>13,816,889</u>	<u>20,737,808</u>	<u>19,679,793</u>
Transfers	0	94,000	0	(94,000)	0	0
Total Revenues and Transfers	<u>6,484,630</u>	<u>5,956,904</u>	<u>14,253,178</u>	<u>13,722,889</u>	<u>20,737,808</u>	<u>19,679,793</u>
Expenses						
Security of Persons and Property	2,694,504	2,530,642	0	0	2,694,504	2,530,642
Public Health	67,566	59,658	0	0	67,566	59,658
Leisure Time Activities	587,658	594,609	0	0	587,658	594,609
Community Environment	39,035	135,230	0	0	39,035	135,230
Basic Utility Services	235,880	280,300	0	0	235,880	280,300
Transportation	787,288	931,129	0	0	787,288	931,129
General Government	1,482,941	1,389,565	0	0	1,482,941	1,389,565
Interest and Fiscal Charges	58,013	80,529	0	0	58,013	80,529
Electric	0	0	10,530,561	10,031,229	10,530,561	10,031,229
Water	0	0	1,577,296	1,642,500	1,577,296	1,642,500
Sewer	0	0	1,553,979	1,419,293	1,553,979	1,419,293
Total Expenses	<u>5,952,885</u>	<u>6,001,662</u>	<u>13,661,836</u>	<u>13,093,022</u>	<u>19,614,721</u>	<u>19,094,684</u>
Increase (Decrease) in Net Assets	<u>\$531,745</u>	<u>(\$44,758)</u>	<u>\$591,342</u>	<u>\$629,867</u>	<u>\$1,123,087</u>	<u>\$585,109</u>

Capital grants and contributions were significantly greater during 2003 from the Issue II funding for the Havemann Road improvement and the U. S. Department of Commerce Economic Development Administration grant for the construction of the water tower.

Grants and entitlements not restricted to specific programs decreased during 2003. During 2002, the City received a large inheritance tax settlement. The City did not receive similar resources during 2003.

**CITY OF CELINA
MERCER COUNTY**

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

Program revenues for governmental activities represented 38 percent of total revenues and 97 percent for business-type activities. This percentage was somewhat higher for governmental activities during 2003 due to the increase in capital grants. Municipal income taxes continue to be the City's greatest revenue source, representing over 34 percent of the City's total revenues.

The major program expense for governmental activities is security of persons and property, which includes the police and fire departments, and accounts for the majority of all governmental expenses, over 45 percent. Maintenance of the City's streets also represents a significant amount of the City's governmental expenses, along with the general business of running the City's government. These three programs alone represent almost all of the expenses of the City of Celina and are funded almost entirely from property taxes, municipal income taxes, and State shared revenues.

The City's electric operations continue to account for 77 percent of the expenses in the City's business-type activities and are funded almost entirely from charges for services. Operating costs associated with the Electric, Water, and Sewer funds continued to remain constant with little major variance.

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

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2003	2002	2003	2002
Security of Persons and Property	\$2,694,504	\$2,530,642	\$2,347,620	\$2,287,389
Public Health	67,566	59,658	66,645	59,658
Leisure Time Activities	587,658	594,609	294,765	266,261
Community Environment	39,035	135,230	30,317	125,343
Basic Utility Services	235,880	280,300	231,552	280,300
Transportation	787,288	931,129	(494,123)	577,317
General Government	1,482,941	1,389,565	927,152	812,707
Interest and Fiscal Charges	58,013	80,529	58,013	80,529
Total Expenses	\$5,952,885	\$6,001,662	\$3,461,941	\$4,489,504

It should be noted that during 2003 for all governmental activities, over 58 percent of the revenues to provide these services are derived from the City's general revenues compared to 75 percent during 2002. The significant decrease in reliance on general revenues was created from capital grants received for the Havemann Road improvement. This is also demonstrated in the transportation program where program revenues exceeded expenses for 2003. The City's general revenues are primarily comprised of property taxes, municipal income taxes, and State shared revenues. A large portion of leisure time activities are funded by charges for activities and donations from the Bryson Trust.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental fund is the General Fund. The General Fund had a decrease in fund balance in 2003 of approximately 13 percent. This decrease is largely the result of transfers to the Street Construction, Maintenance, and Repair special revenue fund to fund road improvements.

**CITY OF CELINA
MERCER COUNTY**

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

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Electric, Water, and Sewer funds. As can be seen on the statement of activities, program revenues, primarily charges for services, have not been sufficient to cover the expenses of the Electric and Sewer funds.

During 2001, the City increased water rates 20 percent to generate additional revenues to provide for current and future maintenance. The increase was considered insufficient to generate the revenues necessary to make repairs and improvements to the water system so an additional increase in water rates occurred during 2002. These two increases in rates were adequate to maintain the operations of the water plant during 2003. Water rates were increased by an additional 20 percent during 2004.

Sewer rates were increased during 2001 to cover the costs of operations and to comply with EPA mandates. Sewer rates were increased by an additional 20 percent beginning July 1, 2003, to provide additional funds for operations and make the necessary repairs and improvements to the sewer system. An additional 12 percent increase went into effect during February 2004. Operating revenues only increased by 2 percent during 2003 with the rate increase; whereas, operating expenses increased 14 percent. The Sewer enterprise fund experienced a negative change in net assets during 2003, in the amount of \$46,711. The Fund was also in noncompliance with the mortgage revenue bond covenants by having a deficit cash balance at December 31, 2003, in the amount of \$42,116.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January. The City's most significant budgeted fund is the General Fund. Modifications from the original to the final budget have been minimal due to the continued financial difficulties in the City; revenues are not increasing sufficiently to cover needed expenditures. The City's actual revenues for 2003 were slightly higher than those estimated. Expenditures were \$280,588 less than the final budget. The major variances included keeping the cost of general government outside consultants and operating supplies to a minimum.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2003, was \$11,965,432 and \$11,152,779, respectively (net of accumulated depreciation and related debt). This investment in capital assets includes land; land improvements; buildings; improvements other than buildings; streets; furniture and equipment; vehicles; and electric, water, and sewer lines. There was a minimal change to governmental activities capital assets during the year. In the business-type activities, construction of the water tower and installation of water lines; along with electric system improvements that occurred during 2003 are reported as construction in progress. Note 10 to the basic financial statements provides details on the capital asset activity during 2003.

Debt - At December 31, 2003, the City had \$800,000 in outstanding bond anticipation notes payable from governmental activities and \$4,000,000 in bond anticipation notes payable from business-type activities.

The City also had a number of long-term obligations outstanding. These obligations included \$120,000 in general obligation bonds, \$556,427 in rural development bonds, \$8,920 in special assessment bonds, \$7,240,000 in mortgage revenue bonds, and \$338,534 in OPWC loans. Of this amount, \$7,578,534 will be repaid from business-type activities.

**CITY OF CELINA
MERCER COUNTY**

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

In addition to the debt outlined above, the City's long-term obligations also include compensated absences. Additional information on the City's long-term obligations can be found in Note 18 to the basic financial statements.

CURRENT ISSUES

Although two major manufacturing companies have left the City in the last few years, the City's tax revenue has remained fairly stable. Uncertainty exists regarding the revenues that will be received from state-shared local government funding. The City has remained focused on providing necessary services at a minimum cost.

During 2003, the City adopted new sewer rates that increased 20 percent on July 1, 2003, and an additional 12 percent on February 1, 2004. Water rates also increased 20 percent during 2004. The billing cycle for electric, water, and sewer usage was shortened during March 2004 by decreasing the time between reading and billing dates by approximately thirty days. This will generate thirteen months of revenue collections during 2004.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those interested in our City's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Patrick T. Smith, Celina City Auditor, P.O. Box 297, Celina, Ohio 45822-0297.

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**CITY OF CELINA
MERCER COUNTY**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2003**

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,124,241	\$5,297,444	\$6,421,685
Cash and Cash Equivalents with Fiscal Agent	52,049	888,703	940,752
Cash and Cash Equivalents with Escrow Agent		73,985	73,985
Accounts Receivable	30,271	2,485,938	2,516,209
Due from Other Governments	1,012,171	186,289	1,198,460
Accrued Interest Receivable	41	7,783	7,824
Municipal Income Taxes Receivable	509,447		509,447
Permissive Motor Vehicle License Taxes Receivable	1,939		1,939
Internal Balances	20,493	(20,493)	
Prepaid Items	20,835	33,949	54,784
Materials and Supplies Inventory	51,115	1,229,167	1,280,282
Property Taxes Receivable	389,438		389,438
Notes Receivable	143,468		143,468
Special Assessments Receivable	33,593		33,593
Unamortized Bond Issuance Costs		268,831	268,831
Investment in Joint Venture		9,978	9,978
Nondepreciable Capital Assets	8,325,360	5,668,088	13,993,448
Depreciable Capital Assets, Net	4,996,499	16,261,220	21,257,719
Total Assets	16,710,960	32,390,882	49,101,842
Liabilities			
Accrued Wages Payable	185,845	81,608	267,453
Accounts Payable	99,831	71,951	171,782
Contracts Payable	480,082	1,012,919	1,493,001
Due to Other Governments	153,086	70,917	224,003
Accrued Interest Payable	9,774	56,232	66,006
Notes Payable	800,000	4,000,000	4,800,000
Retainage Payable		214,558	214,558
Deferred Revenue	388,273		388,273
Claims Payable	117,559		117,559
Deposits Held and Due to Others		133,679	133,679
Long-Term Liabilities			
Due Within One Year	74,253	431,173	505,426
Due in More Than One Year	874,608	6,878,824	7,753,432
Total Liabilities	3,183,311	12,951,861	16,135,172
Net Assets			
Invested in Capital Assets, Net of Related Debt Restricted for	11,965,432	11,152,779	23,118,211
Debt Service	52,207	788,272	840,479
Capital Projects		46,414	46,414
Other Purposes	610,318		610,318
Revenue Bond Operations and Maintenance		199,695	199,695
Revenue Bond Renewal and Replacement		900,686	900,686
Unrestricted	899,692	6,351,175	7,250,867
Total Net Assets	\$13,527,649	\$19,439,021	\$32,966,670

See Accompanying Notes to the Basic Financial Statements.

