



**Auditor of State
Betty Montgomery**

**CITY OF JACKSON
JACKSON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Jackson
Jackson County
145 Broadway Street
Jackson, Ohio 45640

To the City Council:

We were engaged to audit the accompanying general purpose financial statements of the City of Jackson, Jackson County, Ohio (the City), as of and for the year ended December 31, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

The City's December 31, 2001 fund balances were adjusted as described in Note 3.

As disclosed in Note 20, the City and Auditor of State are defendants in a lawsuit seeking a declaratory judgment action to avoid a Special Audit Finding against the City. Plaintiffs in this action are the City's Mayor and former Safety/Service Director. Because we are defendants in this suit, we are not independent with respect to this engagement.

Because of the matters described in paragraph three above, we are unable to express and we do not express, an opinion on the City's general purpose financial statements for the year ended December 31, 2002.

As discussed in Note 4 to the financial statements, the City has reported a December 31, 2002 general fund cash deficit of \$2,596,822. Management's actions are also described in Note 4.

As disclosed in Note 20, the City is the defendant in a class action lawsuit requesting injunctive relief and damages due to the alleged overcharging of the City's Utilities for its services. Although the outcome of these lawsuits are not presently determinable an adverse outcome could have a material adverse effect on the financial condition of the City.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 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.

We performed our audit to form an opinion on the general purpose financial statements of the City, taken as a whole. The combining financial statement and schedules listed in the table of contents are presented for additional analysis and are not a required part of the general purpose financial statements. The accompanying Schedule of Federal Awards Expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the general purpose financial statements. Due to the matters discussed in paragraph three above, we were unable to express, and we do not express, an opinion on this information.

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

Betty Montgomery
Auditor of State

September 2, 2003

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City of Jackson, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups
 December 31, 2002

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<u>Assets and Other Debit:</u>			
<u>Assets:</u>			
Equity in Pooled Cash and			
Cash Equivalents	\$0	\$836,010	\$1,748
Investments	0	0	0
Cash and Cash Equivalents in			
Segregated Accounts	0	0	0
Receivables:			
Taxes	424,843	452,682	0
Accounts	5,556	3,122	0
Accrued Interest	1,293	47	0
Loans	0	28,613	0
Interfund	58,275	0	0
Intergovernmental	61,461	225,836	57,683
Notes Receivable	0	0	0
Materials and Supplies Inventory	4,632	12,952	0
Prepaid Items	20,594	6,591	0
Deferred Charges	0	0	0
Restricted Assets:			
Cash and Cash Equivalents	0	5,380	0
Cash and Cash Equivalents			
with Fiscal and Escrow Agents	0	0	0
Investment in Joint Venture	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0
<u>Other Debit:</u>			
Amount to be Provided from			
General Government Resources	0	0	0
Total Assets and Other Debit	\$576,654	\$1,571,233	\$59,431

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		Trust and Agency	General Fixed Assets	
Enterprise				
\$10,638,529	\$463,585	\$0	\$0	\$11,939,872
0	153,187	0	0	153,187
0	437,376	0	0	437,376
0	0		0	877,525
2,103,673	0	0	0	2,112,351
0	476	0	0	1,816
0	0	0	0	28,613
2,596,822	0	0	0	2,655,097
0	0	0	0	344,980
447,201	0	0	0	447,201
249,339	0	0	0	266,923
28,173	0	0	0	55,358
67,557	0	0	0	67,557
164,906	0	0	0	170,286
1,325,025	0	0	0	1,325,025
514,030	0	0	0	514,030
14,379,248	0	6,056,994	0	20,436,242
0	0	0	870,631	870,631
<u>\$32,514,503</u>	<u>\$1,054,624</u>	<u>\$6,056,994</u>	<u>\$870,631</u>	<u>\$42,704,070</u>

(continued)

City of Jackson, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups (Continued)
 December 31, 2002

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Liabilities, Fund Equity, and Other Credits:			
<u>Liabilities:</u>			
Accounts Payable	\$17,444	\$16,617	\$0
Contracts Payable	0	130,871	0
Accrued Wages and Benefits Payable	18,759	7,127	0
Compensated Absences Payable	16,512	6,247	0
Interfund Payable	2,596,822	9,440	48,835
Intergovernmental Payable	29,883	17,124	0
Deferred Revenue	465,635	585,422	57,683
Due to Others	0	0	0
Accrued Interest Payable	1,139	2,558	0
Notes Payable	94,136	410,157	0
OWDA Loans Payable	0	0	0
Payable from Restricted Assets:			
Mortgage Revenue Bonds Payable	0	0	0
Accrued Interest Payable	0	0	0
Customer Deposits	0	0	0
Police and Fire Pension Liability Payable	0	0	0
Retirement Benefits Payable	0	0	0
Mortgage Revenue Bonds Payable	0	0	0
Total Liabilities	3,240,330	1,185,563	106,518
<u>Fund Equity and Other Credits:</u>			
Investment in General Fixed Assets	0	0	0
Contributed Capital	0	0	0
Retained Earnings:			
Reserved for Revenue Bond Debt Service	0	0	0
Unreserved	0	0	0
Fund Balances:			
Reserved for Encumbrances	95,891	135,496	15,000
Reserved for Endowments	0	0	0
Reserved for Unclaimed Monies	10,569	0	0
Reserved for Inventory	4,632	12,952	0
Reserved for Loans	0	28,613	0
Unreserved, Undesignated (Deficits)	(2,774,768)	208,609	(62,087)
Total Fund Equity (Deficits) and Other Credits	(2,663,676)	385,670	(47,087)
Total Liabilities, Fund Equity, and Other Credits	\$576,654	\$1,571,233	\$59,431

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		Trust and Agency	General Fixed Assets	
Enterprise				
\$462,362	\$0	\$0	\$0	\$496,423
189,306	0	0	0	320,177
29,811	0	0	0	55,697
337,954	0	0	338,683	699,396
0	0	0	0	2,655,097
52,181	0	0	0	99,188
0	0	0	0	1,108,740
0	21,505	0	0	21,505
17,305	0	0	0	21,002
1,410,516	0	0	390,875	2,305,684
302,198	0	0	0	302,198
536,902	0	0	0	536,902
110,280	0	0	0	110,280
164,906	0	0	0	164,906
0	0	0	40,744	40,744
186,094	0	0	100,329	286,423
6,373,098	0	0	0	6,373,098
<u>10,172,913</u>	<u>21,505</u>	<u>0</u>	<u>870,631</u>	<u>15,597,460</u>
0	0	6,056,994	0	6,056,994
3,308,870	0	0	0	3,308,870
677,843	0	0	0	677,843
18,354,877	0	0	0	18,354,877
0	0	0	0	246,387
0	520,000	0	0	520,000
0	0	0	0	10,569
0	0	0	0	17,584
0	0	0	0	28,613
0	513,119	0	0	(2,115,127)
<u>22,341,590</u>	<u>1,033,119</u>	<u>6,056,994</u>	<u>0</u>	<u>27,106,610</u>
<u>\$32,514,503</u>	<u>\$1,054,624</u>	<u>\$6,056,994</u>	<u>\$870,631</u>	<u>\$42,704,070</u>

City of Jackson, Ohio
 Combined Statement of Revenues, Expenditures
 and Changes in Fund Balances
 All Governmental Fund Types and Similar Trust Funds
 For the Year Ended December 31, 2002

	Governmental	
	General	Special Revenue
<u>Revenues:</u>		
Property and Other Taxes	\$948,963	\$502,494
Intergovernmental	337,463	1,348,557
Charges for Services	48,225	41,499
Fines, Licenses, and Permits	141,395	2,394
Interest	283,206	33,071
Other	61,578	205,533
Total Revenues	1,820,830	2,133,548
<u>Expenditures:</u>		
Current:		
Security of Persons and Property	1,476,294	278,922
Public Health Services	0	202,878
Leisure Time Activities	0	82,327
Community Environment	0	1,115,281
Transportation	0	407,786
General Government	703,355	1,374
Capital Outlay	0	211,826
Debt Service:		
Principal Retirement	568	0
Interest and Fiscal Charges	6,895	9,807
Total Expenditures	2,187,112	2,310,201
Excess of Revenues Over (Under) Expenditures	(366,282)	(176,653)
<u>Other Financing Sources (Uses):</u>		
Sale of Fixed Assets	1,000	0
Proceeds of Notes	0	0
Operating Transfers In	3,500,000	467,614
Operating Transfers Out	(453,928)	0
Total Other Financing Sources (Uses)	3,047,072	467,614
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	2,680,790	290,961
Fund Balances (Deficits) at Beginning of Year - Restated (See Note 3)	(5,348,616)	81,757
Increase in Reserve for Inventory	4,150	12,952
Fund Balances (Deficits) at End of Year	(\$2,663,676)	\$385,670

