



**Auditor of State
Betty Montgomery**

**City of Circleville
Pickaway County, Ohio**

**General Purpose External Financial Statements
For the Year Ended December 31, 2005**

Local Government Services Section

City of Circleville
General Purpose External Financial Statements
For the Year Ended December 31, 2005

Table of Contents

| | |
|--|----|
| Accountants' Compilation Report | 1 |
| Management's Discussion and Analysis..... | 2 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 18 |
| Statement of Activities..... | 20 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 22 |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities..... | 25 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 26 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 28 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund | 29 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – Income Tax Fund..... | 30 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – Safety Forces Tax Fund..... | 31 |
| Statement of Fund Net Assets – Enterprise Funds..... | 32 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Funds | 33 |
| Statement of Cash Flows – Enterprise Funds | 34 |
| Statement of Fiduciary Net Assets – Fiduciary Funds..... | 35 |
| Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Fund | 36 |
| Notes to the Basic Financial Statements | 37 |

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**Auditor of State
Betty Montgomery**

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

We have compiled the accompanying basic financial statements of the City of Circleville as of and for the year ended December 31, 2005, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

We did not compile the financial statements of Berger Health System, the discretely presented component unit of the City of Circleville. These financial statements were provided to us for inclusion in the City of Circleville's general purpose external financial statements.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management's Discussion and Analysis is required supplementary information that has been prepared by management. We have not compiled, reviewed, nor audited this information and, accordingly, assume no responsibility for it.

Betty Montgomery
Auditor of State

Peter R. Sorem
Chief of Local Government Services

July 12, 2006

Local Government Services Section
88 E. Broad St. / Sixth Floor / Columbus, OH 43215
Telephone: (614) 466-4717 (800) 345-2519 Fax: (614) 728-8027
www.auditor.state.oh.us

City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

The discussion and analysis of the City of Circleville's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

- The City's total net assets decreased \$631,283. Revenues of governmental activities failed to cover expenses by \$552,604. Net assets of business-type activities decreased by \$78,679.
- General revenues of governmental activities accounted for \$6,638,987 or 72.63 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$2,501,501 or 27.37 percent of total revenues of \$9,140,488.
- Enterprise funds reflected a total operating loss of \$83,992. The Waterworks Operating Fund reflected an operating loss of \$7,755, while the Sewer Operating Fund reflected an operating loss of \$76,237.
- The City had \$9,693,092 in expenses related to governmental activities; \$2,501,501 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily income taxes) of \$6,638,987 were not quite adequate to provide for these programs. The City had \$3,187,676 in expenses related to business-type activities; \$3,103,684 of these expenses were offset by program specific charges for services which, along with general revenues of \$5,313, were not quite adequate to provide for such services.

Using This Annual Financial Report

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

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

City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

Reporting the City as a Whole

One of the most important questions asked about the City is “How did we do financially during 2005?” The Statement of Net Assets and the Statement of Activities, which appear first in the City's financial statements, report information on the City as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

Reporting the City's Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 11. Fund financial statements provide detailed information about the City's major funds – not the City as a whole. The City uses many funds to account for a multitude of financial transactions. Some funds are required by State law and bond covenants. Other funds may be established by the City Auditor, with the approval of Council, to help control, manage, and report money received for a particular purpose or to show that the City is meeting legal responsibilities for the use of grants. The City's major funds are the General Fund, the Income Tax Fund, the Safety Forces Tax Fund, the General Obligation Bond Retirement Fund, the Capital Improvement Fund, the Waterworks Operating Fund, and the Sewer Operating Fund.

Governmental Funds

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

Enterprise Funds

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

Fiduciary Funds

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

City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

The City as a Whole

As stated previously, the Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets for 2005 compared to 2004.

Table 1
Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| Assets | | | | | | |
| Current and Other | | | | | | |
| Assets | \$9,585,763 | \$9,180,963 | \$6,016,072 | \$5,964,694 | \$15,601,835 | \$15,145,657 |
| Nondepreciable Capital | | | | | | |
| Assets | 1,040,300 | 1,313,975 | 141,440 | 584,382 | 1,181,740 | 1,898,357 |
| Depreciable Capital | | | | | | |
| Assets, Net | 22,646,436 | 21,954,641 | 17,031,161 | 16,702,675 | 39,677,597 | 38,657,316 |
| Total Assets | 33,272,499 | 32,449,579 | 23,188,673 | 23,251,751 | 56,461,172 | 55,701,330 |
| Liabilities | | | | | | |
| Current and Other | | | | | | |
| Liabilities | 1,391,012 | 1,333,948 | 104,847 | 245,776 | 1,495,859 | 1,579,724 |
| Long-Term Liabilities: | | | | | | |
| Due Within One Year | 439,866 | 459,276 | 54,490 | 55,917 | 494,356 | 515,193 |
| Due in More Than | | | | | | |
| One Year | 4,753,053 | 4,520,391 | 40,840 | 40,241 | 4,793,893 | 4,560,632 |
| Total Liabilities | 6,583,931 | 6,313,615 | 200,177 | 341,934 | 6,784,108 | 6,655,549 |
| Net Assets | | | | | | |
| Invested in Capital | | | | | | |
| Assets, Net Of | | | | | | |
| Related Debt | 20,394,132 | 20,101,627 | 17,172,601 | 17,278,900 | 37,566,733 | 37,380,527 |
| Restricted for: | | | | | | |
| Capital Outlay | 1,484,609 | 1,506,265 | 0 | 0 | 1,484,609 | 1,506,265 |
| Debt Service | 22,789 | 78,639 | 0 | 0 | 22,789 | 78,639 |
| Safety Forces | 858,966 | 1,077,619 | 0 | 0 | 858,966 | 1,077,619 |
| Other Purposes | 1,518,549 | 1,325,507 | 0 | 0 | 1,518,549 | 1,325,507 |
| Unrestricted | 2,409,523 | 2,046,307 | 5,815,895 | 5,630,917 | 8,225,418 | 7,677,224 |
| Total Net Assets | \$26,688,568 | \$26,135,964 | \$22,988,496 | \$22,909,817 | \$49,677,064 | \$49,045,781 |

City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

A slight decrease of 4.22 percent occurred within current and other assets of governmental activities when compared to the prior year. The only asset account which had a real effect on this decrease was a drop in intergovernmental receivables relating to grants from the prior year extending into the current year. The City had received monies in 2005 relating to these grant awards decreasing the receivable existing for year-end 2005. These monies were also spent during 2005; thus, an increase in cash did not occur.

Reviewing liabilities of governmental activities demonstrates a 4.10 percent decrease in current and other liabilities. This decrease is primarily due to the payout of contractual commitments within the City existing from 2004 and a significant decrease in the workers' compensation liability accrual. The workers' compensation liability accrual decrease was a result of a substantial lowering of the Bureau of Workers' Compensation rate for 2005. Long-term liabilities of the governmental activities decreased \$213,252 primarily due to principal payments made on debt held by the City.

Invested in Capital Assets, Net of Related Debt of governmental activities decreased \$292,505. This is due primarily to current year depreciation exceeding current year capital asset additions and principal payments made on debt related to capital asset construction.

While the City's governmental restricted net assets do not represent a very significant percentage of overall net assets, governmental restricted net assets, when viewed alone, did experience a substantial increase of \$103,117. The City had greater outstanding receivables for income taxes than in the prior year which caused this increase.

On the other hand, unrestricted governmental net assets had a somewhat significant decrease of 15.07 percent. A large percentage of this decrease is the result of cash carryover spending and lower cash balances.

In total, assets of business-type activities increased \$63,078. A slight decrease of less than one percent occurred within current and other assets when compared to the prior year. Nondepreciable capital assets increased \$442,942 as a result of construction in progress existing for a sewer project and building renovations at year-end. Depreciable capital assets, net of depreciation decreased \$328,486 due primarily to current year depreciation exceeding current year additions. Total liabilities of business-type activities increased \$141,757 due primarily to an increase in contracts payables. The City had several unpaid invoices relating to work performed with the sewer project and building renovations. Total net assets of business-type activities decreased \$78,679. This is due primarily to an increase in machinery and equipment purchased during 2005 which was expensed in 2005 because the purchases did not meet the requirements stated in the City's capital assets policy.

City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

Table 2 shows the changes in net assets for the years ended December 31, 2005 and 2004.

Table 2
Changes In Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|-------------|--------------------------|-------------|--------------|--------------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| Revenues | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$1,493,468 | \$1,726,636 | \$2,978,936 | \$3,103,684 | \$4,472,404 | \$4,830,320 |
| Operating Grants, Contributions and Interest | 595,092 | 605,765 | 0 | 0 | 595,092 | 605,765 |
| Capital Grants, Contributions and Interest | 534,314 | 169,100 | 0 | 0 | 534,314 | 169,100 |
| Total Program Revenues | 2,622,874 | 2,501,501 | 2,978,936 | 3,103,684 | 5,601,810 | 5,605,185 |
| General Revenues: | | | | | | |
| Property Taxes | 866,899 | 893,824 | 0 | 0 | 866,899 | 893,824 |
| Income Taxes | 4,268,194 | 4,133,674 | 0 | 0 | 4,268,194 | 4,133,674 |
| Other Local Taxes | 196,831 | 209,890 | 0 | 0 | 196,831 | 209,890 |
| Grants and Entitlements not Restricted to Specific Programs | 1,076,834 | 956,810 | 0 | 0 | 1,076,834 | 956,810 |
| Unrestricted Investment Earnings | 229,421 | 365,744 | 7,447 | 0 | 236,868 | 365,744 |
| Contributions and Donations | 65,225 | 1,130 | 0 | 0 | 65,225 | 1,130 |
| Miscellaneous | 150,891 | 77,915 | 10,894 | 5,313 | 161,785 | 83,228 |
| Total General Revenues | 6,854,295 | 6,638,987 | 18,341 | 5,313 | 6,872,636 | 6,644,300 |
| Total Revenues | \$9,477,169 | \$9,140,488 | \$2,997,277 | \$3,108,997 | \$12,474,446 | \$12,249,485 |

(continued)

City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

Table 2
Changes In Net Assets
(Continued)

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------------|-------------------------|--------------|--------------------------|--------------|--------------|--------------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| Program Expenses: | | | | | | |
| Security of Persons and Property: | | | | | | |
| Police | \$2,516,388 | \$2,461,311 | \$0 | \$0 | \$2,516,388 | \$2,461,311 |
| Fire | 1,446,577 | 1,440,635 | 0 | 0 | 1,446,577 | 1,440,635 |
| Other | 412,993 | 297,127 | 0 | 0 | 412,993 | 297,127 |
| Public Health Services | 143,748 | 145,300 | 0 | 0 | 143,748 | 145,300 |
| Leisure Time Activities: | | | | | | |
| Parks and Recreation | 129,586 | 103,293 | 0 | 0 | 129,586 | 103,293 |
| Swimming Pool | 136,910 | 37,138 | 0 | 0 | 136,910 | 37,138 |
| Other | 54,825 | 19,690 | 0 | 0 | 54,825 | 19,690 |
| Community Development: | | | | | | |
| City Funded | 266,493 | 281,570 | 0 | 0 | 266,493 | 281,570 |
| Grant Funded | 232,905 | 265,235 | 0 | 0 | 232,905 | 265,235 |
| Basic Utility Services | 3,716 | 30,940 | 0 | 0 | 3,716 | 30,940 |
| Transportation | 1,829,016 | 1,924,546 | 0 | 0 | 1,829,016 | 1,924,546 |
| General Government | 2,183,437 | 2,418,497 | 0 | 0 | 2,183,437 | 2,418,497 |
| Interest and | | | | | | |
| Fiscal Charges | 277,524 | 267,810 | 0 | 0 | 277,524 | 267,810 |
| Waterworks Operating | 0 | 0 | 1,374,402 | 1,435,341 | 1,374,402 | 1,435,341 |
| Sewer Operating | 0 | 0 | 1,781,663 | 1,752,335 | 1,781,663 | 1,752,335 |
| Total Expenses | 9,634,118 | 9,693,092 | 3,156,065 | 3,187,676 | 12,790,183 | 12,880,768 |
| Increase (Decrease) in Net Assets | (156,949) | (552,604) | (158,788) | (78,679) | (315,737) | (631,283) |
| Net Assets Beginning of Year | 26,845,517 | 26,688,568 | 23,147,284 | 22,988,496 | 49,992,801 | 49,677,064 |
| Net Assets End of Year | \$26,688,568 | \$26,135,964 | \$22,988,496 | \$22,909,817 | \$49,677,064 | \$49,045,781 |

Governmental Activities

Program revenues, which are primarily represented by charges for permits, fines, and departmental services, as well as restricted intergovernmental revenues were 27.37 percent of total revenues for 2005 and were slightly lower than 2004. This is the result of the City receiving the final distributions of the 2003 CHIS/CDBG grant in 2004 while receiving the beginning stages of its 2004 award. However, in 2005, the City's sole source of revenue was the 2004 CHIS/CDBG grant award.