**CITY OF CELINA
MERCER COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
Governmental Activities				
Security of Persons and Property	\$2,694,504	\$274,155	\$72,729	
Public Health	67,566	921		
Leisure Time Activities	587,658	100,677	75,000	117,216
Community Environment	39,035		8,718	
Basic Utility Services	235,880	4,249	79	
Transportation	787,288	29,653	374,388	877,370
General Government	1,482,941	521,573	7,763	26,453
Interest and Fiscal Charges	58,013			
Total Governmental Activities	5,952,885	931,228	538,677	1,021,039
Business-Type Activities				
Electric	10,530,561	10,297,202		
Water	1,577,296	1,591,044		426,322
Sewer	1,553,979	1,470,884		
Total Business-Type Activities	13,661,836	13,359,130		426,322
Total	\$19,614,721	\$14,290,358	\$538,677	\$1,447,361

General Revenues

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

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - Restated (See Note 3)

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements.

**Net (Expense) Revenue
and Change in Net Assets**

Governmental Activities	Business-Type Activities	Total
(\$2,347,620)		(\$2,347,620)
(66,645)		(66,645)
(294,765)		(294,765)
(30,317)		(30,317)
(231,552)		(231,552)
494,123		494,123
(927,152)		(927,152)
(58,013)		(58,013)
<u>(3,461,941)</u>		<u>(3,461,941)</u>
	(233,359)	(233,359)
	440,070	440,070
	(83,095)	(83,095)
	<u>123,616</u>	<u>123,616</u>
<u>(3,461,941)</u>	<u>123,616</u>	<u>(3,338,325)</u>
292,321		292,321
43,848		43,848
43,848		43,848
2,250,890		2,250,890
485,652	263,398	749,050
89,006		89,006
643,237		643,237
60,847	35,269	96,116
84,037	169,059	253,096
<u>3,993,686</u>	<u>467,726</u>	<u>4,461,412</u>
531,745	591,342	1,123,087
<u>12,995,904</u>	<u>18,847,679</u>	<u>31,843,583</u>
<u>\$13,527,649</u>	<u>\$19,439,021</u>	<u>\$32,966,670</u>

**CITY OF CELINA
MERCER COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31 2003**

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$616,028	\$287,839	\$903,867
Accounts Receivable	27,314	1,452	28,766
Due from Other Governments	318,760	693,411	1,012,171
Accrued Interest Receivable	41		41
Municipal Income Taxes Receivable	509,447		509,447
Permissive Motor Vehicle License Taxes Receivable		1,939	1,939
Interfund Receivable	122,261		122,261
Prepaid Items	20,835		20,835
Materials and Supplies Inventory	15,211	35,904	51,115
Property Taxes Receivable	299,568	89,870	389,438
Notes Receivable		143,468	143,468
Special Assessments Receivable		33,593	33,593
	<u>1,929,465</u>	<u>1,287,476</u>	<u>3,216,941</u>
Total Assets			
Liabilities and Fund Balance			
Liabilities			
Accrued Wages Payable	121,164	19,938	141,102
Accounts Payable	78,773	21,058	99,831
Contracts Payable		480,082	480,082
Retainage Payable		44,743	44,743
Due to Other Governments	57,454		57,454
Interfund Payable		43,164	43,164
Accrued Interest Payable		1,319	1,319
Notes Payable		800,000	800,000
Deferred Revenue	876,054	279,268	1,155,322
	<u>1,133,445</u>	<u>1,689,572</u>	<u>2,823,017</u>
Total Liabilities			
Fund Balance			
Reserved for Encumbrances	51,617	59,919	111,536
Reserved for Notes Receivable		123,906	123,906
Unreserved, Reported in			
General Fund	744,403		744,403
Special Revenue Funds		244,219	244,219
Debt Service Fund		28,934	28,934
Capital Projects Funds (Deficit)		(859,074)	(859,074)
	<u>796,020</u>	<u>(402,096)</u>	<u>393,924</u>
Total Fund Balance (Deficit)			
Total Liabilities and Fund Balance	<u>\$1,929,465</u>	<u>\$1,287,476</u>	<u>\$3,216,941</u>

See Accompanying Notes to the Basic Financial Statements.

**CITY OF CELINA
MERCER COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2003**

Total Governmental Fund Balance \$393,924

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 13,321,859

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

Accounts Receivable	30,508	
Due from Other Governments	426,924	
Accrued Interest Receivable	34	
Municipal Income Taxes Receivable	274,825	
Property Taxes Receivable	1,165	
Special Assessments Receivable	33,593	
		767,049

An interfund payable is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities. (58,604)

Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and, therefore, not reported in the funds. (95,632)

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

Accrued Interest Payable	(8,455)	
General Obligation Bonds Payable	(120,000)	
Rural Development Bonds Payable	(556,427)	
Special Assessment Bonds Payable	(8,920)	
Compensated Absences Payable	(263,514)	
		(957,316)

An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets. 156,369

Net Assets of Governmental Activities \$13,527,649

See Accompanying Notes to the Basic Financial Statements

**CITY OF CELINA
MERCER COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Revenues			
Property Taxes	\$292,659	\$87,798	\$380,457
Municipal Income Taxes	2,228,082		2,228,082
Permissive Motor Vehicle License Taxes		27,354	27,354
Other Local Taxes	485,652		485,652
Special Assessments		8,076	8,076
Charges for Services	203,633	103,976	307,609
Fees, Licenses, and Permits	98,203		98,203
Fines and Forfeitures	306,970	46,507	353,477
Intergovernmental	1,187,897	1,344,166	2,532,063
Interest	58,351	12,115	70,466
Gifts and Donations	6,457	192,216	198,673
Other	79,819	6,833	86,652
Total Revenues	<u>4,947,723</u>	<u>1,829,041</u>	<u>6,776,764</u>
Expenditures			
Current:			
Security of Persons and Property	2,265,944	384,293	2,650,237
Public Health	67,566		67,566
Leisure Time Activities	89,098	416,477	505,575
Community Environment	42,207		42,207
Basic Utility Services	228,320		228,320
Transportation	115,442	620,053	735,495
General Government	1,301,604	42,320	1,343,924
Other	60,471		60,471
Capital Outlay		1,040,081	1,040,081
Debt Service:			
Principal Retirement		34,604	34,604
Interest and Fiscal Charges		56,862	56,862
Total Expenditures	<u>4,170,652</u>	<u>2,594,690</u>	<u>6,765,342</u>
Excess of Revenues Over (Under) Expenditures	<u>777,071</u>	<u>(765,649)</u>	<u>11,422</u>
Other Financing Sources (Uses)			
Transfers In		1,190,630	1,190,630
Transfers Out	(894,630)	(296,000)	(1,190,630)
Total Other Financing Sources (Uses)	<u>(894,630)</u>	<u>894,630</u>	
Change in Fund Balance	(117,559)	128,981	11,422
Fund Balance (Deficit) Beginning of Year	<u>913,579</u>	<u>(531,077)</u>	<u>382,502</u>
Fund Balance (Deficit) End of Year	<u>\$796,020</u>	<u>(\$402,096)</u>	<u>\$393,924</u>

See Accompanying Notes to the Basic Financial Statements.

**CITY OF CELINA
MERCER COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003**

Change in Fund Balance - Total Governmental Funds \$11,422

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

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

Capital Outlay - Nondepreciable Capital Assets	958,173	
Capital Outlay - Depreciable Capital Assets	349,231	
Depreciation	<u>(568,953)</u>	
		738,451

The cost of the capital assets is removed from the capital asset account on the statement of net assets resulting in a loss on disposal of capital assets on the statement of activities.

Loss on Disposal of Capital Assets		(1,211)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.

Property Taxes	(440)	
Municipal Income Taxes	22,808	
Fees, Licenses, and Permits	1,390	
Special Assessments	(6,415)	
Charges for Services	7,223	
Intergovernmental	(314,071)	
Interest	(14)	
Other	<u>(2,615)</u>	
		(292,134)

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

General Obligation Bonds	20,000	
Rural Development Bonds	10,844	
Special Assessment Bonds	<u>3,760</u>	
		34,604

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets.		(1,151)
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Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Due to Other Governments	42,531	
Compensated Absences Payable	<u>(16,594)</u>	
		25,937

The internal service fund used by management to charge the cost of insurance to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year.