See accompanying notes to the general purpose financial statements

<u>Fund Types</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Capital Projects</u>	<u>Expendable Trust</u>	
\$0	\$0	\$1,451,457
0	0	1,686,020
0	9,640	99,364
0	0	143,789
0	6,593	322,870
0	0	267,111
<u>0</u>	<u>16,233</u>	<u>3,970,611</u>
0	0	1,755,216
0	0	202,878
0	0	82,327
0	0	1,115,281
0	0	407,786
0	0	704,729
69,596	0	281,422
0	0	568
0	0	16,702
<u>69,596</u>	<u>0</u>	<u>4,566,909</u>
<u>(69,596)</u>	<u>16,233</u>	<u>(596,298)</u>
0	0	1,000
390,875	0	390,875
0	0	3,967,614
0	(6,106)	(460,034)
<u>390,875</u>	<u>(6,106)</u>	<u>3,899,455</u>
321,279	10,127	3,303,157
(368,366)	432,429	(5,202,796)
0	0	17,102
<u>(\$47,087)</u>	<u>\$442,556</u>	<u>(\$1,882,537)</u>

City of Jackson, Ohio
 Combined Statement of Revenues, Expenditures and Changes
 in Fund Balances - Budget and Actual (Non-GAAP Basis)
 All Governmental Fund Types and Similar Trust Funds
 For the Year Ended December 31, 2002

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Property and Other Taxes	\$950,215	\$1,007,074	\$56,859
Intergovernmental	338,024	446,791	108,767
Charges for Services	48,200	48,225	25
Fines, Licenses, and Permits	157,228	157,263	35
Interest	260,214	270,044	9,830
Other	61,762	77,594	15,832
Total Revenues	1,815,643	2,006,991	191,348
<u>Expenditures:</u>			
Current:			
Security of Persons and Property	1,636,245	1,478,871	157,374
Public Health Services	0	0	0
Leisure Time Activities	0	0	0
Community Environment	0	0	0
Transportation	0	0	0
General Government	1,185,691	910,830	274,861
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	118,238	118,238	0
Interest and Fiscal Charges	8,245	8,245	0
Total Expenditures	2,948,419	2,516,184	432,235
Excess of Revenues Over (Under) Expenditures	(1,132,776)	(509,193)	623,583
<u>Other Financing Sources (Uses):</u>			
Proceeds of Notes	94,136	94,136	0
Sale of Fixed Assets	1,000	1,000	0
Advances Out	(52,168)	(5,327,463)	(5,275,295)
Operating Transfers In	3,500,000	3,500,000	0
Operating Transfers Out	(503,725)	(453,928)	49,797
Total Other Financing Sources (Uses)	3,039,243	(2,186,255)	(5,225,498)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	1,906,467	(2,695,448)	(4,601,915)
Fund Balances (Deficits) at Beginning of Year Restated - (See Note 3)	(5,459,346)	(12,459)	5,446,887
Prior Year Encumbrances Appropriated	23,028	23,028	0
Fund Balances (Deficits) at End of Year	(\$3,529,851)	(\$2,684,879)	\$844,972

See accompanying notes to the general purpose financial statements.

Special Revenue Funds			Capital Projects Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$418,806	\$504,173	\$85,367	\$0	\$0	\$0
1,568,623	1,513,197	(55,426)	63,535	0	(63,535)
52,849	59,780	6,931	0	0	0
1,459	2,218	759	0	0	0
24,981	27,759	2,778	0	0	0
203,637	212,769	9,132	0	0	0
<u>2,270,355</u>	<u>2,319,896</u>	<u>49,541</u>	<u>63,535</u>	<u>0</u>	<u>(63,535)</u>
353,924	311,897	42,027	0	0	0
293,036	202,203	90,833	0	0	0
167,901	82,416	85,485	0	0	0
1,230,075	1,196,244	33,831	0	0	0
442,981	401,663	41,318	0	0	0
0	0	0	0	0	0
268,849	211,015	57,834	86,344	84,596	1,748
437,690	437,690	0	0	0	0
11,683	11,466	217	0	0	0
<u>3,206,139</u>	<u>2,854,594</u>	<u>351,545</u>	<u>86,344</u>	<u>84,596</u>	<u>1,748</u>
<u>(935,784)</u>	<u>(534,698)</u>	<u>401,086</u>	<u>(22,809)</u>	<u>(84,596)</u>	<u>(61,787)</u>
410,157	410,157	0	391,175	390,875	(300)
0	0	0	0	0	0
0	0	0	0	0	0
467,141	467,614	473	0	0	0
0	0	0	0	0	0
<u>877,298</u>	<u>877,771</u>	<u>473</u>	<u>391,175</u>	<u>390,875</u>	<u>(300)</u>
(58,486)	343,073	401,559	368,366	306,279	(62,087)
66,026	66,026	0	(383,366)	(383,366)	0
154,651	154,651	0	15,000	15,000	0
<u>\$162,191</u>	<u>\$563,750</u>	<u>\$401,559</u>	<u>\$0</u>	<u>(\$62,087)</u>	<u>(\$62,087)</u>

(Continued)

City of Jackson, Ohio
 Combined Statement of Revenues, Expenditures and Changes
 in Fund Balances - Budget and Actual (Non-GAAP Basis)
 All Governmental Fund Types and Similar Trust Funds (Continued)
 For the Year Ended December 31, 2002

	Expendable Trust Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Property and Other Taxes	\$0	\$0	\$0
Intergovernmental	0	0	0
Charges for Services	7,300	9,640	2,340
Fines, Licenses, and Permits	0	0	0
Interest	6,106	6,106	0
Other	0	0	0
Total Revenues	13,406	15,746	2,340
<u>Expenditures:</u>			
Current:			
Security of Persons and Property	0	0	0
Public Health Services	0	0	0
Leisure Time Activities	0	0	0
Community Environment	1,933	0	1,933
Transportation	0	0	0
General Government	0	0	0
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	1,933	0	1,933
Excess of Revenues Over (Under) Expenditures	11,473	15,746	4,273
<u>Other Financing Sources (Uses):</u>			
Proceeds of Notes	0	0	0
Sale of Fixed Assets	0	0	0
Advances Out	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	(6,106)	(6,106)	0
Total Other Financing Sources (Uses)	(6,106)	(6,106)	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	5,367	9,640	4,273
Fund Balances (Deficits) at Beginning of Year			
Restated - (See Note 3)	427,684	427,684	0
Prior Year Encumbrances Appropriated	4,745	4,745	0
Fund Balances (Deficits) at End of Year	\$437,796	\$442,069	\$4,273

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)

Revised Budget	Actual	Variance Favorable (Unfavorable)
\$1,369,021	\$1,511,247	\$142,226
1,970,182	1,959,988	(10,194)
108,349	117,645	9,296
158,687	159,481	794
291,301	303,909	12,608
265,399	290,363	24,964
<u>4,162,939</u>	<u>4,342,633</u>	<u>179,694</u>
1,990,169	1,790,768	199,401
293,036	202,203	90,833
167,901	82,416	85,485
1,232,008	1,196,244	35,764
442,981	401,663	41,318
1,185,691	910,830	274,861
355,193	295,611	59,582
555,928	555,928	0
19,928	19,711	217
<u>6,242,835</u>	<u>5,455,374</u>	<u>787,461</u>
<u>(2,079,896)</u>	<u>(1,112,741)</u>	<u>967,155</u>
895,468	895,168	(300)
1,000	1,000	0
(52,168)	(5,327,463)	(5,275,295)
3,967,141	3,967,614	473
(509,831)	(460,034)	49,797
<u>4,301,610</u>	<u>(923,715)</u>	<u>(5,225,325)</u>
2,221,714	(2,036,456)	(4,258,170)
(5,349,002)	97,885	5,446,887
197,424	197,424	0
<u>(\$2,929,864)</u>	<u>(\$1,741,147)</u>	<u>\$1,188,717</u>

See accompanying notes to the general purpose financial statements

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City of Jackson, Ohio
 Combined Statement of Revenues,
 Expenses and Changes in Fund Equity
 Proprietary Fund Type and Similar Trust Funds
 For the Year Ended December 31, 2002

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Non-Expendable Trust	
<u>Revenues:</u>			
Charges for Services	\$15,597,217	\$0	\$15,597,217
Interest	0	31,200	31,200
Decrease in Fair Value of Investments	0	(33,127)	(33,127)
Other Operating Revenues	168,063	0	168,063
Total Revenues	15,765,280	(1,927)	15,763,353
<u>Expenses:</u>			
Salaries and Wages	2,130,048	0	2,130,048
Fringe Benefits	828,150	0	828,150
Contractual Services	6,449,281	0	6,449,281
Materials and Supplies	877,944	0	877,944
Utilities	687,932	0	687,932
Depreciation	537,744	0	537,744
Total Expenses	11,511,099	0	11,511,099
Operating Income (Loss)	4,254,181	(1,927)	4,252,254
<u>Non-Operating Revenues (Expenses):</u>			
Loss on Disposal of Fixed Assets	(18,743)	0	(18,743)
Interest Income	56,655	0	56,655
Investment in Joint Venture	52,215	0	52,215
Interest and Fiscal Charges	(932,322)	0	(932,322)
Total Non-Operating Revenues (Expenses)	(842,195)	0	(842,195)
Income (Loss) Before Transfers	3,411,986	(1,927)	3,410,059
Operating Transfers In	23,304	0	23,304
Operating Transfers Out	(3,500,000)	(30,884)	(3,530,884)
Net Loss	(64,710)	(32,811)	(97,521)
Retained Earnings/Fund Balance at Beginning of Year - Restated (See Note 3)	19,097,430	623,374	19,720,804
Retained Earnings/Fund Balance at End of Year	19,032,720	590,563	19,623,283
Contributed Capital at Beginning of Year	3,294,856	0	3,294,856
Contributions From Other Funds	14,014	0	14,014
Contributed Capital at End of Year	3,308,870	0	3,308,870
Total Fund Equity at End of Year	\$22,341,590	\$590,563	\$22,932,153

