

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

*General Purpose
Financial Statements*
(Audited)

FOR THE YEAR ENDED
DECEMBER 31, 2003

SONJA KEATON, DIRECTOR OF FINANCE



**Auditor of State
Betty Montgomery**

Mayor and City Council
City of Brookville
301 Sycamore Street
Brookville, Ohio 45309

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 30, 2004

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**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

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TRIMBLE, JULIAN & GRUBE, INC.

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Independent Auditor’s Report

Members of Council and Mayor
City of Brookville
301 Sycamore Street
Brookville, Ohio 45309

We have audited the accompanying general purpose financial statements of the City of Brookville, Montgomery County, Ohio, as of and for the year ended December 31, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Brookville’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Brookville, Montgomery County, as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City has restated Retained Earnings within the Enterprise Fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2004, on our consideration of the City of Brookville’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Trimble, Julian & Grube, Inc.
May 24, 2004

CITY OF BROOKVILLE, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2003

| | Governmental Fund Types | | | Proprietary Fund Type |
|--|--------------------------------|----------------------------|-----------------------------|----------------------------------|
| | General | Special Revenue | Capital Projects | Enterprise |
| <u>Assets and Other Debits</u> | | | | |
| Assets: | | | | |
| Equity in pooled cash and cash equivalents | \$ 1,065,273 | \$ 147,249 | \$ 906,371 | \$ 336,086 |
| Cash with fiscal agent | - | - | - | 232,372 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Taxes | 532,910 | - | - | - |
| Accounts | 37,589 | 1,960 | - | 299,505 |
| Accrued interest | 3,671 | - | - | - |
| Special assessments. | - | - | 3,792 | - |
| Due from other governments | 96,411 | 113,257 | - | - |
| Prepayments. | 18,044 | 5,356 | - | 4,794 |
| Materials and supplies inventory | 15,116 | 10,742 | - | 1,235 |
| Property, plant and equipment (net of accumulated depreciation where applicable). | - | - | - | 6,348,764 |
| Other Debits: | | | | |
| Amount to be provided from general government resources | - | - | - | - |
| Total assets and other debits | <u>\$ 1,769,014</u> | <u>\$ 278,564</u> | <u>\$ 910,163</u> | <u>\$ 7,222,756</u> |
| <u>Liabilities, equity and other credits</u> | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 18,886 | \$ 3,445 | \$ 2,561 | \$ 117,946 |
| Accrued wages and benefits. | 21,322 | 4,060 | - | 7,576 |
| Compensated absences payable. | 5,268 | 1,274 | - | 47,326 |
| Due to other governments | 74,977 | 9,789 | - | 14,635 |
| Pension obligation payable | 36,165 | 550 | - | 1,027 |
| Deferred revenue | 434,354 | 94,941 | 3,792 | - |
| Mortgage note payable. | - | - | - | - |
| OWDA loan payable | - | - | - | 503,168 |
| OWPC loans payable | - | - | - | 963,889 |
| Total liabilities | <u>590,972</u> | <u>114,059</u> | <u>6,353</u> | <u>1,655,567</u> |
| Equity and other credits: | | | | |
| Investment in general fixed assets | - | - | - | - |
| Retained earnings: | | | | |
| Unreserved. | - | - | - | 5,567,189 |
| Fund Balances: | | | | |
| Reserved for encumbrances | 6,189 | 32,739 | 26,943 | - |
| Reserved for materials and supplies inventory | 15,116 | 10,742 | - | - |
| Reserved for prepayments. | 18,044 | 5,356 | - | - |
| Unreserved - undesignated | 1,138,693 | 115,668 | 876,867 | - |
| Total equity and other credits | <u>1,178,042</u> | <u>164,505</u> | <u>903,810</u> | <u>5,567,189</u> |
| Total liabilities, equity and other credits. | <u>\$ 1,769,014</u> | <u>\$ 278,564</u> | <u>\$ 910,163</u> | <u>\$ 7,222,756</u> |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

| Fiduciary Fund Type | Account Groups | | Total (Memorandum Only) |
|------------------------|-------------------------|-------------------------------------|-------------------------------|
| Expendable Trust | General Fixed Assets | General Long-Term Obligations | |
| \$ 4,529 | \$ - | \$ - | \$ 2,459,508 |
| - | - | - | 232,372 |
| - | - | - | 532,910 |
| - | - | - | 339,054 |
| - | - | - | 3,671 |
| - | - | - | 3,792 |
| - | - | - | 209,668 |
| - | - | - | 28,194 |
| - | - | - | 27,093 |
| - | 8,015,894 | - | 14,364,658 |
| - | - | 1,279,352 | 1,279,352 |
| <u>\$ 4,529</u> | <u>\$ 8,015,894</u> | <u>\$ 1,279,352</u> | <u>\$ 19,480,272</u> |
| \$ - | \$ - | \$ - | \$ 142,838 |
| - | - | - | 32,958 |
| - | - | 107,432 | 161,300 |
| - | - | - | 99,401 |
| - | - | - | 37,742 |
| - | - | - | 533,087 |
| - | - | 1,171,920 | 1,171,920 |
| - | - | - | 503,168 |
| - | - | - | 963,889 |
| - | - | 1,279,352 | 3,646,303 |
| - | 8,015,894 | - | 8,015,894 |
| - | - | - | 5,567,189 |
| - | - | - | 65,871 |
| - | - | - | 25,858 |
| - | - | - | 23,400 |
| 4,529 | - | - | 2,135,757 |
| <u>4,529</u> | <u>8,015,894</u> | <u>-</u> | <u>15,833,969</u> |
| <u>\$ 4,529</u> | <u>\$ 8,015,894</u> | <u>\$ 1,279,352</u> | <u>\$ 19,480,272</u> |

