



**Auditor of State
Betty Montgomery**

**CITY OF CRESTLINE
CRAWFORD COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Crestline
Crawford County
100 North Seltzer Street
Crestline, Ohio 44827

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crestline, Crawford County, Ohio, (the City) as of and for the year ended December 31, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Crestline, Crawford County, Ohio, as of December 31, 2002, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Street Construction and Maintenance Fund, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2002, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2003, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

August 29, 2003

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

The discussion and analysis of the City of Crestline's financial performance provides an overview of the City's financial activities for the year ended December 31, 2002. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Key highlights for 2002 are as follows:

For the year ended December 31, 2002, the City of Crestline has presented for the first time basic financial statements in accordance with generally accepted accounting principles.

In total, the City's net assets decreased \$28 thousand. The decrease of \$109 thousand in governmental activities is less than 2 percent and insignificant to overall governmental activities. The increase of \$81 thousand in business-type activities is less than 2 percent, and again, is relatively insignificant to overall business-type activities. However, the Ambulance enterprise fund had an operating loss for the year. Charges for services were insufficient to pay the operating expenses of the Ambulance enterprise fund. Many of these charges are paid by Medicare and amounts received are less than billed.

During 2002, the City purchased the lot beside Rite Aid and has since begun construction on a gazebo. Other improvements undertaken by the City include construction of a bike path at Kelly Park and renovations to the restrooms so they will be handicap accessible.

The City continues to make various equipment acquisitions for both the police and fire departments. For the police department, the City installed in-car video systems in four patrol cars to ensure public safety and installed a logging device for recording all telephone calls received by the police dispatchers. Three additional vehicles were purchased for the police department to assist with off road activities. Also, during the first quarter of 2003, a completely new software system was installed at the police department to keep the department updated with the latest technology.

For the fire department, the City had two of the department's employees trained as certified paramedics. This will improve the City's ability to accept transfers and give a higher level of care to citizens. The City will have four more employees receive paramedic training in 2003. With the increase in paramedics, three life pack monitor/defibrillators have been purchased in 2003 for increased quality of care. Other equipment purchases for the fire department include a thermal imager, which will aid firefighters on the scene to determine if persons are trapped in smoke or fire filled areas, and new garage doors were installed at the fire station to help lower the cost of repairs experienced with the older heavier doors.

The City has been working on the West Side Storm Sewer Separation project. This project has been primarily funded by a loan from the Ohio Public Works Commission. The interest free loan is to be repaid over a twenty year period.

During 2002, the City was also involved in an Issue II project. The Issue II monies provided \$42 thousand of the project cost which involved paving Cloverdale and Etler Streets.

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

USING THIS ANNUAL REPORT

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

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

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. Fund financial statements report the City's most significant funds individually and the City's non-major funds in a single column. The City's major funds are the General, Street Construction and Maintenance, Swimming Pool Bond Retirement, Capital Improvements, Swimming Pool Capital Projects, Water, and Sewer funds.

REPORTING THE CITY AS A WHOLE

Statement of Net Assets and Statement of Activities

The Statement of Net Assets and the Statement of Activities reflect how the City did financially during 2002. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2002
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REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial statements provide detailed information about the City's major funds, the General, Street Construction and Maintenance, Swimming Pool Bond Retirement, Capital Improvements, Swimming Pool Capital Projects, Water, and Sewer funds. While the City uses many funds to account for its financial transactions, these are the most significant.

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

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

Enterprise Funds - The City's enterprise funds use the accrual basis of accounting, the same as that used for the business-type activities on the government-wide financial statements.

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

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2002 compared to 2001.

Table 1
Net Assets
(In thousands)

	Governmental Activities		Business-Type Activities		Total	
	2002	2001	2002	2001	2002	2001
<u>Assets</u>						
Current and Other Assets	\$2,876	\$3,088	\$1,497	\$1,887	\$4,373	\$4,975
Capital Assets, Net	5,535	5,551	6,272	5,935	11,807	11,486
Total Assets	8,411	8,639	7,769	7,822	16,180	16,461
<u>Liabilities</u>						
Current and Other Liabilities	718	749	1,200	1,233	1,918	1,982
Long-Term Liabilities	839	927	1,229	1,329	2,068	2,256
Total Liabilities	1,557	1,676	2,429	2,562	3,986	4,238
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	4,629	4,821	4,008	3,531	8,637	8,352
Restricted	1,615	1,150	250	187	1,865	1,337
Unrestricted	610	992	1,082	1,541	1,692	2,533
Total Net Assets	\$6,854	\$6,963	\$5,340	\$5,259	\$12,194	\$12,222

Total net assets for governmental activities decreased \$109 thousand. The decrease was due to expenses exceeding revenues; however, the amount is relatively insignificant. Due to less revenues collected during 2003, the City had to spend carry-over resources from prior years.

Total net assets for business-type activities increased \$81 thousand. The increase is primarily due to improvements to the City's water tower during 2002, in the amount of \$400 thousand, which was capitalized and will be depreciated over the life of the improvement.

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

Table 2 reflects the changes in net assets for 2002. Since this is the first year the City has prepared financial statements according to GASB Statement No. 34, revenue and expense comparisons to 2001 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets
(In Thousands)

	Governmental Activities	Business-Type Activities	Total
	2002	2002	
<u>Revenues</u>			
Program Revenues			
Charges for Services	\$193	\$1,231	\$1,424
Operating Grants, Contributions, and Interest	202	3	205
Capital Grants and Contributions	42	0	42
Total Program Revenues	437	1,234	1,671
General Revenues			
Property Taxes	240	0	240
Municipal Income Taxes	1,343	0	1,343
Other Local Taxes	47	0	47
Grants and Entitlements not Restricted to Specific Programs	394	0	394
Interest	66	0	66
Other	35	0	35
Total General Revenues	2,125	0	2,125
Total Revenues	2,562	1,234	3,796
Transfers	(61)	61	0
Total Revenues and Transfers	2,501	1,295	3,796

(continued)

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

Table 2
Changes in Net Assets
(In Thousands)
(continued)

	Governmental Activities	Business-Type Activities	Total
	2002	2002	
<u>Program Expenses</u>			
Security of Persons and Property			
Police	\$849	\$0	\$849
Fire	538	0	538
Other	16	0	16
Leisure Time Activities	47	0	47
Community Environment	86	0	86
Transportation	414	0	414
General Government			
Judicial	32	0	32
Other	561	0	561
Other	5	0	5
Interest and Fiscal Charges	62	0	62
Water	0	592	592
Sewer	0	554	554
Other Enterprise Fund			
Ambulance	0	68	68
Total Expenses	<u>2,610</u>	<u>1,214</u>	<u>3,824</u>
Decrease in Net Assets	<u>(\$109)</u>	<u>\$81</u>	<u>(\$28)</u>

The major program expenses for governmental activities are for the police and fire departments, which account for over 53 percent of all governmental expenses. The general business of running the City's government also represents a significant amount of the City's governmental expenses, 23 percent, and maintenance of the City's streets accounts for over 15 percent of governmental expenses. These four programs alone represent almost all of the general expenses of the City of Crestline and are funded almost entirely from property taxes, municipal income taxes, and State shared revenues.

The City's water and sewer operations account for 94 percent of the expenses of the City's business-type activities and are funded almost entirely from charges for services.

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

Table 3, indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues. Comparisons to 2001 have not been made since they are not available for this year.

Table 3
Governmental Activities
(In Thousands)

	Total Cost of Services	Net Cost of Services
	2002	2002
Security of Persons and Property		
Police	\$849	\$843
Fire	538	462
Other	16	16
Leisure Time Activities	47	(25)
Community Environment	86	68
Transportation	414	243
General Government		
Judicial	32	(56)
Other	561	554
Other	5	5
Interest and Fiscal Charges	62	62
Total Expenses	\$2,610	\$2,172

It should be noted that for all governmental activities, 83 percent of the revenues to provide these services are derived from the City's general revenues; that being primarily municipal income taxes, property taxes, and State shared revenues. Approximately 41 percent of transportation expenses are supported by State shared revenues such as motor vehicle license taxes and gas taxes. The negative net cost of services for leisure time activities and judicial indicates that program revenues are sufficient enough to cover the costs of these small programs. Leisure time activities costs are primarily supported by Harvest Festival donations and Judicial costs are recovered by fines and forfeitures of the Mayor's Court.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General, Street Construction and Maintenance, Swimming Pool Bond Retirement, Capital Improvements, and Swimming Pool Capital Projects funds. The net change in fund balance for the General Fund represents a 45 percent decrease from the prior year. Increased spending and a significant decrease in interest had the largest impact on this decrease. A review of the other major funds indicates insignificant changes in activity from the prior year.