See accompanying notes to the general purpose financial statements

City of Jackson, Ohio
 Combined Statement of Revenues, Expenses and Changes in
 Fund Equity - Budget and Actual (Non-GAAP Basis)
 Proprietary Fund Type and Similar Trust Funds
 For the Year Ended December 31, 2002

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Charges for Services	\$14,198,895	\$14,954,853	\$755,958
Interest	29,981	48,853	18,872
Other Operating Revenues	121,972	164,184	42,212
Sale of Fixed Assets	0	2,600	2,600
Proceeds of Loans	275,708	275,708	0
Repayment of Notes	154,000	154,170	170
	<u>14,780,556</u>	<u>15,600,368</u>	<u>819,812</u>
<u>Expenses:</u>			
Current:			
Salaries and Wages	2,543,230	2,274,194	269,036
Fringe Benefits	991,276	828,150	163,126
Contractual Services	7,160,880	6,769,408	391,472
Materials and Supplies	828,944	729,852	99,092
Utilities	1,352,776	640,328	712,448
Capital Outlay	1,903,087	1,092,341	810,746
Debt Service:			
Principal Retirement	1,206,549	1,110,507	96,042
Interest and Fiscal Charges	979,046	966,171	12,875
	<u>16,965,788</u>	<u>14,410,951</u>	<u>2,554,837</u>
Total Expenses			
Excess of Revenues Over (Under) Expenses	(2,185,232)	1,189,417	3,374,649
Operating Transfers In	23,304	23,304	0
Operating Transfers Out	(3,640,000)	(3,500,000)	140,000
Advances In	0	5,327,463	5,327,463
	<u>0</u>	<u>5,327,463</u>	<u>5,327,463</u>
Excess of Revenues Over (Under) Expenses, Transfers and Advances In	(5,801,928)	3,040,184	8,842,112
Fund Equity at Beginning of Year	15,080,400	9,752,937	(5,327,463)
Prior Year Encumbrances Appropriated	176,568	176,568	0
	<u>176,568</u>	<u>176,568</u>	<u>0</u>
Fund Equity at End of Year	<u>\$9,455,040</u>	<u>\$12,969,689</u>	<u>\$3,514,649</u>

See accompanying notes to the general purpose financial statements

Non-Expendable Trust Funds

Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0
29,307	31,149	1,842
0	0	0
0	0	0
0	0	0
0	0	0
29,307	31,149	1,842
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
29,307	31,149	1,842
0	0	0
(30,884)	(30,884)	0
0	0	0
(1,577)	265	1,842
537,060	537,060	0
0	0	0
<u>\$535,483</u>	<u>\$537,325</u>	<u>\$1,842</u>

(continued)

City of Jackson, Ohio
 Combined Statement of Revenues, Expenses and Changes in
 Fund Equity - Budget and Actual (Non-GAAP Basis)
 Proprietary Fund Type and Similar Trust Funds (Continued)
 For the Year Ended December 31, 2002

	Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Charges for Services	\$14,198,895	\$14,954,853	\$755,958
Interest	59,288	80,002	20,714
Other Operating Revenues	121,972	164,184	42,212
Sale of Fixed Assets	0	2,600	2,600
Proceeds of Loans	275,708	275,708	0
Repayment of Notes	154,000	154,170	170
	<u>14,809,863</u>	<u>15,631,517</u>	<u>821,654</u>
<u>Expenses:</u>			
Current:			
Salaries and Wages	2,543,230	2,274,194	269,036
Fringe Benefits	991,276	828,150	163,126
Contractual Services	7,160,880	6,769,408	391,472
Materials and Supplies	828,944	729,852	99,092
Utilities	1,352,776	640,328	712,448
Capital Outlay	1,903,087	1,092,341	810,746
Debt Service:			
Principal Retirement	1,206,549	1,110,507	96,042
Interest and Fiscal Charges	979,046	966,171	12,875
	<u>16,965,788</u>	<u>14,410,951</u>	<u>2,554,837</u>
Total Expenses			
Excess of Revenues Over (Under) Expenses	(2,155,925)	1,220,566	3,376,491
Operating Transfers In	23,304	23,304	0
Operating Transfers Out	(3,670,884)	(3,530,884)	140,000
Advances In			
Excess of Revenues Over (Under) Expenses, Transfers and Advances In	(5,803,505)	3,040,449	8,843,954
Fund Equity at Beginning of Year	15,617,460	10,289,997	5,327,463
Prior Year Encumbrances Appropriated	176,568	176,568	0
Fund Equity at End of Year	<u>\$9,990,523</u>	<u>\$13,507,014</u>	<u>\$3,516,491</u>

See accompanying notes to the general purpose financial statements

City of Jackson, Ohio
 Combined Statement of Cash Flows
 Proprietary Fund Type and Similar Trust Funds
 For the Year Ended December 31, 2002

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Non- Expendable Trust</u>	
<u>Increase (Decrease) in Cash and Cash Equivalents</u>			
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$14,853,345	\$0	\$14,853,345
Cash Payments for Employee Services and Benefits	(3,102,344)	0	(3,102,344)
Cash Payments for Goods and Services	(7,866,500)	0	(7,866,500)
Other Operating Revenues	310,585	0	310,585
Customer Deposits Received	101,508	0	101,508
Customer Deposits Returned	(92,766)	0	(92,766)
Net Cash Provided by Operating Activities	<u>4,203,828</u>	<u>0</u>	<u>4,203,828</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Operating Transfers In	23,304	0	23,304
Operating Transfers Out	(3,500,000)	(30,884)	(3,530,884)
Advances In	5,698,070	0	5,698,070
Advances Out	(2,716,247)	0	(2,716,247)
Net Cash Used for Noncapital Financing Activities	<u>(494,873)</u>	<u>(30,884)</u>	<u>(525,757)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition of Capital Assets	(724,656)	0	(724,656)
Proceeds from Sale of Capital Assets	2,600	0	2,600
Proceeds of Loans	275,708	0	275,708
Principal Paid on Debt	(1,110,507)	0	(1,110,507)
Interest Paid on Debt	(964,219)	0	(964,219)
Net Cash Used for Capital and Related Financing Activities	<u>(2,521,074)</u>	<u>0</u>	<u>(2,521,074)</u>
<u>Cash Flows from Investing Activities:</u>			
Interest on Investments	56,655	31,222	87,877
Net Cash Provided by Investing Activities	<u>56,655</u>	<u>31,222</u>	<u>87,877</u>
Net Increase in Cash and Cash Equivalents	1,244,536	338	1,244,874
Cash and Cash Equivalents at Beginning of Year	<u>10,883,924</u>	<u>437,038</u>	<u>11,320,962</u>
Cash and Cash Equivalents at End of Year	<u>\$12,128,460</u>	<u>\$437,376</u>	<u>\$12,565,836</u>

See accompanying notes to the general purpose financial statements.

(continued)

City of Jackson, Ohio
 Combined Statement of Cash Flows
 Proprietary Fund Type and Similar Trust Funds (Continued)
 For the Year Ended December 31, 2002

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Non- Expendable Trust	
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>			
Operating Income	\$4,254,181	(\$1,927)	\$4,252,254
Depreciation Expense	537,744	0	537,744
Interest Income	0	(31,200)	(31,200)
Decrease in Fair Market Value of Investments	0	33,127	33,127
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(627,357)	0	(627,357)
Decrease in Materials and Supplies Inventory	165,077	0	165,077
Decrease in Notes Receivable	1,262	0	1,262
Decrease in Prepaids	9,019	0	9,019
Increase in Accounts Payable	422,835	0	422,835
Decrease in Contracts Payable	(423,529)	0	(423,529)
Decrease in Accrued Wages and Benefits Payable	(93,899)	0	(93,899)
Decrease in Compensated Absences Payable	(150,729)	0	(150,729)
Increase in Retirement Benefits Payable	69,824	0	69,824
Increase in Customer Deposits	8,742	0	8,742
Increase in Intergovernmental Payables	30,658	0	30,658
Net Cash Provided by Operating Activities	<u>\$4,203,828</u>	<u>\$0</u>	<u>\$4,203,828</u>

Reconciliation of Cash and Cash Equivalents of Non-Expendable Trust Fund to Balance Sheet:

Cash and Cash Equivalents on the Combined Balance Sheet are \$900,961 for all Trust and Agency Funds. \$21,505 and \$442,080 of that total is Agency Fund and Expendable Trust Fund cash and cash equivalents, respectively; and \$437,376 is Non-Expendable Trust Fund cash and cash equivalents.