CITY OF BROOKVILLE, OHIO

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

| | Governmental Fund Types | | | Fiduciary Fund Type | Total (Memorandum Only) |
|--|-------------------------|--------------------|---------------------|------------------------|-------------------------------|
| | General | Special Revenue | Capital Projects | Expendable Trust | |
| Revenues: | | | | | |
| Municipal income tax | \$ 2,102,733 | \$ - | \$ - | \$ - | \$ 2,102,733 |
| Property and other taxes | 129,192 | - | - | - | 129,192 |
| Charges for services | 361,204 | 24,935 | 191,505 | - | 577,644 |
| Licenses, permits and fees | 91,910 | 18,892 | - | - | 110,802 |
| Special assessments | - | - | 27,006 | - | 27,006 |
| Intergovernmental | 342,223 | 235,097 | 446,941 | - | 1,024,261 |
| Investment income | 37,811 | 42 | - | - | 37,853 |
| Donations. | - | - | - | 1,847 | 1,847 |
| Other | 19,335 | 1,338 | 6,968 | - | 27,641 |
| Total revenues | 3,084,408 | 280,304 | 672,420 | 1,847 | 4,038,979 |
| Expenditures: | | | | | |
| Current operations: | | | | | |
| General government | 689,111 | - | - | - | 689,111 |
| Security of persons and property. | 1,553,918 | - | - | - | 1,553,918 |
| Public health and welfare | - | 4,884 | - | - | 4,884 |
| Transportation | - | 454,610 | - | - | 454,610 |
| Community environment | - | - | - | 884 | 884 |
| Leisure time activity | - | 95,675 | - | - | 95,675 |
| Capital outlay. | 26,584 | - | 1,187,733 | - | 1,214,317 |
| Debt service: | | | | | |
| Principal retirement | - | - | 60,200 | - | 60,200 |
| Total expenditures | 2,269,613 | 555,169 | 1,247,933 | 884 | 4,073,599 |
| Excess of revenues over (under) expenditures. | 814,795 | (274,865) | (575,513) | 963 | (34,620) |
| Other financing sources (uses): | | | | | |
| Sale of fixed assets. | - | - | 24,566 | - | 24,566 |
| Operating transfers in | - | 300,000 | 600,000 | - | 900,000 |
| Operating transfers out | (965,000) | - | - | - | (965,000) |
| Total other financing sources (uses) | (965,000) | 300,000 | 624,566 | - | (40,434) |
| Excess of revenues and other financing sources over (under) expenditures and other financing (uses). | (150,205) | 25,135 | 49,053 | 963 | (75,054) |
| Fund balances, January 1 | 1,328,816 | 141,485 | 854,757 | 3,566 | 2,328,624 |
| Decrease in reserve for inventory | (569) | (2,115) | - | - | (2,684) |
| Fund balances, December 31 | \$ 1,178,042 | \$ 164,505 | \$ 903,810 | \$ 4,529 | \$ 2,250,886 |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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CITY OF BROOKVILLE, OHIO

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2003

| | General | | | Special Revenue | | |
|--|--------------------|---------------------|---|-------------------|-------------------|---|
| | Revised Budget | Actual | Variance: Favorable (Unfavorable) | Revised Budget | Actual | Variance: Favorable (Unfavorable) |
| Revenues: | | | | | | |
| Income taxes | \$ 1,965,532 | \$ 2,014,461 | \$ 48,929 | \$ - | \$ - | \$ - |
| Property and other taxes | 110,000 | 114,480 | 4,480 | - | - | - |
| Charges for services | 370,800 | 377,179 | 6,379 | 33,800 | 23,075 | (10,725) |
| Licenses, permits and fees | 81,100 | 88,122 | 7,022 | 22,500 | 18,892 | (3,608) |
| Special assessments | - | - | - | - | - | - |
| Intergovernmental | 369,500 | 377,372 | 7,872 | 225,484 | 232,444 | 6,960 |
| Investment income | 100,000 | 37,975 | (62,025) | 100 | 42 | (58) |
| Other. | 16,600 | 19,335 | 2,735 | 2,500 | 1,388 | (1,112) |
| Total revenues | 3,013,532 | 3,028,924 | 15,392 | 284,384 | 275,841 | (8,543) |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | 701,149 | 681,706 | 19,443 | - | - | - |
| Security of persons and property. | 1,588,423 | 1,520,880 | 67,543 | 2,000 | - | 2,000 |
| Public health and welfare | - | - | - | 4,884 | 4,884 | - |
| Transportation | - | - | - | 627,202 | 538,741 | 88,461 |
| Leisure time activity. | - | - | - | 111,531 | 94,505 | 17,026 |
| Capital outlay | 33,350 | 26,584 | 6,766 | - | - | - |
| Debt service: | | | | | | |
| Principal retirement | - | - | - | - | - | - |
| Total expenditures | 2,322,922 | 2,229,170 | 93,752 | 745,617 | 638,130 | 107,487 |
| Excess of revenues over (under) expenditures. | 690,610 | 799,754 | 109,144 | (461,233) | (362,289) | 98,944 |
| Other financing sources (uses): | | | | | | |
| Proceeds from sale of fixed assets. | - | - | - | - | - | - |
| Other financing sources | - | - | - | 65,000 | 57,895 | (7,105) |
| Operating transfers in | - | - | - | 300,000 | 300,000 | - |
| Operating transfers out | (1,000,000) | (965,000) | 35,000 | - | - | - |
| Total other financing sources (uses) | (1,000,000) | (965,000) | 35,000 | 365,000 | 357,895 | (7,105) |
| Excess of revenues and other financing sources over (under) expenditures and other financing (uses). | (309,390) | (165,246) | 144,144 | (96,233) | (4,394) | 91,839 |
| Fund balance, January 1 | 1,220,603 | 1,220,603 | - | 110,572 | 110,572 | - |
| Prior year encumbrances appropriated | 2,922 | 2,922 | - | 7,233 | 7,233 | - |
| Fund balance, December 31. | \$ 914,135 | \$ 1,058,279 | \$ 144,144 | \$ 21,572 | \$ 113,411 | \$ 91,839 |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