		<u>15,827</u>
Change in Net Assets of Governmental Activities		<u><u>\$531,745</u></u>

See Accompanying Notes to the Basic Financial Statements.

**CITY OF CELINA
MERCER COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
Revenues				
Property Taxes	\$290,730	\$290,730	\$292,659	\$1,929
Municipal Income Taxes	2,160,000	2,160,000	2,232,439	72,439
Other Local Taxes	500,064	500,064	487,315	(12,749)
Charges for Services	202,518	202,518	206,746	4,228
Fees, Licenses, and Permits	91,500	91,500	98,203	6,703
Fines and Forfeitures	303,354	303,354	312,354	9,000
Intergovernmental	1,106,837	1,107,837	1,298,689	190,852
Interest	70,000	70,000	58,639	(11,361)
Gifts and Donations	6,457	6,457	6,457	
Other	62,034	62,034	68,872	6,838
Total Revenues	<u>4,793,494</u>	<u>4,794,494</u>	<u>5,062,373</u>	<u>267,879</u>
Expenditures				
Current:				
Security of Persons and Property	2,287,431	2,303,431	2,266,803	36,628
Public Health	74,370	74,370	67,566	6,804
Leisure Time Activities	91,200	91,200	86,907	4,293
Community Environment	41,647	52,022	42,348	9,674
Basic Utility Services	281,631	291,631	228,681	62,950
Transportation	119,300	119,300	112,988	6,312
General Government	1,423,705	1,440,705	1,315,830	124,875
Other	196,926	103,408	74,356	29,052
Total Expenditures	<u>4,516,210</u>	<u>4,476,067</u>	<u>4,195,479</u>	<u>280,588</u>
Excess of Revenues Over Expenditures	277,284	318,427	866,894	548,467
Other Financing Uses				
Transfers Out	(896,700)	(954,843)	(894,630)	60,213
Change in Fund Balance	(619,416)	(636,416)	(27,736)	608,680
Fund Balance Beginning of Year	628,520	628,520	628,520	
Prior Year Encumbrances Appropriated	11,746	11,746	11,746	
Fund Balance End of Year	<u>\$20,850</u>	<u>\$3,850</u>	<u>\$612,530</u>	<u>\$608,680</u>

See Accompanying Notes to the Basic Financial Statements.

**CITY OF CELINA
MERCER COUNTY**

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2003**

	<u>Enterprise Funds</u>			<u>Total Enterprise Funds</u>	<u>Governmental Activity Self Insurance Internal Service Fund</u>
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>		
Assets					
Current Assets					
Equity in Pooled Cash and Cash Equivalents	\$3,808,009	\$95,205		\$3,903,214	\$220,374
Cash and Cash Equivalents with Fiscal Agent					52,049
Accounts Receivable	1,938,180	283,833	263,925	2,485,938	1,505
Accrued Interest Receivable	1,251			1,251	
Interfund Receivable	14,925			14,925	
Prepaid Items	19,165	7,392	7,392	33,949	
Materials and Supplies Inventory	1,137,283	91,884		1,229,167	
Total Current Assets	6,918,813	478,314	271,317	7,668,444	273,928
Non-Current Assets					
Restricted Assets					
Equity in Pooled Cash and Cash Equivalents	133,679	500,853	759,698	1,394,230	
Cash and Cash Equivalents with Fiscal Agent		198,305	690,398	888,703	
Cash and Cash Equivalents with Escrow Agent	73,985			73,985	
Due from Other Governments		186,289		186,289	
Accrued Interest Receivable		501	6,031	6,532	
Unamortized Bond Issuance Costs		66,596	202,235	268,831	
Investment in Joint Venture	9,978			9,978	
Nondepreciable Capital Assets	4,250,050	1,350,858	67,180	5,668,088	
Depreciable Capital Assets, Net	8,406,134	2,728,052	5,127,034	16,261,220	
Total Non-Current Assets	12,873,826	5,031,454	6,852,576	24,757,856	
Total Assets	19,792,639	5,509,768	7,123,893	32,426,300	273,928
Liabilities					
Current Liabilities					
Accrued Wages Payable	41,094	23,917	16,597	81,608	
Accounts Payable	60,008	8,214	3,729	71,951	
Contracts Payable	764,354	3,069		767,423	
Compensated Absences Payable	4,370	2,046	2,257	8,673	
Due to Other Governments	43,683	13,485	13,749	70,917	
Interfund Payable	37,140	5,767	51,115	94,022	
Accrued Interest Payable	5,938	11,056	39,238	56,232	
Notes Payable	3,600,000	400,000		4,000,000	
Retainage Payable	85,523			85,523	
Claims Payable					117,559
OPWC Loans Payable		12,500		12,500	
Mortgage Revenue Bonds Payable		84,573	224,996	309,569	
Total Current Liabilities	4,642,110	564,627	351,681	5,558,418	117,559
Non-Current Liabilities					
Liabilities Payable from Restricted Assets					
Contracts Payable		245,496		245,496	
Retainage Payable	73,985	55,050		129,035	
Deposits Held and Due to Others	133,679			133,679	
Mortgage Revenue Bonds Payable		15,427	85,004	100,431	
Compensated Absences Payable	45,257	30,311	20,226	95,794	
OPWC Loans Payables		326,034		326,034	
Mortgage Revenue Bonds Payable		1,340,000	5,116,996	6,456,996	
Total Non-Current Liabilities	252,921	2,012,318	5,222,226	7,487,465	
Total Liabilities	4,895,031	2,576,945	5,573,907	13,045,883	117,559

CITY OF CELINA
MERCER COUNTY

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2003
(Continued)

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Business-Type Activities</u>	<u>Governmental Activity Self Insurance Internal Service Fund</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	9,056,184	2,127,142	(30,547)	11,152,779	
Restricted for					
Debt Service		182,878	605,394	788,272	
Capital Projects		46,414		46,414	
Revenue Bond Operations and Maintenance		140,683	59,012	199,695	
Revenue Bond Renewal and Replacement		200,000	700,686	900,686	
Unrestricted	<u>5,841,424</u>	<u>235,706</u>	<u>215,441</u>	<u>6,292,571</u>	<u>156,369</u>
Total Net Assets	<u>\$14,897,608</u>	<u>\$2,932,823</u>	<u>\$1,549,986</u>	19,380,417	<u>\$156,369</u>
Net assets reported for business-type activities on the statement of net assets is different because it includes a proportionate share of the balance of the internal service fund				<u>58,604</u>	
Net assets of business-type activities				<u>\$19,439,021</u>	

See Accompanying Notes to the Basic Financial Statements.

**CITY OF CELINA
MERCER COUNTY**

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Business-Type Activities</u>	<u>Governmental Activity Self Insurance Internal Service Fund</u>
Operating Revenues					
Charges for Services	\$10,297,202			\$10,297,202	\$1,059,769
Charges Pledged as Security on Mortgage Revenue Bonds		\$1,591,044	\$1,470,884	3,061,928	
Other	12,390	145,851	10,715	168,956	31,711
Total Operating Revenues	<u>10,309,592</u>	<u>1,736,895</u>	<u>1,481,599</u>	<u>13,528,086</u>	<u>1,091,480</u>
Operating Expenses					
Personal Services	1,073,211	706,163	448,581	2,227,955	
Contractual Services					189,901
Materials and Supplies	8,799,879	645,279	507,823	9,952,981	
Claims					876,268
Bad Debt	12,917		1,776	14,693	
Depreciation	623,198	136,048	267,986	1,027,232	
Total Operating Expenses	<u>10,509,205</u>	<u>1,487,490</u>	<u>1,226,166</u>	<u>13,222,861</u>	<u>1,066,169</u>
Operating Income (Loss)	<u>(199,613)</u>	<u>249,405</u>	<u>255,433</u>	<u>305,225</u>	<u>25,311</u>
Non-Operating Revenues (Expenses)					
Other Local Taxes	263,398			263,398	
Loss on Disposal of Capital Assets	(25,844)	(1,468)		(27,312)	
Change in Joint Venture	103			103	
Interest Revenue		7,720	27,549	35,269	
Interest Expense		(91,454)	(329,693)	(421,147)	
Total Non-Operating Revenues (Expenses)	<u>237,657</u>	<u>(85,202)</u>	<u>(302,144)</u>	<u>(149,689)</u>	
Income (Loss) before Contributions	38,044	164,203	(46,711)	155,536	25,311
Capital Contributions		426,322		426,322	
Change in Net Assets	38,044	590,525	(46,711)	581,858	25,311
Net Assets Beginning of Year	<u>14,859,564</u>	<u>2,342,298</u>	<u>1,596,697</u>		<u>131,058</u>
Net Assets End of Year	<u>\$14,897,608</u>	<u>\$2,932,823</u>	<u>\$1,549,986</u>		<u>\$156,369</u>

The change in net assets reported for business-type activities on the statement of activities is different because it includes a proportionate share of the net income of the internal service fund.