Non-Cash Capital Financing Activity:

Various Enterprise Funds of the City received \$14,014 in capital assets from other Funds of the City.

See accompanying notes to the general purpose financial statements

NOTE 1 - REPORTING ENTITY

The City of Jackson (the "City") is a body politic, incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the laws of the State of Ohio. The City is operated under a statutory form of government and is a municipal corporation under the laws of the State of Ohio. The City is organized as a Mayor/Council form of government. The City serves as the county seat.

The Mayor, Auditor, and Treasurer, all with four year terms, and an eight member Council, plus a Council President, with two year terms, are elected. Department directors and public members of various boards and commissions are appointed by the Mayor.

The financial reporting entity consists of the primary government, component units, and other governmental organizations included ensuring that the financial statements of the City are not misleading. 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 that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes for the organization. No separate government units meet the criteria for inclusion as a component unit.

The City provides various services including police and fire protection, water, sewer, electric, and garbage services, parks and recreation services, street maintenance, and other general governmental services. The operation of each of these activities is directly controlled by the Council through the budgetary process. These City operations form the legal entity of the City and are included as the primary government.

The City's Electric Utility Enterprise Fund has entered into an ongoing joint venture agreement with the Ohio Municipal Electric Generation Agency Joint Venture (OMEGA JV5), with 41 other Ohio municipalities for the construction, installation and operation of a 42 megawatt (MW) hydroelectric generator and related facilities at the Belleville locks and dam on the Ohio River. Additional information concerning this joint venture is presented in Note 19.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. The City applies Financial Accounting Standards Board statements and interpretations issued prior to November 30, 1989, to proprietary activities provided they do not conflict with Governmental Accounting Standards Board statements and interpretations.

A. Basis of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting (Continued)

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

Governmental Fund Types:

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

General Fund - This fund is the operating fund of the City and is used to account 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.

Special Revenue Funds - These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and Non-Expendable Trust Funds).

Proprietary Fund Type:

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of the proprietary funds are included on the balance sheet. Fund equity (net assets) are segregated into contributed capital and retained earnings components. The proprietary fund operating statements present increases (revenues) and decreases (expenses) in net total assets. Proprietary Funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following is the City's proprietary fund type:

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City's fiduciary funds include Agency Funds, Expendable Trust Funds, and Non-Expendable Trust Funds. Agency Funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The Expendable Trust Funds are accounted for in essentially the same manner as Governmental Funds. The Non-Expendable Trust Funds are accounted for in essentially the same manner as Proprietary Funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting (Continued)

Account Groups:

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

General Fixed Assets Account Group - to account for all general fixed assets of the City other than those accounted for in proprietary or trust funds.

General Long-Term Obligations Account Group - to account for all unmatured long-term indebtedness of the City that is not a specific liability of proprietary or trust funds.

B. Measurement Focus and Basis of Accounting

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

All Proprietary Funds and Non-Expendable Trust Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is typically segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

All governmental fund types, Expendable Trust Funds, and Agency Funds are accounted for using the modified accrual basis of accounting. The full accrual basis of accounting is followed for the proprietary and Non-Expendable Trust Funds.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

modified accrual basis, revenue from a non-exchange transaction must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available a year end: investment earnings, state-levied locally shared taxes (including gasoline tax), grants, rentals, fines and forfeitures.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met also have been recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department. Any budgetary modifications at this level may only be made by resolution of the City Council. Advances between funds are not required to be budgeted.

Tax Budget:

In accordance with Section 5747.53 of the Ohio Revised Code, the County Budget Commission has provided for the apportionment of undivided local government funds under an alternative method which has been approved by governmental subdivisions within the County. Under this alternative method, the County Budget Commission has waived the requirement for the Taxing Authority of a subdivision to adopt a tax budget.

Estimated Resources:

The County Budget Commission reviews estimated revenues and determines if there is a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of this certification, the City receives an official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. Prior to December 31, the City must revise its contemplated expenditures from any fund during the ensuing year to ensure they will not exceed the amount available as stated in the certificate.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

Estimated Resources: (Continued)

of estimated resources. These revised contemplated expenditures then serve as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if revenue fluctuations are anticipated. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2002.

Appropriations:

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council. During the year, several supplemental appropriation measures were passed. None of these supplemental appropriations had any significant effect on the original appropriations. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and are reported in the notes to the financial statements for Proprietary Funds.

Lapsing of Appropriations:

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the Combined Balance Sheet.

During 2002, the City had investments in certificates of deposit, which are report at cost, and money market funds, which are reported at fair value. During the year, the City also invested in STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents (Continued)

Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at December 31, 2002.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund during 2002 amounted to \$283,206, which was all assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented in the Combined Balance Sheet as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the City's treasury.

The City utilizes a financial institution to service bonded debt as principal and interest payments come due. The balances in these accounts are presented on the Combined Balance Sheet as "Cash and Cash Equivalents with Fiscal and Escrow Agents" and represent deposits or short-term investments in certificates of deposit.

The City utilizes a trustee bank to hold monies set aside for current and future debt service payments and asset replacement under provisions of the bond indenture. The balances in these accounts are presented on the Combined Balance Sheet as "Restricted Assets: Cash and Cash Equivalents with Fiscal and Escrow Agents". Amounts invested by the trustee bank for the Fire Tax Levy Special Revenue Fund, and the Water, Sewer, and Electric Enterprise Funds are limited to money market funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

E. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund type when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

F. 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.

G. Restricted Assets

"Restricted Assets: Cash and Cash Equivalents with Fiscal and Escrow Agents" in the Enterprise Funds represent monies legally restricted as part of the bond indenture for current and future debt service payments until the debt is retired. All other restricted asset accounts represent customer deposits.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fund fixed assets (assets used to provide the services accounted for in the enterprise funds) are reported in the respective funds. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of fund fixed assets.

Public domain (“infrastructure”) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized, as these assets are immovable and of value only to the City.

Assets in the general fixed assets account group are not depreciated. Depreciation in the proprietary fund type is computed using the straight-line method over the following useful lives:

Equipment and Machinery	5 - 20 years
Vehicles	5 – 12 years
Buildings and Other Improvements	25 - 50 years

Interest is capitalized on Proprietary Fund assets acquired with tax exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2002, interest costs incurred on construction projects in the Proprietary Funds were not material.

I. Interfund Assets and Liabilities

Short-term interfund loans or the short-term portion of advances are classified as interfund receivables/payables.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. 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 employees' 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 vacation time when earned for all employees who have worked beyond their probation period. The City records a liability for accumulated, unused sick leave with the following criteria by department: after five years of service, the City records a liability for 50% of the employees' accumulated, unused sick leave; after 10 years, the City records a liability for

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences (Continued)

100% of the employees' accumulated, unused sick leave. For Governmental Funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In Proprietary Funds, the entire amount of compensated absences is reported as a fund liability.

K. Contributed Capital

Prior to 2001, contributed capital represented federal and state grants, special assessments, resources from other funds, and contributions from private sources provided to the City's proprietary funds which are not subject to repayment. Since 2000, capital contributions, other than contributions from other funds, have been recorded as revenues and are reported as increases in retained earnings based on new guidelines established by GASB Statement 33 "Accounting and Reporting for Nonexchange Transactions".

L. Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Fund balances are reserved for unclaimed monies, encumbrances, endowments, loans receivable, and inventories of supplies and materials. Under Ohio law, unclaimed monies are not available for appropriation until they have remained unclaimed for five years.

M. Interfund Transactions

During the course of normal operations the City had numerous transactions between funds. The most significant are operating transfers.

Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year end are generally considered not to have been paid with current available financial resources. Bonds and long-term loans are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

City of Jackson, Ohio
Notes to the General Purpose Financial Statements
December 31, 2002
Continued

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Unamortized Bond Discount/Issuance Costs

Bond discounts and issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Issuance costs are recorded as deferred charges.

P. Estimates

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

Q. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 – RESTATEMENT OF PRIOR YEAR BALANCES

During 2002, the City determined that the Cemetery Trust Fund had been incorrectly classified as a Non-Expendable Trust Fund. The Fund should have been classified as an Expendable Trust Fund. Therefore, fund balances of the Expendable Trust Funds and Non-Expendable Trust Funds have been restated at December 31, 2001, from \$125,399 to \$432,429 and from \$930,454 to \$623,374, respectively.

Also, during 2002, the City determined that bond anticipation notes included in the General Long-Term Obligations Account Group should have been reported as fund liabilities. Therefore, fund balances of special revenue funds have been restated at December 31, 2001, from \$408,030 to \$81,757. Balances of the General Long-Term Obligations Account Group have been decreased \$429,250, from \$743,722 to \$314,472.

During 2002, the City determined that the Unclaimed Monies Fund was improperly classified as an Agency Fund. Also, a bond anticipation note that should have been a fund liability of the General Fund was included in the General Long-Term Obligations Account Group. Therefore the fund balance of the General Fund has been restated at December 31, 2001, from (\$5,265,595) to (\$5,348,616.)