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

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

As noted previously, there were significant improvements made on the City's water tower during the year. Similar costs should not be incurred for many years.

Although the Sewer fund currently has a positive operating income, the Fund is accumulating some additional debt from the Ohio Public Works Commission for the West Side Storm Sewer Separation project.

The Ambulance fund currently reflects a negative operating income due to insufficient charges for services.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January. The City's most significant budgeted fund is the General Fund. Modifications from the original to the final budget were minimal.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2002, was \$4,629,380 and \$4,008,020, respectively (net of accumulated depreciation and related debt). This investment in capital assets includes land; buildings; land improvements; streets; bridges; equipment; vehicles; and water, sewer, and storm water lines. The most significant additions in governmental activities were the purchase of land beside Rite Aid and street resurfacing. The most significant addition in business-type activities were improvements to the City's water tower and a new ambulance. Note 10 to the basic financial statements provides details on the capital asset activity during 2002.

Debt - At December 31, 2002, the City had \$270,000 in bond anticipation notes outstanding payable from governmental activities and \$1,056,000 in bond anticipation notes payable from business-type activities.

The City also had a number of long-term obligations outstanding. These obligations included \$455,000 of general obligation bonds, \$1,080,000 of mortgage revenue bonds, and \$26,474 of Ohio Public Works Commission loans.

In addition to the debt outlined above, the City's long-term debt also includes compensated absences, capital leases, and the liability for police and fire incurred when the State of Ohio established the statewide pension system. Notes 16 and 17 to the basic financial statements provides details on the City's debt.

City of Crestline
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

CURRENT ISSUES

An unfortunate occurrence has been the steady drop in interest rates since 2001. Star Ohio investments just one year ago were earning an average of 1.8 percent. According to the City's May Star Ohio statement, the interest rate is now 1.16 percent. Interest on the City's certificate of deposit, at United Bank, has also dropped from 2.5 percent to 1.5 percent on ninety day issues. Interest on the City's certificate of deposit, at First National Bank of Shelby, has dropped from 3.47 percent to 2.74 percent on one year issues.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those interested in our City's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Jody Wagoner, City Auditor, 100 North Seltzer Street, Crestline, Ohio 44827.

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City of Crestline
Statement of Net Assets
December 31, 2002

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,481,547	\$1,068,592	\$2,550,139
Cash and Cash Equivalents with Fiscal Agent	0	174,837	174,837
Cash and Cash Equivalents in Segregated Accounts	11,475	0	11,475
Accounts Receivable	39,756	248,082	287,838
Due from Other Governments	331,298	0	331,298
Municipal Income Taxes Receivable	666,808	0	666,808
Other Local Taxes Receivable	22,366	0	22,366
Prepaid Items	42,740	5,184	47,924
Accrued Interest Receivable	1,615	0	1,615
Notes Receivable	35,906	0	35,906
Property Taxes Receivable	242,065	0	242,065
Nondepreciable Capital Assets	380,645	189,420	570,065
Depreciable Capital Assets, Net	5,154,505	6,082,757	11,237,262
Total Assets	8,410,726	7,768,872	16,179,598
<u>Liabilities</u>			
Accrued Wages Payable	33,100	8,301	41,401
Accounts Payable	44,795	75,784	120,579
Due to Other Governments	63,592	24,858	88,450
Claims Payable	31,308	10,090	41,398
Accrued Interest Payable	3,946	24,584	28,530
Notes Payable	270,000	1,056,000	1,326,000
Deferred Revenue	271,669	0	271,669
Long-Term Liabilities			
Due Within One Year	130,517	123,583	254,100
Due in More Than One Year	708,197	1,105,814	1,814,011
Total Liabilities	1,557,124	2,429,014	3,986,138
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	4,629,380	4,008,020	8,637,400
Restricted for			
Capital Projects	706,422	0	706,422
Debt Service	151,598	0	151,598
Special Revenue	756,756	0	756,756
Revenue Bond Renewal and Replacement	0	60,000	60,000
Revenue Bond Future Debt Service	0	15,000	15,000
Revenue Bond Current Debt Service	0	174,837	174,837
Unrestricted	609,446	1,082,001	1,691,447
Total Net Assets	\$6,853,602	\$5,339,858	\$12,193,460

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Activities
For the Year Ended December 31, 2002

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions, and Interest</u>	<u>Capital Grants and Contributions</u>
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$849,105	\$518	\$5,477	\$0
Fire	537,960	73,523	2,800	0
Other	16,044	0	0	0
Leisure Time Activities	46,592	11,730	59,715	0
Community Environment	85,946	11,460	6,550	0
Transportation	413,549	511	127,473	42,201
General Government				
Judicial	32,091	87,857	0	0
Other	561,081	7,556	0	0
Other	5,423	0	0	0
Interest and Fiscal Charges	61,700	0	0	0
Total Governmental Activities	<u>2,609,491</u>	<u>193,155</u>	<u>202,015</u>	<u>42,201</u>
<u>Business-Type Activities</u>				
Water	592,225	662,153	2,797	0
Sewer	554,715	545,814	0	0
Other Enterprise Fund				
Ambulance	67,660	23,429	0	0
Total Business-Type Activities	<u>1,214,600</u>	<u>1,231,396</u>	<u>2,797</u>	<u>0</u>
Total	<u>\$3,824,091</u>	<u>\$1,424,551</u>	<u>\$204,812</u>	<u>\$42,201</u>

General Revenues

Property Taxes Levied for General Purposes
Municipal Income Taxes
Other Local Taxes
Grants and Entitlements not Restricted to Specific Programs
Interest
Other

Total General Revenues

Transfers

Change in Net Assets

Net Assets Beginning of Year - (See Note 3)

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$843,110)	\$0	(\$843,110)
(461,637)	0	(461,637)
(16,044)	0	(16,044)
24,853	0	24,853
(67,936)	0	(67,936)
(243,364)	0	(243,364)
55,766	0	55,766
(553,525)	0	(553,525)
(5,423)	0	(5,423)
(61,700)	0	(61,700)
<u>(2,172,120)</u>	<u>0</u>	<u>(2,172,120)</u>
0	72,725	72,725
0	(8,901)	(8,901)
<u>0</u>	<u>(44,231)</u>	<u>(44,231)</u>
<u>0</u>	<u>19,593</u>	<u>19,593</u>
<u>(2,172,120)</u>	<u>19,593</u>	<u>(2,152,527)</u>
239,852	0	239,852
1,343,048	0	1,343,048
46,748	0	46,748
394,067	0	394,067
65,492	0	65,492
35,172	0	35,172
<u>2,124,379</u>	<u>0</u>	<u>2,124,379</u>
(61,052)	61,052	0
(108,793)	80,645	(28,148)
<u>6,962,395</u>	<u>5,259,213</u>	<u>12,221,608</u>
<u>\$6,853,602</u>	<u>\$5,339,858</u>	<u>\$12,193,460</u>

City of Crestline
Balance Sheet
Governmental Funds
December 31, 2002

	General Fund	Street Construction and Maintenance Fund	Swimming Pool Bond Retirement Fund	Capital Improvements Fund
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$377,713	\$41,837	\$31,265	\$445,954
Cash and Cash Equivalents in Segregated Accounts	8,191	0	0	0
Accounts Receivable	36,227	0	0	0
Due from Other Governments	152,452	59,161	5,134	0
Municipal Income Taxes Receivable	423,794	90,597	0	152,417
Other Local Taxes Receivable	0	0	0	0
Interfund Receivable	0	0	10,001	0
Prepaid Items	29,313	13,427	0	0
Accrued Interest Receivable	1,292	0	0	0
Property Taxes Receivable	109,690	0	74,788	0
Notes Receivable	0	0	0	0
Total Assets	\$1,138,672	\$205,022	\$121,188	\$598,371
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accrued Wages Payable	\$29,451	\$3,649	\$0	\$0
Accounts Payable	40,501	1,963	2,172	0
Due to Other Governments	11,316	0	0	0
Interfund Payable	18,125	0	0	0
Claims Payable	31,308	0	0	0
Accrued Interest Payable	0	0	0	0
Notes Payable	0	0	0	0
Deferred Revenue	615,129	119,094	79,904	116,282
Total Liabilities	745,830	124,706	82,076	116,282
<u>Fund Balance</u>				
Reserved for Notes Receivable	0	0	0	0
Reserved for Encumbrances	30,359	1,193	0	12,087
Unreserved, Reported in				
General Fund	362,483	0	0	0
Special Revenue Funds	0	79,123	0	0
Debt Service Funds	0	0	39,112	0
Capital Projects Funds (Deficit)	0	0	0	470,002
Total Fund Balance (Deficit)	392,842	80,316	39,112	482,089
Total Liabilities and Fund Balance	\$1,138,672	\$205,022	\$121,188	\$598,371