9,484

Change in net assets of business-type activities

\$591,342

See Accompanying Notes to the Basic Financial Statements.

**CITY OF CELINA
MERCER COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Business-Type Activities</u>	<u>Governmental Activity Self Insurance Internal Service Fund</u>
Increases (Decreases) in Cash and Cash Equivalents					
Cash Flows from Operating Activities					
Cash Received from Customers	\$10,108,540	\$1,606,240	\$1,467,215	\$13,181,995	
Cash Received from Transactions with Other Funds	200,062			200,062	1,059,769
Cash Payments for Personal Services	(902,987)	(598,381)	(380,475)	(1,881,843)	
Cash Payments for Contractual Services					(192,022)
Cash Payments to Vendors	(8,726,691)	(585,572)	(351,889)	(9,664,152)	
Cash Payments for Claims					(852,462)
Cash Payments for Transactions with Other Funds	(181,462)	(204,722)	(217,801)	(603,985)	
Cash Received from Other Revenues	12,390	145,851	10,715	168,956	31,711
Cash Received from Deposits	47,207			47,207	
Cash Payments for Deposits Refunded	(32,389)			(32,389)	
Net Cash Provided by Operating Activities	<u>524,670</u>	<u>363,416</u>	<u>527,765</u>	<u>1,415,851</u>	<u>46,996</u>
Cash Flows from Noncapital Financing Activities					
Cash Received from Other Local Taxes	263,398			263,398	
Cash Received from Advances from Other Funds			42,116	42,116	
Net Cash Provided by Noncapital Financing Activities	<u>263,398</u>		<u>42,116</u>	<u>305,514</u>	
Cash Flows from Capital and Related Financing Activities					
Principal Paid on Bond Anticipation Notes	(4,000,000)			(4,000,000)	
Principal Paid on Mortgage Revenue Bonds		(95,000)	(300,000)	(395,000)	
Interest Paid on Bond Anticipation Notes	(85,248)			(85,248)	
Interest Paid on Mortgage Revenue Bonds		(87,465)	(300,083)	(387,548)	
Proceeds of Capital Grants		455,639		455,639	
Proceeds of Notes	3,600,000	400,000		4,000,000	
Proceeds of OPWC Loans		267,491		267,491	
Acquisition of Capital Assets	(2,862,380)	(1,177,613)	(176,972)	(4,216,965)	
Net Cash Used for Capital and Related Financing Activities	<u>(3,347,628)</u>	<u>(236,948)</u>	<u>(777,055)</u>	<u>(4,361,631)</u>	
Cash Flows from Investing Activities					
Sale of Investments			170,974	170,974	
Interest	11,890	9,263	27,597	48,750	
Net Cash Provided by Investing Activities	<u>11,890</u>	<u>9,263</u>	<u>198,571</u>	<u>219,724</u>	
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(2,547,670)</u>	<u>135,731</u>	<u>(8,603)</u>	<u>(2,420,542)</u>	<u>46,996</u>
Cash and Cash Equivalents Beginning of Year	<u>6,563,343</u>	<u>658,632</u>	<u>1,458,699</u>	<u>8,680,674</u>	<u>225,427</u>
Cash and Cash Equivalents End of Year	<u>\$4,015,673</u>	<u>\$794,363</u>	<u>\$1,450,096</u>	<u>\$6,260,132</u>	<u>\$272,423</u>

(continued)

**CITY OF CELINA
MERCER COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Business-Type Activities</u>	<u>Governmental Activity Self Insurance Internal Service Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating Income (Loss)	(\$199,613)	\$249,405	\$255,433	\$305,225	\$25,311
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities					
Allowance for Uncollectibles	12,917		1,776	14,693	
Depreciation	623,198	136,048	267,986	1,027,232	
Changes in Assets and Liabilities:					
(Increase) Decrease in Accounts Receivable	(26,931)	15,196	(3,669)	(15,404)	(1,505)
Decrease in Interfund Receivable	1,191			1,191	
Increase in Prepaid Items	(5,742)	(2,214)	(2,214)	(10,170)	
(Increase) Decrease in Materials and Supplies Inventory	(4,497)	(13,596)	1,972	(16,121)	
Increase in Accrued Wages Payable	5,862	1,553	1,106	8,521	
Increase (Decrease) in Accounts Payable	(8,529)	769	(569)	(8,329)	(2,121)
Increase in Contracts Payable	104,988	3,070		108,058	
Increase (Decrease) in Due to Other Governments	4,118	(11,359)	(2,475)	(9,716)	
Increase (Decrease) in Interfund Payable	(1,663)	(9,585)	8,395	(2,853)	
Increase in Retainage Payable	3,702			3,702	
Increase in Claims Payable					25,311
Increase in Deposits Held and Due to Others	14,818			14,818	
Increase (Decrease) in Compensated Absences Payable	851	(5,871)	24	(4,996)	
Net Cash Provided by Operating Activities	<u>\$524,670</u>	<u>\$363,416</u>	<u>\$527,765</u>	<u>\$1,415,851</u>	<u>\$46,996</u>

See Accompanying Notes to the Basic Financial Statements.

CITY OF CELINA
MERCER COUNTY

STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2003

Assets

Equity in Pooled Cash and Cash Equivalents	\$16,818
Cash and Cash Equivalents in Segregated Accounts	<u>29,353</u>

Total Assets	<u><u>46,171</u></u>
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Liabilities

Due to Other Governments	749
Payroll Withholdings	16,069
Deposits Held and Due to Others	<u>29,353</u>

Total Liabilities	<u><u>\$46,171</u></u>
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See Accompanying Notes to the Basic Financial Statements.

**CITY OF CELINA
MERCER COUNTY**

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

1. DESCRIPTION OF THE CITY OF CELINA AND THE REPORTING ENTITY

A. The City

The City of Celina (the City) is a statutory municipal corporation operating under the laws of the State of Ohio. The City operates under a mayor-council form of government. Legislative power is vested in a seven member council and a council president, each elected to four-year terms. The Mayor is elected to a four-year term and is the chief executive officer of the City. All City officials, with the exception of the Service-Safety Director, are elected positions. The Service-Safety Director is appointed by the Mayor.

The City is divided into various departments and financial management and control systems. Services provided include police protection, fire protection, parks and recreation, street maintenance and repair, and electric, water, and sewer services as well as a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures.

B. Reporting Entity

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

The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City, this includes all departments and activities that are directly operated by the elected City officials.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Celina in 2003.

The City of Celina participates in the Grand Lake/Mercer County Development Corporation, a joint venture; the Mercer County Community Improvement Corporation, the Grand Lake/Mercer County Research Corporation, and the Mercer County Planning Commission, jointly governed organizations; and the Ohio Municipal League City Equity Pooling Workers' Compensation Group Rating Program and the Ohio Government Risk Management Plan, insurance purchasing pools. These organizations are presented in Notes 20, 21, and 22 to the basic financial statements.

**CITY OF CELINA
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

1. 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 activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

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

2. 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. The internal service fund is presented in a single column on the proprietary fund statements. Fiduciary funds are reported by type.

**CITY OF CELINA
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

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

1. Governmental Funds

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

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

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

2. Proprietary Funds

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

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

Electric Fund - This fund accounts for the provision of electric distribution to residential and commercial users within the City.

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

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

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department to other departments of the City on a cost reimbursement basis. The City's internal service fund accounts for the activities of the self insurance program for employee health care benefits.

**CITY OF CELINA
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds during 2003. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for insurance proceeds to secure proper handling of fire damaged structures, the activity of the municipal court due to third-parties, and employee deductions not remitted to their specific vendors in the payroll account.

C. Measurement Focus

1. Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

2. Fund Financial Statements

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

Like the government-wide financial statements, the proprietary 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 (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

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

**CITY OF CELINA
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Revenues - Exchange and Nonexchange Transactions

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

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

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

2. Deferred Revenues

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

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

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

3. Expenses/Expenditures

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

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

**CITY OF CELINA
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

All funds, except agency funds, are required to be budgeted and appropriated. The major documents prepared are the 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 City Council may appropriate. The appropriations resolution is City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by City Council. The legal level of control has been established by City Council at the fund level or at various levels within a fund based on City Council requirements.

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

The appropriations 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 appropriation 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 City Council during the year.

F. Cash and Investments

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

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

Cash and cash equivalents that are held separately for the City by escrow agents for retainage payments are recorded as "Cash and Cash Equivalents with Escrow Agent".

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

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

**CITY OF CELINA
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest earnings are allocated to City funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2003 was \$58,351, which includes \$49,265 assigned from other City funds.

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

G. Prepaid Items

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

H. Inventory

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

I. Notes Receivable

Notes receivable represent the right to receive repayment for certain loans made by the City. These loans are based upon written agreements between the City and the various loan recipients. Reported notes receivable is offset by a fund balance reserve in the governmental fund types for the long-term portion, which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

J. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

Utility deposits from customers are classified as restricted assets on the statement of fund net assets because their use is limited to the payment of unpaid utility bills or refunding of the deposit to the customer.

Resources set aside in separate escrow accounts, whose use is limited to the payment of retainage to contractors, are also reported as restricted.