Due to encumbrances not being included in the December 31, 2001 fund balance, the General Fund, Special Revenue Funds and Capital Project Funds' cash basis fund balances were overstated on December 31, 2001. Fund balance in the General Fund decreased from \$0 to (\$12,459). Special Revenue Fund fund balance decreased from \$211,911 to \$66,026. Capital Project Fund fund balance decreased from \$2,241 to (\$383,366). This restatement affects the Combined Statement of Revenues, Expenditures and changes in Fund Balances - Budget and Actual (Non-GAAP Basis) All Governmental Fund Types and Similar Trust Funds Fund Balances (Deficits) at Beginning of Year.

Due to prior period errors, retained earnings in the Enterprise Funds were overstated. Enterprise Fund retained earnings decreased from \$19,153,628 to \$19,097,430.

City of Jackson, Ohio
Notes to the General Purpose Financial Statements
December 31, 2002
Continued

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The following funds had deficit fund balances as of December 31, 2002:

	Deficit Balances
General Fund	\$2,663,696
<u>Special Revenue Funds:</u>	
Program Income	\$521
Street	\$60,026
Fire Tax Levy	\$175,463
<u>Capital Projects Funds:</u>	
Alternate Access Road	\$48,535
Industrial Park Building	\$300

The deficits in the special revenue and capital projects funds are the result of the recognition of payables in accordance with Generally Accepted Accounting Principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The City is currently monitoring its financial condition and is taking steps to increase revenue and reduce spending in order to alleviate the deficit in the General Fund.

The City requested from the Tax Commissioner permission to transfer \$3,500,000 from the Electric Enterprise Fund to the General Fund, to alleviate a negative fund balance. The tax commissioner approved the transfer on September 11, 2002, and the Jackson County Court of Common Pleas approved the transfer on December 12, 2002. The General Fund's negative cash balance decreased from \$5,698,070 to \$2,596,822, primarily due to this approved transfer.

B. Statutory Compliance

Section 5705.39, Revised Code requires that total appropriations be limited by total estimated resources. The General Fund had appropriations in excess of estimated receipts plus available balances for the year ended December 31, 2002, in the amount of \$3,529,851.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types and Similar Trust Funds and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis) - Proprietary Fund Type and Similar Trust Funds are presented on the budgetary basis to provide a comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis are:

City of Jackson, Ohio
Notes to the General Purpose Financial Statements
December 31, 2002
Continued

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year end encumbrances are treated as expenditures/expenses (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure for the proprietary fund type (GAAP).
4. Proceeds from and principal payment on short-term note obligations are reported on the operating statement (budget) rather than on the balance sheet (GAAP).
5. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget) rather than as balance sheet transactions (GAAP).
6. Revenues received by year end and not posted to cash (budget basis) are recorded as revenue (GAAP basis).

Adjustments necessary to convert the results of operations at the end of the year on the Budget Basis to the GAAP basis are as follows:

Excess of Revenues and Other Financing Sources
Over Expenditures and Other Financing Uses
All Governmental Fund Types and Similar Trust Funds

	General	Special Revenue	Capital Projects	Expendable Trust
GAAP Basis	\$2,680,790	\$290,961	\$321,279	\$10,127
Adjustments:				
Revenue Accruals	182,889	186,234	0	(472)
Beginning of Year:				
Unreported Interest	15,140	114	0	0
Segregated Accounts	0	0	0	0
Prepaid Items	24,391	531	0	0
End of Year:				
Unreported Interest	(11,868)	0	0	(15)
Segregated Accounts	0	(5,380)	0	0
Prepaid Items	(20,594)	(6,591)	0	0
Advance Out	(5,327,463)	0	0	0
Proceeds of Notes	94,136	410,157	0	0
Expenditure Accruals	(79,386)	169,216	0	0
Debt Service:				
Principal Retirement	(117,670)	(437,690)	0	0
Interest and Fiscal Charges	(1,350)	(1,659)	0	0
Encumbrances	(134,463)	(262,820)	(15,000)	0
	(\$2,695,448)	\$343,073	\$306,279	\$9,640
Budget Basis				

City of Jackson, Ohio
Notes to the General Purpose Financial Statements
December 31, 2002
Continued

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

Net Loss/Excess of Revenues Over (Under) Expenses
Proprietary Fund Type and Similar Trust Funds

	Enterprise	Non-Expendable Trust
GAAP Basis	(\$64,710)	(\$32,811)
Adjustments:		
Revenue Accruals	(497,242)	0
Beginning of Year:		
Prepaid Items	37,192	0
End of Year:		
Prepaid Items	(28,173)	0
Unreported Interest	(33)	(51)
Loan Proceeds	275,708	0
Loss on Investments	0	33,127
Loss on Disposal of Fixed Assets	18,743	0
Expense Accruals	272,363	0
Depreciation	537,744	0
Debt Service:		
Principal Retirement	(1,110,507)	0
Interest and Fiscal Charges	(33,849)	0
Capital Outlay	(1,092,341)	0
Advances In	5,327,463	0
Investment in Joint Venture	(52,215)	0
Encumbrances	(549,959)	0
 Budget Basis	 \$3,040,184	 \$265

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book 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 treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is not 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 treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Unreported Cash. At year end, the City had \$2,750 in cash on hand which is included on the balance sheet of the City as part of "equity in pooled cash and cash equivalents."

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

City of Jackson, Ohio
Notes to the General Purpose Financial Statements
December 31, 2002
Continued

Reverse Repurchase Agreements.”

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Deposits. At year end, the carrying amount of the City's deposits was \$6,330,805 and the bank balance was \$6,469,739. Of the bank balance:

1. \$400,000 was covered by federal depository insurance;
2. \$6,069,739 was uncollateralized. Although the securities were held by the pledging financial institutions' trust department in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

If a federal court in Ohio were to apply an interpretation of 12 U.S.C.A. 1823(e) which was applied in 1992 by the United States Court of Appeals for the 8th Circuit, noncompliance by a pledging financial institution might lead to a claim by the FDIC that the City did not have a perfected security interest in the security. This may therefore preclude the City from recovering against pledged collateral in the event of the insolvency of the depository.

Investments. The City's investments are required to be 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 or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio is an unclassified investment since it not evidenced by securities that exist in physical or book entry form.

	Category 1	Fair Value
Common Stock	\$153,187	\$153,187
STAROhio		7,539,004
Total	\$153,187	\$7,692,191

The classification of “Cash and Cash Equivalents” and “Investments” on the combined financial statements is based on criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.” A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$13,872,559	\$153,187
Cash on Hand	(2,750)	0
Investments: Star Ohio	(7,539,004)	7,539,004
GASB Statement 3	\$6,330,805	\$7,692,191

City of Jackson, Ohio
Notes to the General Purpose Financial Statements
December 31, 2002
Continued

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property, and tangible personal property located in the City. Property tax revenue received during 2002 for real and public utility property taxes represents collections of 2001 taxes. Property tax payments received during 2002 for tangible personal property (other than public utility property) are for 2002 taxes.

2002 taxes collected from real property taxes (other than public utility) are levied after October 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State Law at 35 percent of appraised market value. 2002 real property taxes are intended to finance 2003.

2002 public utility real and tangible personal property taxes become a lien December 31, 2001, are levied after October 1, 2002, and are collected in 2003 with real property taxes. Public utility tangible personal property currently is at various percentages of true value; public utility real property is assessed at 35 percent of true value.

2002 taxes collected on tangible personal property (other than public utility) are levied after October 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are 25 percent of true value for all assets except inventory, which is 24 percent.

The assessed value upon which the 2002 taxes were collected was \$114,544,866. Real estate represented 75 percent (\$86,323,130) of this total and general tangible personal property represented 25 percent (\$28,221,376). The full tax rate for all City operations applied to taxable property for the year ended December 31, 2002, was \$6.70 per \$1,000 of assessed valuation.

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Jackson. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2002, and for which there is 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, nor are they intended to finance 2002 operations. The receivable is offset by deferred revenue.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2002, consisted of taxes, accounts (billings for user charged services including unbilled utility services), accrued interest, loans, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered collectible in full.

Loans receivable represent monies due from a revolving loan program for the improvement of homes in the City. Notes receivable represent monies due from local industries for work performed by the City.

