



**Auditor of State
Betty Montgomery**

**CITY OF CELINA
MERCER COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' 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, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing 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 accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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We conducted our audit to opine on the financial statements that collectively comprise the City'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 not a required part of the basic financial statements. We subjected the federal awards expenditures 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

October 4, 2005

**CITY OF CELINA
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

The discussion and analysis of the City of Celina's (the City) financial performance provides an overview of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Key highlights for 2004 are as follows:

In total, the City's net assets increased \$1,650,263, an increase of 5 percent. The change in governmental activities was insignificant; however, business-type activities increased somewhat significantly from the rate increases in all three enterprise funds. A majority of the additional revenues were used to upgrade the utility systems.

The City received a significant amount of federal and state grants for street, water, and sewer projects during 2004. During 2004, the improvement to the Wayne Street and Mackinaw Road intersection was started, the water tower project was almost completed, and the State Route 29 west sewer extension was started. These projects were almost entirely paid for with Ohio Public Works Commission grants, Community Development Block grants, and Economic Development grants.

During 2004, the City was awarded \$225,000 in Ohio Public Works Commission grants and \$45,000 in Community Development Block grants for the improvement to the Wayne Street and Mackinaw Road intersection. Additional grant monies were approved for the clean up of the old Mersman Furniture Company property through the Ohio Clean Air Act, in the amount of \$296,268.

During 2003, the City received approval for a U. S. Department of Commerce Economic Development Administration grant, in the amount of \$888,400, 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 lines from the new tower to the existing water system. Construction of the water tower was finalized during January, 2005.

The City also was approved for a Community Development Block grant, in the amount of \$47,500 to extend the sewer line on State Route 29 west of the City.

The City issued \$3,160,000 in general obligation bonds during 2004 and used the proceeds to retire \$3.6 million in general obligation notes issued during 2003. The notes had been issued for constructing and equipping a new substation, refurbishing existing substations, installing new transmission lines, and acquiring and installing a generator.

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 of Celina'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 non-major funds in a single column. The City's major funds are the General, Electric, Water, and Sewer funds.

**CITY OF CELINA
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities reflect how the City did financially during 2004. 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.

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.

**CITY OF CELINA
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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(Continued)**

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 2004 and 2003.

**Table 1
Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current and Other Assets	\$3,023,461	\$3,389,101	\$10,759,470	\$10,461,574	\$13,782,931	\$13,850,675
Capital Assets, Net	12,865,126	13,321,859	22,595,337	21,929,308	35,460,463	35,251,167
Total Assets	<u>15,888,587</u>	<u>16,710,960</u>	<u>33,354,807</u>	<u>32,390,882</u>	<u>49,243,394</u>	<u>49,101,842</u>
Liabilities						
Current and Other Liabilities	1,662,915	2,234,450	1,806,545	5,641,864	3,469,460	7,876,314
Long-Term Liabilities	884,092	948,861	10,272,909	7,309,997	11,157,001	8,258,858
Total Liabilities	<u>2,547,007</u>	<u>3,183,311</u>	<u>12,079,454</u>	<u>12,951,861</u>	<u>14,626,461</u>	<u>16,135,172</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	11,660,060	11,965,432	12,361,062	11,152,779	24,021,122	23,118,211
Restricted	684,177	662,525	1,935,379	1,935,067	2,619,556	2,597,592
Unrestricted	997,343	899,692	6,978,912	6,351,175	7,976,255	7,250,867
Total Net Assets	<u>\$13,341,580</u>	<u>\$13,527,649</u>	<u>\$21,275,353</u>	<u>\$19,439,021</u>	<u>\$34,616,933</u>	<u>\$32,966,670</u>

There was an insignificant change between 2003 and 2004 in the Statement of Net Assets for governmental activities.

During 2004, the City issued \$3,160,000 in general obligation bonds in business-type activities to refinance \$3,600,000 in general obligation notes. Current and other liabilities were decreased from the reduction of short-term debt, along with a decrease in contracts and retainage payable from the completion of several ongoing capital projects. The net change from the increase in long-term liabilities from the issuance of general obligation bonds was offset from the continued reduction of debt.

**CITY OF CELINA
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for 2004 and 2003.

**Table 2
Change in Net Assets**

	Government Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program Revenues						
Charges for Services	\$928,410	\$931,228	\$15,040,380	\$13,359,130	\$15,968,790	\$14,290,358
Operating Grants, Contributions, and Interest	665,373	538,677	0	0	665,373	538,677
Capital Grants and Contributions	681,577	1,021,039	567,861	426,322	1,249,438	1,447,361
Total Program Revenues	<u>2,275,360</u>	<u>2,490,944</u>	<u>15,608,241</u>	<u>13,785,452</u>	<u>17,883,601</u>	<u>16,276,396</u>
General Revenues						
Property Taxes	390,572	380,017	0	0	390,572	380,017
Municipal Income Taxes	2,350,587	2,250,890	0	0	2,350,587	2,250,890
Other Local Taxes	524,965	485,652	269,512	263,398	794,477	749,050
Franchise Fees	94,119	89,006	0	0	94,119	89,006
Grants and Entitlements not Restricted to Specific Programs	599,817	643,237	0	0	599,817	643,237
Interest	56,079	60,847	32,923	35,269	89,002	96,116
Other	34,076	84,037	35,862	169,059	69,938	253,096
Total General Revenues	<u>4,050,215</u>	<u>3,993,686</u>	<u>338,297</u>	<u>467,726</u>	<u>4,388,512</u>	<u>4,461,412</u>
Total Revenues	<u>6,325,575</u>	<u>6,484,630</u>	<u>15,946,538</u>	<u>14,253,178</u>	<u>22,272,113</u>	<u>20,737,808</u>
Expenses						
Security of Persons and Property	2,719,854	2,694,504	0	0	2,719,854	2,694,504
Public Health	218,792	67,566	0	0	218,792	67,566
Leisure Time Activities	621,332	587,658	0	0	621,332	587,658
Community Environment	58,602	39,035	0	0	58,602	39,035
Basic Utility Services	186,290	235,880	0	0	186,290	235,880
Transportation	1,172,986	787,288	0	0	1,172,986	787,288
General Government	1,476,576	1,482,941	0	0	1,476,576	1,482,941
Interest and Fiscal Charges	48,666	58,013	0	0	48,666	58,013
Electric	0	0	10,907,951	10,530,561	10,907,951	10,530,561
Water	0	0	1,785,105	1,577,296	1,785,105	1,577,296
Sewer	0	0	1,425,696	1,553,979	1,425,696	1,553,979
Total Expenses	<u>6,503,098</u>	<u>5,952,885</u>	<u>14,118,752</u>	<u>13,661,836</u>	<u>20,621,850</u>	<u>19,614,721</u>
Revenues Over (Under) Expenses	<u>(177,523)</u>	<u>531,745</u>	<u>1,827,786</u>	<u>591,342</u>	<u>1,650,263</u>	<u>1,123,087</u>
Transfers	<u>(8,546)</u>	<u>0</u>	<u>8,546</u>	<u>0</u>	<u>0</u>	<u>0</u>
Change in Net Assets	<u>(\$186,069)</u>	<u>\$531,745</u>	<u>\$1,836,332</u>	<u>\$591,342</u>	<u>\$1,650,263</u>	<u>\$1,123,087</u>

**CITY OF CELINA
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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(Continued)**

For governmental activities, operating grants, contributions, and interest increased slightly from the increase in gasoline taxes levied by the State of Ohio and shared with the City. Capital grants decreased significantly from the Issue II funding received during 2003 for the Havemann Road improvement compared to the Community Development Block grants for the Wayne Street and Mackinaw Road intersection in 2004 and the Ohio Clean Air grant received for the clean-up of a commercial property site.

Grants and entitlements not restricted to specific programs decreased slightly during 2004 for governmental activities. The decrease is attributable to a decrease in the personal property exemption revenue from the State of Ohio, along with inheritance tax revenue from the County.

Overall, program revenues for governmental activities represented 36 percent of total revenues and 98 percent for business-type activities. This percentage was somewhat lower for governmental activities in 2004 due to the decrease in capital grants. Municipal income taxes continue to be the City's greatest revenue source, representing over 37 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 a significant portion of all governmental expenses, over 42 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.