City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

As previously mentioned, general revenues were 72.63 percent of total revenues for 2005. The 1.5 percent income tax is the largest source of revenue for the City of Circleville, making up 45.22 percent of revenues for governmental activities for the year ended 2005. The City provides full tax credit for income taxes paid to another municipality up to one hundred percent of the City's current tax rate.

From 1992 through 2000, income tax revenue has increased annually an average of 8.52%. Local companies expanded and new businesses were added to the economic foundation. From 2001 to 2004, the City experienced the exodus of the core of its industrial base, resulting in an average annual revenue decrease of 4.81%. In 2005, the City experienced its smallest decrease in income tax receipts since 2000; thus, lessening the volatility of income tax collections experienced in the past. The City has also, in conjunction with the Circleville-Pickaway County Community Improvement Corporation started an aggressive economic development plan to promote the City.

Grants and Entitlements not Restricted to Specific Programs made up 10.47 percent of revenue for governmental activities of the City of Circleville for the year ended 2005. Property tax revenue made up 9.78 percent of revenue for governmental activities for a total of 65.47 percent of all revenue coming from income taxes, property taxes, and grant and entitlements not restricted to specific programs.

Governmental program expenses as a percentage of total governmental expenses for 2005 are expressed as follows:

| | |
|-----------------------------------|---------|
| Security of Persons And Property: | |
| Police | 25.40% |
| Fire | 14.86 |
| Other | 3.07 |
| Public Health Services | 1.50 |
| Leisure Time Activities: | |
| Parks and Recreation | 1.07 |
| Swimming Pool | 0.38 |
| Other | 0.20 |
| Community Development: | |
| City Funded | 2.90 |
| Grant Funded | 2.74 |
| Basic Utility Services | 0.32 |
| Transportation | 19.85 |
| General Government | 24.95 |
| Interest And Fiscal Charges | 2.76 |
| | 100.00% |

The above chart clearly indicates the City's major source of expenses, 43.33 percent, is related to the implementation of safety forces. A distant second, 24.95 percent, is the administration of general government activities within the City. All other forms of governmental operations represent 31.72 percent of expenditures.

City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

A comparison to the prior year demonstrates significant changes in three primary areas, security of persons and property – police, transportation, and general government. The decrease in security of persons and property – police is the result of current year capital asset depreciation activity. The increase in transportation expenses is tied to current year depreciation of City assets. The increase in general government expenses is attributable to several items. First of all, the Circleville Municipal Court, under the guidance of the Honorable Judge John Adkins, saw a 22.07 percent increase in its personnel costs. This was primarily the result of salary enhancements presented to the Probation Section of the Municipal Court. Secondly, the costs of the City's utilities expenses escalated dramatically in 2005, posting an increase of 38.84 percent from 2004. Finally, the City contributes to employee medical premiums in varying degrees. In 2005, the medical premiums for the employer's contribution experienced a 16.42 percent increase from 2004.

Business-Type Activities

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

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

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

Program revenues for business-type activities, which are primarily represented by charges for water and sewer services provided to residents and businesses with the City, increased over 4 percent from the prior year. The City implemented a usage based rate increase in both water and sewer in 2005. In addition, usage in the latter portion of the year dramatically increased due to the arid weather conditions. The drought-like conditions prompted City residents to use inordinate amounts of water which directly influences sewer demand. On the other hand, program expenses for business-type activities represented an insignificant increase from the prior year. The Department of Utilities continues to place constraints on operating expenses, as well as capital related expenses. Also, staffing levels within the Department of Utilities have been reduced as a result of previously occupied positions being left vacant upon their opening.

City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

The City's Funds

Information about the City's major governmental funds begins on page 22. These funds are reported using the modified accrual basis of accounting. All governmental funds had total revenues of \$9,335,799 and expenditures of \$9,512,125. The General Fund balance decreased by \$380,055, primarily due to a continued decline in income tax receipts as a result of the allocation formula for the income tax revenue split between general operating expenditures and capital improvements being modified in 2005 by City Council. In 2004, 60 percent of income tax receipts were deposited in the General Fund. In 2005, this percentage decreased to 50 percent.

The Income Tax Fund balance increased \$20,659, as a result in both an increase in revenue and a decrease in expenditures. In 2004, revenue needed to pay tax expenditures was minimized in an effort to reduce the cash balance of this fund. This artificially lowered the revenue requirements in 2004. In 2005, revenues were once again established to match the expenditure needs of the fund. The expenditures of the fund have been reduced reflecting the decline in the initial costs associated with mandatory filing and the conversion to the use of the Regional Income Tax Authority for income tax collections. In addition, the calculation used to establish the fees paid to the Regional Income Tax Authority is partially based on collections. A reduction in total collections equates to a decrease in such fees.

The Safety Forces Tax Fund balance increased \$180,252. The City implemented a billing system for its emergency management services at the end of 2004. The first full year of collections was in 2005 and the billings generated over \$300,000 in revenue. The reduction in the safety force's staffing of the City continued in 2005. The combination of increased revenues and lower personnel expenditures allowed the fund balance to increase.

The General Obligation Bond Retirement Fund balance decreased \$74,847, due primarily to debt payments made by the City.

The Capital Improvement Fund balance increased \$75,906 from the prior year. The capital projects slated for 2005 were not completed during the calendar year. Subsequently, an encumbered balance of approximately \$134,000 was carried over into 2006 for payment of these projects. Overall, capital improvement expenditures have declined 14.15 percent since 2001. The decline in income tax revenue in 2005 hampered the City's ability to implement significant capital improvement projects.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of receipts, disbursements and encumbrances. The City's budget is adopted on an object basis. During the course of 2005, the City revised its budget as it attempted to deal with unexpected changes in revenues and expenditures.

City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

For the General Fund, final budgeted revenues, in the amount of \$4,148,668, were below original budgeted revenues, in the amount of \$4,221,494. The original certificate of estimated resources included projected revenues for the swimming pool. Due to the continued decline in overall General Fund receipts, the decision was made to close the swimming pool in 2005. Subsequently, the original charges for services revenue projected for the swimming pool were deducted from the final amended certificate of estimated resources.

The decrease in expenditures from the original to the final budget was \$342,282. This decrease of nearly 6 percent was due primarily to the lowering of appropriations warranted to guarantee that expenditures did not exceed revenue projections and year-end balances. The difference in actual expenditures made from the final budget was 8.3 percent and a somewhat significant reduction. The sole contributing factor in the decrease between actual security of persons and property – police expenditures and final budgeted amounts was a reduction in the civilian and uniform police ranks. Positions vacated during the year were not filled. General government expenditure curtailments continued in 2005. Personnel expenditures were closely monitored along with overtime and replacement costs. The overall building maintenance program for City buildings was placed on a fix as needed approach rather than the preventive maintenance approach used in prior years. While the lack of preventive maintenance in the short-term will lower costs, the long-term effects will be far more costly.

Actual General Fund revenues were less than expenditures by \$445,249. The decline in financing resources hampers the City's ability to fund existing programs. It has been the decision of the City to use the accumulated carryover balance from prior years to fund existing programs. The consensus has been that by using the reserves it will give the City time to acquire new revenue sources.

The City's ending unobligated cash balances for the General Fund was \$852,809 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of 2005, the City had \$23,268,616 invested in capital assets (net of accumulated depreciation) for governmental activities, a decrease of \$418,120, or less than 2 percent from the prior year. Increases in capital assets included construction in progress primarily for street resurfacing, improvements to buildings, various routine machinery and equipment purchases, and the purchase of new police cruisers. Disposals of capital assets included various vehicles and infrastructure related to street resurfacing within the City. The decrease in capital assets is the result of annual depreciation exceeding additions for the year.

City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

The City also had \$17,287,057 invested in capital assets (net of accumulated depreciation) for business-type activities, an increase of \$114,456, or less than 1 percent from the prior year. Increases in capital assets included construction in progress primarily for a sewer project on North Street, various building improvements, routine water line improvements, and the replacement/addition of fire hydrants within the City. Disposals of capital assets included various water lines and fire hydrants. The increase in capital assets is the result of additions exceeding annual depreciation for the year.

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

Debt

The City's outstanding debt obligations at year-end included general obligation bonds in the amount of \$4,575,000 for governmental activities. The City's long-term obligations also included capital leases and compensated absences for governmental activities and business-type activities.

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

Current Issues

The City of Circleville continued to face challenging financial times in 2005. The municipal income tax stabilized in 2005 after a four year decline, as can be seen in Table 3 on the next page. Municipal income taxes represented 47 percent of the City's cash basis operating revenues in 2005. It was also during 2005 that the Circleville City Council maintained its income tax distribution formula to be 50 percent of the one percent tax levied which would fund general operations of the City and the remaining 50 percent would be used to fund capital improvements. The .5 percent additional tax levied on income would be used for the operation and maintenance of safety forces. With such a stabilization of capital improvement revenues, the City was able to establish a plan to address the need to sustain the City's \$72,680,519 in capital assets. (See Table 4 on the next page for further detail of operating revenues.) While the volatile loss of municipal income tax receipts experienced in prior years has appeared to stabilize, the City still faces a tremendous challenge in providing vital services to its constituents. Numerous services and manning levels cannot be reinstated under the present financing structure. The City has adjusted its manner of doing business under the new limitations.

City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

Table 3
Municipal Income Tax Cash Basis Revenues
January to December

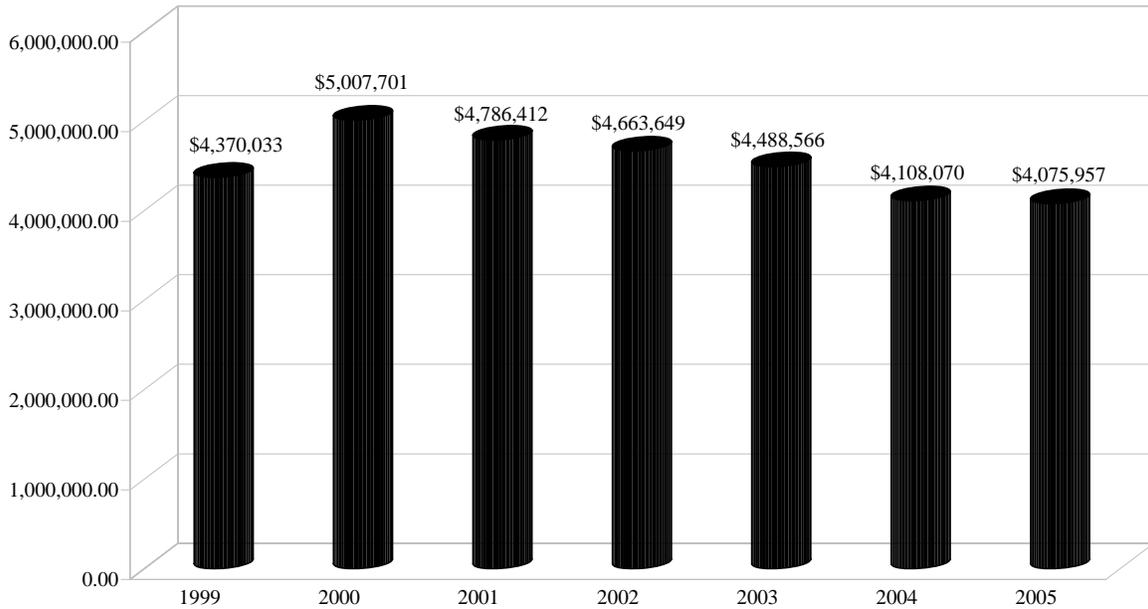
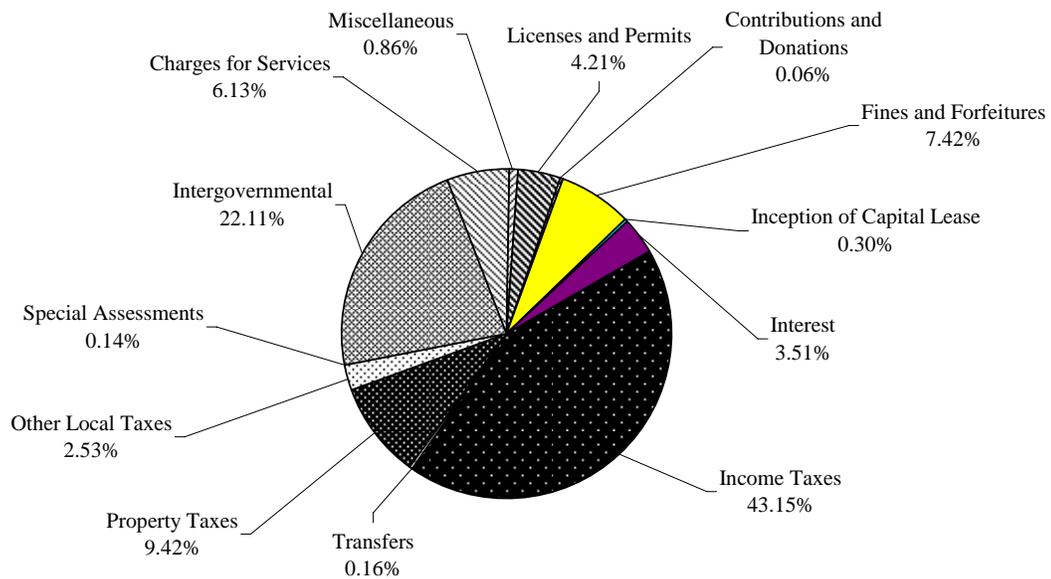