See Accompanying Notes to the Basic Financial Statements

Swimming Pool Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$59,862	\$524,916	\$1,481,547
0	3,284	11,475
0	3,529	39,756
0	114,551	331,298
0	0	666,808
0	22,366	22,366
0	8,124	18,125
0	0	42,740
113	210	1,615
0	57,587	242,065
0	35,906	35,906
<u>\$59,975</u>	<u>\$770,473</u>	<u>\$2,893,701</u>
\$0	\$0	\$33,100
0	159	44,795
0	0	11,316
0	0	18,125
0	0	31,308
885	0	885
270,000	0	270,000
113	194,384	1,124,906
<u>270,998</u>	<u>194,543</u>	<u>1,534,435</u>
0	28,912	28,912
0	3,275	46,914
0	0	362,483
0	402,940	482,063
0	95,151	134,263
(211,023)	45,652	304,631
<u>(211,023)</u>	<u>575,930</u>	<u>1,359,266</u>
<u>\$59,975</u>	<u>\$770,473</u>	<u>\$2,893,701</u>

City of Crestline
Reconciliation of Total Governmental Fund Balance
to Net Assets of Governmental Activities
December 31, 2002

Total Governmental Fund Balance		\$1,359,266
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		5,535,150
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	35,255	
Due from Other Governments	288,158	
Municipal Income Taxes Receivable	498,204	
Other Local Taxes Receivable	19,266	
Accrued Interest Receivable	1,615	
Property Taxes Receivable	10,739	
		853,237
Due to other governments includes contractually required pension contributions not expected to be paid with available expendable financial resources and, therefore, not reported in the funds.		(52,276)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Accrued Interest Payable	(3,061)	
General Obligation Bonds Payable	(455,000)	
Compensated Absences Payable	(85,393)	
Police and Fire Pension Liability	(117,551)	
Capital Leases Payable	(180,770)	
		(841,775)
Net Assets of Governmental Activities		\$6,853,602

See Accompanying Notes to the Basic Financial Statements

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City of Crestline
Statement of Revenues, Expenditures,
and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2002

	General Fund	Street Construction and Maintenance Fund	Swimming Pool Bond Retirement Fund	Capital Improvements Fund
<u>Revenues</u>				
Property Taxes	\$107,431	\$0	\$74,478	\$0
Municipal Income Taxes	930,085	161,936	0	273,657
Other Local Taxes	2,190	0	0	0
Charges for Services	82,818	0	0	0
Fees, Licenses, and Permits	17,972	0	0	0
Fines and Forfeitures	77,668	0	0	0
Intergovernmental	277,944	118,464	10,231	42,201
Gifts and Donations	46,599	0	0	0
Interest	65,036	0	0	0
Other	49,807	511	0	0
Total Revenues	1,657,550	280,911	84,709	315,858
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	784,523	0	0	0
Fire	495,532	0	0	0
Other	16,044	0	0	0
Leisure Time Activities	39,196	0	1,940	0
Community Environment	78,711	0	0	0
Transportation	0	285,267	0	0
General Government				
Judicial	31,654	0	0	0
Other	530,885	0	0	0
Other	5,423	0	0	0
Capital Outlay	0	0	0	225,064
Debt Service:				
Principal Retirement	0	0	0	30,235
Interest and Fiscal Charges	0	0	2,172	12,703
Total Expenditures	1,981,968	285,267	4,112	268,002
Excess of Revenues Over (Under) Expenditures	(324,418)	(4,356)	80,597	47,856
<u>Other Financing Sources (Uses)</u>				
Transfers In	0	0	270,000	0
Transfers Out	0	0	(341,854)	(24,152)
Total Other Financing Sources (Uses)	0	0	(71,854)	(24,152)
Net Change in Fund Balance	(324,418)	(4,356)	8,743	23,704
Fund Balance Beginning of Year - (See Note 3)	717,260	84,672	30,369	458,385
Fund Balance (Deficit) End of Year	\$392,842	\$80,316	\$39,112	\$482,089

See Accompanying Notes to the Basic Financial Statements

Swimming Pool Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$0	\$58,280	\$240,189
0	0	1,365,678
0	44,907	47,097
0	0	82,818
0	0	17,972
0	9,933	87,601
0	26,137	474,977
0	0	46,599
5,691	10,568	81,295
0	10,392	60,710
<u>5,691</u>	<u>160,217</u>	<u>2,504,936</u>
0	5,318	789,841
0	1,071	496,603
0	0	16,044
0	0	41,136
0	7,235	85,946
0	53,165	338,432
0	0	31,654
0	894	531,779
0	0	5,423
0	0	225,064
0	66,660	96,895
<u>11,554</u>	<u>35,600</u>	<u>62,029</u>
<u>11,554</u>	<u>169,943</u>	<u>2,720,846</u>
<u>(5,863)</u>	<u>(9,726)</u>	<u>(215,910)</u>
341,854	0	611,854
<u>(270,000)</u>	<u>0</u>	<u>(636,006)</u>
<u>71,854</u>	<u>0</u>	<u>(24,152)</u>
65,991	(9,726)	(240,062)
<u>(277,014)</u>	<u>585,656</u>	<u>1,599,328</u>
<u>(\$211,023)</u>	<u>\$575,930</u>	<u>\$1,359,266</u>

City of Crestline
 Reconciliation of Statement of Revenues, Expenditures,
 and Changes in Fund Balance
 of Governmental Funds to Statement of Activities
 For the Year Ended December 31, 2002

Net Change in Fund Balance - Total Governmental Funds (\$240,062)

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

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

Capital Outlay - Depreciable Capital Assets	169,070	
Depreciation	<u>(184,971)</u>	(15,901)

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

Property Taxes	(337)	
Municipal Income Taxes	(22,630)	
Other Local Taxes	(349)	
Charges for Services	3,238	
Fine and Forfeitures	774	
Fees, Licenses, and Permits	(1,924)	
Intergovernmental	85,489	
Interest	571	
Other	<u>(8,018)</u>	56,814

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

General Obligation Bonds Payable	65,000	
Police and Fire Pension Liability	1,660	
Capital Leases Payable	<u>30,235</u>	96,895

Interest is reported as an expenditure when due in governmental funds, but is accrued on outstanding debt on the statement of net assets. 329

Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Due to Other Governments	1,481	
Compensated Absences Payable	<u>(8,349)</u>	<u>(6,868)</u>

Change in Net Assets of Governmental Activities (\$108,793)

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Revenues, Expenditures,
and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$119,575	\$119,616	\$95,226	(\$24,390)
Municipal Income Taxes	811,873	947,533	890,006	(57,527)
Other Local Taxes	0	0	2,190	2,190
Charges for Services	66,528	79,615	90,172	10,557
Fees, Licenses, and Permits	12,100	17,649	17,934	285
Fines and Forfeitures	90,100	77,475	78,616	1,141
Intergovernmental	257,548	298,716	293,843	(4,873)
Gifts and Donations	3,800	43,423	46,599	3,176
Interest	155,000	116,026	65,600	(50,426)
Other	9,600	37,190	39,542	2,352
Total Revenues	1,526,124	1,737,243	1,619,728	(117,515)
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	747,858	798,844	783,748	15,096
Fire	558,532	560,950	508,554	52,396
Other	21,000	21,000	15,621	5,379
Leisure Time Activities	62,016	62,476	42,145	20,331
Community Environment	23,200	78,084	78,618	(534)
General Government				
Judicial	17,558	34,329	33,120	1,209
Other	455,856	522,218	521,210	1,008
Total Expenditures	1,886,020	2,077,901	1,983,016	94,885
Excess of Revenues Over (Under) Expenditures	(359,896)	(340,658)	(363,288)	(22,630)
Fund Balance Beginning of Year	698,566	698,566	698,566	0
Prior Year Encumbrances Appropriated	10,743	10,743	10,743	0
Fund Balance (Deficit) End of Year	\$349,413	\$368,651	\$346,021	(\$22,630)