| Capital Projects | | | Total (Memorandum Only) | | |
|------------------|------------|-----------------------------------|-------------------------|--------------|-----------------------------------|
| Revised Budget | Actual | Variance: Favorable (Unfavorable) | Revised Budget | Actual | Variance: Favorable (Unfavorable) |
| \$ - | \$ - | \$ - | \$ 1,965,532 | \$ 2,014,461 | \$ 48,929 |
| - | - | - | 110,000 | 114,480 | 4,480 |
| 188,000 | 191,505 | 3,505 | 592,600 | 591,759 | (841) |
| - | - | - | 103,600 | 107,014 | 3,414 |
| 41,000 | 27,006 | (13,994) | 41,000 | 27,006 | (13,994) |
| 690,510 | 502,976 | (187,534) | 1,285,494 | 1,112,792 | (172,702) |
| - | - | - | 100,100 | 38,017 | (62,083) |
| 6,000 | 6,968 | 968 | 25,100 | 27,691 | 2,591 |
| 925,510 | 728,455 | (197,055) | 4,223,426 | 4,033,220 | (190,206) |
| - | - | - | 701,149 | 681,706 | 19,443 |
| - | - | - | 1,590,423 | 1,520,880 | 69,543 |
| - | - | - | 4,884 | 4,884 | - |
| - | - | - | 627,202 | 538,741 | 88,461 |
| - | - | - | 111,531 | 94,505 | 17,026 |
| 2,109,135 | 1,238,242 | 870,893 | 2,142,485 | 1,264,826 | 877,659 |
| 60,200 | 60,200 | - | 60,200 | 60,200 | - |
| 2,169,335 | 1,298,442 | 870,893 | 5,237,874 | 4,165,742 | 1,072,132 |
| (1,243,825) | (569,987) | 673,838 | (1,014,448) | (132,522) | 881,926 |
| 158,000 | 24,566 | (133,434) | 158,000 | 24,566 | (133,434) |
| - | - | - | 65,000 | 57,895 | (7,105) |
| 600,000 | 600,000 | - | 900,000 | 900,000 | - |
| - | - | - | (1,000,000) | (965,000) | 35,000 |
| 758,000 | 624,566 | (133,434) | 123,000 | 17,461 | (105,539) |
| (485,825) | 54,579 | 540,404 | (891,448) | (115,061) | 776,387 |
| 772,453 | 772,453 | - | 2,103,628 | 2,103,628 | - |
| 49,835 | 49,835 | - | 59,990 | 59,990 | - |
| \$ 336,463 | \$ 876,867 | \$ 540,404 | \$ 1,272,170 | \$ 2,048,557 | \$ 776,387 |

CITY OF BROOKVILLE, OHIO

COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2003

| | Proprietary Fund Type |
|---|----------------------------------|
| | Enterprise |
| Operating revenues: | |
| Charges for services | \$ 1,414,117 |
| Total operating revenues | 1,414,117 |
| Operating expenses: | |
| Personal services | 615,634 |
| Contract services | 613,930 |
| Materials and supplies | 34,028 |
| Depreciation | 419,923 |
| Total operating expenses | 1,683,515 |
| Operating loss. | (269,398) |
| Nonoperating expenses: | |
| Interest expense and fiscal charges | (55,424) |
| Total nonoperating expenses | (55,424) |
| Loss before operating transfers and capital contributions. | (324,822) |
| Operating transfers in. | 65,000 |
| Capital contributions | 155,000 |
| Net loss | (104,822) |
| Retained earnings, January 1 (restated). . | 5,672,011 |
| Retained earnings, December 31 | \$ 5,567,189 |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF BROOKVILLE, OHIO

COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE
 FOR THE YEAR ENDED DECEMBER 31, 2003

| | Proprietary Fund Type |
|---|----------------------------------|
| | Enterprise |
| Cash flows from operating activities: | |
| Cash received from customers | \$ 1,428,167 |
| Cash payments for personal services | (605,504) |
| Cash payments for contract services | (605,419) |
| Cash payments for materials and supplies | (33,846) |
| | 183,398 |
| Net cash provided by operating activities | 183,398 |
| Cash flows from noncapital financing activities: | |
| Transfers in from other funds | 65,000 |
| | 65,000 |
| Net cash provided by noncapital financing activities | 65,000 |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (171,300) |
| Capital contributions. | 155,000 |
| Principal retirement | (134,558) |
| Interest and fiscal charges | (55,424) |
| | (206,282) |
| Net cash used in capital and related financing activities | (206,282) |
| Net increase in cash and cash equivalents | 42,116 |
| Cash and cash equivalents at January 1 (restated) . . | 526,342 |
| Cash and cash equivalents at December 31. | \$ 568,458 |
| Reconciliation of operating loss to net cash provided by operating activities: | |
| Operating loss | \$ (269,398) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | |
| Depreciation | 419,923 |
| Changes in assets and liabilities: | |
| Decrease in accounts receivable. | 14,050 |
| Decrease in materials and supplies inventory | 182 |
| Decrease in prepayments | 3,237 |
| Decrease in accounts payable. | (610) |
| Increase in accrued wages and benefits | 2,286 |
| Increase in compensated absences payable | 7,844 |
| Increase in due to other governments. | 5,574 |
| Increase in pension obligation payable | 310 |
| | 183,398 |
| Net cash provided by operating activities. | \$ 183,398 |

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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CITY OF BROOKVILLE, OHIO

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

NOTE 1 - DESCRIPTION OF THE CITY

The City of Brookville (the "City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The City operates under a council-mayor form of government and provides the following services: police protection, water and sewer utility services, street maintenance and repair, as well as other services.