City of Jackson, Ohio
Notes to the General Purpose Financial Statements
December 31, 2002
Continued

NOTE 8 – RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables:</u>	<u>Amount</u>
General Fund:	
Local Government	\$61,188
Homestead and Rollback	38
Liquor Permit Fees	235
	<hr/>
Total General Fund	61,461
	<hr/>
Special Revenue Funds:	
Motor Vehicle License	65,674
Gasoline Tax	67,640
Homestead and Rollback	36
Community Housing Improvement Program	89,986
Community Development Block Grant	2,500
	<hr/>
Total Special Revenue Funds	225,836
	<hr/>
Capital Projects Fund:	
Alternative Access Road Fund	57,683
	<hr/>
Total	<u>\$344,980</u>

NOTE 9 - FIXED ASSETS AND DEPRECIATION

A summary of the enterprise funds' property, plant, and equipment at December 31, 2002, follows:

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Electric</u>	<u>Railroad</u>	<u>Pool</u>	<u>Recreation</u>	<u>Total</u>
Land	\$1,237,499	\$40,950	\$0	\$4,390	\$1,643,882	\$8,148	\$38,276	\$2,973,145
Buildings	602,233	199,879	6,123	68,193	80,000	6,921	43,203	1,006,552
Improvements other than Buildings	3,778,228	4,358,021	0	2,543,801	1,968,968	80,974	40,131	12,770,123
Equipment and Machinery	671,183	300,185	64,536	158,613	0	27,740	64,613	1,286,870
Vehicles	220,331	416,211	378,207	592,621	0	0	0	1,607,370
Construction in Progress	0	0	0	337,850	0	0	0	337,850
Total	<hr/> 6,509,474	<hr/> 5,315,246	<hr/> 448,866	<hr/> 3,705,468	<hr/> 3,692,850	<hr/> 123,783	<hr/> 186,223	<hr/> 19,981,910
Less: Accumulated Depreciation	<hr/> (2,124,284)	<hr/> (2,128,798)	<hr/> (210,590)	<hr/> (678,538)	<hr/> (351,447)	<hr/> (55,186)	<hr/> (53,819)	<hr/> (5,602,662)
Net Fixed Assets	<hr/> <u>\$4,385,190</u>	<hr/> <u>\$3,186,448</u>	<hr/> <u>\$238,276</u>	<hr/> <u>\$3,026,930</u>	<hr/> <u>\$3,341,403</u>	<hr/> <u>\$68,597</u>	<hr/> <u>\$132,404</u>	<hr/> <u>\$14,379,248</u>

City of Jackson, Ohio
Notes to the General Purpose Financial Statements
December 31, 2002
Continued

NOTE 9 - FIXED ASSETS AND DEPRECIATION (Continued)

A summary of the changes in general fixed assets during 2002 follows:

	Balance 12/31/2001	Additions	Reductions	Balance 12/31/2002
Land	\$998,791	\$0	\$0	\$998,791
Buildings	2,528,473	3,510	0	2,531,983
Improvements other than Buildings	35,535	0	0	35,535
Equipment and Machinery	2,299,973	209,787	19,320	2,490,440
Construction in Progress	0	245	0	245
Total	\$5,862,772	\$213,542	\$19,320	\$6,056,994

NOTE 10 - 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. The City has addressed these various types of risk by purchasing comprehensive insurance through commercial carriers.

The following types of coverage that the City has with commercial carriers are:

<u>Type of Coverage</u>	<u>Limit</u>	<u>Deductible</u>
General Liability	\$1,000,000	\$0
Public Officials Liability	\$1,000,000 Per Occurrence	\$3,500
Auto Liability	\$1,000,000 Per Occurrence	\$500
Property Damage	\$32,529,454	\$1,000
Earthquake Damage	\$10,000,000	5% of Damage Not to Exceed 500,000
Flood Insurance:		
Waste Water Treatment Building	\$60,500	\$500
Electric Works Building	\$3,600	\$500
City Garage Building	\$60,500	\$500
Waste Water Treatment Building Contents	\$27,600	\$500
Electric Works Building Contents	\$13,900	\$500
City Garage Building Contents	\$6,600	\$500
Law Enforcement Professional Liability	\$1,000,000 Per Occurrence	\$10,000
Employee Dishonesty	\$125,000 Per Occurrence	None

For 2002, the City paid the state workers compensation system a premium based on a rate per \$100 of salaries. This rate is calculated based on accidents, history and administrative costs. The participation in this state mandated insurance fund allows the City to transfer all risk associated with workers compensation.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS 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. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. For 2002 employer pension contribution rate for the City was 8.55 percent of covered payroll. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2002, 2001, and 2000, were \$427,149, \$336,079, and \$316,688, respectively. 99 percent has been contributed for 2002, and the full amount has been contributed for 2001 and 2000. \$3,816 represents the unpaid contribution and is recorded as a fund liability.

B. Police and Firemen's Disability and Pension Fund

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

Police are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent. Contributions are authorized by State statute. The City's contributions to the OP&F for police were \$132,284 for the year ended December 31, 2002, \$140,780 for the year ended December 31, 2001, and \$148,515 for the year ended December 31, 2000. The full amount has been contributed for 2001 and 2000. 71 percent for police has been contributed for 2002 with the remainder being presented as "intergovernmental payable" within the funds.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2002, the unfunded police liability of the City was \$40,744 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The

City of Jackson, Ohio
Notes to the General Purpose Financial Statements
December 31, 2002
Continued

2002 employer contribution rate was 13.55 percent of covered payroll; 5 percent was the portion that NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

Ohio Public Employees Retirement System (Continued)

was used to fund health care for 2002. For 2001, the contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

All investments are carried at market. 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.

The number of active contributing participants was 402,041. The City's actual contributions for 2002 which were used to fund postemployment benefits were \$157,620. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11.6 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

B. Police and Firemen's Disability and Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension 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 is 19.5 percent of covered payroll of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2002. For 2001 the percent used to fund healthcare was 7.50 percent. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2002 that were used to fund postemployment benefits were \$52,574 for police. The OP&F'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. The number of OP&F participants eligible to receive health care benefits as of December 31, 2001, was 13,174 for police and 10,239 for firefighters.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Deferred Compensation Plans

City employees and elected officials participate in a statewide deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

B. Additional Insurance

The City provides \$20,000 in life insurance and accidental death and dismemberment insurance to its full-time employees and part-time employees working a minimum of twenty hours per week through Anthem Life.

The City provides comprehensive major medical insurance through Anthem Blue Cross and Blue Shield. The City pays \$301.75 of the total monthly premium of \$321.69 for single coverage and \$749.90 of the total monthly premium of \$796.70 for family coverage. Premiums are paid from the same funds that pay the employees' salaries.

C. Early Retirement Incentive

The City has approved a Retirement Incentive Plan that is available to five percent of the employees of the City who are members of OPERS. The plan is based on provisions of Section 145.297 of the Ohio Revised Code and Administrative Rule 145-15-04. Presently, six employees have elected to participate. Pursuant to the terms of the plan, service credit for each participant employee was purchased by the City in the amount equal to the lesser of the following:

1. Five (5) years of service credit, or
2. An amount equal to 1/5 of the total service of record credited to the participating employee in OPERS, exclusive of the service credit purchased under this plan.

D. Compensated Absences

The criteria for determining vested vacation and sick leave benefits are derived from negotiated agreements and State laws. Upon retirement, all employees with more than 5 years but less than 10 years of service will be paid 50 percent of their accumulated, unused sick leave. Employees with 10 or more years of services will be paid 100 percent of their accumulated, unused sick leave. Upon voluntary termination, death, or retirement, all employees will receive 100% of vacation earned and not previously taken.

City of Jackson, Ohio
Notes to the General Purpose Financial Statements
December 31, 2002
Continued

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City for the year ended December 31, 2002, were as follows:

	Outstanding 12/31/01	Additions	Reductions	Outstanding 12/31/02
<u>Enterprise Fund Obligations:</u>				
Loans:				
2001 Railroad Rehabilitation Loan - 4.0%	\$123,501	\$0	\$2,344	\$121,157
2001 Railroad Industrial Park Loan - 1.5%	141,321	0	27,539	113,782
2001 Railroad Locomotive Shop Loan - 4.5%	80,000	0	59,202	20,798
2001 Holzer Hospital Water Tower Loan - 0%	29,991	0	5,095	24,896
2001 Holzer Hospital Water Lines Loan - 0%	293,172	0	8,047	285,125
2001 Holzer Hospital Sewer Lift Station Loan - 0%	585,584	0	16,535	569,049
1993 Ohio Water Development Authority Loan - 2.2%	448,410	0	146,212	302,198
Total Loans	<u>1,701,979</u>	<u>0</u>	<u>264,974</u>	<u>1,437,005</u>
Mortgage Revenue Bonds:				
1992 Sewer System Bonds - 3.0 - 6.4%	380,000	0	120,000	260,000
1993 Electric System Bonds - 2.7 - 5.5%	1,380,000	0	165,000	1,215,000
1993 Water System Bonds - 2.8 - 5.6%	2,325,000	0	85,000	2,240,000
1996 Electric System Bonds - 4.15 - 6.4%	3,360,000	0	165,000	3,195,000
Total Mortgage Revenue Bonds Payable	<u>7,445,000</u>	<u>0</u>	<u>535,000</u>	<u>6,910,000</u>
Early Retirement Incentive Payable	182,163	69,824	65,893	186,094
Total Enterprise Fund Obligations	<u>9,329,142</u>	<u>69,824</u>	<u>865,867</u>	<u>8,533,099</u>
<u>General Long-term Obligations:</u>				
Rural Industrial Park Loan - 0.0 - 3.0%	0	390,875	0	390,875
Police/Firemen's Pension Liability	41,312	0	568	40,744
Early Retirement Incentive Payable	0	100,329	0	100,329
Compensated Absences Payable	273,160	95,181	29,658	338,683
Total General Long-term Obligations	<u>314,472</u>	<u>586,385</u>	<u>30,226</u>	<u>870,631</u>
Total	<u>\$9,643,614</u>	<u>\$656,209</u>	<u>\$896,093</u>	<u>\$9,403,730</u>

Enterprise fund obligations will be paid from user fees in the respective enterprise funds. The Railroad loans were used to improve the rail lines, construct a rail house, and improve the industrial park. The Holzer Hospital loans represent monies owed Holzer Medical Center for improvements to water and sewer lines to and from the hospital facility. Payment for this debt will come in the form of reduced user fees paid by the hospital until the debt is paid, and is not included in the amortization schedule. The mortgage revenue bonds were used to improve the water, sewer and electric systems of the City. The OWDA loan was used to improve the water system. Compensated absences and early retirement incentives will be paid from the fund which the employees' salaries are paid. The Police and Fire Pension liability will be paid from general property tax revenues. The Industrial Park Capital Project Fund will receive the proceeds from the Rural Industrial Park Loan and provide payments on the debt. The loan has not been fully drawn down. Payments are not required until the sixth year of the loan, unless the building is sold. Upon the sale of the building, the entire loan

City of Jackson, Ohio
Notes to the General Purpose Financial Statements
December 31, 2002
Continued

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

becomes due. Payments on this loan are not included in the amortization schedule.