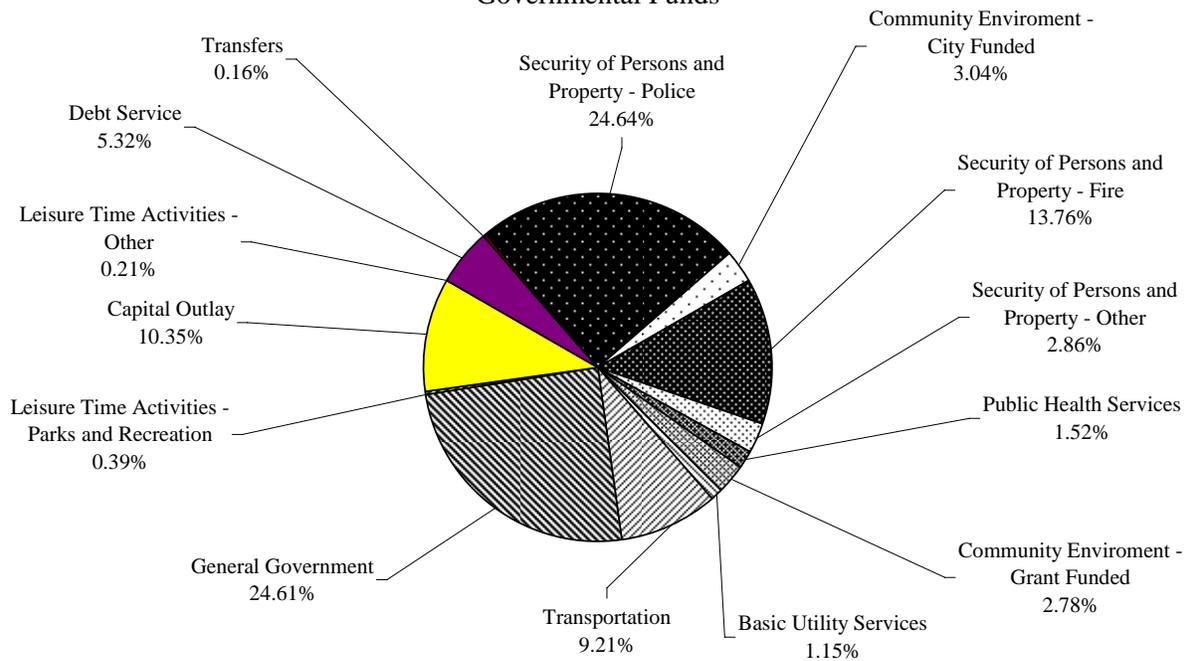
Table 4
Modified Accrual Basis Operating Revenue by Type
Governmental Funds



City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

The resulting effect of volatile revenue sources has resulted in a unilateral reduction in expenditures. Non-contractual appropriation accounts remain stagnant. Personnel services represent 64 percent of total operating costs. Efforts to reduce these costs have resulted in a no replacement policy for vacant City positions. Two of the City's largest unions, International Association of Fire Fighters and Ohio Patrolmen's Benevolent Association accepted no salary increases in 2005, in conjunction with the administrative non-bargaining staff. The way the City conducts its daily business has been evaluated. Cost savings measures have been implemented through outsourcing, reducing, and/or eliminating City services and personnel. See Table 5 below for additional detail on operating expenditures.

Table 5
Modified Accrual Basis Operating Expenditures by Type
Governmental Funds



Through its budgetary constraints, the City has continued to make enhancements to its capital improvement agenda. The multi-phase storm sewer project continued with funding from a Community Development Block Grant and matching City revenues. The completion of this multi-phase project will furnish storm sewer drainage to a section of the City previously not serviced. The preliminary steps of installing a new telephone system and technology upgrade for City Hall, the City administration building, and the Police/Court complex was instituted. This enhancement will lower telephone costs and, at the same time, provide greater connectivity between City departments. The Cable TV channel started upgrading equipment and services in the local television station. The upgrades to equipment will bring the TV station into a digital operating format to provide for a greater viewing performance for City residents. Striving to maintain and expand City infrastructure systems continues to be a challenge, but through innovative financing and cooperative ventures, the City is determined to push forward.

City of Circleville
Management's Discussion and Analysis
For The Year Ended December 31, 2005
(Unaudited)

The City of Circleville continues to place expenditures under a microscope in a search for a cost effective manner of doing business. The continuous quest for additional revenue sources by promoting economic development in the area is carried on by the administration in conjunction with the Circleville-Pickaway County Community Improvement Corporation and the local economic development director. A history breaking agreement between the City of Circleville and Circleville Township was signed in 2005. This agreement will allow for the seamless annexation and development of over 100 acres of designated commercial and industrial property. Cooperative agreements and promoting the benefits of the City of Circleville will enhance the future economic development prospects within our region.

Contacting the City's Finance Department

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

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City of Circleville
Statement of Net Assets
December 31, 2005

| | Primary Government | | Total |
|---|------------------------------------|-------------------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | |
| <u>Assets:</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$4,284,909 | \$5,460,714 | \$9,745,623 |
| Cash and Cash Equivalents: | | | |
| In Segregated Accounts | 56,061 | 0 | 56,061 |
| With Fiscal Agents | 34,837 | 0 | 34,837 |
| With Escrow Agents | 0 | 14,555 | 14,555 |
| Investments | 0 | 0 | 0 |
| Accounts Receivable | 0 | 402,285 | 402,285 |
| Accrued Interest Receivable | 58,527 | 0 | 58,527 |
| Intergovernmental Receivable | 993,763 | 0 | 993,763 |
| Income Taxes Receivable | 1,003,288 | 0 | 1,003,288 |
| Materials and Supplies Inventory | 195,960 | 67,899 | 263,859 |
| Prepaid Items | 43,760 | 12,598 | 56,358 |
| Property Taxes Receivable | 877,002 | 0 | 877,002 |
| Other Local Taxes Receivable | 42,102 | 0 | 42,102 |
| Special Assessments Receivable | 38,018 | 6,643 | 44,661 |
| Loans Receivable | 1,480,886 | 0 | 1,480,886 |
| Deferred Charges | 71,850 | 0 | 71,850 |
| Capital Assets: | | | |
| Nondepreciable Capital Assets | 1,313,975 | 584,382 | 1,898,357 |
| Depreciable Capital Assets, Net | 21,954,641 | 16,702,675 | 38,657,316 |
| Total Assets | 32,449,579 | 23,251,751 | 55,701,330 |
| <u>Liabilities:</u> | | | |
| Accounts Payable | 56,554 | 6,391 | 62,945 |
| Contracts Payable | 11,678 | 134,187 | 145,865 |
| Retainage Payable | 0 | 14,555 | 14,555 |
| Accrued Wages and Benefits Payable | 133,271 | 42,123 | 175,394 |
| Intergovernmental Payable | 246,403 | 48,520 | 294,923 |
| Deferred Revenue | 830,702 | 0 | 830,702 |
| Matured Bonds Payable | 20,000 | 0 | 20,000 |
| Matured Interest Payable | 14,837 | 0 | 14,837 |
| Accrued Interest Payable | 20,503 | 0 | 20,503 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 459,276 | 55,917 | 515,193 |
| Due in More Than One Year | 4,520,391 | 40,241 | 4,560,632 |
| Total Liabilities | 6,313,615 | 341,934 | 6,655,549 |
| <u>Net Assets:</u> | | | |
| Invested in Capital Assets, Net of Related Debt | 20,101,627 | 17,278,900 | 37,380,527 |
| Restricted for: | | | |
| Capital Outlay | 1,506,265 | 0 | 1,506,265 |
| Debt Service | 78,639 | 0 | 78,639 |
| Safety Forces | 1,077,619 | 0 | 1,077,619 |
| Other Purposes | 1,325,507 | 0 | 1,325,507 |
| Permanent Endowments | 0 | 0 | 0 |
| Unrestricted | 2,046,307 | 5,630,917 | 7,677,224 |
| Total Net Assets | \$26,135,964 | \$22,909,817 | \$49,045,781 |

See Accountants' Compilation Report
See Accompanying Notes to the Basic Financial Statements

| Component Unit | |
|-----------------------------|-------------------------------|
| Berger Health System | Total Reporting Entity |
| \$3,704,033 | \$13,449,656 |
| 0 | 56,061 |
| 0 | 34,837 |
| 0 | 14,555 |
| 26,999,992 | 26,999,992 |
| 6,641,426 | 7,043,711 |
| 0 | 58,527 |
| 0 | 993,763 |
| 0 | 1,003,288 |
| 1,247,339 | 1,511,198 |
| 744,763 | 801,121 |
| 0 | 877,002 |
| 0 | 42,102 |
| 0 | 44,661 |
| 0 | 1,480,886 |
| 125,823 | 197,673 |
| 4,329,790 | 6,228,147 |
| 42,705,871 | 81,363,187 |
| <u>86,499,037</u> | <u>142,200,367</u> |
| 2,239,913 | 2,302,858 |
| 0 | 145,865 |
| 0 | 14,555 |
| 3,139,532 | 3,314,926 |
| 585,837 | 880,760 |
| 0 | 830,702 |
| 0 | 20,000 |
| 0 | 14,837 |
| 73,437 | 93,940 |
| 4,252,221 | 4,767,414 |
| 19,868,849 | 24,429,481 |
| <u>30,159,789</u> | <u>36,815,338</u> |
| 23,904,854 | 61,285,381 |
| 0 | 1,506,265 |
| 0 | 78,639 |
| 0 | 1,077,619 |
| 0 | 1,325,507 |
| 6,046 | 6,046 |
| 32,428,348 | 40,105,572 |
| <u>\$56,339,248</u> | <u>\$105,385,029</u> |