Management believes the financial statements included in this report represent all of the funds of the City over which the City officials are financially accountable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the City's GPFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's GPFS to be misleading or incomplete. Based upon the foregoing criteria, the City has no component units.

B. Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of fund or account groups, each of which is considered a separate account entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses, as appropriate. The various funds are summarized by type in the GPFS.

A fund is defined as a fiscal and accounting entity with a self balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

General Fund - This fund accounts for the general operating revenues and expenditures of the City not recorded elsewhere.

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Capital Projects Funds - These funds are used to account for the acquisition or construction of major capital assets other than those financed by proprietary funds.

PROPRIETARY FUNDS

The proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following is the City's proprietary fund type:

Enterprise Funds - These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

FIDUCIARY FUNDS

These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The following is the City's fiduciary fund type:

Expendable Trust Fund - This fund is used to account for assets held by the City in a trustee capacity. There was no activity in this fund for the year ended December 31, 2003.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is used to present the general fixed assets of the City utilized in its general operations, exclusive of those accounted for in the enterprise funds. General fixed assets include land, buildings, building improvements, computer equipment, vehicles, and furniture and equipment owned by the City.

General Long-Term Obligations Account Group - This account group is used to account for all long-term obligations of the City, except that accounted for in the proprietary funds.

CITY OF BROOKVILLE, OHIO

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) consists of retained earnings. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental and agency funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting. Differences between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the reporting of expenses and 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 fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of year-end.

Nonexchange 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 taxes is recognized in the period in which the income is earned (see Note 7). Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal 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 nonexchange 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: interest, federal and state grants and subsidies, state-levied locally shared taxes (including motor vehicle license fees and gasoline taxes), fines and forfeitures, licenses and permits, and fees for services.

DEFERRED REVENUE

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

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenues. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On the modified accrual basis of accounting, 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. On the modified accrual basis of accounting, 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.

D. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code (ORC) and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources. All funds, other than agency funds, legally are required to be budgeted and appropriated.

The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected revenue of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

The amounts set forth as "revised budget" revenues and other financing sources in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund types represent estimated revenues from the final amended certificate of resources issued during 2003.

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Appropriation budgets are legally required for each fund (except agency funds) at the object level. This is known as the legal level of budgetary control. Appropriation modifications outside the legal level of budgetary control must be approved by City Council. A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31.

An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified and the fund balance at the beginning of the year. Supplemental appropriations were legally enacted by City Council in 2003.

Amounts shown as “revised budget” expenditures and other financing uses in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types represent the original appropriated budget and all supplemental appropriations.

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is utilized during the year for budget control purposes. Encumbrances outstanding at year-end are reported as expenditures under the City’s budgetary basis of accounting. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances for governmental funds since they do not constitute expenditures or liabilities.

F. Cash and Investments

To improve cash management, cash received by the City other than cash with fiscal agent is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City’s records. Each fund’s interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents” on the combined balance sheet.

During 2003, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

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

Following Ohio statutes, the Council has, by resolution, specified the funds to receive an allocation of interest earnings. During 2003, interest revenue in the general fund amounted to \$37,811 which includes \$20,161 assigned from other City funds.

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

For purposes of the Combined Statement of Cash Flows and for presentation on the Combined Balance Sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents.

An analysis of the City's investment accounts at year-end is provided in Note 4.

G. Materials and Supplies Inventory

Inventories for governmental funds are stated at cost while inventories of proprietary funds are stated at lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in the proprietary funds when used. The total of inventories at year-end is reported as a reservation of fund balance in the governmental funds because it does not represent available spendable resources even though it is a component of net current assets.

H. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

I. Property, Plant, Equipment, and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and disposals during the year in the general fixed assets account group. The City follows a policy of not capitalizing infrastructure, which is defined as assets that are immovable and of value only to the City, (i.e., roads, bridges, etc.). No depreciation is recognized for assets in the account group. Interest on debt issued to construct general fixed assets is not capitalized in the account group. The City has established a capitalization threshold of \$5,000 for general fixed assets.

2. Proprietary Fund Fixed Assets

Property, plant, and equipment reflected in the proprietary funds are stated at cost (or estimated historical cost) and updated for the cost of additions and disposals during the year. Contributed fixed assets are recorded at their fair market value as of the date donated. Depreciation and amortization have been provided on a straight-line basis over the following estimated useful lives:

| <u>Description</u> | <u>Estimated Life (years)</u> |
|----------------------------|-------------------------------|
| Vehicles | 8 |
| Furniture and equipment | 15 |
| Land improvements | 20 |
| Buildings and improvements | 50 |

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The City also capitalizes the cost of major renovations which extend the useful life of an asset or which enable it to perform new or more valuable services. Interest on tax exempt debt issued to construct enterprise fund fixed assets is capitalized, net of interest earned on the proceeds of such debt. The City has established a capitalization threshold of \$5,000 for proprietary fixed assets.

3. Valuation

Fixed asset values were initially determined with an appraisal dated October 31, 2002, by assigning original acquisition costs when such information was available. In cases when original costs were not practicably determinable, estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

J. Compensated Absences

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service or any employee with at least twenty (20) years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16. Sick leave benefits were accrued using the "vesting" method.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates. Payment of vacation and sick leave recorded in the general long-term obligations account group is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payment of vacation and sick leave when such payments become due.