As of December 31, 2002, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$11,132,005.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2002, are as follows:

Year	Mortgage Revenue Bonds	Police & Fireman's Disability Pension	Railroad Notes	OWDA Loan	Early Retirement Incentive	Total
2003	\$969,500	\$2,295	\$86,519	155,277	106,348	\$1,319,939
2004	968,400	2,295	65,827	155,277	106,348	1,298,147
2005	824,028	2,295	66,133	0	67,485	959,941
2006	821,707	2,295	60,902	0	27,539	912,443
2007	827,580	2,295	0	0	23,267	853,142
2008-2012	3,148,103	11,475	0	0	0	3,159,578
2013-2017	2,181,720	11,475	0	0	0	2,193,195
2018-2022	216,480	11,475	0	0	0	227,955
2023-2027	0	11,475	0	0	0	11,475
2028-2039	0	17,094	0	0	0	17,094
	<u>9,957,518</u>	<u>74,469</u>	<u>279,381</u>	<u>310,554</u>	<u>330,987</u>	<u>10,952,909</u>
Less Interest	<u>(3,047,518)</u>	<u>(33,725)</u>	<u>(23,644)</u>	<u>(8,356)</u>	<u>(44,564)</u>	<u>(3,157,807)</u>
	<u>\$6,910,000</u>	<u>\$40,744</u>	<u>\$255,737</u>	<u>\$302,198</u>	<u>\$286,423</u>	<u>\$7,795,102</u>

Conduit Debt Obligations

From time to time, the City has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2002, there was one series of Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$1,126,590 and one series of Hospital Facilities Revenue Bonds outstanding with an aggregate principal amount payable of \$25 million.

City of Jackson, Ohio
Notes to the General Purpose Financial Statements
December 31, 2002
Continued

NOTE 15 - INTERFUND TRANSACTIONS

Interfund Receivable and Interfund Payable at December 31, 2002, consisted of the following:

<u>Interfund Receivables and Payables</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	<u>\$58,275</u>	<u>\$2,596,822</u>
Community Housing Improvement Program Special Revenue Fund	<u>0</u>	<u>9,440</u>
<u>Capital Projects Funds:</u>		
Alternate Access Road	0	48,535
Jackson Industrial Park	<u>0</u>	<u>300</u>
Total Capital Projects Funds	<u>0</u>	<u>48,835</u>
Electric Enterprise Fund	<u>2,596,822</u>	<u>0</u>
Total	<u>\$2,655,097</u>	<u>\$2,655,097</u>

The City had several funds, including the General Fund, with negative cash balances at December 31, 2002. Funds were advanced from the Electric Enterprise Fund to cover these negative balances.

NOTE 16 - CONTRACTUAL COMMITMENTS

During 2002, the City entered contractual commitments for various improvement projects in the Electric Enterprise Fund with various vendors in the amount of \$362,259. As of December 31, 2002, the City paid \$337,850 on the projects and the remaining balance on the contracts are \$24,409.

The City also had a contractual commitment for the construction of a garage to house the City's fire trucks in the fire tax levy special revenue fund with R & R Construction in the amount of \$38,450. As of December 31, 2002, the City had not made any payments on the contract.

City of Jackson, Ohio
Notes to the General Purpose Financial Statements
December 31, 2002
Continued

NOTE 17 - NOTES PAYABLE

A summary of the note transactions for the year ended December 31, 2002, follows:

	Outstanding 12/31/2001	Additions	Reductions	Outstanding 12/31/2002
<u>General Fund:</u>				
Bond Anticipation Note 4.75%	\$117,670	\$0	\$117,670	\$0
Bond Anticipation Note 2.42%	0	94,136	0	94,136
Total General Fund	117,670	94,136	117,670	94,136
<u>Special Revenue Funds:</u>				
<u>Fire Tax Levy Fund:</u>				
Bond Anticipation Note 4.71%	300,000	0	300,000	0
Bond Anticipation Note 2.51%	0	300,000	0	300,000
<u>Street Fund:</u>				
Bond Anticipation Note 4.75%	137,690	0	137,690	0
Bond Anticipation Note 2.42%	0	110,157	0	110,157
Total Special Revenue Funds	437,690	410,157	437,690	410,157
<u>Enterprise Funds:</u>				
<u>Water Fund:</u>				
Bond Anticipation Note 4.75%	6,454	0	6,454	0
Bond Anticipation Note 2.42%	0	5,163	0	5,163
Bond Anticipation Note 4.75%	90,000	0	90,000	0
Bond Anticipation Note 4.75%	0	90,000	0	90,000
<u>Sewer Fund:</u>				
Bond Anticipation Note 4.75%	6,454	0	6,454	0
Bond Anticipation Note 2.42%	0	5,163	0	5,163
Bond Anticipation Note 4.75%	60,000	0	60,000	0
Bond Anticipation Note 2.42%	0	60,000	0	60,000
<u>Garbage Fund:</u>				
Bond Anticipation Note 4.75%	75,277	0	75,277	0
Bond Anticipation Note 2.42%	0	110,219	0	110,219
<u>Electric Fund:</u>				
Bond Anticipation Note 4.75%	6,455	0	6,455	0
Bond Anticipation Note 2.42%	0	5,163	0	5,163
Total Enterprise Funds	244,640	275,708	244,640	275,708
Total All Funds	\$800,000	\$780,001	\$800,000	\$780,001

The notes are backed by the full faith and credit of the City of Jackson and will mature in one year. The note liability is reflected in the fund which received the proceeds. The notes are issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

NOTE 18 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City's enterprise funds account for the provision of sewer, water, garbage, and electric services, as well as a municipal swimming pool and a recreation fund. The City also owns rail lines running through the City and collects payment from users of the tracks. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the City of Jackson as of and for the year ended December 31, 2002:

City of Jackson, Ohio
Notes to the General Purpose Financial Statements
December 31, 2002
Continued

NOTE 18 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS (Continued)

	Sewer	Water	Garbage	Electric	Railroad	Swimming Pool	Recreation	Total
Operating Revenues	\$2,513,591	\$2,232,363	\$575,276	\$10,299,193	\$104,202	\$22,578	\$18,077	\$15,765,280
Depreciation	164,292	186,828	30,902	105,554	40,979	4,064	5,125	537,744
Operating Income (Loss)	1,312,857	734,861	105,825	2,068,030	59,471	(25,400)	(1,463)	4,254,181
Net Non-Operating Revenues (Expenses)	(36,201)	(135,232)	(2,515)	(642,109)	(26,138)	0	0	(842,195)
Operating Transfers In	0	0	0	0	0	23,304	0	23,304
Operating Transfers Out	0	0	0	(3,500,000)	0	0	0	(3,500,000)
Net Income (Loss)	1,276,656	599,629	103,310	(2,074,079)	33,333	(2,095)	(1,463)	(64,709)
Additions to Fixed Assets	792,365	85,234	132,046	535,207	0	0	27,872	1,572,724
Deletions from Fixed Assets	43,017	6,945	4,737	4,737	0	0	0	59,436
Capital Contributions	508	1,088	11,910	508	0	0	0	14,014
Net Working Capital	4,860,634	3,149,409	207,114	4,790,685	(206,678)	4,000	10,114	12,815,278
Total Assets	9,202,816	8,473,246	637,461	10,587,009	3,398,185	73,085	142,701	32,514,503
Long-term Liabilities to be Paid from Fund Revenues	445,220	2,177,496	0	4,114,756	0	0	0	6,737,472
Total Equity	7,783,127	5,623,039	449,305	5,136,279	3,134,726	72,597	142,517	22,341,590
Encumbrances at December 31, 2002	202,248	55,216	1,500	283,459	7,536	0	0	549,959

NOTE 19 – JOINT VENTURE

The City is a participant, with forty-two other subdivisions within the State of Ohio, in a joint venture to construct a hydroelectric plant and associated transmission facilities in West Virginia (on the Ohio River at the Belleville Locks and Dam) and receive electricity from its operation. The Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) was created for that purpose. On dissolution of the joint venture, the net assets of JV5 will be shared by the participants on a percentage basis. The JV5 is managed by AMP-Ohio who acts as the joint venture's agent. The participants are obligated by the agreement to remit, on a monthly basis, those costs incurred from using electricity generated by the joint venture and a portion of the \$134,975,000 Certificates of Beneficial Interest debt that was issued to construct the fixed asset. In accordance with the joint venture agreement, the City remitted \$734,760 to the joint venture for 2002. The City's net investment and its share of the operating results of JV5 are reported in the City's Electric enterprise fund. The City's equity interest in JV5 was \$514,030 at December 31, 2002. Financial information for JV5 may be obtained from AMP-Ohio, 2600 Airport Drive, Columbus, Ohio 43219, or from the City's utility department.