**CITY OF CELINA
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Unamortized Issuance Costs/Bond Discount

Issuance costs and bond discounts are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Issuance costs are recorded as deferred charges. Bond discounts are presented as a reduction of the face amount of bonds payable.

L. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The City maintains a capitalization threshold of one thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

All capital assets are depreciated, except for land, some land improvements, and construction in progress. 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 replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	20-40 years	30 years
Buildings	20-30 years	5-30 years
Improvements Other than Buildings	10-20 years	N/A
Streets and Storm Sewers	15-50 years	N/A
Furniture and Equipment	10 years	10 years
Vehicles	3-25 years	3-25 years
Electric, Water, and Sewer Lines	N/A	20-50 years

The City's infrastructure consists streets, storm sewer lines, electric lines, water lines, and sewer lines.

**CITY OF CELINA
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Interfund Receivables/Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are presented as "Internal Balances".

N. Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method. An accrual for 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. Accumulated unused sick leave is paid to employees who retire at various rates depending on department and length of service.

O. Accrued Liabilities and Long-Term Obligations

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

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

P. Unamortized Loss on Advance Refunding

For advance refundings resulting in the defeasance of debt reported in the enterprise funds, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

The Sewer enterprise fund's mortgage revenue bonds advance refunded outstanding mortgage revenue bonds in a prior year. These bonds are presented on the proprietary fund statement of net assets net of an unamortized loss and discount, in the amount of \$368,529 and \$4,475, respectively. The loss is being amortized over the remaining thirteen year life of the bonds.

**CITY OF CELINA
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for construction, repair, and maintenance of State highways and local streets, recreation, loans to local businesses, and other revenues restricted for use by the municipal court and police department. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The City's Water and Sewer enterprise funds have restricted net assets relative to those resources necessary to comply with various covenants of bond financing agreements, as well as retainage held on contracts.

R. Fund Balance Reserves

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

S. Operating Revenues and Expenses

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

T. Capital Contributions

Capital contributions on the proprietary fund financial statements arise from grants restricted to capital acquisition and construction.

U. 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 proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**CITY OF CELINA
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

W. Estimates

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

3. CORRECTION OF AN ERROR AND RESTATEMENT OF NET ASSETS

Capital assets for governmental activities were incorrectly recorded in the prior year for several asset classifications. Nondepreciable land improvements decreased, in the amount of \$429,393. Streets decreased \$136,641 and the corresponding accumulated depreciation decreased \$123,365. Storm sewers increased \$108,261 and the corresponding accumulated depreciation increased \$4,331. As a result, net assets for governmental activities decreased \$338,739, from \$13,334,643 to \$12,995,904.

4. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2003, the Special Assessment debt service fund and the Sidewalk/Curb capital projects fund had deficit fund balances, in the amount of \$3,673 and \$13,809, respectively, due to reporting special assessments as deferred revenue on the fund basis. The deficit will be alleviated when the special assessments are received.

At December 31, 2003, the Issue II capital projects fund had a deficit fund balance, in the amount of \$35,794, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

At December 31, 2003, the Capital Improvements capital projects fund had a deficit fund balance, in the amount of \$801,319, due to reporting notes payable as a fund liability. The deficit will be alleviated when sufficient revenues are received to retire the notes.

B. Compliance

At December 31, 2003, the Special Assessment debt service fund and the Sidewalk/Curb and Industrial Park capital projects funds had deficit cash balances, in the amount of \$3,673, \$10,521, and \$18,453, respectively.

**CITY OF CELINA
MERCER COUNTY**

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

4. ACCOUNTABILITY AND COMPLIANCE (Continued)

The bond covenants for the mortgage revenue bonds in the Sewer enterprise fund require that sufficient funds be available for operations and the payment of debt. At December 31, 2003, the Sewer enterprise fund had deficit operating cash, in the amount of \$42,116. As a result, an interfund loan was obtained from the General Fund.

The capital projects funds had appropriations in excess of estimated resources, in the amount of \$9,912.

5. BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance	
GAAP Basis	(\$117,559)
<u>Increases (Decreases) Due To</u>	
Revenue Accruals:	
Accrued 2002, Received in Cash 2003	435,005
Accrued 2003, Not Yet Received in Cash	(326,574)
Expenditure Accruals:	
Accrued 2002, Paid in Cash 2003	(226,404)
Accrued 2003, Not Yet Paid in Cash	257,391
Cash Adjustments:	
Unrecorded Activity 2002	28,279
Unrecorded Activity 2003	(22,709)
Prepaid Items	(6,261)
Materials and Supplies Inventory	5,779
Fair Value of Manuscript Bonds	
2002	869
2003	(633)
Encumbrances Outstanding at	
Year End (Budget Basis)	(54,919)
Budget Basis	(\$27,736)

**CITY OF CELINA
MERCER COUNTY**

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

6. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

**CITY OF CELINA
MERCER COUNTY**

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

6. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

At year end, the City had \$28,296 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

At year end, the City's internal service fund had a balance of \$52,049 with Employee Benefit Claims, Inc. This money is held by the claims servicer in a pooled account with that of other entities and, therefore, cannot be classified by risk under GASB Statement No. 3.

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 \$815,387, and the bank balance was \$1,017,082. The entire bank balance was covered by the federal depository insurance.

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

	Category 1	Category 3	Carrying Value	Fair Value
Manuscript Bonds	\$9,553	\$ 0	\$ 9,553	\$ 9,553
Repurchase Agreements	0	683,922	683,922	683,929
	<u>\$9,553</u>	<u>\$683,922</u>	693,475	693,482
STAR Ohio			5,004,683	5,004,683
Mutual Funds			888,703	888,703
			<u>\$6,586,861</u>	<u>\$6,586,868</u>

**CITY OF CELINA
MERCER COUNTY**

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

6. DEPOSITS AND INVESTMENTS (Continued)

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$7,482,593	\$ 0
Cash on Hand	(28,296)	0
Cash Held by Third Party Administrator	(52,049)	0
Investments:		
Manuscript Bonds	(9,553)	9,553
Repurchase Agreements	(683,922)	683,922
STAR Ohio	(5,004,683)	5,004,683
Mutual Funds	(888,703)	888,703
GASB Statement No. 3	\$815,387	\$6,586,861

7. RECEIVABLES

Receivables at December 31, 2003, consisted of accounts (billings for user charged services, including unbilled utility services); intergovernmental receivables arising from grants, entitlements, and shared revenues; accrued interest, income taxes; permissive motor vehicle license taxes; interfund; property taxes; notes; and special assessments. All receivables are considered collectible in full and within one year, except for special assessments and the allowance for uncollectibles related to utility services. Delinquent special assessments were \$3,081 at December 31, 2003. Special assessments, in the amount of \$22,328, will not be received within one year.

Notes receivable represent low interest loans for development projects granted to eligible City businesses under the Federal Community Block Grant program. The loans have an annual interest rate of 4.75 to 5 percent and are to be repaid over periods ranging from seven to twenty years. Principal, in the amount of \$18,649, was repaid during 2003. Loans outstanding at December 31, 2003, were \$143,468. Notes receivable, in the amount of \$123,906, will not be received within one year.

A summary of accounts receivable related to utility services is as follows:

	Electric	Water	Sewer	Total Enterprise Funds
Accounts Receivable	\$2,317,216	\$338,916	\$315,145	\$2,971,277
Less Allowance for Uncollectibles	(379,036)	(55,083)	(51,220)	(485,339)
Net Accounts Receivable	\$1,938,180	\$283,833	\$263,925	\$2,485,938

**CITY OF CELINA
MERCER COUNTY**

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

7. RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Fund	
General Fund	
Homestead and Rollback	\$ 16,995
Local Government	214,034
Local Government Revenue Assistance	20,964
Estate Tax	36,910
Mental Health Transport	191
Court Cost Reimbursement	29,070
Other	596
Total General Fund	318,760
Non-major Funds	
Street	
Gasoline Tax	118,583
Motor Vehicle License Tax	47,768
Total Street	166,351
State Highway	
Gasoline Tax	9,615
Motor Vehicle License Tax	3,873
Total State Highway	13,488
Police Pension	
Homestead and Rollback	2,549
Fire Pension	
Homestead and Rollback	2,549
SRO Grant	
Ohio Criminal Justice Grant	10,358
Havemann Road	
Federal Highway Administration Grant	470,714
Issue II	8,949
Industrial Park	
Issue II	18,453
Total Nonmajor Governmental Funds	693,411
Total Governmental Activities	\$1,012,171
 Business-Type Activities	
Water	
Ohio Public Works Commission	\$ 71,043
Economic Development Authority	115,246
Total Business-Type Activities	\$ 186,289

**CITY OF CELINA
MERCER COUNTY**

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

8. MUNICIPAL INCOME TAXES

The City levies and collects an income tax of one percent based 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. All income tax is credited to the General Fund.