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Revenues, Expenditures,
and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
Street Construction and Maintenance Fund
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Municipal Income Taxes	\$147,127	\$161,006	\$154,229	(\$6,777)
Intergovernmental	112,873	118,157	118,322	165
Other	0	511	511	0
Total Revenues	260,000	279,674	273,062	(6,612)
<u>Expenditures</u>				
Current:				
Transportation	346,371	313,703	300,325	13,378
Excess of Revenues Under Expenditures	(86,371)	(34,029)	(27,263)	6,766
Fund Balance Beginning of Year	64,880	64,880	64,880	0
Prior Year Encumbrances Appropriated	2,966	2,966	2,966	0
Fund Balance (Deficit) End of Year	(\$18,525)	\$33,817	\$40,583	\$6,766

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Fund Net Assets
Enterprise Funds
December 31, 2002

	Water Fund	Sewer Fund	Other Enterprise Fund	Total Enterprise Funds
<u>Assets</u>				
<u>Current Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$651,934	\$250,713	\$90,945	\$993,592
Accounts Receivable	97,737	94,218	56,127	248,082
Prepaid Items	3,730	1,454	0	5,184
Total Current Assets	753,401	346,385	147,072	1,246,858
<u>Non-Current Assets</u>				
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	75,000	0	0	75,000
Cash and Cash Equivalents with Fiscal Agent	174,837	0	0	174,837
Nondepreciable Capital Assets	74,323	115,097	0	189,420
Depreciable Capital Assets, Net	2,582,740	3,226,191	273,826	6,082,757
Total Non-Current Assets	2,906,900	3,341,288	273,826	6,522,014
Total Assets	3,660,301	3,687,673	420,898	7,768,872
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accrued Wages Payable	4,080	4,080	141	8,301
Accounts Payable	59,799	15,565	420	75,784
Due to Other Governments	10,990	13,590	278	24,858
Claims Payable	5,032	5,031	27	10,090
Accrued Interest Payable	4,983	19,601	0	24,584
Notes Payable	0	1,056,000	0	1,056,000
Capital Leases Payable	0	0	18,031	18,031
Mortgage Revenue Bonds Payable	95,000	0	0	95,000
Compensated Absences Payable	5,078	5,078	396	10,552
Total Current Liabilities	184,962	1,118,945	19,293	1,323,200
<u>Non-Current Liabilities</u>				
Capital Leases Payable	0	0	83,652	83,652
Mortgage Revenue Bonds Payable	985,000	0	0	985,000
OPWC Loans Payable	0	26,474	0	26,474
Compensated Absences Payable	5,344	5,344	0	10,688
Total Non-Current Liabilities	990,344	31,818	83,652	1,105,814
Total Liabilities	1,175,306	1,150,763	102,945	2,429,014
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	1,577,063	2,258,814	172,143	4,008,020
Restricted for				
Revenue Bond Renewal and Replacement	60,000	0	0	60,000
Revenue Bond Future Debt Service	15,000	0	0	15,000
Revenue Bond Current Debt Service	174,837	0	0	174,837
Unrestricted	658,095	278,096	145,810	1,082,001
Total Net Assets	\$2,484,995	\$2,536,910	\$317,953	\$5,339,858

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended December 31, 2002

	Water Fund	Sewer Fund	Other Enterprise Fund	Total Enterprise Funds
<u>Operating Revenues</u>				
Charges for Services	\$659,682	\$538,883	\$23,429	\$1,221,994
Other	2,471	6,931	0	9,402
Total Operating Revenues	<u>662,153</u>	<u>545,814</u>	<u>23,429</u>	<u>1,231,396</u>
<u>Operating Expenses</u>				
Personal Services	231,979	239,893	15,415	487,287
Contractual Services	81,261	137,070	11,744	230,075
Materials and Supplies	125,660	45,177	6,427	177,264
Depreciation	88,066	100,944	26,725	215,735
Other	641	801	204	1,646
Total Operating Expenses	<u>527,607</u>	<u>523,885</u>	<u>60,515</u>	<u>1,112,007</u>
Operating Income (Loss)	<u>134,546</u>	<u>21,929</u>	<u>(37,086)</u>	<u>119,389</u>
<u>Non-Operating Revenues (Expenses)</u>				
Interest Revenue	2,797	0	0	2,797
Interest Expense	(64,618)	(30,830)	(7,145)	(102,593)
Total Non-Operating Revenues (Expenses)	<u>(61,821)</u>	<u>(30,830)</u>	<u>(7,145)</u>	<u>(99,796)</u>
Income (Loss) before Contributions and Transfers	72,725	(8,901)	(44,231)	19,593
Capital Contributions			36,900	36,900
Transfers In	0	0	24,152	24,152
Change in Net Assets	72,725	(8,901)	16,821	80,645
Net Assets Beginning of Year - (See Note 3)	<u>2,412,270</u>	<u>2,545,811</u>	<u>301,132</u>	<u>5,259,213</u>
Net Assets End of Year	<u>\$2,484,995</u>	<u>\$2,536,910</u>	<u>\$317,953</u>	<u>\$5,339,858</u>

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2002

	Water Fund	Sewer Fund	Other Enterprise Fund	Total Enterprise Funds
Increases (Decreases) in Cash and Cash Equivalents				
<u>Cash Flows from Operating Activities</u>				
Cash Received from Customers	\$647,811	\$524,879	\$52,563	\$1,225,253
Cash Payments for Personal Services	(230,094)	(229,840)	(15,422)	(475,356)
Cash Payments for Contractual Services	(90,229)	(156,345)	(11,452)	(258,026)
Cash Payments to Vendors	(63,920)	(45,804)	(7,077)	(116,801)
Cash Received from Other Revenues	2,471	1,264	0	3,735
Cash Payments for Other Expenses	(641)	(801)	(204)	(1,646)
Net Cash Provided by (Used for) Operating Activities	<u>265,398</u>	<u>93,353</u>	<u>18,408</u>	<u>377,159</u>
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers In	<u>0</u>	<u>0</u>	<u>24,152</u>	<u>24,152</u>
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal Paid on Bond Anticipation Notes	0	(1,116,000)	0	(1,116,000)
Principal Paid on Mortgage Revenue Bonds	(90,000)	0	0	(90,000)
Principal Paid on Capital Leases	0	0	(17,007)	(17,007)
Interest Paid on Bond Anticipation Notes	0	(42,881)	0	(42,881)
Interest Paid on Mortgage Revenue Bonds	(49,957)	0	0	(49,957)
Interest Paid on Capital Leases	0	0	(7,145)	(7,145)
Proceeds of Notes	0	1,056,000	0	1,056,000
Proceeds of OPWC Loans	0	14,973	0	14,973
Acquisition of Fixed Assets	(437,625)	(26,390)	(51,910)	(515,925)
Net Cash Used for Capital and Related Financing Activities	<u>(577,582)</u>	<u>(114,298)</u>	<u>(76,062)</u>	<u>(767,942)</u>
<u>Cash Flows from Investing Activities</u>				
Purchase of Investments	277,751	0	0	277,751
Sale of Investments	(289,990)	0	0	(289,990)
Net Cash Used for Investing Activities	<u>(12,239)</u>	<u>0</u>	<u>0</u>	<u>(12,239)</u>
Decrease in Cash and Cash Equivalents	(324,423)	(20,945)	(33,502)	(378,870)
Cash and Cash Equivalents Beginning of Year	<u>1,226,194</u>	<u>271,658</u>	<u>124,447</u>	<u>1,622,299</u>
Cash and Cash Equivalents End of Year	<u>\$901,771</u>	<u>\$250,713</u>	<u>\$90,945</u>	<u>\$1,243,429</u>

(continued)

City of Crestline
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2002
(continued)

	Water Fund	Sewer Fund	Other Enterprise Fund	Total Enterprise Funds
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Operating Income (Loss)	\$134,546	\$21,929	(\$37,086)	\$119,389
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Depreciation	88,066	100,944	26,725	215,735
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(11,871)	(19,671)	29,134	(2,408)
(Increase) Decrease in Prepaid Items	(796)	(609)	123	(1,282)
Increase in Accrued Wages Payable	407	305	96	808
Increase (Decrease) in Accounts Payable	45,418	(5,804)	(481)	39,133
Decrease in Contracts Payable	0	(16,004)	0	(16,004)
Increase (Decrease) in Due to Other Governments	3,649	6,285	(104)	9,830
Increase in Claims Payable	2,251	2,250	27	4,528
Increase (Decrease) in Compensated Absences Payable	3,728	3,728	(26)	7,430
Net Cash Provided by (Used for) Operating Activities	<u>\$265,398</u>	<u>\$93,353</u>	<u>\$18,408</u>	<u>\$377,159</u>

Non-Cash Capital Transactions

In 2002, the Capital Improvements capital projects fund acquired an ambulance, in the amount of \$36,900, and donated it to the Ambulance enterprise fund.