Accumulated vacation and sick leave of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave benefits for employees meeting the above requirements who are paid from proprietary funds are recorded as an expense when earned, and the liability for unused amounts is shown as a fund liability.

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Long-Term Obligations

Long-term obligations for Ohio Water Development Authority (OWDA) loans, Ohio Public Works Commission (OPWC) loans, Mortgage note payable, and vested sick and vacation leave that is expected to be paid from the governmental funds are shown in the general long-term obligations account group, while those expected to be paid from proprietary funds are shown as a liability of those funds.

L. Contributions of Capital

Contributions of capital in proprietary funds arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. In accordance with GASB Statement No. 33, capital contributions received in 2003 are recorded as revenue and a component of retained earnings at year-end. There was \$155,000 in capital contributions received by the enterprise funds in 2003.

M. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. The most significant may include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers. Intrafund transfers have been eliminated for GAAP reporting.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund balances, related to changes for goods and services rendered, are reflected as "due to/from other funds." The City had no due to/from other funds at December 31, 2003.

An analysis of interfund transactions is presented in Note 5.

N. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports amounts representing encumbrances, material and supplies inventory, and prepayments as reservations of fund balance in the governmental funds.

O. Estimates

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

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Total Columns on General Purpose Financial Statements

Total columns on the GPFS are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

The City has presented a prior period adjustment to restate beginning retained earnings in the enterprise fund. This is to record cash with fiscal agent in the sewer fund not previously recorded.

| | <u>Enterprise</u> |
|--|---------------------|
| Retained earnings as previously reported | \$ 5,427,760 |
| Effect of restatement | <u>244,251</u> |
| Retained earnings as of January 1, 2003 | <u>\$ 5,672,011</u> |

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The City maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents." Statutes require the classification of monies held by the City into three categories:

Active Monies: those monies required to be kept in a "cash" or "near-cash" status for immediate use by the City. Such monies must by law be maintained either as cash in the City treasury; in depository accounts payable or withdrawable on demand; including negotiable order of withdrawal (NOW) account; or in money market deposit accounts.

Inactive Monies: those monies not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories or as savings or deposit accounts including, but not limited to, passbook accounts.

Interim Monies: 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 monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or 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;

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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.

In accordance with the Ohio Revised Code, public depositories must provide security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or may pledge a pool of securities with a market value of at least 105% of the total uninsured amount of public monies on deposit at the institution.

Protection of the City's deposits is provided by the FDIC, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Cash with Fiscal Agent: At December 31, 2003, \$232,372 was on deposit with the City’s fiscal agent for funds that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt (see Note 12).

Cash on Hand: At year-end, the City had \$200 in undeposited cash on hand which is included on the Combined Balance Sheet of the City as part of “Equity in Pooled Cash and Cash Equivalents”.

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

Deposits: At year-end, the carrying amount of the City’s deposits was \$1,640,941 and the bank balance was \$1,834,524. Both of these amounts include \$1,150,000 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$300,000 was covered by federal depository insurance; and
2. \$1,534,524 was uninsured and uncollateralized as defined by the GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.181, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments: The City’s investments are required to be categorized to give an indication of the level of custodial credit risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the City’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City’s name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

| | <u>Reported Amount</u> | <u>Fair Value</u> |
|-------------------------|----------------------------|-----------------------|
| Investment in STAR Ohio | \$ 818,367 | \$ 818,367 |
| Total investments | <u>\$ 818,367</u> | <u>\$ 818,367</u> |

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting”.

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

A reconciliation between the classifications of pooled cash and cash equivalents on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

| | <u>Cash and Cash Equivalents/ Deposits</u> | <u>Investments</u> |
|--|--|--------------------|
| GASB Statement No. 9 | \$ 2,691,880 | \$ - |
| Cash with fiscal agent | (232,372) | |
| Investments of the cash management pool: | | |
| Investment in STAR Ohio | (818,367) | 818,367 |
| Cash on hand | <u>(200)</u> | <u>-</u> |
| GASB Statement No. 3 | <u>\$ 1,640,941</u> | <u>\$ 818,367</u> |

NOTE 5 - INTERFUND TRANSACTIONS

The following is a summarized breakdown of the City's operating transfers for 2003:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|---|---------------------|----------------------|
| General Fund | \$ - | \$ 965,000 |
| <u>Special Revenue Funds</u> | | |
| Street Construction, Maintenance and Repair | 250,000 | - |
| Park and Recreation | <u>50,000</u> | <u>-</u> |
| Total Special Revenue Funds | <u>300,000</u> | <u>-</u> |
| <u>Capital Projects Fund</u> | | |
| Capital Improvements Fund | <u>600,000</u> | <u>-</u> |
| <u>Enterprise Funds</u> | | |
| Water | 50,000 | - |
| Refuse | <u>15,000</u> | <u>-</u> |
| Total Enterprise Funds | <u>65,000</u> | <u>-</u> |
| Totals | <u>\$ 965,000</u> | <u>\$ 965,000</u> |

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected from real property (other than public utility) in one calendar year are levied on January 1 in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years with a triennial update. The last revaluation was completed in 2002. Real property taxes are payable annually or semi-annually. If paid annually, payment is due February 12; if paid semi-annually, the first payment is due February 12, with the remainder payable June 20. In certain instances, state statute permits earlier or later payment dates to be established.