See Accountants' Compilation Report

City of Circleville
Statement of Activities
For the Year Ended December 31, 2005

| | Expenses | Program Revenues | | |
|---|---------------------|----------------------|--|--|
| | | Charges for Services | Operating Grants, Contributions and Interest | Capital Grants, Contributions and Interest |
| Primary Government | | | | |
| <u>Governmental Activities:</u> | | | | |
| Security of Persons and Property: | | | | |
| Police | \$2,461,311 | \$32,516 | \$1,370 | \$16,299 |
| Fire | 1,440,635 | 6,421 | 1,250 | 0 |
| Other | 297,127 | 314,297 | 7,000 | 0 |
| Public Health Services | 145,300 | 0 | 0 | 0 |
| Leisure Time Activities: | | | | |
| Parks and Recreation | 103,293 | 0 | 2,367 | 0 |
| Swimming Pool | 37,138 | 0 | 0 | 0 |
| Other | 19,690 | 0 | 0 | 0 |
| Community Development: | | | | |
| City Funded | 281,570 | 394,727 | 0 | 0 |
| Grant Funded | 265,235 | 0 | 0 | 103,560 |
| Basic Utility Services | 30,940 | 0 | 0 | 0 |
| Transportation | 1,924,546 | 116,699 | 593,778 | 0 |
| General Government | 2,418,497 | 861,976 | 0 | 49,241 |
| Interest and Fiscal Charges | 267,810 | 0 | 0 | 0 |
| Total Governmental Activities | 9,693,092 | 1,726,636 | 605,765 | 169,100 |
| <u>Business-Type Activities:</u> | | | | |
| Waterworks Operating | 1,435,341 | 1,427,586 | 0 | 0 |
| Sewer Operating | 1,752,335 | 1,676,098 | 0 | 0 |
| Total Business-Type Activities | 3,187,676 | 3,103,684 | 0 | 0 |
| Total - Primary Government | \$12,880,768 | \$4,830,320 | \$605,765 | \$169,100 |
| Component Unit | | | | |
| Berger Health System | \$56,127,118 | \$57,171,733 | \$137,125 | \$0 |

General Revenues:

Property Taxes Levied for:

 General Purposes

 Other Purposes

Income Taxes Levied for:

 General Purposes

 Safety Forces

 Debt Service

 Capital Projects

Other Local Taxes

Grants and Entitlements not Restricted to Specific Programs

Unrestricted Investment Earnings

Contributions and Donations

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See Accountants' Compilation Report
See Accompanying Notes to the Basic Financial Statements

| Net (Expense) Revenue and Changes in Net Assets | | | | |
|--|-----------------------------|---------------|-------------------------|---------------------------|
| Primary Government | | | Component Unit | Total Reporting Entity |
| Governmental Activities | Business-Type Activities | Total | Berger Health System | |
| (\$2,411,126) | \$0 | (\$2,411,126) | \$0 | (\$2,411,126) |
| (1,432,964) | 0 | (1,432,964) | 0 | (1,432,964) |
| 24,170 | 0 | 24,170 | 0 | 24,170 |
| (145,300) | 0 | (145,300) | 0 | (145,300) |
| (100,926) | 0 | (100,926) | 0 | (100,926) |
| (37,138) | 0 | (37,138) | 0 | (37,138) |
| (19,690) | 0 | (19,690) | 0 | (19,690) |
| 113,157 | 0 | 113,157 | 0 | 113,157 |
| (161,675) | 0 | (161,675) | 0 | (161,675) |
| (30,940) | 0 | (30,940) | 0 | (30,940) |
| (1,214,069) | 0 | (1,214,069) | 0 | (1,214,069) |
| (1,507,280) | 0 | (1,507,280) | 0 | (1,507,280) |
| (267,810) | 0 | (267,810) | 0 | (267,810) |
| (7,191,591) | 0 | (7,191,591) | 0 | (7,191,591) |
| 0 | (7,755) | (7,755) | 0 | (7,755) |
| 0 | (76,237) | (76,237) | 0 | (76,237) |
| 0 | (83,992) | (83,992) | 0 | (83,992) |
| (7,191,591) | (83,992) | (7,275,583) | 0 | (7,275,583) |
| 0 | 0 | 0 | 1,181,740 | 1,181,740 |
| 774,079 | 0 | 774,079 | 0 | 774,079 |
| 119,745 | 0 | 119,745 | 0 | 119,745 |
| 1,444,151 | 0 | 1,444,151 | 0 | 1,444,151 |
| 1,314,480 | 0 | 1,314,480 | 0 | 1,314,480 |
| 372,269 | 0 | 372,269 | 0 | 372,269 |
| 1,002,774 | 0 | 1,002,774 | 0 | 1,002,774 |
| 209,890 | 0 | 209,890 | 0 | 209,890 |
| 956,810 | 0 | 956,810 | 0 | 956,810 |
| 365,744 | 0 | 365,744 | 833,853 | 1,199,597 |
| 1,130 | 0 | 1,130 | 0 | 1,130 |
| 77,915 | 5,313 | 83,228 | 1,457,265 | 1,540,493 |
| 0 | 0 | 0 | (3,128,095) | (3,128,095) |
| 6,638,987 | 5,313 | 6,644,300 | (836,977) | 5,807,323 |
| (552,604) | (78,679) | (631,283) | 344,763 | (286,520) |
| 26,688,568 | 22,988,496 | 49,677,064 | 55,994,485 | 105,671,549 |
| \$26,135,964 | \$22,909,817 | \$49,045,781 | \$56,339,248 | \$105,385,029 |

See Accountants' Compilation Report

City of Circleville
Balance Sheet
Governmental Funds
December 31, 2005

| | <i>General Fund</i> | <i>Income Tax Fund</i> | <i>Safety Forces Tax Fund</i> |
|---|--------------------------------|-----------------------------------|--|
| <i>Assets:</i> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$1,391,449 | \$26,518 | \$731,595 |
| Cash and Cash Equivalents: | | | |
| In Segregated Accounts | 35,539 | 0 | 0 |
| With Fiscal Agents | 0 | 0 | 0 |
| Receivables: | | | |
| Accrued Interest | 57,574 | 0 | 0 |
| Interfund | 0 | 0 | 0 |
| Intergovernmental | 511,426 | 0 | 0 |
| Income Taxes | 319,459 | 44,911 | 319,459 |
| Property Taxes | 745,254 | 0 | 0 |
| Other Local Taxes | 26,893 | 0 | 0 |
| Loans | 0 | 0 | 0 |
| Special Assessments | 0 | 0 | 0 |
| Materials and Supplies Inventory | 45,611 | 752 | 0 |
| Prepaid Items | 15,093 | 724 | 15,680 |
| <i>Total Assets</i> | <u>\$3,148,298</u> | <u>\$72,905</u> | <u>\$1,066,734</u> |
| <i>Liabilities and Fund Balances:</i> | | | |
| <i>Liabilities:</i> | | | |
| Accounts Payable | \$9,787 | \$1,002 | \$16,662 |
| Contracts Payable | 2,852 | 0 | 0 |
| Accrued Wages and Benefits Payable | 94,988 | 1,385 | 22,641 |
| Intergovernmental Payable | 132,600 | 1,411 | 76,070 |
| Interfund Payable | 0 | 0 | 0 |
| Deferred Revenue | 1,484,246 | 34,215 | 234,535 |
| Matured Bonds Payable | 0 | 0 | 0 |
| Matured Interest Payable | 0 | 0 | 0 |
| <i>Total Liabilities</i> | <u>1,724,473</u> | <u>38,013</u> | <u>349,908</u> |
| <i>Fund Balances:</i> | | | |
| Reserved for Encumbrances | 91,992 | 2,272 | 29,567 |
| Reserved for Loans Receivable | 0 | 0 | 0 |
| Unreserved: | | | |
| Undesignated, Reported in: | | | |
| General Fund | 1,331,833 | 0 | 0 |
| Special Revenue Funds | 0 | 32,620 | 687,259 |
| Debt Service Funds | 0 | 0 | 0 |
| Capital Projects Funds | 0 | 0 | 0 |
| <i>Total Fund Balances</i> | <u>1,423,825</u> | <u>34,892</u> | <u>716,826</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$3,148,298</u> | <u>\$72,905</u> | <u>\$1,066,734</u> |

See Accountants' Compilation Report
See Accompanying Notes to the Basic Financial Statements

| <i>General Obligation Bond Retirement Fund</i> | <i>Capital Improvement Fund</i> | <i>Nonmajor Funds</i> | <i>Total Governmental Funds</i> |
|--|---|---------------------------|---|
| \$13,776 | \$931,135 | \$1,190,436 | \$4,284,909 |
| 0 | 0 | 20,522 | 56,061 |
| 34,837 | 0 | 0 | 34,837 |
| 0 | 0 | 953 | 58,527 |
| 0 | 0 | 10,000 | 10,000 |
| 0 | 0 | 482,337 | 993,763 |
| 77,494 | 241,965 | 0 | 1,003,288 |
| 0 | 0 | 131,748 | 877,002 |
| 0 | 0 | 15,209 | 42,102 |
| 1,415,000 | 0 | 65,886 | 1,480,886 |
| 0 | 38,018 | 0 | 38,018 |
| 0 | 0 | 149,597 | 195,960 |
| 0 | 5,120 | 7,143 | 43,760 |
| <u>\$1,541,107</u> | <u>\$1,216,238</u> | <u>\$2,073,831</u> | <u>\$9,119,113</u> |
| \$1,728 | \$21,443 | \$5,932 | \$56,554 |
| 0 | 8,826 | 0 | 11,678 |
| 0 | 0 | 14,257 | 133,271 |
| 0 | 0 | 36,322 | 246,403 |
| 0 | 0 | 10,000 | 10,000 |
| 45,646 | 226,907 | 563,286 | 2,588,835 |
| 20,000 | 0 | 0 | 20,000 |
| 14,837 | 0 | 0 | 14,837 |
| <u>82,211</u> | <u>257,176</u> | <u>629,797</u> | <u>3,081,578</u> |
| 0 | 133,772 | 105,324 | 362,927 |
| 1,325,000 | 0 | 40,458 | 1,365,458 |
| 0 | 0 | 0 | 1,331,833 |
| 0 | 0 | 1,032,537 | 1,752,416 |
| 133,896 | 0 | 0 | 133,896 |
| 0 | 825,290 | 265,715 | 1,091,005 |
| <u>1,458,896</u> | <u>959,062</u> | <u>1,444,034</u> | <u>6,037,535</u> |
| <u>\$1,541,107</u> | <u>\$1,216,238</u> | <u>\$2,073,831</u> | <u>\$9,119,113</u> |

See Accountants' Compilation Report

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City of Circleville
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2005

Total Governmental Fund Balances \$6,037,535

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

| | |
|--------------------------|---------------------|
| Land | 1,040,300 |
| Construction in Progress | 273,675 |
| Infrastructure | 30,873,652 |
| Other Capital Assets | 11,377,216 |
| Accumulated Depreciation | <u>(20,296,227)</u> |

Total 23,268,616

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

| | |
|---------------------|---------------|
| Income Taxes | 737,820 |
| Property Taxes | 46,300 |
| Other Local Taxes | 38,006 |
| Special Assessments | 38,018 |
| Intergovernmental | 844,426 |
| Interest | <u>53,563</u> |

Total 1,758,133

Governmental funds report general obligation bond issuance costs as expenditures, whereas these amounts are deferred and amortized in the Statement of Activities.