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2002

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$13,229	\$0
Cash and Cash Equivalents in Segregated Accounts	0	1,678
Total Assets	13,229	1,678
 <u>Liabilities:</u>		
Undistributed Assets	0	\$1,678
 <u>Net Assets:</u>		
Held in Trust for Community Projects	13,229	
Total Net Assets	\$13,229	

See Accompanying Notes to the Basic Financial Statements

City of Crestline
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended December 31, 2002

	Private Purpose Trust
<u>Additions:</u>	
Gifts and Donations	\$7,000
<u>Deductions:</u>	
Other	3,000
Change in Net Assets	4,000
Net Assets at Beginning of Year - Restated (Note 3)	9,229
Net Assets at End of Year	\$13,229

See Accompanying Notes to the Basic Financial Statements

NOTE 1 - DESCRIPTION OF THE CITY OF CRESTLINE AND THE REPORTING ENTITY

A. The City

The City of Crestline is a statutory municipal corporation operating under the laws of the State of Ohio. Crestline was incorporated as a city on April 29, 2001, by proclamation of the Secretary of State of Ohio as a result of the federal census of 2000.

The City operates under a mayor-council form of government. Legislative power is vested in a seven member council plus a council president, each elected to four-year terms. The Mayor, Auditor, Treasurer, and Solicitor are elected to four-year terms. The Service-Safety Director and Magistrate are appointed by the Mayor.

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

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City of Crestline consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City, this includes the Crestline Mayor's Court and all departments and activities that are directly operated by the elected City officials.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Crestline in 2002.

The City of Crestline participates in the Ohio Government Risk Management Plan, an insurance purchasing pool. This organization is presented in Note 20 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

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: governmental, proprietary, and fiduciary.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds

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

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

Street Construction and Maintenance Fund - This fund accounts for 92.5 percent of the state gasoline tax and motor vehicle registration fees as well as a portion of municipal income taxes designated for maintenance of streets within the City.

Swimming Pool Bond Retirement Fund - This fund accounts for property tax revenues and transfers used to pay principal and interest for debt issued for pool improvements.

Capital Improvements Fund - This fund accounts for a portion of municipal income taxes designated for large equipment purchases.

Swimming Pool Capital Projects Fund - This fund accounts for swimming pool improvements.

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

Proprietary Funds

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

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

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

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

The other enterprise fund of the City accounts for ambulance services.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City's private purpose trust fund accounts for resources used to benefit the community. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency fund accounts for mayor's court monies due to third-parties, excluding the City of Crestline.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim at December 31, 2002, but were levied to finance 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process

All funds, except agency funds, are required to be budgeted and appropriated. The major documents prepared are the statement of fund activities, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The statement of fund activities indicates the projected revenues and expenditures for those funds receiving tax monies. The certificate of estimated resources establishes a limit on the amount City Council may appropriate. The appropriations resolution is City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by City Council. The legal level of control has been established by City Council at the fund, department, and object level for all funds.

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

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

F. Cash and Investments

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

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

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

During 2002, the City invested in nonnegotiable certificates of deposit, mutual funds, and STAR Ohio. Nonnegotiable certificates of deposit are recorded at cost. Mutual funds are reported at fair value, which is based on current share price. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2002.

Interest earnings are allocated to City funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2002 was \$65,036, which includes \$50,858 assigned from other City funds.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2002, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Restricted Assets

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

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

I. Capital Assets

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

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

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings	50 years	50 years
Land Improvements	20 years	100 years
Streets	10-75 years	N/A
Bridges	50 years	N/A
Water, Sewer, and Storm Water Lines	N/A	50 years
Equipment	8-20 years	10-50 years
Vehicles	8-15 years	8-15 years

J. Interfund Receivables/Payables

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "Interfund Receivables/Payables". Interfund balances are eliminated on 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 the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees with ten or more years of service with the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Assets

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

The City's Water enterprise fund has restricted net assets relative to those resources necessary to comply with various covenants of bond financing agreements.

N. Fund Balance Reserves

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

O. 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, sewer, and ambulance services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

P. Capital Contributions

Capital contributions on the enterprise fund financial statements arise from outside contributions of capital assets, contributions from other funds of the City, or from grants or outside contributions of resources restricted to capital acquisition and construction.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. 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.

R. Extraordinary and Special Items

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

S. Estimates

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY

For the year ended December 31, 2002, the City of Crestline has presented for the first time basic financial statements in accordance with generally accepted accounting principles. In conjunction with this presentation, the City has changed its basis of accounting from the cash basis of accounting to government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds.

This change required that certain adjustments be recorded to the January 1, 2002, fund balances/net assets as previously reported to reflect the prior year's effect of adopting these new accounting principles.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY (continued)

The transition from cash fund balance to governmental fund balance is as follows:

	General Fund	Street Construction and Maintenance Fund	Swimming Pool Bond Retirement Fund	Capital Improvements Fund	Swimming Pool Capital Projects Fund	Other Governmental Funds	Total Governmental Activities
Cash Fund Balance at December 31, 2001	\$709,309	\$67,846	\$29,565	\$438,915	\$54,105	\$530,057	\$1,829,797
Basis of Accounting Adjustments:							
Cash and Cash Equivalents							367
Cash and Cash Equivalents in Segregated Accounts							2,270
Accounts Receivable							3,517
Due from Other Governments							38,776
Municipal Income Taxes Receivable							107,258
Other Local Taxes Receivable							2,925
Prepaid Items							26,458
Accrued Interest Receivable							572
Notes Receivable							45,869
Accrued Wages Payable							(29,600)
Accounts Payable							(66,950)
Due to Other Governments							(14,198)
Claims Payable							(16,548)
Accrued Interest Payable							(1,185)
Notes Payable							(330,000)
Fund Balance at December 31, 2001							<u>\$1,599,328</u>

The transition from governmental fund balance to net assets of governmental activities is as follows:

	General Fund	Street Construction and Maintenance Fund	Swimming Pool Bond Retirement Fund	Capital Improvements Fund	Swimming Pool Capital Projects Fund	Other Governmental Activities	Total Governmental Activities
Fund Balance (Deficit) at December 31, 2001	\$717,260	\$84,672	\$30,369	\$458,385	(\$277,014)	\$585,656	\$1,599,328
GASB Statement No. 34 Adjustments:							
Accounts Receivable							30,856
Due from Other Governments							210,183
Municipal Income Taxes Receivable							520,834
Other Local Taxes Receivable							19,615
Accrued Interest Receivable							1,044
Notes Receivable							2,815
Property Taxes Receivable							11,076
Capital Assets							5,551,051
Due to Other Governments							(53,757)
Accrued Interest Payable							(3,390)
General Obligation Bonds Payable							(520,000)
Compensated Absences Payable							(77,044)
Police and Fire Pension Liability							(119,211)
Capital Leases Payable							(211,005)
Governmental Activities Net Assets at December 31, 2001							<u>\$6,962,395</u>

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY (continued)

The transition from enterprise cash fund balance to net assets of business-type activities is as follows:

	Water Fund	Sewer Fund	Other Enterprise Fund	Total Business-Type Activities
Cash Fund Balance at December 31, 2001	\$1,039,118	\$271,658	\$124,447	\$1,435,223
GASB Statement No. 34 Adjustments:				
Cash and Cash Equivalents with Fiscal Agent				187,076
Accounts Receivable				245,674
Due from Other Governments				14,973
Prepaid Items				3,902
Capital Assets				5,935,087
Accrued Wages Payable				(7,493)
Accounts Payable				(36,651)
Contracts Payable				(16,004)
Due to Other Governments				(15,028)
Claims Payable				(5,562)
Accrued Interest Payable				(37,010)
Notes Payable				(1,116,000)
Capital Leases Payable				(118,690)
Mortgage Revenue Bonds Payable				(1,170,000)
OPWC Loans Payable				(26,474)
Compensated Absences Payable				(13,810)
Business-Type Activities Net Assets at December 31, 2001				\$5,259,213

The transition from private purpose trust fund cash fund balance to net assets of fiduciary funds is as follows:

	Private Purpose Trust Fund
Cash Fund Balance at December 31, 2001	\$2,229
GASB Statement No. 34 Adjustments:	
Accounts Receivable	7,000
Fiduciary Fund Net Assets at December 31, 2001	\$9,229

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2002, the Swimming Pool capital projects fund had a deficit fund balance, in the amount of \$211,023, due to the requirement to report the bond anticipation note liability in the fund receiving the note proceeds. The deficit will be alleviated when the bonds are issued or when the notes are paid.