Taxpayers (other than public utilities) become liable for tangible personal property taxes on January 1st of the current calendar year based on tax rates determined in the preceding year and assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25% of its true value. Amounts paid by multi-City taxpayers are due September 20. Single City taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20. Under Ohio law personal property taxes do not attach as a lien on the personal property. Public utility real and tangible personal property taxes collected in one calendar year are levied on January 1 in the preceding calendar year on assessed values determined as of January 1 of the preceding year, the lien date.

The County Treasurer collects property taxes on behalf of all taxing districts in the City, including the City of Brookville. The County Auditor periodically remits to the City its portion of the taxes collected with final settlement in June and December for taxes payable in the first and second halves of the year, respectively. The assessed value upon which the 2002 levy (collected in 2003) was based was \$98,901,466. Ohio law limits unvoted property taxation, combined for all overlapping taxing authorities, to 10 mills. The City's current share of property tax is 1.3 mills of assessed value, all of which is unvoted.

Accrued taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2003. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2004 operations. Accordingly, the receivable is offset by a credit to "Deferred Revenue".

NOTE 7 - LOCAL INCOME TAX

The 1.75 percent City income tax, which is not subject to renewal, is levied on substantially all income earned within the City. In addition, the residents of the City are required to pay City income tax on income they earn outside the City; however, full credit is allowed for all income taxes these residents pay to other municipalities. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City at least quarterly. Major employers are required to remit withholdings to the City monthly. Corporations and self-employed individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually with the City. Income tax revenue is reported to the extent that it is measurable and available to finance current operations at December 31, 2003. Income tax revenue for 2003 was \$2,102,733. Income tax revenue is reported in the general fund.

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 8 - RECEIVABLES

Receivables at December 31, 2003, consisted of taxes, special assessments, accrued interest, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlements and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the combined balance sheet. Receivables have been recorded to the extent eligibility requirements have been met by year-end and the amounts are measurable.

A summary of the items of receivables follows:

| <u>Fund/Description</u> | <u>Amount</u> |
|-------------------------------|---------------|
| <u>General Fund</u> | |
| Income taxes | \$ 410,385 |
| Real and other taxes | 122,525 |
| Accounts | 37,589 |
| Accrued interest | 3,671 |
| Due from other governments | 96,411 |
| <u>Special Revenue Funds</u> | |
| Accounts | 1,960 |
| Due from other governments | 113,257 |
| <u>Capital Projects Funds</u> | |
| Special assessments | 3,792 |
| <u>Enterprise Funds</u> | |
| Accounts | 299,505 |

NOTE 9 - MORTGAGE NOTE

The City entered into an agreement with a land owner in which the City purchased 66.773 acres of land in September 2001 via a mortgage note. The City took ownership of the land and is selling it in pieces at no profit in an effort to develop a business park. The amount of the mortgage note is a varying requirement based on the time the land is sold. It ranges from \$20,000 an acre through September 24, 2004 and increases annually by incremental amounts until maturity on September 26, 2011 at which time the price is \$28,600 per acre.

The land and note have been recorded on the City's financial statements as land of \$1,171,920 in the General Fixed Asset Account Group and a Mortgage Note Payable in the General Long-Term Obligations Account Group in the amount of \$1,171,920.

At December 31, 2003 there remained 58.636 acres unsold.

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 10 - FIXED ASSETS

A. Proprietary Fixed Assets

A summary of the proprietary fixed assets at December 31, 2003 follows:

| | <u>Water</u> | <u>Sewer</u> | <u>Refuse</u> | <u>Total</u> |
|------------------------------------|-------------------|---------------------|------------------|---------------------|
| Land | \$ - | \$ 1,237,702 | \$ - | \$ 1,237,702 |
| Land improvements | 738,415 | 8,203,021 | - | 8,941,436 |
| Buildings and improvements | - | 346,271 | - | 346,271 |
| Furniture and equipment | - | 49,780 | - | 49,780 |
| Vehicles | - | - | 175,796 | 175,796 |
| Less: accumulated depreciation | <u>(353,747)</u> | <u>(3,901,139)</u> | <u>(147,335)</u> | <u>(4,402,221)</u> |
| Total net proprietary fixed assets | <u>\$ 384,668</u> | <u>\$ 5,935,635</u> | <u>\$ 28,461</u> | <u>\$ 6,348,764</u> |

B. General Fixed Assets

A summary of the changes in general fixed assets during 2003 follows:

| | <u>Restated Balance 1/1/03</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 12/31/03</u> |
|----------------------------|--|-------------------|---------------------|-----------------------------|
| Land | \$ 3,053,778 | \$ - | \$ (60,200) | \$ 2,993,578 |
| Land improvements | 1,501,878 | 95,000 | - | 1,596,878 |
| Buildings and improvements | 1,495,134 | 97,625 | - | 1,592,759 |
| Furniture and equipment | 348,030 | 52,720 | (7,200) | 393,550 |
| Vehicles | <u>1,148,943</u> | <u>346,786</u> | <u>(56,600)</u> | <u>1,439,129</u> |
| Total fixed assets | <u>\$ 7,547,763</u> | <u>\$ 592,131</u> | <u>\$ (124,000)</u> | <u>\$ 8,015,894</u> |

Land within the general fixed asset account group has been restated at 1/1/03 by \$1,232,120 to include the value of land purchased by the City at December 31, 2002. (See Note 9).