Charges for services for business-type activities increased 13 percent from the increasing utility rates during 2003 and 2004.

Capital grants and contributions increased slightly from the Community Development Block grants for the State Route 29 west sewer extension and from the U. S. Department of Commerce Economic Development Administration grant for the construction of the water tower.

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	
	2004	2003	2004	2003
Security of Persons and Property	\$2,719,854	\$2,694,504	\$2,292,575	\$2,347,620
Public Health	218,792	67,566	53,010	66,645
Leisure Time Activities	621,332	587,658	288,376	294,765
Community Environment	58,602	39,035	50,835	30,317
Basic Utility Services	186,290	235,880	164,912	231,552
Transportation	1,172,986	787,288	357,466	(494,123)
General Government	1,476,576	1,482,941	971,898	927,152
Interest and Fiscal Charges	48,666	58,013	48,666	58,013
Total Expenses	\$6,503,098	\$5,952,885	\$4,227,738	\$3,461,941

**CITY OF CELINA
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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(Continued)**

The significant change between the total cost of service and net cost of service in public health activities during 2004 was the funding from a capital grant to remove debris left on a commercial property site that had been vacant for several years. A large portion of leisure time activities are funded by charges for activities and donations from the Bryson Trust. The increase in reliance on general revenues for transportation expenses was created from more capital grants received during 2003 compared to 2004 for street improvements. The City's general revenues are primarily comprised of property taxes, municipal income taxes, and State shared revenues.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental fund is the General Fund. The General Fund incurred another decrease in fund balance during 2004 of approximately 13 percent, which was the same amount of decrease during 2003. This decrease is largely the result of decreasing revenues although the City has attempted to control costs to the same expenditure level of 2003. During 2004, the City placed a .5 percent income tax increase on the ballot to increase revenue in the General Fund, however, it was voted down by the citizens.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Electric, Water, and Sewer funds. All of the enterprise funds' operating revenues exceeded operating expenses, largely due to all of the utilities increasing rates during 2004.

During 2004, the City increased electric rates for the expected increase in costs of maintaining lines installed during 2004 outside the corporation limits.

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.

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 during 2004 were slightly lower than those estimated. Expenditures were \$248,429 less than the final budget. The major variances included keeping the overtime cost of the police and fire departments low, reducing the outside consultants, and reducing operating supplies for general government.

**CITY OF CELINA
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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(Continued)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2004, was \$11,660,060 and \$12,361,062, respectively (net of accumulated depreciation and related debt). This investment in capital assets includes land; land improvements; buildings; improvements other than buildings; streets and storm sewers; 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 were reported as construction in progress, with \$1,831,179 of the construction being placed in service during the year. Note 11 to the basic financial statements provides details on the capital asset activity during 2004.

Debt - At December 31, 2004, the City had \$660,000 in outstanding bond anticipation notes payable from governmental activities and \$400,000 in bond anticipation notes payable from business-type activities. During 2004, the City had issued \$3,160,000 in general obligation bonds in business-type activities to pay the \$3,600,000 in outstanding general obligation notes.

The City also had a number of long-term obligations outstanding. These obligations included \$3,260,000 in general obligation bonds, \$545,066 in rural development bonds, \$5,160 in special assessment bonds, \$6,830,000 in mortgage revenue bonds, and \$483,243 in OPWC loans. Of this amount, \$10,473,243 will be repaid from business-type activities.

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 19 to the basic financial statements.

CURRENT ISSUES

In order to eliminate the bond covenants placed on the City for the issuance of mortgage revenue bonds in the water and sewer enterprise funds, the City issued general obligation bonds on April 1, 2005, to defease the 1994 waterworks mortgage revenue bonds and the 1993 wastewater mortgage revenue bonds. Although a portion of the cash held in reserve by the City and their trustees were required to be used in the defeasance of the bonds, it will reduce the amount of operating revenues required to be reserved by the bond covenants.

The City's income tax and property tax revenues have remained fairly stable. The approval of the fiscal year 2005 and 2006 State budget has frozen the City's local government revenues to the 2002 level. The City has not attempted to go to the voters for an increase in income tax or property tax during 2005.

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, 2004**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,039,745	\$6,476,878	\$7,516,623
Cash and Cash Equivalents with Fiscal Agent	43,125	892,307	935,432
Cash and Cash Equivalents with Escrow Agent		31,653	31,653
Accounts Receivable	91,287	1,548,211	1,639,498
Due from Other Governments	625,290	161,697	786,987
Accrued Interest Receivable	20	26,589	26,609
Municipal Income Taxes Receivable	513,406		513,406
Internal Balances	(51,606)	51,606	
Prepaid Items	21,902	35,240	57,142
Materials and Supplies Inventory	55,005	1,194,226	1,249,231
Property Taxes Receivable	394,455		394,455
Notes Receivable	123,907		123,907
Special Assessments Receivable	31,637		31,637
Payment in Lieu of Taxes Receivable	135,288		135,288
Unamortized Bond Issuance Costs		331,091	331,091
Investment in Joint Venture		9,972	9,972
Nondepreciable Capital Assets	8,068,947	4,749,456	12,818,403
Depreciable Capital Assets, Net	4,796,179	17,845,881	22,642,060
Total Assets	<u>15,888,587</u>	<u>33,354,807</u>	<u>49,243,394</u>
Liabilities			
Accrued Wages Payable	57,246	35,716	92,962
Accounts Payable	107,834	86,484	194,318
Contracts Payable	64,724	853,039	917,763
Due to Other Governments	147,173	67,256	214,429
Retainage Payable	5,679	110,818	116,497
Accrued Interest Payable	9,857	50,758	60,615
Notes Payable	660,000	400,000	1,060,000
Deferred Revenue	527,423		527,423
Claims Payable	82,979		82,979
Deposits Held and Due to Others		202,474	202,474
Long-Term Liabilities			
Due Within One Year	49,094	823,896	872,990
Due in More Than One Year	834,998	9,449,013	10,284,011
Total Liabilities	<u>2,547,007</u>	<u>12,079,454</u>	<u>14,626,461</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt Restricted for	11,660,060	12,361,062	24,021,122
Debt Service	47,960	892,307	940,267
Capital Projects	1,973	26,480	28,453
Other Purposes	634,244		634,244
Revenue Bond Operations and Maintenance		74,592	74,592
Revenue Bond Renewal and Replacement		942,000	942,000
Unrestricted	997,343	6,978,912	7,976,255
Total Net Assets	<u>\$13,341,580</u>	<u>\$21,275,353</u>	<u>\$34,616,933</u>

See accompanying notes to the basic financial statements.

**CITY OF CELINA
MERCER COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
Governmental Activities				
Security of Persons and Property	\$2,719,854	\$312,802	\$68,198	\$46,279
Public Health	218,792			165,782
Leisure Time Activities	621,332	100,754	89,109	143,093
Community Environment	58,602		7,767	
Basic Utility Services	186,290	20,954	424	
Transportation	1,172,986	729	488,368	326,423
General Government	1,476,576	493,171	11,507	
Interest and Fiscal Charges	48,666			
Total Governmental Activities	6,503,098	928,410	665,373	681,577
Business-Type Activities				
Electric	10,907,951	11,459,896		
Water	1,785,105	1,912,602		414,398
Sewer	1,425,696	1,667,882		153,463
Total Business-Type Activities	14,118,752	15,040,380		567,861
Total	\$20,621,850	\$15,968,790	\$665,373	\$1,249,438

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

Transfers

Change in Net Assets

Net Assets Beginning of Year

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
(\$2,292,575)		(\$2,292,575)
(53,010)		(53,010)
(288,376)		(288,376)
(50,835)		(50,835)
(164,912)		(164,912)
(357,466)		(357,466)
(971,898)		(971,898)
(48,666)		(48,666)
<u>(4,227,738)</u>		<u>(4,227,738)</u>
	551,945	551,945
	541,895	541,895
	395,649	395,649
	<u>1,489,489</u>	<u>1,489,489</u>
<u>(4,227,738)</u>	<u>1,489,489</u>	<u>(2,738,249)</u>
300,438		300,438
45,067		45,067
45,067		45,067
2,350,587		2,350,587
524,965	269,512	794,477
94,119		94,119
599,817		599,817
56,079	32,923	89,002
34,076	35,862	69,938
<u>4,050,215</u>	<u>338,297</u>	<u>4,388,512</u>
<u>(8,546)</u>	<u>8,546</u>	
(186,069)	1,836,332	1,650,263
<u>13,527,649</u>	<u>19,439,021</u>	<u>32,966,670</u>
<u>\$13,341,580</u>	<u>\$21,275,353</u>	<u>\$34,616,933</u>