71,850

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

| | |
|--------------------------|------------------|
| Accrued Interest | (20,503) |
| General Obligation Bonds | (4,575,000) |
| Capital Leases Payable | (69,239) |
| Compensated Absences | <u>(335,428)</u> |

Total (5,000,170)

Net Assets of Governmental Activities \$26,135,964

See Accountants' Compilation Report
 See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

| | <i>General Fund</i> | <i>Income Tax Fund</i> | <i>Safety Forces Tax Fund</i> |
|---|---------------------------|----------------------------|---------------------------------------|
| <u>Revenues:</u> | | | |
| Income Taxes | \$1,284,032 | \$183,211 | \$1,284,033 |
| Property Taxes | 765,406 | 0 | 0 |
| Other Local Taxes | 194,566 | 0 | 0 |
| Special Assessments | 0 | 0 | 0 |
| Intergovernmental | 964,004 | 0 | 7,000 |
| Charges for Services | 196,054 | 0 | 321,159 |
| Licenses and Permits | 394,727 | 0 | 0 |
| Fines and Forfeitures | 439,035 | 0 | 0 |
| Interest | 244,055 | 0 | 0 |
| Contributions and Donations | 3,497 | 0 | 2,250 |
| Miscellaneous | 2,713 | 17 | 7,027 |
| <i>Total Revenues</i> | <u>4,488,089</u> | <u>183,228</u> | <u>1,621,469</u> |
| <u>Expenditures:</u> | | | |
| Current Operations and Maintenance: | | | |
| Security of Persons and Property: | | | |
| Police | 1,578,021 | 0 | 701,432 |
| Fire | 701,091 | 0 | 544,621 |
| Other | 74,647 | 0 | 190,196 |
| Public Health Services | 145,300 | 0 | 0 |
| Leisure Time Activities: | | | |
| Parks and Recreation | 36,671 | 0 | 0 |
| Other | 19,690 | 0 | 0 |
| Community Development: | | | |
| City Funded | 289,432 | 0 | 0 |
| Grant Funded | 0 | 0 | 0 |
| Basic Utility Services | 2,142 | 0 | 0 |
| Transportation | 191,500 | 0 | 0 |
| General Government | 1,800,748 | 162,569 | 0 |
| Capital Outlay | 0 | 0 | 0 |
| Debt Service: | | | |
| Principal Retirement | 10,098 | 0 | 4,167 |
| Interest and Fiscal Charges | 3,804 | 0 | 801 |
| <i>Total Expenditures</i> | <u>4,853,144</u> | <u>162,569</u> | <u>1,441,217</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(365,055)</u> | <u>20,659</u> | <u>180,252</u> |
| <u>Other Financing Sources (Uses):</u> | | | |
| Inception Of Capital Lease | 0 | 0 | 0 |
| Transfers In | 0 | 0 | 0 |
| Transfers Out | (15,000) | 0 | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(15,000)</u> | <u>0</u> | <u>0</u> |
| <i>Net Change in Fund Balance</i> | (380,055) | 20,659 | 180,252 |
| <i>Fund Balances at Beginning of Year</i> | <u>1,803,880</u> | <u>14,233</u> | <u>536,574</u> |
| <i>Fund Balances at End of Year</i> | <u><u>\$1,423,825</u></u> | <u><u>\$34,892</u></u> | <u><u>\$716,826</u></u> |

See Accountants' Compilation Report
See Accompanying Notes to the Basic Financial Statements

| <i>General Obligation Bond Retirement Fund</i> | <i>Capital Improvement Fund</i> | <i>Nonmajor Funds</i> | <i>Total Governmental Funds</i> |
|--|---|---------------------------|---|
| \$326,623 | \$968,838 | \$0 | \$4,046,737 |
| 0 | 0 | 118,214 | 883,620 |
| 0 | 0 | 43,040 | 237,606 |
| 0 | 13,223 | 0 | 13,223 |
| 0 | 16,299 | 1,086,049 | 2,073,352 |
| 0 | 0 | 58,055 | 575,268 |
| 0 | 0 | 0 | 394,727 |
| 0 | 0 | 256,991 | 696,026 |
| 79,280 | 0 | 5,472 | 328,807 |
| 0 | 0 | 0 | 5,747 |
| 84 | 55,173 | 15,672 | 80,686 |
| <u>405,987</u> | <u>1,053,533</u> | <u>1,583,493</u> | <u>9,335,799</u> |
| 0 | 0 | 68,373 | 2,347,826 |
| 0 | 0 | 65,785 | 1,311,497 |
| 0 | 0 | 7,250 | 272,093 |
| 0 | 0 | 0 | 145,300 |
| 0 | 0 | 175 | 36,846 |
| 0 | 0 | 0 | 19,690 |
| 0 | 0 | 0 | 289,432 |
| 0 | 0 | 265,235 | 265,235 |
| 0 | 4,238 | 103,560 | 109,940 |
| 0 | 1,733 | 684,146 | 877,379 |
| 1,728 | 79,731 | 299,518 | 2,344,294 |
| 0 | 897,925 | 88,192 | 986,117 |
| 220,000 | 6,000 | 2,500 | 242,765 |
| 259,106 | 0 | 0 | 263,711 |
| <u>480,834</u> | <u>989,627</u> | <u>1,584,734</u> | <u>9,512,125</u> |
| <u>(74,847)</u> | <u>63,906</u> | <u>(1,241)</u> | <u>(176,326)</u> |
| 0 | 12,000 | 16,000 | 28,000 |
| 0 | 0 | 15,000 | 15,000 |
| 0 | 0 | 0 | (15,000) |
| <u>0</u> | <u>12,000</u> | <u>31,000</u> | <u>28,000</u> |
| (74,847) | 75,906 | 29,759 | (148,326) |
| <u>1,533,743</u> | <u>883,156</u> | <u>1,414,275</u> | <u>6,185,861</u> |
| <u>\$1,458,896</u> | <u>\$959,062</u> | <u>\$1,444,034</u> | <u>\$6,037,535</u> |

See Accountants' Compilation Report

City of Circleville
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds (\$148,326)

Amounts reported for governmental activities in the Statement of Activities are different because:

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

| | | |
|--|--------------------|-----------|
| Capital Asset Additions | 644,012 | |
| Depreciation | <u>(1,057,337)</u> | |
| Excess of Capital Outlay over Depreciation Expense | | (413,325) |

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

| | | |
|----------------------------|--|---------|
| Loss on Disposal of Assets | | (4,795) |
|----------------------------|--|---------|

Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability.

(28,000)

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

| | | |
|---------------------|----------------|-----------|
| Income Taxes | 86,937 | |
| Property Taxes | 10,204 | |
| Other Local Taxes | (27,716) | |
| Special Assessments | (13,223) | |
| Intergovernmental | (285,679) | |
| Accrued Interest | 36,937 | |
| Miscellaneous | <u>(2,771)</u> | |
| | | (195,311) |

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

| | | |
|--|---------------|---------|
| General Obligation Bond Principal Payments | 220,000 | |
| Capital Lease Payments | <u>22,765</u> | |
| | | 242,765 |

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

| | | |
|----------------------------------|------------|---------|
| Net Decrease in Deferred Charges | (4,950) | |
| Net Decrease in Accrued Interest | <u>851</u> | |
| | | (4,099) |

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

| | | |
|----------------------------------|--|----------------|
| Increase in Compensated Absences | | <u>(1,513)</u> |
|----------------------------------|--|----------------|

Change in Net Assets of Governmental Activities (\$552,604)

See Accountants' Compilation Report
 See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2005

| | <i>Original Budget</i> | <i>Revised Budget</i> | <i>Budgetary Actual</i> | <i>Variance Positive (Negative)</i> |
|--|-----------------------------------|----------------------------------|------------------------------------|--|
| <i>Revenues:</i> | | | | |
| Income Taxes | \$1,123,991 | \$1,111,384 | \$1,297,834 | \$186,450 |
| Property Taxes | 667,100 | 667,100 | 765,406 | 98,306 |
| Other Local Taxes | 132,500 | 189,250 | 194,176 | 4,926 |
| Intergovernmental | 976,953 | 1,049,850 | 1,016,091 | (33,759) |
| Charges for Services | 262,500 | 170,134 | 196,054 | 25,920 |
| Licenses and Permits | 374,039 | 334,000 | 394,727 | 60,727 |
| Fines and Forfeitures | 526,342 | 470,000 | 436,766 | (33,234) |
| Interest | 149,950 | 150,950 | 242,213 | 91,263 |
| Contributions and Donations | 1,119 | 1,000 | 3,497 | 2,497 |
| Miscellaneous | 7,000 | 5,000 | 2,713 | (2,287) |
| <i>Total Revenues</i> | <u>4,221,494</u> | <u>4,148,668</u> | <u>4,549,477</u> | <u>400,809</u> |
| <i>Expenditures:</i> | | | | |
| Current Operations and Maintenance: | | | | |
| Security of Persons and Property: | | | | |
| Police | 1,846,928 | 1,708,644 | 1,620,409 | 88,235 |
| Fire | 1,017,401 | 765,915 | 717,053 | 48,862 |
| Other | 83,132 | 81,535 | 80,938 | 597 |
| Public Health Services | 144,847 | 146,147 | 145,300 | 847 |
| Leisure Time Activities: | | | | |
| Parks and Recreation | 105,168 | 59,532 | 35,945 | 23,587 |
| Swimming Pool | 5,000 | 6,000 | 1,000 | 5,000 |
| Other | 20,554 | 25,554 | 25,554 | 0 |
| Community Development: | | | | |
| City Funded | 319,551 | 323,136 | 297,962 | 25,174 |
| Basic Utility Services | 4,236 | 4,236 | 2,142 | 2,094 |
| Transportation | 209,168 | 208,403 | 201,736 | 6,667 |
| General Government | 2,033,023 | 2,117,624 | 1,866,687 | 250,937 |
| <i>Total Expenditures</i> | <u>5,789,008</u> | <u>5,446,726</u> | <u>4,994,726</u> | <u>452,000</u> |
| Excess of Revenues Over (Under) Expenditures | (1,567,514) | (1,298,058) | (445,249) | 852,809 |
| <i>Other Financing Uses:</i> | | | | |
| Transfers Out | <u>(15,000)</u> | <u>(15,000)</u> | <u>(15,000)</u> | <u>0</u> |
| Net Change in Fund Balance | (1,582,514) | (1,313,058) | (460,249) | 852,809 |
| Fund Balance at Beginning of Year | 1,672,311 | 1,672,311 | 1,672,311 | 0 |
| Prior Year Encumbrances | <u>81,503</u> | <u>81,503</u> | <u>81,503</u> | <u>0</u> |
| Fund Balance at End of Year | <u><u>\$171,300</u></u> | <u><u>\$440,756</u></u> | <u><u>\$1,293,565</u></u> | <u><u>\$852,809</u></u> |

See Accountants' Compilation Report
See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
Income Tax Fund
For the Year Ended December 31, 2005

| | <i>Original Budget</i> | <i>Revised Budget</i> | <i>Budgetary Actual</i> | <i>Variance Positive (Negative)</i> |
|-------------------------------------|-----------------------------------|----------------------------------|------------------------------------|--|
| <i>Revenues:</i> | | | | |
| Income Taxes | \$222,673 | \$203,076 | \$182,454 | (\$20,622) |
| Miscellaneous | 0 | 0 | 17 | 17 |
| <i>Total Revenues</i> | 222,673 | 203,076 | 182,471 | (20,605) |
| <i>Expenditures:</i> | | | | |
| Current Operations and Maintenance: | | | | |
| General Government | 223,076 | 203,076 | 188,983 | 14,093 |
| Net Change in Fund Balance | (403) | 0 | (6,512) | (6,512) |
| Fund Balance at Beginning of Year | 30,758 | 30,758 | 30,758 | 0 |
| Fund Balance at End of Year | <u>\$30,355</u> | <u>\$30,758</u> | <u>\$24,246</u> | <u>(\$6,512)</u> |

See Accountants' Compilation Report
See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
Safety Forces Tax Fund
For the Year Ended December 31, 2005

| | <u>Original Budget</u> | <u>Revised Budget</u> | <u>Budgetary Actual</u> | <u>Variance Positive (Negative)</u> |
|-------------------------------------|----------------------------|---------------------------|-----------------------------|---|
| <u>Revenues:</u> | | | | |
| Income Taxes | \$845,916 | \$1,111,383 | \$1,297,834 | \$186,451 |
| Intergovernmental | 5,328 | 7,000 | 7,000 | 0 |
| Charges for Services | 272,107 | 357,500 | 321,159 | (36,341) |
| Contributions and Donations | 761 | 1,000 | 2,250 | 1,250 |
| Miscellaneous | 381 | 500 | 7,027 | 6,527 |
| <i>Total Revenues</i> | <u>1,124,493</u> | <u>1,477,383</u> | <u>1,635,270</u> | <u>157,887</u> |
| <u>Expenditures:</u> | | | | |
| Current Operations and Maintenance: | | | | |
| Security of Persons and Property: | | | | |
| Police | 672,165 | 794,397 | 708,105 | 86,292 |
| Fire | 401,457 | 605,838 | 533,478 | 72,360 |
| Other | 449,560 | 390,247 | 221,110 | 169,137 |
| <i>Total Expenditures</i> | <u>1,523,182</u> | <u>1,790,482</u> | <u>1,462,693</u> | <u>327,789</u> |
| Net Change in Fund Balance | (398,689) | (313,099) | 172,577 | 485,676 |
| Fund Balance at Beginning of Year | 523,989 | 523,989 | 523,989 | 0 |
| Prior Year Encumbrances | 5,461 | 5,461 | 5,461 | 0 |
| Fund Balance at End of Year | <u>\$130,761</u> | <u>\$216,351</u> | <u>\$702,027</u> | <u>\$485,676</u> |