NOTE 11 - VACATION AND SICK LEAVE LIABILITY

Vacation and sick leave accumulated by governmental fund type employees has been recorded in the general long-term obligations account group to the extent they were not paid using current expendable available resources. Vacation and sick leave earned by proprietary funds type employees is expensed when earned and has been recorded in the fund. Upon termination of City service, a fully vested employee is entitled to a percentage of their accumulated sick leave based on their years of service. At December 31, 2003, vested benefits for vacation leave for governmental fund type employees, net of amounts paid using current expendable available resources, totaled \$55,966 and vested benefits for sick leave, totaled \$51,466. For proprietary fund types, vested benefits for vacation leave totaled \$21,865 and vested benefits for sick leave totaled \$25,461 at December 31, 2003. Included in the vested benefits for sick leave figures is an additional liability to accrue and record termination (severance) payments for employees expected to become eligible to retire in the future in accordance with GASB Statement No. 16.

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 12 - LONG-TERM OBLIGATIONS

A. General Long-Term Obligations

The City's general long-term obligations at year-end consist of the following:

| <u>Description</u> | <u>Restated Balance 1/1/03</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 12/31/03</u> |
|-------------------------------------|--|------------------|--------------------|-----------------------------|
| Mortgage note payable | \$ 1,232,120 | \$ - | \$ (60,200) | \$ 1,171,920 |
| Compensated absences | <u>108,360</u> | <u>-</u> | <u>(928)</u> | <u>107,432</u> |
| Total General Long-Term Obligations | <u>\$ 1,340,480</u> | <u>\$ -</u> | <u>\$ (61,128)</u> | <u>\$ 1,279,352</u> |

Compensated absences are presented net of actual increases and decreases due to the practicality of determining these values. The benefits will be paid from the fund from which the employee is paid.

The general long-term obligation account group has been restated to reflect the Mortgage note payable liability at December 31, 2002. (See Note 9).

B. Enterprise Fund Obligations

The City had the following OPWC and OWDA loans payable outstanding at year-end related to enterprise fund operations:

| <u>Description</u> | <u>Interest Rate</u> | <u>Balance 1/1/03</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 12/31/03</u> |
|-----------------------------------|--------------------------|---------------------------|------------------|---------------------|-----------------------------|
| <u>OPWC Loans</u> | | | | | |
| Water Tower | 5.00% | \$ 325,141 | \$ - | \$ (22,812) | \$ 302,329 |
| Wolf Creek Sanitary Trunk Main | 0.00% | 47,500 | - | (5,000) | 42,500 |
| Wastewater Treatment Plant | 0.00% | <u>661,753</u> | <u>-</u> | <u>(42,693)</u> | <u>619,060</u> |
| Total OPWC Loans | | <u>\$ 1,034,394</u> | <u>\$ -</u> | <u>\$ (70,505)</u> | <u>\$ 963,889</u> |
| <u>OWDA Loan</u> | | | | | |
| Wastewater Treatment Plant | 5.00% | <u>567,221</u> | <u>-</u> | <u>(64,053)</u> | <u>503,168</u> |
| Total Enterprise Fund Obligations | | <u>\$ 1,601,615</u> | <u>\$ -</u> | <u>\$ (134,558)</u> | <u>\$ 1,467,057</u> |

The City has entered into three debt financing arrangements through the (OPWC) to fund a new water tower, the Wolf Creek sanitary trunk extension and wastewater treatment plant improvements. The amounts due to the OPWC are payable solely from water and sewer revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2003, the City has outstanding borrowings of \$302,329 in the water fund and \$42,500 and \$619,060 in the sewer fund. The loan agreements require semi-annual payments based on the actual amount loaned. Two of the OPWC loans are interest free, the third has a rate of 5%.

The City has entered into debt financing arrangements through the (OWDA) to fund a wastewater treatment project. The amounts due to the OWDA are payable solely from sewer revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2003, the City has outstanding borrowings of \$503,168. The loan agreement requires semi-annual payments based on the actual amount loaned.

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

On May 15, 1984, the City issued mortgage revenue bonds to advance refund the 1964 mortgage revenue bonds by purchasing U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The total amount of funds available at fair value in the trust at December 31, 2003, was \$319,718. The amount due on the defeased debt to be paid from the escrow account is \$87,346. The remaining balance in the escrow account is recorded as cash with fiscal agent in the Sewer enterprise fund for \$232,372. The refunded bonds are not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

The following is the summary of the City's future annual debt service and interest requirements for enterprise fund obligations:

| Year Ending December 31, | OWDA Loan | | | OPWC Loans | | |
|-----------------------------|-------------------|------------------|-------------------|-------------------|------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2004 | \$ 67,295 | \$ 24,327 | \$ 91,622 | \$ 71,660 | \$ 14,820 | \$ 86,480 |
| 2005 | 70,702 | 20,921 | 91,623 | 72,873 | 13,607 | 86,480 |
| 2006 | 74,281 | 17,341 | 91,622 | 74,148 | 12,333 | 86,481 |
| 2007 | 78,042 | 13,581 | 91,623 | 75,488 | 10,993 | 86,481 |
| 2008 | 81,993 | 9,630 | 91,623 | 76,895 | 9,586 | 86,481 |
| 2009 - 2013 | 130,855 | 6,578 | 137,433 | 400,702 | 24,202 | 424,904 |
| 2014 - 2016 | - | - | - | 192,123 | - | 192,123 |
| | <u>\$ 503,168</u> | <u>\$ 92,378</u> | <u>\$ 595,546</u> | <u>\$ 963,889</u> | <u>\$ 85,541</u> | <u>\$ 1,049,430</u> |

C. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2003, the City's total debt margin was \$8,917,597 and the unvoted debt margin was \$3,972,524.