**CITY OF CELINA
MERCER COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$434,818	\$366,972	\$801,790
Accounts Receivable	33,666	638	34,304
Due from Other Governments	329,946	295,344	625,290
Accrued Interest Receivable	20		20
Municipal Income Taxes Receivable	513,406		513,406
Interfund Receivable	65,167		65,167
Prepaid Items	21,902		21,902
Materials and Supplies Inventory	38,434	16,571	55,005
Restricted Assets			
Equity in Pooled Cash and Cash Equivalents	5,278		5,278
Property Taxes Receivable	303,427	91,028	394,455
Notes Receivable		123,907	123,907
Special Assessments Receivable		31,637	31,637
Payment in Lieu of Taxes Receivable		135,288	135,288
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$1,746,064</u>	<u>\$1,061,385</u>	<u>\$2,807,449</u>
Liabilities and Fund Balance			
Liabilities			
Accrued Wages Payable	51,216	6,030	57,246
Accounts Payable	95,054	10,652	105,706
Contracts Payable		64,724	64,724
Due to Other Governments	50,496	96,677	147,173
Retainage Payable		5,679	5,679
Interfund Payable		23,948	23,948
Accrued Interest Payable		1,909	1,909
Notes Payable		660,000	660,000
Deferred Revenue	859,266	501,306	1,360,572
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,056,032</u>	<u>1,370,925</u>	<u>2,426,957</u>
Fund Balance			
Reserved for Encumbrances	18,697	421,113	439,810
Reserved for Unclaimed Moneys	5,278		5,278
Reserved for Notes Receivable		103,389	103,389
Unreserved, Reported in			
General Fund	666,057		666,057
Special Revenue Funds		205,443	205,443
Debt Service Fund		27,227	27,227
Capital Projects Funds (Deficit)		(1,066,712)	(1,066,712)
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance (Deficit)	<u>690,032</u>	<u>(309,540)</u>	<u>380,492</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balance	<u>\$1,746,064</u>	<u>\$1,061,385</u>	<u>\$2,807,449</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, 2004**

Total Governmental Fund Balance	\$380,492
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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.	12,865,126
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	29,689	
Due from Other Governments	500,006	
Accrued Interest Receivable	20	
Municipal Income Taxes Receivable	270,253	
Property Taxes Receivable	2,320	
Special Assessments Receivable	30,861	
		833,149

An internal balance is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities.	(92,825)
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Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(7,948)	
General Obligation Bonds Payable	(100,000)	
Rural Development Bonds Payable	(545,066)	
Special Assessment Bonds Payable	(5,160)	
Compensated Absences Payable	(233,866)	
		(892,040)

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.	247,678
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Net Assets of Governmental Activities	<u><u>\$13,341,580</u></u>
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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, 2004**

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Revenues			
Property Taxes	\$299,551	\$89,866	\$389,417
Municipal Income Taxes	2,355,159		2,355,159
Other Local Taxes	524,965		524,965
Special Assessments		23,432	23,432
Charges for Services	241,585	101,483	343,068
Fees, Licenses, and Permits	102,572		102,572
Fines and Forfeitures	265,830	49,686	315,516
Intergovernmental	858,530	776,210	1,634,740
Interest	54,589	10,506	65,095
Gifts and Donations	4,678	211,402	216,080
Other	28,275	3,822	32,097
Total Revenues	<u>4,735,734</u>	<u>1,266,407</u>	<u>6,002,141</u>
Expenditures			
Current:			
Security of Persons and Property	2,248,612	440,634	2,689,246
Public Health	53,010		53,010
Leisure Time Activities	85,376	433,189	518,565
Community Environment	49,630		49,630
Basic Utility Services	186,290		186,290
Transportation	91,478	497,647	589,125
General Government	1,469,931	13,473	1,483,404
Capital Outlay		236,377	236,377
Debt Service:			
Principal Retirement		35,121	35,121
Interest and Fiscal Charges		49,173	49,173
Total Expenditures	<u>4,184,327</u>	<u>1,705,614</u>	<u>5,889,941</u>
Excess of Revenues Over (Under) Expenditures	<u>551,407</u>	<u>(439,207)</u>	<u>112,200</u>
Other Financing Sources (Uses)			
Transfers In		655,462	655,462
Transfers Out	(655,415)	(30,047)	(685,462)
Total Other Financing Sources (Uses)	<u>(655,415)</u>	<u>625,415</u>	<u>(30,000)</u>
Changes in Fund Balance	(104,008)	186,208	82,200
Fund Balance (Deficit) Beginning of Year - Restated (Note 3)	<u>794,040</u>	<u>(495,748)</u>	<u>298,292</u>
Fund Balance (Deficit) End of Year	<u><u>\$690,032</u></u>	<u><u>(\$309,540)</u></u>	<u><u>\$380,492</u></u>

See accompanying notes to the basic financial statements.

**CITY OF CELINA
MERCER COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Changes in Fund Balance - Total Governmental Funds \$82,200

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 depreciation exceeded capital outlay in the current year.

Capital Contributions	278,788	
Capital Outlay - Nondepreciable Capital Assets	6,126	
Capital Outlay - Depreciable Capital Assets	16,239	
Depreciation	(581,601)	
		(280,448)

The cost of the capital assets is removed from the capital asset account on the statement of net assets when disposed of resulting in a loss on disposal of capital assets on the statement of activities. (176,285)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.

Property Taxes	1,155	
Municipal Income Taxes	(4,572)	
Fees, Licenses, and Permits	989	
Special Assessments	(2,732)	
Charges for Services	(2,310)	
Intergovernmental	71,605	
Interest	(14)	
Other	1,979	
		66,100

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	11,361	
Special Assessment Bonds	3,760	
		35,121

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets. 507

Compensated absences 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. 29,648

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. 57,088

Change in Net Assets of Governmental Activities (\$186,069)

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, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$295,534	\$295,534	\$299,551	\$4,017
Municipal Income Taxes	2,300,000	2,300,000	2,350,018	50,018
Other Local Taxes	500,000	500,000	520,756	20,756
Charges for Services	218,000	237,923	236,993	(930)
Fees, Licenses, and Permits	94,500	94,577	102,214	7,637
Fines and Forfeitures	308,000	311,673	267,782	(43,891)
Intergovernmental	858,774	863,202	830,089	(33,113)
Interest	55,000	55,269	54,953	(316)
Gifts and Donations		4,678	4,678	
Other	95,000	66,938	25,611	(41,327)
Total Revenues	<u>4,724,808</u>	<u>4,729,794</u>	<u>4,692,645</u>	<u>(37,149)</u>
Expenditures				
Current:				
Security of Persons and Property	2,388,872	2,403,022	2,310,003	93,019
Public Health	53,010	53,010	53,010	
Leisure Time Activities	90,100	90,100	86,160	3,940
Community Environment	47,584	54,584	50,789	3,795
Basic Utility Services	244,289	234,289	191,632	42,657
Transportation	120,500	120,500	110,379	10,121
General Government	1,434,387	1,486,887	1,438,494	48,393
Other	107,012	107,868	61,364	46,504
Total Expenditures	<u>4,485,754</u>	<u>4,550,260</u>	<u>4,301,831</u>	<u>248,429</u>
Excess of Revenues Over Expenditures	239,054	179,534	390,814	211,280
Other Financing Uses				
Transfers Out	(898,100)	(838,580)	(655,415)	183,165
Changes in Fund Balance	(659,046)	(659,046)	(264,601)	394,445
Fund Balance Beginning of Year	612,530	612,530	612,530	
Prior Year Encumbrances Appropriated	54,919	54,919	54,919	
Fund Balance End of Year	<u><u>\$8,403</u></u>	<u><u>\$8,403</u></u>	<u><u>\$402,848</u></u>	<u><u>\$394,445</u></u>

See accompanying notes to the basic financial statements.