9. PROPERTY TAXES

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

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

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

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

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

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

The full tax rate for all City operations for the year ended December 31, 2003, was \$2.60 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2003 property tax receipts were based are as follows:

**CITY OF CELINA
MERCER COUNTY**

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

9. PROPERTY TAXES (Continued)

<u>Category</u>	<u>Amount</u>
Real Property	
Residential/Agricultural	\$100,406,000
Commercial/Industrial	39,286,520
Public Utility Property	
Real	4,350
Personal	1,815,730
Tangible Personal Property	22,125,030
Total Assessed Value	<u>\$163,637,630</u>

10. CAPITAL ASSETS

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

	<u>Balance January 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2003</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$ 1,795,514	\$ 0	\$ 0	\$1,795,514
Land Improvements	5,571,673	12,312	0	5,583,985
Construction in Progress	0	945,861	0	945,861
Total Nondepreciable Capital Assets	<u>7,367,187</u>	<u>958,173</u>	<u>0</u>	<u>8,325,360</u>
Depreciable Capital Assets				
Land Improvements	347,085	0	0	347,085
Buildings	224,100	0	0	224,100
Improvements Other than Buildings	1,680,016	0	0	1,680,016
Streets and Storm Sewers	8,049,152	178,319	0	8,227,471
Furniture and Equipment	503,060	24,098	(12,057)	515,101
Vehicles	1,829,120	146,814	(89,856)	1,886,078
Total Depreciable Capital Assets	<u>12,632,533</u>	<u>349,231</u>	<u>(101,913)</u>	<u>12,879,851</u>
Less Accumulated Depreciation for				
Land Improvements	(\$176,817)	(\$7,497)	\$ 0	(\$184,314)
Buildings	(148,115)	(8,042)	0	(156,157)
Improvements Other than Buildings	(492,385)	(86,060)	0	(578,445)
Streets and Storm Sewers	(4,997,138)	(339,537)	0	(5,336,675)
Furniture and Equipment	(334,538)	(34,329)	10,846	(358,021)
Vehicles	(1,266,108)	(93,488)	89,856	(1,269,740)
Total Accumulated Depreciation	<u>(7,415,101)</u>	<u>(568,953)</u>	<u>100,702</u>	<u>(7,883,352)</u>
Total Depreciable Capital Assets, Net	<u>5,217,432</u>	<u>(219,722)</u>	<u>(1,211)</u>	<u>4,996,499</u>
Governmental Activities Capital Assets, Net	<u>\$12,584,619</u>	<u>\$738,451</u>	<u>(\$1,211)</u>	<u>\$13,321,859</u> (continued)

**CITY OF CELINA
MERCER COUNTY**

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

10. CAPITAL ASSETS (Continued)

	<u>Balance January 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2003</u>
Business-Type Activities				
Nondepreciable Capital Assets				
Land	\$ 157,815	\$ 0	\$ 0	\$ 157,815
Construction in Progress	2,230,650	3,418,128	(138,505)	5,510,273
Total Nondepreciable Capital Assets	<u>2,388,465</u>	<u>3,418,128</u>	<u>(138,505)</u>	<u>5,668,088</u>
Depreciable Capital Assets				
Land Improvements	8,710	0	0	8,710
Buildings	18,267,294	138,505	0	18,405,799
Electric, Water, and Sewer Lines	18,240,546	434,318	(66,474)	18,608,390
Furniture and Equipment	469,300	40,226	(4,771)	504,761
Vehicles	1,265,287	109,986	(12,460)	1,362,813
Total Depreciable Capital Assets	<u>38,251,195</u>	<u>723,035</u>	<u>(83,705)</u>	<u>38,890,525</u>
Less Accumulated Depreciation for				
Land Improvements	(6,360)	(92)	0	(6,460)
Buildings	(12,641,971)	(282,928)	0	(12,924,899)
Electric, Water, and Sewer Lines	(8,032,358)	(599,761)	40,630	(8,591,489)
Furniture and Equipment	(273,207)	(41,785)	3,303	(311,689)
Vehicles	(704,562)	(102,666)	12,460	(794,768)
Total Accumulated Depreciation	<u>(21,658,466)</u>	<u>(1,027,232)</u>	<u>56,393</u>	<u>(22,629,305)</u>
Total Depreciable Capital Assets, Net	<u>16,592,729</u>	<u>(304,197)</u>	<u>(27,312)</u>	<u>16,261,220</u>
Business-Type Activities Capital Assets, Net	<u>\$18,981,194</u>	<u>\$3,113,931</u>	<u>(\$165,817)</u>	<u>\$21,929,308</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property	\$72,862
Leisure Time Activities	107,187
Community Environment	2,593
Transportation	374,538
General Government	11,773
Total Depreciation Expense - Governmental Activities	<u>\$568,953</u>

11. INTERFUND RECEIVABLES/PAYABLES

At December 31, 2003, the General Fund had an interfund receivable, in the amount of \$122,261, from other governmental funds, in the amount of \$43,005 to provide cash flow resources until the receipt of special assessment revenues or the receipt of grant monies, from the Sewer enterprise fund, in the amount of \$42,116, to alleviate a cash deficit until the receipt of adequate cash flows, and from the Electric enterprise fund, in the amount of \$37,140, for the City's portion of the kilowatt hour tax.

The Electric enterprise fund had an interfund receivable, in the amount of \$14,925, for services provided by the Electric enterprise fund to other governmental funds, in the amount of \$159, to the Water enterprise fund, in the amount of \$5,767, and to the Sewer enterprise fund, in the amount of \$8,999.

**CITY OF CELINA
MERCER COUNTY**

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

12. RISK MANAGEMENT

A. Property and Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2003, the City contracted with the Ohio Government Risk Management Plan, an insurance purchasing pool, for the following coverage:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Property (building and contents)	\$27,422,021	\$1,000
Liability - Aggregate	5,000,000	0
Public Official Liability - Aggregate	5,000,000	5,000
Law Enforcement Liability - Aggregate	5,000,000	5,000
Employee Benefits Liability - Aggregate	3,000,000	0
Automobile Liability	3,000,000	0
Equipment	1,084,345	1,000
Fire Vehicles	777,288	0
Electronic Data Processing	208,681	1,000

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

B. Employee Medical Benefits

In 1985, the City established a Self-Insurance fund (an internal service fund) to account for and finance its uninsured risks of loss for employee medical, vision, and dental benefits. Under this program, the Self-Insurance fund provides coverage for up to a maximum of \$50,000 per year for each individual, with a \$1,063,733 aggregate coverage over the employee's life. The City purchased commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have exceeded this fund's coverage; however, these claims have not exceeded the stop loss coverage. Excess costs have been reimbursed by the stop loss insurance coverage.

All funds of the City participate in the program and make payments to the Self-Insurance fund based on actuarial estimates of the amounts needed to pay prior- and current-year claims. The liability for unpaid claims costs reported in the fund at December 31, 2003, is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability was based on a review of all claims paid after the balance sheet date. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claim liability in 2002 and 2003 were:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Stop-Loss Reimbursement</u>	<u>Claims Payments</u>	<u>Balance at Year End</u>
2002	\$47,691	\$764,172	\$ 0	(\$719,615)	\$ 92,248
2003	92,248	876,268	1,505	(852,462)	117,559

**CITY OF CELINA
MERCER COUNTY**

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

12. RISK MANAGEMENT (Continued)

C. Workers' Compensation

For 2003, the City participated in the Ohio Municipal League City Equity Pooling Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The intent of the Program is to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Program. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Program. Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Program. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity redistribution" arrangement insures that each participant shares equally in the overall performance of the Program. Participation in the Program is limited to participants that can meet the Program's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the Program.

13. SIGNIFICANT CONTRACTUAL COMMITMENTS

The City has several outstanding contracts for professional services. The following amounts remain on these contracts as of December 31, 2003:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid as of 12/31/03</u>	<u>Outstanding Balance</u>
Seimens Power T & D, Inc.	\$ 116,312	\$ 107,006	\$ 9,306
Advanced Control Systems	137,226	132,830	4,396
Vaughn Industries, Inc.	1,974,916	1,791,161	183,755
Chuck Samples	108,992	106,221	2,771
All Industrial, Inc.	19,320	0	19,320
Landmark Structures, L. P.	1,580,000	803,525	776,475
Jutte Excavating	834,461	411,004	423,457

14. 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 OPERS to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

**CITY OF CELINA
MERCER COUNTY**

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

14. DEFINED BENEFIT PENSION PLANS

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

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

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$250,529, \$224,226, and \$251,493, respectively; 92 percent has been contributed for 2003 and 100 percent has been contributed for 2002 and 2001. The unpaid contribution for 2003, in the amount of \$19,322, is recorded as a liability. Contributions to the member-directed plan for 2003 were \$139 made by the City and \$87 made by plan members.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OPF for the years ended December 31, 2003, 2002, and 2001 were \$208,519, \$198,660, and \$191,107, respectively; 73 percent has been contributed for 2003 and 100 percent has been contributed for 2002 and 2001. The unpaid contribution for 2003, in the amount of \$55,843, is recorded as a liability.

15. POST-EMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 employer contribution rate was 13.55 percent of covered payroll; 5.00 percent was the portion used to fund health care.