B. Compliance

The following accounts had expenditures/expenses in excess of appropriations for the year ended December 31, 2002.

Fund Type/Fund/Department/Object	Appropriations	Expenditures/Expenses	Excess
General Fund			
Council/Personal Services	\$15,150	\$31,246	\$16,096
Auditor/Contractual Services	28,772	34,154	5,382
Legal Contracts/Contractual Services	56,000	56,564	564
Architectural and Engineering/ Contractual Services	11,693	16,468	4,775
Administrative-Safety Service/ Personal Services	27,772	27,820	48
Income Tax/Other	12,000	12,884	884
Harvest Festival/Contractual Services	71,134	71,839	705
Special Revenue Funds			
Street Construction and Maintenance			
Street/Other	0	2,359	2,359
Dare Grant			
Dare/Materials and Supplies	1,045	1,071	26
Capital Projects Fund			
Capital Improvements			
Capital Improvements/Capital Outlay	103,140	127,776	24,636
Enterprise Funds			
Water			
Water Pumping/Personal Services	76,102	76,749	647
Sewer			
Sewer Disposal/Contractual Services	130,030	132,286	2,256
Sewer Disposal/Capital Outlay	1,346	5,628	4,282
Ambulance			
Ambulance/Other	0	204	204

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (continued)

During the year, the City made a number of errors in posting budgetary transactions. The City Auditor will monitor budgetary transactions to ensure appropriations are accurate and recorded appropriately.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

	Net Change in Fund Balance	
	General	Street Construction and Maintenance
GAAP Basis	(\$324,418)	(\$4,356)
<u>Increases (Decreases) Due To</u>		
Revenue Accruals:		
Accrued 2001, Received In Cash 2002	64,177	22,815
Accrued 2002, Not Yet Received in Cash	(108,326)	(30,664)
Expenditure Accruals:		
Accrued 2001, Paid In Cash 2002	(76,981)	(13,262)
Accrued 2002, Not Yet Paid in Cash	130,701	5,612
		(continued)

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

Net Change in Fund Balance
(continued)

	General	Street Construction and Maintenance
Cash Adjustments:		
Unrecorded Activity 2001	\$292	\$0
Unrecorded Activity 2002	(195)	0
Prepaid Items	(10,569)	(6,154)
Excess of Revenues Under Expenditures for Nonbudgeted Funds	(6,472)	0
Encumbrances Outstanding at Year End (Budget Basis)	(31,497)	(1,254)
Budget Basis	(\$363,288)	(\$27,263)

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

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

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

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

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

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

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

At year end, the City had \$2,380 in undeposited cash on hand which is included as part of “Equity in Pooled Cash and Cash Equivalents”.

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

At year end, the carrying amount of the City’s deposits was \$2,373,897 and the bank balance was \$2,459,458. Of the bank balance, \$213,153 was covered by the federal depository insurance and \$2,246,305 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City’s investments are categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered for which the securities are held by the City or the City’s agent in the City’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the City’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City’s name. STAR Ohio and investments in mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form. At December 31, 2002, the fair value of funds on deposit with STAR Ohio and mutual funds was \$200,244 and \$174,837, respectively.

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

A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$2,751,358	\$0
Cash on Hand	(2,380)	0
Investments:		
STAR Ohio	(200,244)	200,244
Mutual Funds	(174,837)	174,837
GASB Statement No. 3	\$2,373,897	\$375,081

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 7 - RECEIVABLES

Receivables at December 31, 2002, consisted of accounts (billings for user charged services, including unbilled utility services); intergovernmental receivables arising from grants, entitlements, and shared revenues; income taxes; other local taxes; interfund; interest; property taxes, and notes. Notes receivable, in the amount of \$28,912, will not be received within one year.

Notes receivable represent low interest loans for development projects and home improvements granted to eligible City residents and businesses under the Federal Community Development Block Grant program. The notes have an annual interest rate of 5 percent and are repaid over periods ranging from 7 to 10 years.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Personal Property Exemption	\$7,380
Homestead and Rollback	26
Local Government	14,246
Local Government Revenue Assistance	107,484
Beer and Liquor Permits	2,050
Cigarette Tax	106
Estate Tax	20,923
State of Ohio	200
Crawford County	37
Total General Fund	152,452
Street Construction and Maintenance	
Gasoline Tax	41,211
Motor Vehicle License Tax	17,950
Total Street Maintenance and Repair	59,161
Swimming Pool Bond Retirement	
Personal Property Exemption	5,116
Homestead and Rollback	18
Total Swimming Pool Bond Retirement	5,134
Total Major Funds	216,747
Nonmajor Funds	
State Highway	
Gasoline Tax	3,124
Motor Vehicle License Tax	1,455
Total State Highway	4,579
	(continued)

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 7 - RECEIVABLES (continued)

	Amount
Governmental Activities (continued)	
Community Development Block Grant	
HOME Grant	\$102,000
Total Community Block Grant	102,000
Police Pension	
Personal Property Exemption	3
Homestead and Rollback	853
Total Police Pension	856
Fire Pension	
Personal Property Exemption	3
Homestead and Rollback	853
Total Fire Pension	856
City Hall Bond Retirement	
Personal Property Exemption	6,252
Homestead and Rollback	8
Total City Hall Bond Retirement	6,260
Total Nonmajor Funds	114,551
Total Governmental Activities	\$331,298

NOTE 8 - MUNICIPAL INCOME TAXES

The City levies and collects an income tax of 2 percent based on all income earned within the City as well as on the income of residents earned outside the City. In the latter case, the City allows a credit of 75 percent of the tax paid to another municipality. 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. The City's income tax is distributed to the General Fund, Street Construction and Maintenance special revenue fund, and Capital Improvements capital projects fund.

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2002 represent the collection of 2001 taxes. Real property taxes were levied in 2002 after October 1, 2002, on the assessed values as of January 1, 2002, the lien date. These taxes will be collected in and are intended to finance 2003 operations. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2000. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 9 - PROPERTY TAXES (continued)

Public utility real and tangible personal property taxes were levied in 2002 after October 1, 2002, on the assessed values as of December 31, 2001, the lien date. These taxes will be collected in and are intended to finance 2003 operations. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2002 (other than public utility property) represent the collection of 2002 taxes. Tangible personal property taxes received in 2002 were levied after October 1, 2001, on the true value as of December 31, 2001. Tangible personal property is currently assessed at 25 percent of true value for equipment and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2002, and for which there was an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2002 operations.