**CITY OF CELINA
MERCER COUNTY**

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2004**

	<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	\$4,608,904	\$367,754	\$262,567	\$5,239,225	\$232,677
Cash and Cash Equivalents with Fiscal Agent					43,125
Accounts Receivable	1,175,360	193,651	179,200	1,548,211	56,983
Due from Other Governments		114,197	47,500	161,697	
Accrued Interest Receivable	18,696			18,696	
Interfund Receivable	17,601			17,601	
Prepaid Items	19,894	7,673	7,673	35,240	
Materials and Supplies Inventory	1,085,096	108,373	757	1,194,226	
Total Current Assets	6,925,551	791,648	497,697	8,214,896	332,785
Non-Current Assets					
Restricted Assets					
Equity in Pooled Cash and Cash Equivalents	202,474	248,701	786,478	1,237,653	
Cash and Cash Equivalents with Fiscal Agent		199,089	693,218	892,307	
Cash and Cash Equivalents with Escrow Agent	31,653			31,653	
Accrued Interest Receivable		1,431	6,462	7,893	
Unamortized Bond Issuance Costs	77,509	61,971	191,611	331,091	
Investment in Joint Venture	9,972			9,972	
Nondepreciable Capital Assets	2,720,938	1,866,317	162,201	4,749,456	
Depreciable Capital Assets, Net	10,101,886	2,741,821	5,002,174	17,845,881	
Total Non-Current Assets	13,144,432	5,119,330	6,842,144	25,105,906	
Total Assets	20,069,983	5,910,978	7,339,841	33,320,802	332,785
Liabilities					
Current Liabilities					
Accrued Wages Payable	18,997	10,041	6,678	35,716	
Accounts Payable	32,043	31,785	22,656	86,484	2,128
Contracts Payable	740,184	31,354	81,501	853,039	
Compensated Absences Payable	4,204	3,917	1,613	9,734	
Due to Other Governments	42,157	12,181	12,918	67,256	
Retainage Payable		79,165		79,165	
Interfund Payable	41,349	5,901	11,570	58,820	
Accrued Interest Payable	5,856	7,609	37,293	50,758	
Notes Payable		400,000		400,000	
Claims Payable					82,979
General Obligation Bonds Payable	360,000			360,000	
Mortgage Revenue Bonds Payable		88,421	238,328	326,749	
OPWC Loans Payable		24,162		24,162	
Total Current Liabilities	1,244,790	694,536	412,557	2,351,883	85,107
Non-Current Liabilities					
Liabilities Payable from Restricted Assets					
Retainage Payable	31,653			31,653	
Deposits Held and Due to Others	202,474			202,474	
Mortgage Revenue Bonds Payable		16,579	86,672	103,251	
General Obligation Bonds Payable	2,843,490			2,843,490	
Mortgage Revenue Bonds Payable		1,235,000	4,813,633	6,048,633	
OPWC Loans Payable		459,081		459,081	
Compensated Absences Payable	45,918	33,332	18,559	97,809	
Total Non-Current Liabilities	3,123,535	1,743,992	4,918,864	9,786,391	
Total Liabilities	4,368,325	2,438,528	5,331,421	12,138,274	85,107

(Continued)

CITY OF CELINA
MERCER COUNTY

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2004
(Continued)

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activity Self Insurance Internal Service Fund</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	9,696,843	2,446,866	217,353	12,361,062	
Restricted for					
Debt Service		199,089	693,218	892,307	
Capital Projects			26,480	26,480	
Revenue Bond Operations and Maintenance		50,132	24,460	74,592	
Revenue Bond Renewal and Replacement		200,000	742,000	942,000	
Unrestricted	<u>6,004,815</u>	<u>576,363</u>	<u>304,909</u>	<u>6,886,087</u>	<u>247,678</u>
Total Net Assets	<u>\$15,701,658</u>	<u>\$3,472,450</u>	<u>\$2,008,420</u>	21,182,528	<u>\$247,678</u>

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

92,825

Net assets of business-type activities

\$21,275,353

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, 2004**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activity Self Insurance Internal Service Fund</u>
Operating Revenues					
Charges for Services	\$11,459,896			\$11,459,896	\$1,074,950
Charges Pledged as Security on Mortgage Revenue Bonds		1,912,602	1,667,882	3,580,484	
Other	20,906	2,260	12,696	35,862	32,540
Total Operating Revenues	11,480,802	1,914,862	1,680,578	15,076,242	1,107,490
Operating Expenses					
Personal Services	995,229	708,093	440,748	2,144,070	
Contractual Services					173,709
Materials and Supplies	9,135,682	863,921	405,517	10,405,120	2,708
Claims					839,764
Depreciation	702,770	136,471	266,430	1,105,671	
Total Operating Expenses	10,833,681	1,708,485	1,112,695	13,654,861	1,016,181
Operating Income	647,121	206,377	567,883	1,421,381	91,309
Non-Operating Revenues (Expenses)					
Excise Taxes	269,512			269,512	
Loss on Disposal of Capital Assets	(84,004)	(1,303)	(2,139)	(87,446)	
Change in Joint Venture	(6)			(6)	
Interest Revenue	(666)	6,714	26,875	32,923	
Interest Expense	(6,453)	(86,559)	(317,648)	(410,660)	
Total Non-Operating Revenues (Expenses)	178,383	(81,148)	(292,912)	(195,677)	
Income before Contributions and Transfers	825,504	125,229	274,971	1,225,704	91,309
Capital Contributions		414,398	153,463	567,861	
Transfers In			30,000	30,000	
Transfers Out	(21,454)			(21,454)	
Changes in Net Assets	804,050	539,627	458,434	1,802,111	91,309
Net Assets Beginning of Year	14,897,608	2,932,823	1,549,986		156,369
Net Assets End of Year	\$15,701,658	\$3,472,450	\$2,008,420		\$247,678

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.

	34,221
Change in net assets of business-type activities	<u>\$1,836,332</u>

See accompanying notes to the basic financial statements.

**CITY OF GELINA
MERCER COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Electric	Water	Sewer	Total Enterprise Funds	Governmental Activity Self Insurance Internal Service Fund
Increases (Decreases) in Cash and Cash Equivalents					
Cash Flows from Operating Activities					
Cash Received from Customers	\$12,017,974	\$2,003,037	\$1,760,128	\$15,781,139	
Cash Received from Transactions with Other Funds	214,756			214,756	1,064,876
Cash Payments for Personal Services	(838,121)	(587,516)	(378,742)	(1,804,379)	
Cash Payments for Contractual Services					(171,581)
Cash Payments to Vendors	(9,075,993)	(780,156)	(229,628)	(10,085,777)	(2,708)
Cash Payments for Claims					(929,822)
Cash Payments for Transactions with Other Funds	(180,498)	(207,474)	(230,496)	(618,468)	
Cash Received from Other Revenues	20,906	2,260	12,696	35,862	42,614
Cash Received from Deposits	120,945			120,945	
Cash Payments for Deposits Refunded	(52,150)			(52,150)	
Net Cash Provided by Operating Activities	<u>2,227,819</u>	<u>430,151</u>	<u>933,958</u>	<u>3,591,928</u>	<u>3,379</u>
Cash Flows from Noncapital Financing Activities					
Cash Received from Excise Taxes	269,512			269,512	
Cash Received from Transfers from Other Funds			30,000	30,000	
Cash Payments for Advances from Other Funds			(42,116)	(42,116)	
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>269,512</u>		<u>(12,116)</u>	<u>257,396</u>	
Cash Flows from Capital and Related Financing Activities					
Principal Paid on Bond Anticipation Notes	(3,600,000)	(800,000)		(4,400,000)	
Principal Paid on Mortgage Revenue Bonds		(100,000)	(310,000)	(410,000)	
Interest Paid on Bond Anticipation Notes	(50,198)	(10,517)		(60,715)	
Interest Paid on Mortgage Revenue Bonds		(84,813)	(287,332)	(372,145)	
Proceeds of Capital Grants		333,763	10,000	343,763	
Proceeds of Notes		800,000		800,000	
Proceeds of General Obligation Bonds	3,160,000			3,160,000	
Premium Received on General Obligation Bonds	43,490			43,490	
Issuance Costs Paid on General Obligation Bonds	(85,990)			(85,990)	
Proceeds of OPWC Loans		200,552		200,552	
Personal Services for Capital Assets	(111,722)			(111,722)	
Acquisition of Capital Assets	(1,007,587)	(754,392)	(68,787)	(1,830,766)	
Net Cash Used for Capital and Related Financing Activities	<u>(1,652,007)</u>	<u>(415,407)</u>	<u>(656,119)</u>	<u>(2,723,533)</u>	
Cash Flows from Investing Activities					
Interest	(17,966)	6,437	26,444	14,915	
Net Increase in Cash and Cash Equivalents	827,358	21,181	292,167	1,140,706	3,379
Cash and Cash Equivalents Beginning 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>
Cash and Cash Equivalents End of Year	<u>\$4,843,031</u>	<u>\$815,544</u>	<u>\$1,742,263</u>	<u>\$7,400,838</u>	<u>\$275,802</u>