See Accountants' Compilation Report
See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Fund Net Assets
Enterprise Funds
December 31, 2005

| | <i>Waterworks Operating Fund</i> | <i>Sewer Operating Fund</i> | <i>Total</i> |
|---|---|--|---------------------|
| <u>Assets:</u> | | | |
| <u>Current Assets:</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$3,422,020 | \$2,038,694 | \$5,460,714 |
| Receivables: | | | |
| Accounts | 178,048 | 224,237 | 402,285 |
| Special Assessments | 0 | 6,643 | 6,643 |
| Materials and Supplies Inventory | 20,041 | 47,858 | 67,899 |
| Prepaid Items | 6,250 | 6,348 | 12,598 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents with Escrow Agents | 14,555 | 0 | 14,555 |
| <i>Total Current Assets</i> | <u>3,640,914</u> | <u>2,323,780</u> | <u>5,964,694</u> |
| <u>Non-Current Assets:</u> | | | |
| Nondepreciable Capital Assets | 166,138 | 418,244 | 584,382 |
| Depreciable Capital Assets, Net | <u>5,679,434</u> | <u>11,023,241</u> | <u>16,702,675</u> |
| <i>Total Non-Current Assets</i> | <u>5,845,572</u> | <u>11,441,485</u> | <u>17,287,057</u> |
| <i>Total Assets</i> | <u>9,486,486</u> | <u>13,765,265</u> | <u>23,251,751</u> |
| <u>Liabilities:</u> | | | |
| <u>Current Liabilities:</u> | | | |
| Accounts Payable | 5,830 | 561 | 6,391 |
| Contracts Payable | 74,686 | 59,501 | 134,187 |
| Retainage Payable from Restricted Assets | 14,555 | 0 | 14,555 |
| Accrued Wages and Benefits Payable | 19,465 | 22,658 | 42,123 |
| Intergovernmental Payable | 22,112 | 26,408 | 48,520 |
| Capital Leases Payable | 3,747 | 0 | 3,747 |
| Compensated Absences Payable | <u>25,413</u> | <u>26,757</u> | <u>52,170</u> |
| <i>Total Current Liabilities</i> | 165,808 | 135,885 | 301,693 |
| <u>Long-Term Liabilities (Net of Current Portion):</u> | | | |
| Capital Leases Payable | 4,410 | 0 | 4,410 |
| Compensated Absences Payable | <u>15,841</u> | <u>19,990</u> | <u>35,831</u> |
| <i>Total Liabilities</i> | <u>186,059</u> | <u>155,875</u> | <u>341,934</u> |
| <u>Net Assets:</u> | | | |
| Invested in Capital Assets, Net of Related Debt | 5,837,415 | 11,441,485 | 17,278,900 |
| Unrestricted | <u>3,463,012</u> | <u>2,167,905</u> | <u>5,630,917</u> |
| <i>Total Net Assets</i> | <u>\$9,300,427</u> | <u>\$13,609,390</u> | <u>\$22,909,817</u> |

See Accountants' Compilation Report
See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended December 31, 2005

| | <i>Waterworks Operating Fund</i> | <i>Sewer Operating Fund</i> | <i>Total</i> |
|---|---|--|----------------------------|
| <i><u>Operating Revenues:</u></i> | | | |
| Charges for Services | \$1,427,586 | \$1,676,098 | \$3,103,684 |
| <i><u>Operating Expenses:</u></i> | | | |
| Personal Services | 513,588 | 638,462 | 1,152,050 |
| Fringe Benefits | 234,279 | 240,667 | 474,946 |
| Materials and Supplies | 379,658 | 254,265 | 633,923 |
| Contractual Services | 121,783 | 249,915 | 371,698 |
| Depreciation | 183,729 | 359,340 | 543,069 |
| Miscellaneous | 2,304 | 9,686 | 11,990 |
| <i>Total Operating Expenses</i> | <u>1,435,341</u> | <u>1,752,335</u> | <u>3,187,676</u> |
| Operating Loss | (7,755) | (76,237) | (83,992) |
| <i><u>Non-Operating Revenues:</u></i> | | | |
| Other | 4,448 | 865 | 5,313 |
| Change in Net Assets | (3,307) | (75,372) | (78,679) |
| Net Assets Beginning of Year - Restated (Note 20) | <u>9,303,734</u> | <u>13,684,762</u> | <u>22,988,496</u> |
| Net Assets End of Year | <u><u>\$9,300,427</u></u> | <u><u>\$13,609,390</u></u> | <u><u>\$22,909,817</u></u> |

See Accountants' Compilation Report
See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2005

| | <u>Waterworks Operating Fund</u> | <u>Sewer Operating Fund</u> | <u>Total</u> |
|---|--------------------------------------|---------------------------------|--------------------|
| <u>Increase (Decrease) in Cash and Cash Equivalents:</u> | | | |
| <u>Cash Flows from Operating Activities:</u> | | | |
| Cash Received from Charges for Services | \$1,412,388 | \$1,658,312 | \$3,070,700 |
| Cash Payments for Employee Services | (517,342) | (646,345) | (1,163,687) |
| Cash Payments for Employee Benefits | (237,890) | (244,385) | (482,275) |
| Cash Payments to Suppliers for Goods and Services | (382,579) | (424,777) | (807,356) |
| Cash Payments for Other Operating Expenses | (2,304) | (9,686) | (11,990) |
| Other Non-Operating Revenue | 4,448 | 865 | 5,313 |
| <i>Net Cash Provided by Operating Activities</i> | 276,721 | 333,984 | 610,705 |
| <u>Cash Flows from Capital and Related Financing Activities:</u> | | | |
| Acquisition of Capital Assets | (329,231) | (328,294) | (657,525) |
| <i>Net Increase (Decrease) in Cash and Cash Equivalents</i> | (52,510) | 5,690 | (46,820) |
| <i>Cash and Cash Equivalents Beginning of Year</i> | 3,474,530 | 2,033,004 | 5,507,534 |
| <i>Cash and Cash Equivalents End of Year</i> | <u>\$3,422,020</u> | <u>\$2,038,694</u> | <u>\$5,460,714</u> |
| <u>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:</u> | | | |
| Operating Loss | (\$7,755) | (\$76,237) | (\$83,992) |
| <u>Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:</u> | | | |
| Depreciation | 183,729 | 359,340 | 543,069 |
| Other Non-Operating Revenues | 4,448 | 865 | 5,313 |
| Changes in Assets and Liabilities: | | | |
| Increase in Accounts Receivable | (15,198) | (21,189) | (36,387) |
| Decrease in Special Assessments Receivable | 0 | 3,403 | 3,403 |
| Decrease in Materials and Supplies Inventory | 32,853 | 20,318 | 53,171 |
| Increase in Prepaid Items | (664) | (410) | (1,074) |
| Increase (Decrease) in Accounts Payable | 3,830 | (6) | 3,824 |
| Increase in Contracts Payable | 74,686 | 59,501 | 134,187 |
| Decrease in Accrued Wages and Benefits Payable | (3,309) | (5,315) | (8,624) |
| Decrease in Intergovernmental Payable | (445) | (2,568) | (3,013) |
| Decrease in Compensated Absences Payable | (3,611) | (3,718) | (7,329) |
| Increase in Capital Leases Payable | 8,157 | 0 | 8,157 |
| <i>Net Cash Provided by Operating Activities</i> | <u>\$276,721</u> | <u>\$333,984</u> | <u>\$610,705</u> |

See Accountants' Compilation Report
See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2005

| | <i>Private Purpose Trust Fund William Renick Trust</i> | <i>Agency Funds</i> |
|---|--|---------------------|
| <u>Assets:</u> | | |
| Equity in Pooled Cash and Cash Equivalents | \$200 | \$29,516 |
| Cash and Cash Equivalents In Segregated Accounts | 11,598 | 122,002 |
| <i>Total Assets</i> | 11,798 | \$151,518 |
| <u>Liabilities:</u> | | |
| Intergovernmental Payable | 0 | \$4,666 |
| Undistributed Assets | 0 | 146,852 |
| <i>Total Liabilities</i> | 0 | \$151,518 |
| <u>Net Assets:</u> | | |
| Held in Trust for Private Purposes | \$11,798 | |

See Accountants' Compilation Report
See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Year Ended December 31, 2005

| | <u><i>William Renick Trust</i></u> |
|--|--|
| <u><i>Additions:</i></u> | |
| Interest | \$400 |
| <u><i>Deductions:</i></u> | |
| Payments in Accordance with Trust Agreements | <u>600</u> |
| <i>Change in Net Assets</i> | (200) |
| <i>Net Assets Beginning of Year</i> | <u>11,998</u> |
| <i>Net Assets End of Year</i> | <u><u>\$11,798</u></u> |

See Accountants' Compilation Report
See Accompanying Notes to the Basic Financial Statements

City of Circleville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

Reporting Entity

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

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

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

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

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

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

Berger Health System

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

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

The information in Notes 2 through 20 relate to the primary government. Information related to the discretely presented component unit is presented in Note 21.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

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

Governmental Funds

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

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

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

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

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

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

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

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

Proprietary Funds

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

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

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

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

Fiduciary Funds

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

C. Measurement Focus

Government-wide Financial Statements

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

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

Fund Financial Statements

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

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

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

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

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

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

Deferred Revenues

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but were levied to finance 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

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

E. Budgets and Budgetary Accounting

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

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

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

F. Cash and Cash Equivalents

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

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

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue credited to the General Fund during 2005 amounted to \$244,055, which includes \$203,769 assigned from other funds.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

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

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

G. Materials and Supplies Inventory

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Capital Assets

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

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

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

| <u>Descriptions</u> | <u>Estimated Life</u> |
|-------------------------------------|-----------------------|
| Land Improvements | 10-25 years |
| Buildings and Building Improvements | 20-50 years |
| Machinery and Equipment | 3-20 years |
| Vehicles | 5-20 years |
| Infrastructure | 10-75 years |

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

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

The City's infrastructure consists of streets, curbs and gutters, sidewalks, street lighting, storm sewers, and water and sewer lines. In the case of the initial capitalization of general infrastructure assets, the City chose to include all such items regardless of their acquisition date.

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables". These amounts are eliminated in the governmental activities column of the Statement of Net Assets.

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Unamortized Bond Costs

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

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

N. Reserves of Fund Balance

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

O. Interfund Transactions

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

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

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include funds for the operation of recreational activities, improving the living environment of the City, the operation of police programs, and the City's street repair/improvement programs. The government-wide Statement of Net Assets reports \$3,988,030 of restricted net assets, \$60,124 of which is restricted by enabling legislation.

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

Q. Operating Revenues and Expenses

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

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

R. Estimates

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

NOTE 3 – COMPLIANCE

The Permissive Motor Vehicle and the Municipal Probation Special Revenue Funds had original appropriations in excess of original estimated revenues and available fund balances of \$13,486 and \$26,961, respectively, for the year ended December 31, 2005.

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

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING

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

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

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING (continued)

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

| Net Change in Fund Balance | | | |
|-------------------------------|-----------------|-----------------------|------------------------------|
| | General Fund | Income Tax Fund | Safety Forces Tax Fund |
| GAAP Basis | (\$380,055) | \$20,659 | \$180,252 |
| Increases (Decreases) Due To: | | | |
| Revenue Accruals | 63,635 | (757) | 13,801 |
| Expenditure Accruals | (44,152) | (24,142) | 8,092 |
| Encumbrances | (97,430) | (2,272) | (29,568) |
| Unrecorded Cash - 2004 | 33,746 | 0 | 0 |
| Unrecorded Cash - 2005 | (35,993) | 0 | 0 |
| Budget Basis | (\$460,249) | (\$6,512) | \$172,577 |

NOTE 5 – DEPOSITS AND INVESTMENTS

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

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

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

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 5 – DEPOSITS AND INVESTMENTS *(continued)*

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

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

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

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

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. Investments may only be made through specified dealers and institutions.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 6 – MUNICIPAL INCOME TAX

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

Income tax proceeds are to be used to pay the cost of administering the tax, General Fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council. In 2005, the proceeds were allocated to the General Fund, the Income Tax Special Revenue Fund, the Safety Forces Tax Special Revenue Fund, the General Obligation Bond Retirement Debt Service Fund, and the Capital Improvement Capital Projects Fund.