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 13 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains three enterprise funds which are intended to be self-supported through user fees charged for services provided to consumers. These enterprise funds include water, sewer and refuse utilities. Segment information for the year ended December 31, 2003 was as follows:

| | <u>Water</u> <u>Fund</u> | <u>Sewer</u> <u>Fund</u> | <u>Refuse</u> <u>Fund</u> | <u>Total</u> |
|--|-----------------------------|-----------------------------|------------------------------|--------------|
| Operating revenues | \$ 614,946 | \$ 496,669 | \$ 302,502 | \$ 1,414,117 |
| Operating expenses before depreciation | 594,169 | 329,999 | 339,424 | 1,263,592 |
| Depreciation expense | 36,920 | 333,194 | 49,809 | 419,923 |
| Operating loss | (16,143) | (166,524) | (86,731) | (269,398) |
| Transfers in | 50,000 | - | 15,000 | 65,000 |
| Net income (loss) | 17,882 | (50,973) | (71,731) | (104,822) |
| Additions to property, plant and equipment | - | 171,300 | - | 171,300 |
| Net working capital | 215,272 | 434,947 | 82,857 | 733,076 |
| Total assets | 705,935 | 6,385,478 | 131,343 | 7,222,756 |
| Long-term liabilities payable from operating revenues | 315,337 | 1,182,521 | 16,793 | 1,514,651 |
| Total equity | 284,603 | 5,188,061 | 94,525 | 5,567,189 |
| Encumbrances 12/31/03 | 12,034 | 26,552 | - | 38,586 |

NOTE 14 - RISK MANAGEMENT

A. Liability Insurance

The City is exposed to various risks of loss during the normal course of its operations including, but not limited to, loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The City obtains commercial insurance for coverage of potential losses through Employers Mutual Casualty Company.

B. Employee Health Insurance

During 2003, the City provided employees health, dental and life insurance through United Health Care. The premiums for dental and life insurance are paid monthly with the City paying one hundred percent of the cost.

The premiums for health insurance are paid monthly with the City paying ninety percent of the cost.

CITY OF BROOKVILLE, OHIO

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

NOTE 14 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate of \$100 of payroll plus administrative costs. The rate is determined based on accident history of the City. The City also pays unemployment claims to the State of Ohio as incurred.

There has been no significant reduction in insurance coverages from the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All City full-time employees, other than uniformed employees, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2003 was 8.5% for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 8.55% was the portion used to fund pension obligations for 2003. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 11.70% was the portion used to fund pension obligations for 2003. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2003, 2002, and 2001 were \$136,769, \$130,117, and \$119,370, respectively; 100% has been contributed for 2003, 2002 and 2001.

B. Ohio Police and Fire Pension Fund

Full-time uniformed employees of the City participate in the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer defined benefit pension plan. The 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 Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The City's contributions to OP&F for the years ended December 31, 2003, 2002, and 2001 were \$106,883, \$117,113, and \$103,129, respectively; 69% has been contributed for 2003 and 100% for the years 2002 and 2001. \$32,946, representing the unpaid contributions for 2003, is recorded as a liability within the general fund.

NOTE 16 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

OPERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2003 employer contribution rate for local government employers was 13.55% of covered payroll and 5.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2003 employer rate was 16.70% of covered payroll and 5.00% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund postemployment benefits was \$50,468.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. OPEB's are advance funded on an actuarially determined basis.

As of December 31, 2002 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$10 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively, at December 31, 2001 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2002 (the latest information available) was 364,881.

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

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2002, Comprehensive Annual Financial Report.

B. Ohio Police and Fire Pension Fund

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2002 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2002 (the latest information available), is 13,529 for police officers and 10,396 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$37,093 and \$4,376, respectively. OP&F's total health care expense for the year ending December 31, 2002 (the latest information available), was \$141.028 million, which was net of member contributions of \$12.623 million.

CITY OF BROOKVILLE, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

The City's budgetary process is based upon accounting for transactions on a cash basis. The differences between the cash basis (budget basis) and the modified accrual basis (GAAP basis) are that revenues are recorded when actually received (budget) as opposed to when susceptible to accrual (GAAP) and the expenditures are recorded when paid (budget) as opposed to when incurred (GAAP). Additionally, the City reflects outstanding encumbrances as expenditures on the budgetary basis of accounting. Adjustments necessary to convert the results of operations at the end of the year on the budget basis to the GAAP basis are as follows:

EXCESS OF REVENUES AND OTHER FINANCING SOURCES
OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)

| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> |
|---|---------------------|----------------------------|-----------------------------|
| Budget basis | \$ (165,246) | \$ (4,394) | \$ 54,579 |
| Adjustments: | | | |
| Net adjustment for revenue accruals | 55,484 | 4,463 | (56,035) |
| Net adjustment for expenditure accruals | (47,437) | 49,123 | 21,005 |
| Net adjustment for other financing sources/(uses) accruals | - | (57,895) | - |
| Encumbrances | <u>6,994</u> | <u>33,838</u> | <u>29,504</u> |
| GAAP basis | <u>\$ (150,205)</u> | <u>\$ 25,135</u> | <u>\$ 49,053</u> |

NOTE 18 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2003.

B. Litigation

The City has no lawsuits pending as of December 31, 2003.

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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

Members of Council and Mayor
City of Brookville
301 Sycamore Street
Brookville, Ohio 45309

We have audited the general purpose financial statements of the City of Brookville, Montgomery County, as of and for the year ended December 31, 2003, and have issued our report thereon May 24, 2004 wherein we noted the City restated retained earnings in the Enterprise Fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Members of Council and Mayor
City of Brookville, Montgomery County

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Brookville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting, that do not require inclusion in this report, that we have reported to the management of the City of Brookville in a separate letter dated May 24, 2004.

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

Trimble, Julian & Grube, Inc.
May 24, 2004



**Auditor of State
Betty Montgomery**

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Facsimile 614-466-4490

CITY OF BROOKVILLE

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 20, 2004**