(Continued)

**CITY OF GELINA
MERCER COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activity Self Insurance Internal Service Fund</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating Income	\$647,121	\$206,377	\$567,883	\$1,421,381	\$91,309
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation	702,770	136,471	266,430	1,105,671	
Changes in Assets and Liabilities:					
(Increase) Decrease in Accounts Receivable	771,301	90,435	92,246	953,982	(55,478)
Increase in Interfund Receivable	(2,676)			(2,676)	
Increase in Prepaid Items	(729)	(281)	(281)	(1,291)	
(Increase) Decrease in Materials and Supplies Inventory	52,187	(16,489)	(757)	34,941	
Decrease in Accrued Wages Payable	(22,097)	(13,876)	(9,919)	(45,892)	
Increase (Decrease) in Accounts Payable	(27,545)	23,571	18,927	14,953	2,128
Increase in Contracts Payable	35,514	221		35,735	
Decrease in Due to Other Governments	(1,526)	(1,304)	(831)	(3,661)	
Increase in Interfund Payable	4,209	134	2,571	6,914	
Increase in Claims Payable					(34,580)
Increase in Deposits Held and Due to Others	68,795			68,795	
Increase (Decrease) in Compensated Absences Payable	495	4,892	(2,311)	3,076	
Net Cash Provided by Operating Activities	<u>\$2,227,819</u>	<u>\$430,151</u>	<u>\$933,958</u>	<u>\$3,591,928</u>	<u>\$3,379</u>

Noncash Financing Activities

In 2004, the Electric enterprise fund transferred capital assets with a fair value of \$21,454 to governmental activities.

The Water and Sewer enterprise funds received capital contributions from developers, in the amount of \$96,884 and \$88,442, respectively.

During 2004, the Water and Sewer enterprise funds had receivables for grants related to capital assets, in the amount of \$98,997 and \$47,500, respectively. The Sewer enterprise fund had a receivable at December 31, 2004, for tap fees to be collected, in the amount of \$7,521.

See accompanying notes to the basic financial statements.

**CITY OF CELINA
MERCER COUNTY**

**STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2004**

Assets

Equity in Pooled Cash and Cash Equivalents	\$4,439
Cash and Cash Equivalents in Segregated Accounts	<u>39,071</u>
Total Assets	<u><u>43,510</u></u>

Liabilities

Due to Other Governments	672
Payroll Withholdings	946
Deposits Held and Due to Others	<u>41,892</u>
Total Liabilities	<u><u>\$43,510</u></u>

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, 2004**

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 during 2004.

The City 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 21, 22, and 23 to the basic financial statements.

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(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. Non-major 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, 2004
(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.

3. 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, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. 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 2004. 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, disposal tag receipts due to a third party, 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 (e.g., revenues) and decreases (e.g., 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, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Revenues - Exchange and Non-exchange 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.

Non-exchange 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 non-exchange 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, 2004, but were levied to finance 2005 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, 2004
(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 ordinance, 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 ordinance 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. Budgetary allocations at the department and object level within the funds are made by the City Auditor.

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 ordinance 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 ordinance 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".

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During 2004, the City invested in non-negotiable certificates of deposit, manuscript bonds, federal agency securities, 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, 2004.

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 2004 was \$54,589, which includes \$48,143 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, 2004, 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 expensed/expensed when used. Inventory consists of expendable supplies held for consumption.

I. 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.

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Resources set aside in separate escrow accounts, whose use is limited to the payment of retainage to contractors, are also reported as restricted. Unclaimed monies that have a legal restriction on their use are also reported as restricted.

J. 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.

K. Unamortized Issuance Costs, Bond Premium, and Bond Discount

Issuance costs, bond premiums, 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 premiums are presented as an addition to the face amount of bonds payable. Bond discounts are presented as a reduction to 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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land Improvements	20-40 years	30 years
Buildings	5-30 years	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

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City's infrastructure consists of streets, electric lines, water lines, and sewer lines. All infrastructure has been recorded on the City's basic financial statements from the initial date of installation.

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 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 a 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 the unamortized loss, in the amount of \$347,152. The loss is being amortized over the remaining twelve year life of the bonds.

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(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 resources restricted 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. There were no net assets restricted by enabling legislation as of December 31, 2004.

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, notes receivables and unclaimed moneys.

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, and sewer services, 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 non-operating.

T. Capital Contributions

Capital contributions arise from contributions from other funds, outside contributions of capital assets, from grants, or from outside contributions of resources 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.

During 2004, the Electric enterprise fund donated capital assets for governmental operations, in the amount of \$21,454. Therefore, transfers in and out do not equal within the fund financial statements.

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(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. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Change in Accounting Principles

For 2004, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 39 establishes additional guidance on the application of existing standards for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government. The implementation of this statement did not result in any change to the City's financial statements.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Technical Bulletin 2004-2 clarifies the application of accounting for employers' contractually required contributions to cost-sharing multiple employer pension and other postemployment benefit (OPEB) plans.

B. Restatement of Fund Balance

The restatement due to the implementation of GASB Technical Bulletin 2004-2 had the following effect on fund balance as previously reported.

	General	Other Governmental	Total Governmental Funds
Fund Balance (Deficit) December 31, 2003	\$796,020	(\$402,096)	\$393,924
GASB Technical Bulletin 2004-2	(1,980)	(93,652)	(95,632)
Adjusted Fund Balance (Deficit) December 31, 2003	<u>\$794,040</u>	<u>(\$495,748)</u>	<u>\$298,292</u>

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

4. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2004, Police Pension and Fire Pension special revenue funds and the Mersman Phase II Assessment and Mackinaw - Wayne Street Improvement capital projects funds had deficit fund balances, in the amount of \$42,952, \$52,309, \$30,984, and \$22,624, respectively, 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, 2004, the Special Assessment debt service fund and the Sidewalk/Curb capital projects fund had deficit fund balances, in the amount of \$5,380 and \$5,206, 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, 2004, the Capital Improvements capital projects fund had a deficit fund balance, in the amount of \$659,272, 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, 2004, the Special Assessment debt service fund and the Sidewalk/Curb capital projects fund had deficit cash balances, in the amount of \$5,380 and \$5,982, respectively.

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:

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING

Changes in Fund Balance	
GAAP Basis	(\$104,008)
Increases (Decreases) Due To	
Revenue Accruals:	
Accrued 2003, Received in Cash 2004	326,574
Accrued 2004, Not Yet Received in Cash	(375,004)
Expenditure Accruals:	
Accrued 2003, Paid in Cash 2004	(259,371)
Accrued 2004, Not Yet Paid in Cash	196,766
Cash Adjustments:	
Unrecorded Activity 2003	22,709
Unrecorded Activity 2004	(21,115)
Prepaid Items	(1,067)
Materials and Supplies Inventory	(23,223)
Fair Value of Manuscript Bonds	
2003	633
2004	(276)
Encumbrances Outstanding at Year End (Budget Basis)	(27,219)
Budget Basis	(\$264,601)

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.

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the City 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).

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.