NOTE 7 – PROPERTY TAX

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2005 for real and public utility property taxes represents collections of 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2005, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 7 – PROPERTY TAX *(continued)*

| Category | Assessed Value |
|-------------------------------|----------------|
| Real Property: | |
| Agricultural/Residential | \$174,694,790 |
| Commercial/Industrial/Mineral | 75,978,490 |
| Public Utility Real | 71,080 |
| Tangible Personal Property: | |
| General | 23,782,438 |
| Public Utility Real | 10,076,940 |
| Total Assessed Value | \$284,603,738 |

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Circleville. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2005, and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2005 operations, and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

NOTE 8 – RECEIVABLES

Receivables at December 31, 2005, consisted of interest, interfund, intergovernmental receivables arising from grants, entitlements or shared revenues, taxes, loans, special assessments, and accounts. All receivables are considered fully collectible, including water and sewer charges receivable which, if delinquent, may be certified and collected as a special assessment, subject to foreclosure for nonpayment. Special assessments expected to be collected in more than one year for the City amount to \$32,846. The City had \$3,927 in delinquent special assessments at December 31, 2005.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 8 – RECEIVABLES *(continued)*

The City entered into a loan agreement with Berger Health System, in which Berger Health System is repaying the City for the bonds issued by the City on behalf of Berger Health System. The loan agreement is for the \$2,000,000 principal amount of bonds and the related interest. The loans receivable balance relating to this agreement at December 31, 2005, is \$1,415,000, of which \$90,000 is considered to be due within one year. The City also had loans receivable related to program housing. At December 31, 2005, the balance of these loans was \$65,886, of which \$25,428 is considered to be due within one year.

A summary of the principal items of intergovernmental receivables follows:

| | <u>Amount</u> |
|--|-------------------------|
| Governmental Activities | |
| Community Development Block Grants | \$35,858 |
| Ohio HOME Investment Grant | 109,969 |
| Estate Taxes | 30,262 |
| Homestead and Rollback | 39,830 |
| Electric Deregulation | 6,709 |
| Permissive Motor Vehicle License Taxes | 46,722 |
| Gasoline Tax | 214,133 |
| Motor Vehicle License Tax | 68,819 |
| Local Government | 315,599 |
| Local Government Revenue Assistance | 81,712 |
| Undivided State Local Government | 44,150 |
| Total Intergovernmental Receivable | <u><u>\$993,763</u></u> |

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 9 – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2005, was as follows:

| | Balance At 12/31/2004 | Additions | Deletions | Balance At 12/31/2005 |
|---|--------------------------|-------------|-----------|--------------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$1,040,300 | \$0 | \$0 | \$1,040,300 |
| Construction in Progress | 0 | 273,675 | 0 | 273,675 |
| Total Capital Assets Not Being Depreciated | 1,040,300 | 273,675 | 0 | 1,313,975 |
| Depreciable Capital Assets: | | | | |
| Land Improvements | 1,448,737 | 0 | 0 | 1,448,737 |
| Buildings and Building Improvements | 7,161,019 | 10,800 | 0 | 7,171,819 |
| Machinery and Equipment | 740,379 | 36,168 | 0 | 776,547 |
| Vehicles | 2,043,033 | 99,418 | (162,338) | 1,980,113 |
| Infrastructure | 30,693,099 | 223,951 | (43,398) | 30,873,652 |
| Total Depreciable Capital Assets | 42,086,267 | 370,337 | (205,736) | 42,250,868 |
| Total Capital Assets At Historical Cost | 43,126,567 | 644,012 | (205,736) | 43,564,843 |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (919,757) | (66,848) | 0 | (986,605) |
| Buildings and Building Improvements | (1,944,582) | (151,602) | 0 | (2,096,184) |
| Machinery and Equipment | (430,280) | (56,523) | 0 | (486,803) |
| Vehicles | (1,328,580) | (138,235) | 157,555 | (1,309,260) |
| Infrastructure | (14,816,632) | (644,129) | 43,386 | (15,417,375) |
| Total Accumulated Depreciation | (19,439,831) | (1,057,337) | 200,941 | (20,296,227) |
| Depreciable Capital Assets, Net | 22,646,436 | (687,000) | (4,795) | 21,954,641 |
| Governmental Activities Capital Assets, Net | \$23,686,736 | (\$413,325) | (\$4,795) | \$23,268,616 |

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 9 – CAPITAL ASSETS (continued)

| | Balance At 12/31/2004 | Additions | Deletions | Balance At 12/31/2005 |
|--|--------------------------|-----------|-----------|--------------------------|
| Business-Type Activities | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$141,440 | \$7,740 | \$0 | \$149,180 |
| Construction in Progress | 0 | 435,202 | 0 | 435,202 |
| Total Capital Assets Not Being Depreciated | 141,440 | 442,942 | 0 | 584,382 |
| Depreciable Capital Assets: | | | | |
| Land Improvements | 322,752 | 0 | 0 | 322,752 |
| Buildings and Building Improvements | 12,157,739 | 168,829 | 0 | 12,326,568 |
| Machinery and Equipment | 430,070 | 11,339 | 0 | 441,409 |
| Vehicles | 239,963 | 0 | 0 | 239,963 |
| Infrastructure | 15,172,214 | 36,400 | (8,012) | 15,200,602 |
| Total Depreciable Capital Assets | 28,322,738 | 216,568 | (8,012) | 28,531,294 |
| Total Capital Assets At Historical Cost | 28,464,178 | 659,510 | (8,012) | 29,115,676 |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (221,137) | (14,894) | 0 | (236,031) |
| Buildings and Building Improvements | (6,291,934) | (281,685) | 0 | (6,573,619) |
| Machinery and Equipment | (355,565) | (16,405) | 0 | (371,970) |
| Vehicles | (167,095) | (9,827) | 0 | (176,922) |
| Infrastructure | (4,255,846) | (220,258) | 6,027 | (4,470,077) |
| Total Accumulated Depreciation | (11,291,577) | (543,069) | 6,027 | (11,828,619) |
| Depreciable Capital Assets, Net | 17,031,161 | (326,501) | (1,985) | 16,702,675 |
| Business-Type Activities Capital Assets, Net | \$17,172,601 | \$116,441 | (\$1,985) | \$17,287,057 |

Depreciation expense was charged to governmental programs as follows:

| | |
|--|--------------------|
| Security of Persons and Property - Police | \$87,627 |
| Security of Persons and Property - Fire | 139,510 |
| Security of Persons and Property - Other | 23,681 |
| Leisure Time Activities - Parks and Recreation | 30,086 |
| Leisure Time Activities - Swimming Pool | 37,138 |
| Community Development - City Funded | 3,456 |
| Transportation | 688,239 |
| General Government | 47,600 |
| Total Depreciation Expense | <u>\$1,057,337</u> |

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 10 – DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the year-ended December 31, 2005, 2004, and 2003 were \$286,199, \$300,635, and \$329,743, respectively; 85.4 percent has been contributed for 2005 and 100 percent for 2004 and 2003. No contributions to the member-directed plan were made by the City or plan members during 2005.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

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

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters were \$132,592 and \$129,025 for the year-ended December 31, 2005, \$139,354 and \$122,843 for the year-ended December 31, 2004, and \$184,368 and \$182,804 for the year-ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 66.95 percent for police and 66.02 percent for firefighters has been contributed for 2005 with the remainder being reported as a liability.

NOTE 11 – POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 11 – POSTEMPLOYMENT BENEFITS *(continued)*

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, 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 .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$119,874. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 11 – POSTEMPLOYMENT BENEFITS *(continued)*

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 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 2005 that were used to fund postemployment benefits were \$87,454 for police and \$61,535 for firefighters. The OP&F's total health care expense for the year-ended December 31, 2004, (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

NOTE 12 – EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Insurance Benefits

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 12 – EMPLOYEE BENEFITS *(continued)*

C. Deferred Compensation

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

NOTE 13 – CAPITAL LEASES – LESSEE DISCLOSURE

During 2005 and in prior years, the City has entered into capitalized leases for copiers, a skid loader, and a fold and insert machine. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “*Accounting for Leases*,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets acquired by lease were initially capitalized in the amount of \$106,580 for governmental activities and \$11,339 for business-type activities, which is equal to the present value of the minimum lease payments at the time of acquisition. Corresponding liabilities were recorded on the Statement of Net Assets for governmental and business-type activities. Principal payments in 2005 totaled \$22,765 in the governmental funds and \$3,182 in the enterprise funds.

The assets acquired through capital leases for governmental activities as of December 31, 2005, are as follows:

| | Asset Value | Accumulated Depreciation | Net Book Value |
|-----------------------|----------------|-----------------------------|-------------------|
| Copier Equipment | \$78,580 | \$39,598 | \$38,982 |
| Skid Loader Equipment | 28,000 | 1,867 | 26,133 |
| Totals | \$106,580 | \$41,465 | \$65,115 |

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

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

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2005, for governmental activities:

| Year Ending December 31, | Amount |
|--|----------|
| 2006 | \$25,370 |
| 2007 | 23,714 |
| 2008 | 20,402 |
| 2009 | 6,581 |
| Total | 76,067 |
| Less: Amount representing Interest | (6,828) |
| Present Value of Minimum Lease Payment | \$69,239 |

The asset acquired through a capital lease for business-type activities as of December 31, 2005, is as follows:

| | Asset Value | Accumulated Depreciation | Net Book Value |
|---------------------------|----------------|-----------------------------|-------------------|
| Folder and Insert Machine | \$11,339 | \$2,268 | \$9,071 |

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2005, for business-type activities:

| Year Ending December 31, | Amount |
|--|---------|
| 2006 | \$4,264 |
| 2007 | 4,264 |
| 2008 | 355 |
| Total | 8,883 |
| Less: Amount representing Interest | (726) |
| Present Value of Minimum Lease Payment | \$8,157 |

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 14 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

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

| Types / Issues | Balance 12/31/2004 | Issued | Retired | Balance 12/31/2005 | Due Within One Year |
|--|---------------------------|-------------------------|-------------------------|---------------------------|-------------------------|
| <u>Business-Type Activities</u> | | | | | |
| Capital Leases | \$0 | \$11,339 | \$3,182 | \$8,157 | \$3,747 |
| Compensated Absences | 95,330 | 89,053 | 96,382 | 88,001 | 52,170 |
| Total Business-Type Activities | <u>\$95,330</u> | <u>\$100,392</u> | <u>\$99,564</u> | <u>\$96,158</u> | <u>\$55,917</u> |
| <u>Governmental Activities</u> | | | | | |
| <u>General Obligation Bonds</u> | | | | | |
| 1997 - Berger Health System | | | | | |
| Bonds \$2,000,000: | | | | | |
| Term Bonds 4.80% - 5.40% | \$1,235,000 | \$0 | \$0 | \$1,235,000 | \$0 |
| Serial Bonds 3.80% - 4.75% | 265,000 | 0 | 85,000 | 180,000 | 90,000 |
| 2000 - Capital Facilities Improvement | | | | | |
| Safety Services Building Bonds \$3,285,000 | | | | | |
| Term Bonds 5.625% | 2,060,000 | 0 | 0 | 2,060,000 | 0 |
| Serial Bonds 4.45% - 5.950% | 795,000 | 0 | 115,000 | 680,000 | 125,000 |
| 2000 - Capital Facilities Improvement | | | | | |
| City Bonds \$500,000 | | | | | |
| Term Bonds 5.625% | 315,000 | 0 | 0 | 315,000 | 0 |
| Serial Bonds 4.45% - 5.950% | 125,000 | 0 | 20,000 | 105,000 | 20,000 |
| Total General Obligation Bonds | <u>4,795,000</u> | <u>0</u> | <u>220,000</u> | <u>4,575,000</u> | <u>235,000</u> |
| <u>Other Long-Term Obligations</u> | | | | | |
| Capital Leases | 64,004 | 28,000 | 22,765 | 69,239 | 21,949 |
| Compensated Absences | 333,915 | 235,453 | 233,940 | 335,428 | 202,327 |
| Total Other Long-Term Obligations | <u>397,919</u> | <u>263,453</u> | <u>256,705</u> | <u>404,667</u> | <u>224,276</u> |
| Total Governmental Activities | <u>\$5,192,919</u> | <u>\$263,453</u> | <u>\$476,705</u> | <u>\$4,979,667</u> | <u>\$459,276</u> |