**CITY OF CELINA
MERCER COUNTY**

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

15. POST-EMPLOYMENT BENEFITS (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund post-employment benefits was \$146,590. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2002 (the latest information available), was \$10 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

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

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

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OPF) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen, whether or not the child is attending school, or under the age of twenty-two if attending school full-time or on a two-thirds basis.

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

**CITY OF CELINA
MERCER COUNTY**

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

15. POST-EMPLOYMENT BENEFITS (Continued)

The City's actual contributions for 2003 that were used to fund post-employment benefits were \$55,132 for police and \$59,583 for firefighters. The OPF's total health care expense for the year ended December 31, 2002 (the latest information available), was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OPF participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

16. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

Sick leave is earned at various rates as defined by City policy and union contracts. For employees under the CMERC union agreement, sick leave will be paid upon death or retirement at the lesser of 25 percent or eighty days of accumulated sick leave. For sergeants, law enforcement officers, and dispatchers, sick leave will be paid based on years of service. These employees with ten or more years of service will be paid upon death or retirement at the lesser of 25 percent or eighty days of accumulated sick leave and with twenty or more years of service will be paid upon death or retirement at the lesser of 30 percent or ninety days of accumulated sick leave. Firefighters and nonunion employees with ten years of service will be paid upon death or retirement at the lesser of 25 percent or eighty days of accumulated sick leave.

B. Health Care Benefits

Medical, vision, and dental insurance are provided to most employees through the City's self insurance program. The employees share the cost of the monthly premium with the City. The premium varies with employee depending on the terms of the union agreements or City Council policy.

The City provides life and accidental death and dismemberment insurance through Commercial Union Life Insurance Company.

**CITY OF CELINA
MERCER COUNTY**

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

17. NOTES PAYABLE

The City's notes activity for the year ended December 31, 2003, was as follows:

	Interest Rate	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
<u>Governmental Activities</u>					
Swimming Pool					
November 19, 2002	1.97%	\$280,000	\$0	\$280,000	\$0
November 18, 2003	1.40	0	200,000	0	200,000
Total Swimming Pool		<u>280,000</u>	<u>200,000</u>	<u>280,000</u>	<u>200,000</u>
Fire Truck					
February 16, 2002	2.41%	285,000	0	285,000	0
November 19, 2002	1.97	250,000	0	250,000	0
November 18, 2003	1.40	0	220,000	0	220,000
Total Fire Truck		<u>535,000</u>	<u>220,000</u>	<u>535,000</u>	<u>220,000</u>
Industrial Park					
November 19, 2002	1.97	140,000	0	140,000	0
November 18, 2003	1.40	0	130,000	0	130,000
Total Industrial Park		<u>140,000</u>	<u>130,000</u>	<u>140,000</u>	<u>130,000</u>
Park Land Acquisition					
November 19, 2002	1.97	300,000	0	300,000	0
November 18, 2003	1.40	0	250,000	0	250,000
Total Park Land Acquisition		<u>300,000</u>	<u>250,000</u>	<u>300,000</u>	<u>250,000</u>
Total Governmental Activities		<u>\$1,255,000</u>	<u>\$800,000</u>	<u>\$1,255,000</u>	<u>\$800,000</u>
<u>Business-Type Activities</u>					
Electric Improvement					
November 19, 2002	1.97%	\$4,000,000	\$0	\$4,000,000	\$0
November 18, 2003	1.40	0	3,600,000	0	3,600,000
Total Electric Improvement		<u>4,000,000</u>	<u>3,600,000</u>	<u>4,000,000</u>	<u>3,600,000</u>
Water Tower					
May 1, 2003	1.56	0	400,000	0	400,000
Total Business-Type Activities		<u>\$4,000,000</u>	<u>\$4,000,000</u>	<u>\$4,000,000</u>	<u>\$4,000,000</u>

All of the City's bond anticipation notes are backed by the full faith and credit of the City of Celina and have a maturity of one year.

As of December 31, 2003, the City had unexpended note proceeds related to the Water Tower notes, in the amount of \$160,170.

**CITY OF CELINA
MERCER COUNTY**

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

18. LONG-TERM OBLIGATIONS

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

	Interest Rate	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bonds						
1985 Knowlton Ditch	6 - 7.75%	\$ 140,000	\$ 0	\$20,000	\$120,000	\$20,000
Rural Development Bonds						
2000 Rural Development Bonds	4.75	561,345	0	9,998	551,347	10,472
2000 Rural Development Bonds	5.00	5,926	0	846	5,080	889
Total Rural Development Bonds		567,271	0	10,844	556,427	11,361
Special Assessment Bonds						
1999 Sidewalk	4.25	2,000	0	1,000	1,000	1,000
2000 Sidewalk	5.25	1,080	0	360	720	360
2001 Sidewalk	4.50	9,600	0	2,400	7,200	2,400
Total Special Assessment Bonds		12,680	0	3,760	8,920	3,760
Other Long-Term Obligations						
Compensated Absences Payable		246,920	45,216	28,622	263,514	39,132
Total Governmental Activities		<u>\$ 966,871</u>	<u>\$45,216</u>	<u>\$63,226</u>	<u>\$948,861</u>	<u>\$74,253</u>
 <u>Business-Type Activities</u>						
Mortgage Revenue Bonds						
1999 Wastewater Refunding	3.25- 4.95%	\$4,190,000	\$ 0	225,000	\$3,965,000	\$230,000
Bond Discount		(4,729)	254	0	(4,475)	0
Accounting Loss		(389,442)	20,913	0	(368,529)	0
1994 Waterworks	3.55-5.90	1,535,000	0	95,000	1,440,000	100,000
1993 Wastewater	3-5.70	1,910,000	0	75,000	1,835,000	80,000
Total Mortgage Revenue Bonds		7,240,829	21,167	395,000	6,866,996	410,000
Other Long-Term Obligations						
OPWC Loans Payable	0	0	338,534	0	338,534	12,500
Compensated Absences Payable		109,463	9,691	14,687	104,467	8,673
Total Business-Type Activities		<u>\$7,350,292</u>	<u>\$369,392</u>	<u>\$409,687</u>	<u>\$7,309,997</u>	<u>\$431,173</u>

**CITY OF CELINA
MERCER COUNTY**

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

18. LONG-TERM OBLIGATIONS (Continued)

A. General Obligation Bonds

The City issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The Knowlton Ditch general obligation bonds were issued for \$285,000 in 1985 and are paid from revenues generated by an agreement between the City and Shir-Will Acres, Inc. All general obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. In the event Shir-Wil Acres, Inc. fails to make the payments to the City, the City will be required to pay the related debt.

B. Rural Development Bonds

The City issued rural development bonds during 2000, in the amount of \$580,000 and \$51,000, respectively, to provide funds for the acquisition of property for the development of an industrial park. These general obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. The bonds will be paid from transfers from the General Fund.

C. Special Assessment Bonds

Special assessment bonds were issued for curb and sidewalk projects during 1999, 2000, and 2001, in the amount of \$5,000, \$1,800, and \$12,000, respectively. The special assessment bonds are backed by the full faith and credit of the City of Celina. In the event that an assessed property owner fails to make payments or insufficient amounts are assessed to fund the debt, the City will be required to pay the related debt.

D. Compensated Absences Payable

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

E. Mortgage Revenue Bonds

The City issued bonds which pledge Water and Sewer enterprise fund income derived from the acquired and constructed assets to pay the debt. During 1999, the City issued \$4,940,000 in wastewater system revenue refunding bonds. During 1994, the City issued \$2,145,000 in first mortgage water system revenue bonds. During 1993, the City issued \$2,480,000 in first mortgage wastewater revenue bonds. The refunded bonds were fully retired during 2001.

The bond indentures have certain restrictive covenants and principally require that bond reserves be maintained and charges for services to customers be sufficient to satisfy the obligations under the indenture agreements. In addition, special provisions exist regarding covenant violations, redemption of principal, and maintenance of properties.

Fund assets, whose use are restricted under the bond indenture to improvement and replacement and debt service requirements are presented as restricted assets on the statement of fund net assets. These assets are further segregated between those held by the City and those held by trustees. Restricted assets relating to each of the mortgage revenue bond issues were as follows as of December 31, 2003:

**CITY OF CELINA
MERCER COUNTY**

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

18. LONG-TERM OBLIGATIONS (Continued)

	Restricted Assets			Totals
	Wastewater Refunding	Waterworks	Wastewater	
<u>Restricted Assets held by the City for:</u>				
Mortgage Revenue Bond Replacement	\$700,686	\$200,000	\$0	\$900,686
Mortgage Revenue Bond Operations	59,012	140,683	0	199,695
<u>Restricted Assets held by Fiscal Agent for:</u>				
Mortgage Revenue Bond Current Debt Service	69,742	15,427	15,262	100,431
Mortgage Revenue Bond Future Debt Service	416,660	182,878	188,734	788,272

Each mortgage revenue bond issue contains optional redemption provisions that may be exercised by the City. The bonds may be called either in whole or in part in integral multiples of \$5,000. The date each bond issue may be called and the redemption prices, expressed as percentages of the principal amount redeemed, are set forth below:

Redemption Dates	Redemption Prices (Percent of Par)		
	Wastewater Refunding	Waterworks	Wastewater
December 1, 2003 to November 30, 2004			101%
December 1, 2004 and thereafter			100
December 1, 2004 to November 30, 2005		101%	
December 1, 2005 and thereafter		100	
December 1, 2008 to October 31, 2009	101%		
December 1, 2009 and thereafter	100		

F. OPWC Loans Payable

On August 26, 2002, City Council authorized the issuance of a \$500,000 Ohio Public Works Commission interest free loan for the construction of a 1.5 million gallon water tower and installation of a twenty inch water line. The City has drawn down \$338,534 as of December 31, 2003. The remaining balance, in the amount of \$161,466, is still authorized but not issued.