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

At year end, the City had \$27,603 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 \$43,125 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 \$451,035, and the bank balance was \$670,640. The entire bank balance was covered by 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.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Manuscript Bonds	\$5,436	\$0	\$0	\$5,436	\$5,436
Federal Home Loan Bank Bonds	0	1,332,081	0	1,332,081	1,332,081
Federal Home Loan Mortgage Corporation Notes	0	298,155	0	298,155	298,155
Federal National Mortgage Association Notes	0	762,880	0	762,880	762,880
Federal Farm Credit Bank Bonds	0	99,295	0	99,295	99,295
Repurchase Agreements	0	0	402,724	402,724	402,732
	<u>\$5,436</u>	<u>\$2,492,411</u>	<u>\$402,724</u>	2,900,571	2,900,579
STAR Ohio				4,206,857	4,206,857
Mutual Funds				898,027	898,027
				<u>\$8,005,455</u>	<u>\$8,005,463</u>

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:

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$8,527,218	\$0
Cash on Hand	(27,603)	0
Cash Held by Third Party Administrator	(43,125)	0
Investments:		
Manuscript Bonds	(5,436)	5,436
Federal Home Loan Bank Bonds	(1,332,081)	1,332,081
Federal Home Loan Mortgage Corporation Notes	(298,155)	298,155
Federal National Mortgage Association Notes	(762,880)	762,880
Federal Farm Credit Bank Bonds	(99,295)	99,295
Repurchase Agreements	(402,724)	402,724
STAR Ohio	(4,206,857)	4,206,857
Mutual Funds	(898,027)	898,027
GASB Statement No. 3	<u>\$ 451,035</u>	<u>\$8,005,455</u>

7. RECEIVABLES

Receivables at December 31, 2004, consisted of accounts (billings for user charged services, including unbilled utility services); intergovernmental receivables arising from grants, entitlements, and shared revenues; accrued interest, municipal income taxes; interfund; property taxes; notes; special assessments, and payment in lieu of taxes. 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 \$4,469 at December 31, 2004. Special assessments, in the amount of \$18,558, 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 \$19,561, was repaid during 2004. Notes outstanding at December 31, 2004, were \$123,907. Notes receivable, in the amount of \$103,389, will not be received within one year.

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

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise Funds</u>
Accounts Receivable	\$1,487,340	\$247,226	\$225,859	\$1,960,425
Less Allowance for Uncollectibles	(311,980)	(53,575)	(46,659)	(412,214)
Net Accounts Receivable	<u>\$1,175,360</u>	<u>\$193,651</u>	<u>\$179,200</u>	<u>\$1,548,211</u>

A summary of the principal items of intergovernmental receivables follows:

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

7. RECEIVABLES (Continued)

	Amount
Governmental Activities	
Major Fund	
General Fund	
Homestead and Rollback	\$ 17,169
Local Government	213,836
Local Government Revenue Assistance	18,439
Estate Tax	50,863
Mental Health Transport	1,651
Court Cost Reimbursement	27,974
Other	14
Total General Fund	329,946
Non-major Funds	
Street	
Gasoline Tax	147,579
Motor Vehicle License Tax	48,289
Ohio Public Works Commission	931
Total Street	196,799
State Highway	
Gasoline Tax	11,965
Motor Vehicle License Tax	3,915
Total State Highway	15,880
Recreation	
Reimbursement	78
Police Pension	
Homestead and Rollback	2,575
Fire Pension	
Homestead and Rollback	2,575
Permissive MVL	
Permissive MVL	2,041
Non-major Funds (continued)	
SRO Grant	
Ohio Criminal Justice Grant	\$ 12,456
Indigent Alcohol	
Grant	4,690
Mackinaw-Wayne Street Improvement	
Community Development Block Grant	11,280
Ohio Public Works Commission	15,986
Total Mackinaw-Wayne Street Improvement	27,266
Merman Phase II Assessment	
Ohio Clean Air Act	30,984
Total Non-major Governmental Funds	295,344
Total Governmental Activities	\$625,290
Business-Type Activities	
Water	
Economic Development Authority	\$ 98,997
Ohio Public Works Commission	15,200
Total Water	114,197
Sewer	
Community Development Block Grant	47,500
Total Business-Type Activities	\$161,697

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

8. MUNICIPAL INCOME TAXES

The City levies and collects an income tax of 1 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 2004 represent the collection of 2003 taxes. Real property taxes received during 2004 were levied after October 1, 2003, on the assessed values as of January 1, 2003, 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 during 2004 represent the collection of 2003 taxes. Public utility real and tangible personal property taxes received during 2004 became a lien on December 31, 2002, were levied after October 1, 2003, 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 during 2004 (other than public utility property) represent the collection of 2004 taxes. Tangible personal property taxes received during 2004 were levied after October 1, 2003, on the true value as of December 31, 2003. 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, tangible personal property, and outstanding delinquent taxes which were measurable as of December 31, 2004, and for which there was an enforceable legal claim. The entire receivable for property taxes has been deferred since the current taxes were not levied to finance 2004 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable was deferred.

The full tax rate for all City operations for the year ended December 31, 2004, was \$2.60 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2004 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, 2004
(Continued)**

9. PROPERTY TAXES (Continued)

<u>Category</u>	<u>Amount</u>
Real Property	
Residential/Agricultural	\$102,608,820
Commercial/Industrial	40,239,930
Public Utility Property	
Real	4,290
Personal	1,670,780
Tangible Personal Property	21,565,071
Total Assessed Value	<u>\$166,088,891</u>

10. PAYMENT IN LIEU OF TAXES

According to State law, the City has established several tax incremental financing districts within the City under which the City has granted property tax abatements and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the City to help pay the costs of the infrastructure improvements. The amount of those payments generally reflects all or a portion of the property taxes which the property owners would have paid if their taxes had not been abated. The property owners' contractual promise to make these payments in lieu of taxes generally continues until the costs of the improvement have been paid or the agreement expires, whichever occurs first. Future development by these owners or others may result in subsequent agreements to make payments in lieu of taxes and may therefore spread the costs of the improvements to a larger number of property owners.

11. CAPITAL ASSETS

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

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2004</u>
Governmental Activities				
Non-depreciable Capital Assets				
Land	\$1,795,514	\$ 18,800	\$ 0	\$ 1,814,314
Land Improvements	5,583,985	768,136	(169,670)	6,182,451
Construction in Progress	945,861	72,182	(945,861)	72,182
Total Non-depreciable Capital Assets	<u>8,325,360</u>	<u>859,118</u>	<u>(1,115,531)</u>	<u>8,068,947</u>
Depreciable Capital Assets				
Land Improvements	347,085	31,371	0	378,456
Buildings	224,100	0	0	224,100
Improvements Other than Buildings	1,680,016	0	0	1,680,016
Streets and Storm Sewers	8,227,471	318,832	(86,737)	8,459,566
Furniture and Equipment	515,101	9,624	(3,500)	521,225
Vehicles	1,886,078	28,069	(14,800)	1,899,347

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

11. CAPITAL ASSETS (Continued)

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004
Total Depreciable Capital Assets	12,879,851	387,896	(105,037)	13,162,710
Less Accumulated Depreciation for				
Land Improvements	(184,314)	(8,281)	0	(192,595)
Buildings	(156,157)	(8,041)	0	(164,198)
Improvements Other than Buildings	(578,445)	(86,060)	0	(664,505)
Streets and Storm Sewers	(5,336,675)	(355,254)	86,737	(5,605,192)
Furniture and Equipment	(358,021)	(30,725)	3,500	(385,246)
Vehicles	(1,269,740)	(93,240)	8,185	(1,354,795)
Total Accumulated Depreciation	(7,883,352)	(581,601)	98,422	(8,366,531)
Total Depreciable Capital Assets, Net	4,996,499	(193,705)	(6,615)	4,796,179
Governmental Activities Capital Assets, Net	<u>\$13,321,859</u>	<u>\$665,413</u>	<u>(\$1,122,146)</u>	<u>\$12,865,126</u>

Business-type activities donated capital assets with a fair value of \$21,454 to governmental activities during 2004. The City also accepted contributions from developers and private citizens, in the amount of \$257,334.