The City’s overall legal debt margin was \$26,767,288, with an unvoted debt margin of \$12,537,102 at December 31, 2005.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 14 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

(continued)

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

| Year | Governmental Activities | |
|-----------|--------------------------|-------------|
| | General Obligation Bonds | |
| | Principal | Interest |
| 2006 | \$235,000 | \$248,766 |
| 2007 | 240,000 | 237,604 |
| 2008 | 250,000 | 226,084 |
| 2009 | 265,000 | 213,436 |
| 2010 | 275,000 | 199,869 |
| 2011-2015 | 1,660,000 | 745,661 |
| 2016-2020 | 1,650,000 | 260,820 |
| Totals | \$4,575,000 | \$2,132,240 |

Berger Health System Bonds

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

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

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 14 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

(continued)

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

Capital Facilities Safety Services Building Bonds

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

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

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

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

Capital Facilities City Services Building Bonds

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 14 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

(continued)

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

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

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

Conduit Debt

During 2003, the City issued revenue bonds in the aggregate principal amount of \$26,000,000 for Berger Health System. The proceeds are to be used by Berger Health System for future capital expenditures and to retire \$9 million of old debt. The bonds are to be repaid by the recipient of the proceeds and do not represent an obligation of the City. There has not been, and currently is not any condition of default under the bonds or the related financing documents. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely from the City's debt presentation. Neither is the full faith and credit or taxing power of the City pledged to make repayment. The balance outstanding as of December 31, 2005, is \$17,907,500.

Compensated Absences/Capital Leases

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 15 – RISK MANAGEMENT

The City maintains comprehensive insurance coverage with private carriers for real property, building contents, vehicles, general liability insurance, crime and police professional liability insurance. The City also carries public officials and employment practices liability insurance. Settlements have not exceeded coverage in any of the last three years. The City has experienced an increase in the number of lawsuits filed in the areas of Law Enforcement and Public Entity Employment Practices. This proliferation of lawsuits has resulted in an increase in the City's deductible to \$25,000 for each claim filed under effected liability coverage. To combat these lawsuits the City has instituted new policies and procedures as recommended by the City's liability insurance carrier. In addition, advanced risk management training has been incorporated into the training cycle for the City's personnel.

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

NOTE 16 – INTERFUND ACTIVITY

As of December 31, 2005, interfund receivables and payables that resulted from various interfund transactions were as follows:

| | Receivable Nonmajor Governmental Funds |
|-----------------------------|---|
| Payable | |
| Nonmajor Governmental Funds | \$10,000 |

Advances from the Revolving Housing Loan Fund to the Small Cities Community Development Block Grant Fund were made to provide monies from housing income to make expenditures for which additional sources of income had not yet been received. When the monies are finally received, the Small Cities Community Development Block Grant Fund will use these restricted monies to reimburse the Revolving Housing Loan Fund for the initial advance.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 16 – INTERFUND ACTIVITY *(continued)*

Transfers made during the year ended December 31, 2005, were as follows:

| | | <u>Transfers To Nonmajor Governmental Funds</u> |
|---------------------------|---------|---|
| Transfers From | General | <u>\$15,000</u> |

Transfers from the General Fund to nonmajor governmental funds were made to maintain the fund balance in the Sick Leave Retirement Fund for the anticipation of future retirements.

NOTE 17 – JOINTLY GOVERNED ORGANIZATION

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

NOTE 18 – CONTRACTUAL COMMITMENTS

The City has entered into various contracts for the construction of capital assets. The outstanding construction commitments at December 31, 2005, are:

| <u>Contractor</u> | <u>Contract Amount</u> | <u>Amount Expended</u> | <u>Balance At December 31, 2005</u> |
|-------------------|----------------------------|----------------------------|---|
| J.E. Peters, Inc. | \$116,722 | \$81,750 | \$34,972 |
| KMC Paving | 308,348 | 261,577 | 46,771 |
| Total | <u>\$425,070</u> | <u>\$343,327</u> | <u>\$81,743</u> |

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 19 – CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grants

For the period January 1, 2005, to December 31, 2005, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE 20 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR NET ASSETS

For 2005, the City has implemented *GASB Statement No. 40, "Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3," GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,"* and *GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34"*.

GASB Statement No. 40 creates new disclosure requirements for deposits and investments related to risk, including credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the City's financial statements for 2005.

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the City's financial statements for 2005.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining whether restricted net assets should be classified as restricted. The implementation of this statement had no effect on the City's financial statements for 2005.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 20 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR NET ASSETS *(continued)*

For 2005, a change in the fund structure occurred in order to more accurately reflect the recording of deposits held for water and sewer connections. The effect of this change resulted in the following restatements of net assets:

| | Water Operating Fund | Sewer Operating Fund | Total |
|---|-------------------------|-------------------------|--------------|
| Net Assets, December 31, 2004 | \$9,337,712 | \$13,650,784 | \$22,988,496 |
| Change in Fund Structure | (33,978) | 33,978 | 0 |
| Net Assets, December 31, 2004 as Restated | \$9,303,734 | \$13,684,762 | \$22,988,496 |

NOTE 21 – BERGER HEALTH SYSTEM

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

A. Basis of Accounting

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

B. Budgetary Basis of Accounting

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 21 – BERGER HEALTH SYSTEM *(continued)*

C. Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year-end, the System had approximately \$294,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured but are collateralized with securities held by the pledging financial institution. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System does not have a policy for custodial credit risk. At year-end, the following approximates the investment securities that were collateralized, with securities held by the counterparty or by its trust department or agent:

| <u>Type of Investment</u> | <u>Carrying Value</u> | <u>How Held</u> |
|---------------------------|-----------------------|-----------------|
| US Agency Bonds | \$25,138,000 | Counterparty |
| STAROhio | 227,000 | System's Name |
| Totals | <u>\$25,365,000</u> | |

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 21 – BERGER HEALTH SYSTEM *(continued)*

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System does not have an investment policy that addresses interest rate risk. At year-end, the average maturities of investments are as follows:

| <u>Investment</u> | <u>Fair Value</u> | <u>Weighted Average Maturity</u> |
|-------------------|----------------------------|----------------------------------|
| US Agency Bonds | \$25,138,000 | 1.07 Years |
| STAROhio | 227,000 | ----- |
| Totals | <u><u>\$25,365,000</u></u> | |

Credit Risk

The System does not have an investment policy that addresses credit risk. At the end of the year, the credit quality ratings of debt securities (other than the U.S. Government) are as follows:

| <u>Investment</u> | <u>Fair Value</u> | <u>Rating</u> | <u>Rating on</u> |
|-------------------|----------------------------|---------------|-------------------|
| US Agency Bonds | \$25,138,000 | AAA | Standard & Poor's |
| STAROhio | 227,000 | AAA | Standard & Poor's |
| Totals | <u><u>\$25,365,000</u></u> | | |

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 21 – BERGER HEALTH SYSTEM *(continued)*

D. Capital Assets

Capital assets activity for the year ended December 31, 2005, was as follows:

| | Balance At 12/31/2004 | Additions | Deletions | Balance At 12/31/2005 |
|--|--------------------------|---------------------|-----------------------|--------------------------|
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$1,387,128 | \$2,573,985 | (\$432,623) | \$3,528,490 |
| Construction in Progress | 9,942,348 | 8,117,208 | (17,258,256) | 801,300 |
| Total Capital Assets Not Being Depreciated | <u>11,329,476</u> | <u>10,691,193</u> | <u>(17,690,879)</u> | <u>4,329,790</u> |
| Depreciable Capital Assets: | | | | |
| Land Improvements | 1,068,956 | 403,120 | 0 | 1,472,076 |
| Buildings | 23,059,564 | 9,882,164 | (155,540) | 32,786,188 |
| Building Improvements | 12,561,444 | 4,392,646 | 0 | 16,954,090 |
| Equipment | 30,787,813 | 3,090,402 | (1,094) | 33,877,121 |
| Total Depreciable Capital Assets | <u>67,477,777</u> | <u>17,768,332</u> | <u>(156,634)</u> | <u>85,089,475</u> |
| Total Capital Assets At Historical Cost | <u>78,807,253</u> | <u>28,459,525</u> | <u>(17,847,513)</u> | <u>89,419,265</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (827,504) | (81,414) | 0 | (908,918) |
| Buildings | (8,408,077) | (1,027,048) | 13,785 | (9,421,340) |
| Building Improvements | (6,733,532) | (798,040) | 0 | (7,531,572) |
| Equipment | (20,988,481) | (3,533,293) | 0 | (24,521,774) |
| Total Accumulated Depreciation | <u>(36,957,594)</u> | <u>(5,439,795)</u> | <u>13,785</u> | <u>(42,383,604)</u> |
| Depreciable Capital Assets, Net | <u>30,520,183</u> | <u>12,328,537</u> | <u>(142,849)</u> | <u>42,705,871</u> |
| Capital Assets, Net | <u>\$41,849,659</u> | <u>\$23,019,730</u> | <u>(\$17,833,728)</u> | <u>\$47,035,661</u> |

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 21 – BERGER HEALTH SYSTEM *(continued)*

E. Long-Term Obligations

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

| Types / Issues | Balance 12/31/2004 | Issued | Retired | Balance 12/31/2005 | Due Within One Year |
|--|-----------------------|-------------|-------------|-----------------------|------------------------|
| 1997 - 5.036% - 5.400% City of Circleville Loan \$2,000,000 | \$1,492,916 | \$0 | \$85,416 | \$1,407,500 | \$90,000 |
| <u>Revenue Bonds</u> | | | | | |
| 2003 - City of Circleville Hospital Facilities Revenue Bonds Series 2003A | 4,025,000 | 0 | 1,980,000 | 2,045,000 | 1,980,000 |
| 2003 - City of Circleville Hospital Facilities Revenue Bonds Series 2003B | 9,166,667 | 0 | 666,667 | 8,500,000 | 666,667 |
| 2003 - City of Circleville Hospital Facilities Revenue Bonds Series 2003C | 8,312,500 | 0 | 950,000 | 7,362,500 | 950,000 |
| Total Revenue Bonds | 21,504,167 | 0 | 3,596,667 | 17,907,500 | 3,596,667 |
| <u>Other Long-Term Obligations</u> | | | | | |
| Capital Leases | 0 | 4,000,000 | 184,193 | 3,815,807 | 565,554 |
| Compensated Absences | 822,819 | 1,704,946 | 1,537,502 | 990,263 | 0 |
| Total Other Long-Term Obligations | 822,819 | 5,704,946 | 1,721,695 | 4,806,070 | 565,554 |
| Total Long-Term Obligations | \$23,819,902 | \$5,704,946 | \$5,403,778 | \$24,121,070 | \$4,252,221 |

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

| Year | Long-Term Debt | | Capital Lease Obligation | |
|-------------|----------------|-------------|--------------------------|-----------|
| | Principal | Interest | Principal | Interest |
| 2006 | \$3,686,667 | \$614,996 | \$565,554 | \$123,826 |
| 2007 | 1,772,083 | 524,949 | 585,553 | 103,828 |
| 2008 | 1,712,083 | 470,353 | 606,258 | 83,122 |
| 2009 | 1,717,083 | 415,448 | 627,696 | 61,685 |
| 2010 | 1,722,500 | 360,272 | 1,430,746 | 28,840 |
| 2011 - 2015 | 8,416,667 | 761,384 | 0 | 0 |
| 2016 - 2020 | 287,917 | 23,220 | 0 | 0 |
| Total | \$19,315,000 | \$3,170,622 | \$3,815,807 | \$401,301 |

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2005

NOTE 21 – BERGER HEALTH SYSTEM *(continued)*

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

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

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

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

F. Self-Insured Benefits

The System is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$100,000 per employee. Claims, charged to operations when incurred, were approximately \$4,200,000 for the year ended December 31, 2005.