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

The full tax rate for all City operations for the year ended December 31, 2002, was \$5.80 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2002 property tax receipts were based are as follows:

Category	Amount
Real Property	
Agricultural	\$45,340
Residential	31,364,490
Commercial	6,747,250
Industrial	1,153,600
Public Utility Property	
Real	128,900
Personal	2,231,690
Tangible Personal Property	4,968,317
Total Assessed Value	\$46,639,587

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2002, was as follows:

	Balance January 1, 2002	Additions	Reductions	Balance December 31, 2002
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$344,055	\$36,590	\$0	\$380,645
Depreciable Capital Assets				
Buildings	1,730,500	0	0	1,730,500
Land Improvements	39,478	0	0	39,478
Streets	4,861,846	99,475	0	4,961,321
Bridges	56,486	0	0	56,486
Equipment	192,345	25,095	0	217,440
Vehicles	952,593	7,910	0	960,503
Total Depreciable Capital Assets	7,833,248	132,480	0	7,965,728
Less Accumulated Depreciation for				
Buildings	(596,524)	(33,000)	0	(629,524)
Land Improvements	(39,478)	0	0	(39,478)
Streets	(1,426,150)	(68,991)	0	(1,495,141)
Bridges	(24,860)	(1,130)	0	(25,990)
Equipment	(106,880)	(12,733)	0	(119,613)
Vehicles	(432,360)	(69,117)	0	(501,477)
Total Accumulated Depreciation	(2,626,252)	(184,971)	0	(2,811,223)
Total Depreciable Capital Assets, Net	5,206,996	(52,491)	0	5,154,505
Governmental Activities Capital Assets, Net	\$5,551,051	(\$15,901)	\$0	\$5,535,150

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 10 - CAPITAL ASSETS (continued)

	Balance January 1, 2002	Additions	Reductions	Balance December 31, 2002
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$111,558	\$0	\$0	\$111,558
Construction in Progress	62,450	15,412	0	77,862
Total Nondepreciable Capital Assets	<u>174,008</u>	<u>15,412</u>	<u>0</u>	<u>189,420</u>
Depreciable Capital Assets				
Buildings	2,159,900	0	0	2,159,900
Land Improvements	133,000	0	0	133,000
Water, Sewer, and Storm Water Lines	1,645,583	23,715	0	1,669,298
Equipment	4,045,600	417,788	0	4,463,388
Vehicles	365,776	95,910	0	461,686
Total Depreciable Capital Assets	<u>8,349,859</u>	<u>537,413</u>	<u>0</u>	<u>8,887,272</u>
Less Accumulated Depreciation for				
Buildings	(566,670)	(43,090)	0	(609,760)
Land Improvements	(109,060)	(1,330)	0	(110,390)
Water, Sewer, and Storm Water Lines	(724,064)	(33,386)	0	(757,450)
Equipment	(1,032,316)	(110,592)	0	(1,142,908)
Vehicles	(156,670)	(27,337)	0	(184,007)
Total Accumulated Depreciation	<u>(2,588,780)</u>	<u>(215,735)</u>	<u>0</u>	<u>(2,804,515)</u>
Total Depreciable Capital Assets, Net	<u>5,761,079</u>	<u>321,678</u>	<u>0</u>	<u>6,082,757</u>
Business-Type Activities Capital Assets, Net	<u>\$5,935,087</u>	<u>\$337,090</u>	<u>\$0</u>	<u>\$6,272,177</u>

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 10 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$34,256
Security of Persons and Property - Fire	51,096
Leisure Time Activities	5,550
Transportation	85,819
General Government - Other	8,250
Total Depreciation Expense - Governmental Activities	\$184,971

NOTE 11 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2002, the Swimming Pool Bond Retirement debt service fund and other governmental funds had interfund receivables, in the amount of \$10,001 and \$8,124, respectively; and the General Fund had an interfund payable, in the amount of \$18,125, for tax monies received in the General Fund that are owed to other funds. All amounts are expected to be repaid within one year.

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2002, the City contracted for the following insurance coverage.

Type of Coverage	Coverage	Deductible
General Liability		
Each Occurrence	\$1,000,000	\$0
Annual Aggregate	3,000,000	0
Employers Liability	1,000,000	0
Employee Benefits Liability		
Each Occurrence	1,000,000	0
Annual Aggregate	3,000,000	0
Law Enforcement Officers Liability		
Each Occurrence	1,000,000	2,500
Annual Aggregate	3,000,000	2,500
Public Officials Liability		
Each Occurrence	1,000,000	2,500
Annual Aggregate	3,000,000	2,500

(continued)

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 12 - RISK MANAGEMENT (continued)

Type of Coverage	Coverage	Deductible
Property (building and contents)	\$12,210,348	\$1,000
Inland Marine		
Special Property	466,759	1,000
Electronic Equipment	85,000	500
Automobile Coverage		
Liability	1,000,000	0
Medical Payments	5,000	0

There has been no significant reduction in insurance coverage from 2001, and no insurance settlement has exceeded insurance coverage during the last three years.

For 2002, the City participated in the Ohio Government Risk Management (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

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

The City provides employee health insurance benefits through a partially self-insured program. The City pays for this coverage from the funds from which employee's salaries are paid. The City makes payments based upon actual amounts needed to pay prior and current-year claims. For 2002, the City used E.B.S. of Ohio, Incorporated to process all claims.

Under the City's self-insured program, the City pays claims up to a maximum of \$15,000 per individual. Claims ranging from \$15,000 to \$1,000,000 are paid by Spectrum Underwriting Managers, Inc. Settled claims have not exceeded the stop-loss coverage for the last three years.

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2002, is estimated by the third party administrator at \$41,398.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 12 - RISK MANAGEMENT (continued)

The changes in the claims liability for 2002 were as follows:

Year	Beginning Balance	Claims and Changes in Estimates	Claims Payments	Ending Balance
2002	\$22,110	\$312,329	\$293,041	\$41,398

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City contributes to the Ohio Public Employees Retirement System (System), a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Board. The System provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. The System issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13.55 percent; 8.55 percent was the portion used to fund pension obligations for 2002. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's contributions to the System for the year ended December 31, 2002, was \$70,620; 74 percent has been contributed for 2002. The unpaid contribution for 2002, in the amount of \$18,388, is recorded as a liability.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police (11.75 percent was the portion used to fund pension obligations for 2001); and 24 percent for firefighters (16.25 percent was the portion used to fund pension obligations for 2001). Contributions are authorized by State statute. The City's contributions to the Fund for the year ended December 31, 2002, was \$88,278; 71 percent has been contributed for 2002. The unpaid contribution for 2002, in the amount of \$25,351, is recorded as a liability.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (System) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the System is set aside for the funding of postretirement health care based on authority granted by State statute. The employer contribution rate was 13.55 percent of covered payroll; 5 percent was the portion used to fund health care for 2002.

Benefits are advance funded using the entry age normal cost method. Significant actuarial assumptions include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually, and an additional increase in total payroll of .5 percent to 6.3 percent based on additional pay increases. Health care premiums were assumed to increase 4 percent annually.

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

At December 31, 2001, the total number of benefit recipients eligible for OPB through the System was 402,041. As of December 31, 2001, the actuarial value of net assets available for future OPB payments were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively. The City's actual contributions for 2002 which were used to fund OPB were \$41,298.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (Fund) 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 eighteen, whether or not the child is attending school, or under the age of twenty-two if attending school full-time or on a two-thirds basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the Fund 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 was 19.5 percent of covered payroll and the firefighter employer contribution rate was 24 percent; 7.75 percent was the portion used to fund health care for 2002. 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.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 14 - POSTEMPLOYMENT BENEFITS (continued)

The number of participants eligible to receive health care benefits as of December 31, 2001, was 13,174 for police and 10,239 for firefighters. The City's actual contributions for 2002 that were used to fund postemployment benefits were \$27,623 for police and \$22,128 for firefighters. The Fund's total health care expenses for the year ended December 31, 2001, (the latest information available), were \$122,298,771, which was net of member contributions of \$6,874,699.

NOTE 15 - COMPENSATED ABSENCES

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

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

Sick leave is earned at various rates as defined by City policy and union contracts. All employees with ten or more years of full-time service with the City, who elect to retire, are entitled to receive one-third of the value of their accumulated unused sick leave up to a maximum of three hundred twenty hours, except for non-safety personnel in the police and fire departments, who are entitled to receive one-half of the value of their accumulated unused sick leave up to a maximum of 1,440 hours. Police and fire department employees, except for the police chief, fire chief, fire captain, and the assistant fire chief, are entitled to receive one-third of the value of their accumulated unused sick leave.

NOTE 16 - NOTES PAYABLE

The City's note transactions for the year ended December 31, 2002, were as follows:

	Interest Rate	Balance December 31, 2001	Additions	Reductions	Balance December 31, 2002
<u>Governmental Activities</u>					
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
Capital Projects Fund					
2001 Swimming Pool Note	2.85%	\$330,000	\$0	\$330,000	\$0
2002 Swimming Pool Note	2.60	0	270,000	0	270,000
Total Governmental Activities		\$330,000	\$270,000	\$330,000	\$270,000

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 16 - NOTES PAYABLE (continued)

	Interest Rate	Balance December 31, 2001	Additions	Reductions	Balance December 31, 2002
<u>Business-Type Activities</u>					
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
Enterprise Fund					
2001 Sewer Improvement Note	3.82%	\$1,116,000	\$0	\$1,116,000	\$0
2002 Sewer Improvement Note	2.50	0	1,056,000	0	1,056,000
Total Business-Type Activities		<u>\$1,116,000</u>	<u>\$1,056,000</u>	<u>\$1,116,000</u>	<u>\$1,056,000</u>
Total Notes Payable		<u>\$1,446,000</u>	<u>\$1,326,000</u>	<u>\$1,446,000</u>	<u>\$1,326,000</u>

According to Ohio law, notes can be issued in anticipation of bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. The liability for all notes is presented in the fund receiving the proceeds.