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004
Business-Type Activities				
Non-depreciable Capital Assets				
Land	\$ 157,815			\$ 157,815
Construction in Progress	5,510,273	\$ 912,547	(\$1,831,179)	4,591,641
Total Non-depreciable Capital Assets	5,668,088	912,547	(1,831,179)	4,749,456
Depreciable Capital Assets				
Land Improvements	8,762			8,762
Buildings	18,405,799			18,405,799
Electric, Water, and Sewer Lines	18,608,390	2,752,000	(251,831)	21,108,559
Furniture and Equipment	504,761	47,232	(21,875)	530,118
Vehicles	1,362,813		(68,619)	1,294,194
Total Depreciable Capital Assets	38,890,525	2,799,232	(342,325)	41,347,432
Less Accumulated Depreciation for				
Land Improvements	(6,460)	(92)		(6,552)
Buildings	(12,924,899)	(282,928)		(13,207,827)
Electric, Water, and Sewer Lines	(8,591,489)	(686,982)	170,432	(9,108,039)
Furniture and Equipment	(311,689)	(40,094)	15,828	(335,955)
Vehicles	(794,768)	(95,575)	47,165	(843,178)
Total Accumulated Depreciation	(22,629,305)	(1,105,671)	233,425	(23,501,551)
Total Depreciable Capital Assets, Net	16,261,220	1,693,561	(108,900)	17,845,881
Business-Type Activities Capital Assets, Net	<u>\$21,929,308</u>	<u>\$2,606,108</u>	<u>(\$1,940,079)</u>	<u>\$22,595,337</u>

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

11. CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property	\$ 71,476
Leisure Time Activities	107,172
Community Environment	2,592
Transportation	389,487
General Government	10,874
Total Depreciation Expense - Governmental Activities	\$581,601

12. INTERFUND RECEIVABLES/PAYABLES

At December 31, 2004, the General Fund had an interfund receivable, in the amount of \$65,167; \$23,818 to provide cash flow resources to other governmental funds and \$41,349 from the Electric enterprise fund for the City's portion of the kilowatt hour tax.

The Electric enterprise fund had an interfund receivable, in the amount of \$17,601, for services provided by the Electric enterprise fund to other governmental funds, in the amount of \$130, to the Water enterprise fund, in the amount of \$5,901, and to the Sewer enterprise fund, in the amount of \$11,570.

13. 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 2004, the City contracted with the Ohio Government Risk Management Plan, an insurance purchasing pool, for the following coverage:

Type of Coverage	Coverage	Deductible
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	1,091,345	1,000
Fire Vehicles	777,288	0
Electronic Data Processing	222,075	1,000

There has been no significant reduction in insurance coverage from 2003, and no insurance settlement has exceeded insurance coverage during the last three years.

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

13. RISK MANAGEMENT (Continued)

B. Employee Medical Benefits

During 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 \$1,134,816 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, 2004, 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 2003 and 2004 were:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Stop-Loss Reimbursement	Claims Payments	Balance at Year End
2003	\$92,248	\$876,268	\$ 1,505	(\$852,462)	\$117,559
2004	117,559	839,764	55,478	(929,822)	82,979

C. Workers' Compensation

For 2004, 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.

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

14. SIGNIFICANT CONTRACTUAL COMMITMENTS

The City has several outstanding contracts for professional services. The following amounts remain on these contracts as of December 31, 2004:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid as of 12/31/04</u>	<u>Outstanding Balance</u>
Shinn Brothers	\$335,000	\$90,981	\$244,019
CTL Engineering	13,500	0	13,500
Burgess and Niple, Inc.	296,268	165,782	130,486
Heffner Investments LTC	180,000	0	180,000
Vaughn Industries, Inc.	3,442,109	3,354,922	87,187
All Industrial, Inc.	19,320	7,728	11,592

15. 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.

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, 2004, 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 2004 was 9.55 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, 2004, 2003, and 2002 was \$275,179, \$250,529, and \$224,226, respectively; 92 percent has been contributed for 2004 and 100 percent has been contributed for 2003 and 2002. The unpaid contribution for 2004, in the amount of \$21,112, is recorded as a liability. Contributions to the member-directed plan for 2004 were \$4,400 made by the City and \$2,760 made by plan members.

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

15. DEFINED BENEFIT PENSION PLANS

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 contribution to the OPF for the years ended December 31, 2004, 2003, and 2002 was \$208,354, \$208,519, and \$198,660, respectively; 73 percent has been contributed for 2004 and 100 percent has been contributed for 2003 and 2002. The unpaid contribution for 2004, in the amount of \$56,743, is recorded as a liability.

16. 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 Post-employment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Post-employment 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 2004 employer contribution rate was 13.55 percent of covered payroll; 4.00 percent was the portion used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 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 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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.

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

16. POST-EMPLOYMENT BENEFITS (Continued)

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund post-employment benefits were \$117,101. 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, 2003 (the latest information available), was \$10.5 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

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

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 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund post-employment benefits were \$56,074 for police and \$58,823 for firefighters. The OPF's total health care expense for the year ended December 31, 2003 (the latest information available), was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OPF participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

17. 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.

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

17. OTHER EMPLOYEE BENEFITS (Continued)

Sick leave is earned at various rates as defined by City policy and union contracts. Upon retirement, employees are entitled to the value of their accumulated unused sick leave at varying percentages to a maximum of eighty to one hundred twenty days based on City policy and union contracts.

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.

18. NOTES PAYABLE

The City's note activity for the year ended December 31, 2004, was as follows:

	Interest Rate	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004
Governmental Activities					
Swimming Pool					
November 18, 2003	1.40%	\$ 200,000	\$ 0	\$ 200,000	\$ 0
November 17, 2004	2.40	0	110,000	0	110,000
Total Swimming Pool		<u>200,000</u>	<u>110,000</u>	<u>200,000</u>	<u>110,000</u>
Fire Truck					
November 18, 2003	1.40	220,000	0	220,000	0
November 17, 2004	2.40	0	220,000	0	220,000
Total Fire Truck		<u>220,000</u>	<u>220,000</u>	<u>220,000</u>	<u>220,000</u>
Industrial Park					
November 18, 2003	1.40	130,000	0	130,000	0
November 17, 2004	2.40	0	130,000	0	130,000
Total Industrial Park		<u>130,000</u>	<u>130,000</u>	<u>130,000</u>	<u>130,000</u>
Park Land Acquisition					
November 18, 2003	1.40	250,000	0	250,000	0
November 17, 2004	2.40	0	200,000	0	200,000
Total Park Land Acquisition		<u>250,000</u>	<u>200,000</u>	<u>250,000</u>	<u>200,000</u>
Total Governmental Activities		<u>\$ 800,000</u>	<u>\$660,000</u>	<u>\$ 800,000</u>	<u>\$660,000</u>
Business-Type Activities					
Electric Improvement					
November 18, 2003	1.40	\$3,600,000	\$ 0	\$3,600,000	\$ 0
Water Tower					
May 1, 2003	1.56	400,000	0	400,000	0
April 24, 2004	1.96	0	400,000	400,000	0
November 16, 2004	2.40	0	400,000	0	400,000
Total Water Tower		<u>400,000</u>	<u>800,000</u>	<u>800,000</u>	<u>400,000</u>
Total Business-Type Activities		<u>\$4,000,000</u>	<u>\$800,000</u>	<u>\$4,400,000</u>	<u>\$400,000</u>

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

18. NOTES PAYABLE (Continued)

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.

19. LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2004, was as follows:

	Interest Rate	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004	Due Within One Year
Governmental Activities						
General Obligation Bonds						
1985 Knowlton Ditch	6 - 7.75%	\$ 120,000	\$ 0	\$ 20,000	\$ 100,000	\$ 20,000
Rural Development Bonds						
2000 Rural Development Bonds	4.75	551,347	0	10,472	540,875	10,970
2000 Rural Development Bonds	5.0	5,080	0	889	4,191	933
Total Rural Development Bonds		556,427	0	11,361	545,066	11,903
Special Assessment Bonds						
1999 Sidewalk	4.25	1,000	0	1,000	0	0
2000 Sidewalk	5.25	720	0	360	360	360
2001 Sidewalk	4.50	7,200	0	2,400	4,800	2,400
Total Special Assessment Bonds		8,920	0	3,760	5,160	2,760
Other Long-Term Obligations						
Compensated Absences Payable		263,514	10,717	40,365	233,866	14,431
Total Governmental Activities		<u>\$ 948,861</u>	<u>\$ 10,717</u>	<u>\$ 75,486</u>	<u>\$ 884,092</u>	<u>\$ 49,094</u>
Business-Type Activities						
General Obligation Bonds						
Electric Improvement	4.25	\$ 0	\$3,160,000	\$ 0	\$ 3,160,000	\$360,000
Premium		0	43,490	0	43,490	0
Total General Obligation Bonds		0	3,203,490	0	3,203,490	360,000
Mortgage Revenue Bonds						
1999 Wastewater Refunding	3.25- 4.95%	3,965,000	0	230,000	3,735,000	240,000
Bond Discount		(4,475)	260	0	(4,215)	0
Accounting Loss		(368,529)	21,377	0	(347,152)	0
1994 Waterworks	3.55-5.90	1,440,000	0	100,000	1,340,000	105,000
1993 Wastewater	3-5.70	1,835,000	0	80,000	1,755,000	85,000
Total Mortgage Revenue Bonds		6,866,996	21,637	410,000	6,478,633	430,000
Other Long-Term Obligations						
OPWC Loans Payable	0	338,534	144,709	0	483,243	24,162
Compensated Absences Payable		104,467	30,231	27,155	107,543	9,734
Total Business-Type Activities		<u>\$7,309,997</u>	<u>\$3,400,067</u>	<u>\$437,155</u>	<u>\$10,272,909</u>	<u>\$823,896</u>

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.

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

19. LONG-TERM OBLIGATIONS (Continued)

During 2004, the City issued \$3,160,000 in general obligation bonds in the Electric enterprise fund. The bonds provided funds to construct and improve substations and electric lines within the City's electric system. The bonds will be paid from the Electric enterprise fund.

B. Rural Development Bonds

The City issued rural development bonds during 2000, in the amount of \$580,000 and \$51,000, 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 in 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, 2004:

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

19. LONG-TERM OBLIGATIONS (Continued)

	Restricted Assets			Totals
	Wastewater Refunding	Waterworks	Wastewater	
Restricted Assets held by the City for:				
Mortgage Revenue Bond Replacement	\$742,000	\$200,000	\$ 0	\$942,000
Mortgage Revenue Bond Operations	44,478	48,701	0	93,179
Restricted Assets held by Fiscal Agent for:				
Mortgage Revenue Bond Current Debt Service	70,456	16,579	16,216	103,251
Mortgage Revenue Bond Future Debt Service	418,821	182,510	187,725	789,056

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 r Refunding	Waterwork s	Wastewater r
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 \$483,243 as of December 31, 2004 and the project was completed. The remaining balance was closed out and will not be issued.

The City's legal debt margin was \$16,166,875 at December 31, 2004.

The following is a summary of the City's future annual debt service requirements for governmental activities:

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

19. LONG-TERM OBLIGATIONS (Continued)

Year	Governmental Activities					
	General Obligation Bonds		Rural Development Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
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	0	0	13,377	23,462	0	0
2010-2014	0	0	76,066	107,242	0	0
2015-2019	0	0	95,931	87,377	0	0
2020-2024	0	0	120,984	62,323	0	0
2025-2029	0	0	152,580	30,727	0	0
2030	0	0	34,999	1,662	0	0
	<u>\$100,000</u>	<u>\$20,538</u>	<u>\$545,066</u>	<u>\$412,881</u>	<u>\$5,160</u>	<u>\$343</u>

The City's future annual debt service requirements, including mandatory sinking fund requirements, payable from the business-type activities are as follows:

Year	Business-Type Activities					
	Electric General Obligation Bonds		Waterworks Mortgage Revenue Bonds		Wastewater Mortgage Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 360,000	\$ 93,196	\$ 105,000	\$ 77,420	\$ 325,000	\$ 273,423
2006	370,000	82,030	110,000	71,855	340,000	258,582
2007	380,000	74,630	115,000	65,915	355,000	242,793
2008	390,000	66,460	120,000	59,590	375,000	226,033
2009	400,000	57,100	130,000	52,510	390,000	208,195
2010-2014	1,260,000	97,475	760,000	139,535	2,285,000	730,748
2015-2018	0	0	0	0	1,420,000	152,060
	<u>\$3,160,000</u>	<u>\$470,891</u>	<u>\$1,340,000</u>	<u>\$466,825</u>	<u>\$5,490,000</u>	<u>\$2,091,834</u>

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

19. LONG-TERM OBLIGATIONS (Continued)

Business-Type Activities	
Year	OPWC Loan Principal
2005	\$ 24,162
2006	24,162
2007	24,162
2008	24,162
2009	24,162
2010-2014	120,811
2015-2019	120,811
2020-2024	120,811
	\$483,243

20. INTERFUND TRANSFERS

During 2004, the General Fund made transfers to other governmental funds, in the amount of \$655,415, to move receipts as debt payments became due and to subsidize various programs in other funds. Non-major governmental funds made transfers, in the amount of \$30,047; \$47 to other governmental funds to make debt payments and \$30,000 from the Revolving Loan special revenue fund to the Sewer enterprise fund as approved by the Ohio Department of Development.

The Electric enterprise fund transferred capital assets for general government operations, in the amount of \$21,454.

21. JOINT VENTURE

The City of Celina purchased capital stock of the Grand Lake/Mercer County Development Corporation (Corporation) in 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.

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.

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

22. 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 2004, 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.

23. INSURANCE PURCHASING POOLS

A. 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.

**CITY OF CELINA
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

23. INSURANCE PURCHASING POOLS (Continued)

B. 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.

24. CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grants

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

25. SUBSEQUENT EVENT

On April 1, 2005, the City issued \$2,675,000 in general obligation refunding bonds with interest rates from 2.35 percent to 5.0 percent, to refund \$1,340,000 of 1994 Waterworks Mortgage Revenue Bonds and \$1,755,000 of 1993 Wastewater Mortgage Revenue Bonds. The City contributed \$244,402 from the Water enterprise fund and \$248,511 from the Sewer enterprise fund to defease the bonds. The net proceeds of \$3,184,008 including premium, in the amount of \$92,429 (after payment of \$76,334 in underwriting fees, insurance, and other issuance costs), were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, \$3,095,000 of mortgage revenue bonds is considered to be defeased and the liability for those bonds was removed from the City's long-term obligations.

Although the refunding resulted in the recognition of an accounting loss, in the amount of \$351,678 and \$363,623, in the Water and Sewer enterprise funds, respectively; the City lowered its aggregated debt service payments by \$445,143 over the next ten years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$206,536.

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CITY OF CELINA
MERCER COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004

Federal Grantor/ Pass Through Grantor Program Title	Project Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF COMMERCE, ECONOMIC DEVELOPMENT ADMINISTRATION			
Direct			
Grants for Public Works and Economic Development Facilities	06-01-04689	11.300	\$331,934
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	506,509
U.S. DEPARTMENT OF JUSTICE			
<i>Passed Through Ohio Criminal Justice</i>			
Law Enforcement Block Grant	2003-LE-LEB-3628	16.592	7,575
COPS Grant (SRO)	2000SHWX0196 / OH05401	16.710	<u>47,475</u>
Total U.S. Department of Justice			55,050
U.S. DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT AGENCY			
<i>Passed Through State Fire Marshal</i>			
Fire Act Grant Program	EMW-2003-FG-08435	97.044	<u>46,279</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u><u>\$939,772</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, 2004**

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 - 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, 2004, the gross amount of loans outstanding under this program was \$123,906. There were no delinquent amounts due at December 31, 2004.

NOTE C -- 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.



Auditor of State Betty Montgomery

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

City of Celina
Mercer County
PO 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, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 4, 2005. 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated October 4, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the City's management dated October 4, 2005, we reported other matters related to noncompliance we deemed immaterial.

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City of Celina
Mercer County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities. It is not intended for 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

October 4, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON 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, (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 apply to its major federal program for the year ended December 31, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 apply to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The City's management 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 directly and materially affect a major federal program 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.

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**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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when 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 intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

October 4, 2005

**CITY OF CELINA
MERCER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR END DECEMBER 31, 2004**

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):	CFDA # 20.205: Highway Planning and Construction Grant
(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**

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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
OCTOBER 24, 2005**