The City's legal debt margin was \$15,738,131 at December 31, 2003.

The following is a summary of the City's future annual debt service requirements for general long-term obligations:

**CITY OF CELINA
MERCER COUNTY**

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

18. LONG-TERM OBLIGATIONS (Continued)

Year	Governmental Activities					
	General Obligation Bonds		Rural Development Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 20,000	\$ 9,300	\$ 11,361	\$ 26,443	\$3,760	\$404
2005	20,000	7,750	11,903	25,901	2,760	235
2006	25,000	6,200	12,471	25,333	2,400	108
2007	25,000	4,263	13,066	24,739	0	0
2008	30,000	2,325	13,689	24,115	0	0
2009-2013	0	0	72,786	110,700	0	0
2014-2018	0	0	91,581	91,727	0	0
2019-2023	0	0	115,498	67,809	0	0
2024-2028	0	0	145,661	37,645	0	0
2029-2030	0	0	68,411	4,912	0	0
	<u>\$120,000</u>	<u>\$29,838</u>	<u>\$556,427</u>	<u>\$439,324</u>	<u>\$8,920</u>	<u>\$747</u>

The City's future annual debt service requirements, including mandatory sinking fund requirements, payable from the enterprise funds are as follows:

Year	Business-Type Activities			
	Water Mortgage Revenue Bonds		Sewer Mortgage Revenue Bonds	
	Principal	Interest	Principal	Interest
2004	\$100,000	\$82,620	\$310,000	\$287,332
2005	105,000	77,420	325,000	273,423
2006	110,000	71,855	340,000	258,582
2007	115,000	65,915	355,000	242,793
2008	120,000	59,590	375,000	226,033
2009-2013	720,000	182,015	2,175,000	838,565
2014-2018	170,000	10,030	1,920,000	252,437
	<u>\$1,440,000</u>	<u>\$549,445</u>	<u>\$5,800,000</u>	<u>\$2,379,165</u>

19. INTERFUND TRANSFERS

During 2003, the General Fund made transfers to other governmental funds, in the amount of \$894,630, to move receipts as debt payments became due and to subsidize various programs in other funds. Nonmajor governmental funds made transfers, in the amount of \$296,000, to move \$46,000 in revolving loan funds for the industrial park and \$250,000 to make debt payments.

20. JOINT VENTURE

The City of Celina purchased capital stock of the Grand Lake/Mercer County Development Corporation (Corporation) during 1995. The Corporation was incorporated for purchasing land, developing land to entice new industries, and potentially constructing buildings to rent to interested industries. The Corporation is governed by a Board of Directors elected on an annual basis from the pool of current shareholders. The City does not currently sit on the Board of Directors.

**CITY OF CELINA
MERCER COUNTY**

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

20. JOINT VENTURE (Continued)

The Corporation issued additional shares of capital stock during 1998 reducing the City's interest from 20 to 19 percent. The City's net investment and its share of the operating results of the Corporation are reported in the City's Electric enterprise fund. The Corporation has not accumulated significant financial resources nor is the Corporation experiencing fiscal stress that may cause an additional financial benefit to or burden on the City in the future. Complete financial statements for the Corporation can be obtained from Grand Lake/Mercer County Development Corporation, Jack A. Hartings, Secretary/Treasurer, 112 West Main Street, Coldwater, Ohio 45828, or from the City Auditor's Office.

21. JOINTLY GOVERNED ORGANIZATIONS

A. Mercer County Community Improvement Corporation

The Mercer County Community Improvement Corporation (Corporation) was designated as an agency of Mercer County for industrial, commercial, distribution, and research development in Mercer County. The seventeen members of the Corporation consist of representatives from the County, the City, and villages within the county, along with additional appointments as established by the bylaws. The Corporation has not been in operation for the last few years; however, the Corporation is to receive land from the City of Celina for the benefit of a company. The Corporation adopts their own budget, authorizes expenditures, hires and fires staff, and currently relies on Mercer County to finance deficits. Financial information can be obtained from the Mercer County Auditor, Courthouse, Celina, Ohio 45822.

B. Grand Lake/Mercer County Research Corporation

The Grand Lake/Mercer County Research Corporation (Corporation) was created to enhance the economic environment of Mercer County by attracting new business and industry, retaining existing business and industry, and thereby creating and retaining job opportunities. The twenty-one members of the Corporation consist of representatives based on the eight largest cumulative private contributors, two representatives from the City of Celina, two representatives from Mercer County, one representative from the villages, any contributor of \$5,000 or more in one year, and four representatives from the community. The Corporation adopts their own budget, authorizes expenditures, hires and fires staff, and does not rely on the City to finance deficits. Financial information can be obtained from the Grand Lake/Mercer County Research Corporation, Wright State University, 7600 State Route 703, Celina, Ohio 45822.

C. Mercer County Planning Commission

The City participates in the Mercer County Planning Commission (Commission) which is a statutorily created political subdivision of the State. The Commission is jointly governed among Mercer County, municipalities, and townships. The Commission makes studies, maps, plans, recommendations, and reports concerning the physical, environmental, social, economic, and governmental characteristics, functions, and services within the County. During 2003, the City did not pay any membership dues toward the operation of the Commission. Financial information can be obtained from the Mercer County Auditor, Courthouse, Celina, Ohio 45822.

**CITY OF CELINA
MERCER COUNTY**

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

22. INSURANCE PURCHASING POOLS

A. Ohio Government Risk Management Plan

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

B. Ohio Municipal League City Equity Pooling Workers' Compensation Group Rating Program

The City is a participant in the Ohio Municipal League City Equity Pooling Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The Program's business and affairs are conducted by a twenty-six member Board of Trustees consisting of fifteen mayors, two council members, three administrators, three finance officers, and three law directors which are voted on by the members for staggered two-year terms. The Executive Director of the Ohio Municipal League serves as coordinator of the Program. Each year, the participants pay an enrollment fee to the Program to cover the costs of administering the Program.

23. CONTINGENT LIABILITIES

A. Litigation

There are currently no matters in litigation with the City as defendant.

B. Federal and State Grants

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

24. SUBSEQUENT EVENT

On April 29, 2004, the City issued bond anticipation notes, in the amount of \$400,000, to retire notes previously issued to make improvements to the municipal water system, including the construction of a new water tower. The notes have an interest rate of 1.96 percent and mature on November 17, 2004.

CITY OF CELINA
MERCER COUNTY

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

Federal Grantor/ Pass Through Grantor Program Title	Project Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF COMMERCE, ECONOMIC DEVELOPMENT ADMINISTRATION			
<i>Direct</i>			
Grants for Public Works and Economic Development Facilities	06-01-04689	11.300	\$437,360
U.S. DEPARTMENT OF TRANSPORTATION, FEDERAL HIGHWAY ADMINISTRATION			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction	MER-TR142A-00.00	20.205	225,083
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development</i>			
Small Cities Community Development Block Grant	A-E-02-103-1	14.228	26,453
U.S. DEPARTMENT OF JUSTICE			
<i>Passed Through Ohio Criminal Justice</i>			
COPS Grant (SRO)	2000SHWX0196 / OH05401	16.710	45,548
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u><u>\$734,444</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**CITY OF CELINA
MERCER COUNTY**

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

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the City's federal award programs. The schedule has been prepared on a true cash basis of accounting.

NOTE B -- GRANTS FOR PUBLIC WORKS AND ECONOMIC DEVELOPMENT FACILITIES

The basis of accounting used in grant reports submitted for CFDA #11.300 reported obligations outstanding as expenditures in addition to cash.

NOTE C -- COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

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

These loans are collateralized by mortgages on the property and equipment. At December 31, 2003, the gross amount of loans outstanding under this program were \$143,468. There were no delinquent amounts due at December 31, 2003.

NOTE D -- MATCHING REQUIREMENTS

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

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

City of Celina
Mercer County
P.O. Box 297
202 North Main Street
Celina, Ohio 45822

To the Members of Council:

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Celina, Mercer County, (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated July 26, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 26, 2004.

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

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

Betty Montgomery
Auditor of State

July 26, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City of Celina
Mercer County
PO Box 297
202 North Main Street
Celina, Ohio 45822

To the Members of Council:

Compliance

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

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

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

Internal Control Over Compliance

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

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 26, 2004.

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



Betty Montgomery
Auditor of State

July 26, 2004

**CITY OF CELINA
MERCER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE YEAR END DECEMBER 31, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Grants for Public Works and Economic Development Facilities: CFDA # 11.300
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF CELINA

MERCER 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
SEPTEMBER 9, 2004**