All of the City's bond anticipation notes are backed by the full faith and credit of the City of Crestline and have a maturity of one year. The swimming pool notes were issued for improving the swimming pool facility by reconstructing and renovating the pool and bathhouse, installing a new filter system, and improving the site. The sewer improvement notes were issued for improving the quality and capacity of treatment and retention capacity at the wastewater treatment plant by constructing an aeration tank, sludge holding tanks, and providing pumping, piping, and electrical facilities.

NOTE 17 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2002, was as follows:

	Interest Rate	Balance December 31, 2001	Additions	Reductions	Balance December 31, 2002	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bonds						
1992 City Hall Bonds	5.88%	\$520,000	\$0	\$65,000	\$455,000	\$65,000
Other Long-Term Obligations						
Compensated Absences Payable		77,044	14,024	5,675	85,393	31,729
Police and Fire Pension Liability		119,211	0	1,660	117,551	1,732
Capital Leases Payable		211,005	0	30,235	180,770	32,056
Total Other Long-Term Obligations		<u>407,260</u>	<u>14,024</u>	<u>37,570</u>	<u>383,714</u>	<u>65,517</u>
Total Governmental Activities		<u>\$927,260</u>	<u>\$14,024</u>	<u>\$102,570</u>	<u>\$838,714</u>	<u>\$130,517</u>

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2001	Additions	Reductions	Balance December 31, 2002	Due Within One Year
<u>Business-Type Activities</u>						
Mortgage Revenue Bonds						
1996 Water Bonds	4.1-5.9%	\$1,170,000	\$0	\$90,000	\$1,080,000	\$95,000
Other Long-Term Obligations						
Capital Leases Payable		118,690	0	17,007	101,683	18,031
OPWC Loans Payable	0.00	26,474	0	0	26,474	0
Compensated Absences Payable		13,810	9,141	1,711	21,240	10,552
Total Other Long-Term Obligations		158,974	9,141	18,718	149,397	28,583
Total Business-Type Activities		<u>\$1,328,974</u>	<u>\$9,141</u>	<u>\$108,718</u>	<u>\$1,229,397</u>	<u>\$123,583</u>

General Obligation Bonds

The City Hall Bonds were issued for constructing, furnishing, and equipping new facilities to house municipal operations, including the police and fire departments. The bonds pledge the full faith and credit and taxing ability of the City. As of December 31, 2002, the balance of unpaid principal was \$455,000, with future annual payments ranging from \$65,000 to \$70,000 through 2009.

Water Mortgage Revenue Bonds

Water mortgage revenue bonds are special obligations of the City secured by a mortgage upon all assets of the respective system. These bonds are payable solely from the gross revenues of the water system after provisions for reasonable operating and maintenance expenses. The bond indentures have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for services to customers be in sufficient amounts to satisfy the obligations under the indenture agreements. In addition, special provisions exist regarding covenant violations, redemptions of principal, and maintenance of properties.

Fund assets, whose use are restricted under the bond indenture, are presented as restricted assets on the statement of fund net assets. At December 31, 2002, restricted assets relating to the 1996 water mortgage revenue bonds were as follows:

Restricted Assets Held by the City	
Renewal and Replacement	\$60,000
Future Debt Service	15,000
Restricted Assets Held by the Trustee	
Current Debt Service	174,837

Water Mortgage Revenue Bonds

The Water Mortgage Revenue Bonds were issued in 1996 to finance improvements to the water system. Payment of the bonds is secured by a pledge of the net revenues of the Water enterprise fund. As of December 31, 2002, the balance of unpaid principal was \$1,080,000, with future annual payments ranging from \$95,000 to \$150,000 through 2011.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

The bonds maturing on or after December 1, 2007, are subject to prior redemption, by and at the sole option of the City, either in whole or in part, on any date on or after December 1, 2006, in integral multiple of \$5,000, at the following redemption prices (expressed as percentages of the principal amount redeemed) plus accrued interest to the redemption date:

<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2006 through November 30, 2007	102 percent
December 1, 2007 through November 30, 2008	101 percent
December 1, 2008 and thereafter	100 percent

Compensated Absences Payable

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

Police and Fire Pension Liability

The City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire personnel in 1967. The liability is payable semiannually from the Police Pension and Fire Pension special revenue funds.

Capital Leases Payable

Capital lease obligations will be paid from the fund that maintains custody of the related assets.

OPWC Loans

OPWC loans consist of money owed to the Ohio Public Works Commission for the replacement of the West Side Storm Sewer and upgrades to the City's wastewater treatment plant. The loans are interest free. OPWC loans are payable solely from the gross revenues of the Sewer enterprise fund.

The City's legal debt margin was \$4,306,420 at December 31, 2002.

The upgrades funded by the OPWC loan have not been completed. An amortization schedule for repayment of the loans will not be available until the projects are completed and, therefore, are not included in the following schedules.

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

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

Year	Governmental Activities			
	City Hall Bonds		Police and Fire Pension	
	Principal	Interest	Principal	Interest
2003	\$65,000	\$26,731	\$1,732	\$4,978
2004	65,000	22,913	1,806	4,903
2005	65,000	19,094	1,884	4,826
2006	65,000	15,275	1,965	4,745
2007	65,000	11,465	2,049	4,660
2008-2012	130,000	11,456	11,645	21,904
2013-2017	0	0	14,370	19,179
2018-2022	0	0	17,732	15,815
2023-2027	0	0	21,882	11,666
2028-2032	0	0	27,002	6,547
2033-2035	0	0	15,484	988
	\$455,000	\$106,934	\$117,551	\$100,211

The City's future annual debt service requirements payable from the enterprise funds are as follows:

Year	Business-Type Activities	
	Mortgage Revenue Bonds	
	Principal	Interest
2003	\$95,000	\$59,800
2004	100,000	54,955
2005	105,000	49,755
2006	115,000	44,190
2007	120,000	37,980
2008-2011	545,000	81,580
	\$1,080,000	\$328,260

City of Crestline
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

NOTE 18 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for equipment. 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 are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for the governmental funds and as a reduction of the liability in the enterprise funds.

Principal payments in 2002 were \$30,235 for governmental funds and \$17,007 for the enterprise funds.

	Governmental Activities	Business-Type Activities
Property under Capital Lease	\$299,944	\$169,187
Less Accumulated Depreciation	(39,992)	(22,558)
Total	\$259,952	\$146,629

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2002.

Year	Governmental Activities	Business-Type Activities
2003	\$42,938	\$24,152
2004	42,938	24,152
2005	42,938	24,152
2006	42,937	24,152
2007	42,937	24,152
Total	214,688	120,760
Less Amount Representing Interest	(33,918)	(19,077)
Present Value of Net Minimum Lease Payments	\$180,770	\$101,683

NOTE 19 - INTERFUND TRANSFERS

During 2002, the Capital Improvements capital projects fund made a transfer to the other business-type activities fund, in the amount of \$24,152, to pay for activities within that fund.

NOTE 20 - INSURANCE PURCHASING POOL

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

NOTE 21 - CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grants

For the period January 1, 2002, to December 31, 2002, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

NOTE 22 - SUBSEQUENT EVENT

On April 1, 2003, the City issued bond anticipation notes, in the amount of \$996,000, to retire notes previously issued for sewer improvements. The notes have an interest rate of 1.68 percent and mature on March 31, 2004.

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**Auditor of State
Betty Montgomery**

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

City of Crestline
Crawford County
100 North Seltzer Street
Crestline, Ohio 44827

To the City Council:

We have audited the basic financial statements of the City of Crestline, Crawford County, Ohio, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated August 29, 2003, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 29, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain other matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to management of the City in a separate letter dated August 29, 2003.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

August 29, 2003

CITY OF CRESTLINE
CRAWFORD COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2002

<u>Finding Number</u>	<u>Finding Summary</u>	Fully <u>Corrected</u> ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-30517-001	Ohio Rev. Code Section 5705.39 – appropriations exceed estimated resources	Yes	



**Auditor of State
Betty Montgomery**

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CITY OF CRESTLINE

CRAWFORD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 30, 2003**