NOTE 20 - CONTINGENCIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2002.

B. Litigation

The City is the defendant in a class action lawsuit requesting injunctive relief and damages, due to the alleged overcharging of the City's Utilities for its services. The City cannot evaluate the likelihood of a favorable or unfavorable outcome on such demands, or the amount or range of any possible loss.

The City, along with the Auditor of State, are defendants in a lawsuit seeking a declaratory judgment action to void an audit finding against the City. Plaintiffs in this action are the City's Mayor and Service/Safety Director. On September 23, 2002, the City Auditor made adjustments to the January 1, 2001 beginning equity to reflect the adjustments contained in the special audit report. These adjustments relate to the City's practice of transferring Water, Electric, and Sewer Fund cash to the General Fund. In the opinion of the Auditor of State, these payments to the General Fund are contrary to Ohio Law. On September 27, 2002, the City's Mayor filed a motion for a restraining order and preliminary injunction to restrain the execution of the State Auditor's findings from the special audit report against the general fund. The City cannot evaluate the likelihood of a favorable or unfavorable outcome on such demands, or the amount of any potential gain or loss.

NOTE 21 – FISCAL WATCH

The State Auditor's Office declared the City in fiscal watch on November 18, 2002, due to the City's financial condition. The City will develop a financial recovery plan to eliminate the operating deficit and avoid future deficits. The City is awaiting the release of a performance audit being performed by the State Auditor's Office before completing its recovery plan.

CITY OF JACKSON, OHIO
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2002

FEDERAL GRANTOR Pass-Through Grantor Program Title	Federal CFDA Number	Pass Through Entity or Program Number	<u>Disbursements</u>
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Pass through Ohio Department of Development:</i>			
Community Development Block Grants:			
Community Housing Improvement Program	14.228	A-C-99-135-1	\$1,205
Community Housing Improvement Program	14.228	A-C-01-135-1	409,235
Economic Development Program	14.228	A-E-01-135-1	<u>500,000</u>
Total United States Department of Housing and Urban Development			910,440
FEDERAL EMERGENCY MANAGEMENT AGENCY			
<i>Pass through Ohio Department of Public Safety:</i>			
Public Assistance Grant - Hazard Mitigation	83.548	1164-79-37842	509
Assistance to Firefighters Grant Program	83.554	EMW-2001-FG-11275	<u>157,416</u>
Total Federal Emergency Management Agency			157,925
TOTAL FEDERAL ASSISTANCE			<u><u>\$1,068,365</u></u>

The accompanying notes to the Schedule of Federal Awards Expenditures are an integral part of this Schedule.

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**CITY OF JACKSON
JACKSON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
DECEMBER 31, 2002**

NOTE A – SIGNIFIGANT ACCOUNTING POLICIES

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

NOTE B – COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG) REVOLVING LOAN PROGRAM

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

These loans are collateralized by mortgages on the property. During the year ended December 31, 2002, the City received loan principal payments of \$3,520 under this program no new loans were issued. At December 31, 2002, the gross amount of loans outstanding under this program was \$28,613. Delinquent amounts due are \$5,559.

The City participated in the Small Cities Community Development Block Grant (CDBG) Economic Development Program. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the Government passed through the Ohio Department of Development (ODOD). The loan of this money is recorded as a disbursement on the accompanying Schedule of Federal Awards Expenditures (the Schedule). This disbursement was made to Ohio Precious Metals, Inc. who will make repayment, per the loan agreement, to the Jackson County Revolving Loan Fund, which is administered by the County.

This loan is collateralized by a promissory note, security agreement, filed financing statements and interest in the equipment that this loan was used to purchase.

NOTE C – MATCHING REQUIREMENTS

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

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**Auditor of State
Betty Montgomery**

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

City of Jackson
Jackson County
145 Broadway Street
Jackson, Ohio 45640

To the City Council:

We were engaged to audit the accompanying general purpose financial statements of City of Jackson, Jackson County, Ohio (the City), as of and for the year ended December 31, 2001, and have issued our report thereon dated September 2, 2003, wherein we have disclaimed an opinion on the December 31, 2002 general purpose financial statements since we are not independent. Our report also disclosed the City is the defendant in a class action lawsuit, for which the outcome is undeterminable. Our report also noted the City has reported a \$2,596,822 general fund cash deficit for December 31, 2002.

Compliance

As part of our engagement, 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 general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2002-001 through 2002-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated September 2, 2003.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the City's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2002-001 through 2002-003.

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 general purpose financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe reportable conditions 2002-001 through 2002-003 described above are material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the City in a separate letter dated September 2, 2003.

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

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

Betty Montgomery
Auditor of State

September 2, 2003



Auditor of State Betty Montgomery

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

City of Jackson
Jackson County
145 Broadway Street
Jackson, Ohio 45640

To the City Council:

Compliance

We were engaged to audit the accompanying general purpose financial statements of the City of Jackson, Jackson County, Ohio (the City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs, as of and for the year ended December 31, 2002, as listed in the table of contents. The City's major federal program is identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended, December 31, 2002. The results of our auditing procedures also disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings as item 2002-004.

Internal Control over Compliance

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

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

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



Betty Montgomery
Auditor of State

September 2, 2003

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133
DECEMBER 31, 2002**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Disclaimed
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Community Development Block Grant Program C.F.D.A. #14.228
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
DECEMBER 31, 2002
(Continued)**

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

Finding Number 2002-001

Noncompliance Citation/Material Weakness

Ohio Rev. Code Section 5705.10 states “money paid into any fund shall be used only for the purposes for which such fund is established.” As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another Fund.

At December 31, 2002, the City had negative fund cash balances as follows:

Fund	Negative Balances at December 31, 2002
General Fund	(\$2,596,822)
Special Revenue Funds:	
CHIP Round 13	(\$9,440)
Capital Projects Fund:	
Alternate Access Road	(\$48,535)
Jackson Industrial	(\$300)

We recommend the City establish procedures to monitor fund balances to assure expenditures do not exceed available resources. Also, we recommend the City budget grants in such a manner that there will be sufficient available revenue to cover the expenditures.

Finding Number 2002-002

Noncompliance Citation/Material Weakness

Ohio Rev. Code Section 5705.39 states that total appropriations from each fund shall not exceed the total estimated resources for that fund.

In 2002, appropriations exceeded estimated resources in the General Fund by \$3,528,851.

We recommend the City establish procedures to monitor appropriations so that they are less than estimated receipts. This will allow the City to reduce or at least maintain the negative general fund balance.

CITY OF JACKSON
JACKSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
DECEMBER 31, 2002
(Continued)

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

Finding Number 2002-003

Noncompliance Citation/Material Weakness

Ohio Rev. Code Section 5705.41(D) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$1000 (increased to \$3000 as of April 7, 2003) may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

The City Auditor's office did not always certify funds prior to the obligation being incurred. Of expenditures tested, 22.5% contained the City Auditor's certification of availability of funds after the commitment was made and no "then and now" certificate was obtained. In addition, 52% of the Community Development Block Grant (CDBG) expenditures tested contained the City Auditor's certification of availability of funds after the commitment was made and no "then and now" certificate was obtained.

The City has deficit fund cash balances in certain funds as indicated in Finding Number 2002-001. The deficit cash balances indicate the City Auditor certified payments that did not meet requirements.

We recommend the City establish procedures to assure that the required certification of funds from the City Auditor is obtained prior to purchases being made. In the event this does not occur, we recommend the City Auditor pursue a "then and now" certificate as stated above.

CITY OF JACKSON
JACKSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
DECEMBER 31, 2002
(Continued)

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2002-004
CFDA Title and Number	Community Development Block Grants/14.228
Federal Award Number/Year	A-C-99-135-1 and A-C-01-135-1 and A-E-01-135-1
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Cash Management Noncompliance

The Office of Housing and Community Partnership Financial Management Rules and Regulations Handbook, Section A(3)(f), states that the grantee must develop a cash management system to ensure compliance with the Fifteen-Day rule relating to the prompt disbursement of funds. This rule states that funds drawn down should be limited to an amount that will enable the grantee to disburse funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds.

For 71% of the Community Development Block Grant draw down receipts tested, the City did not make the corresponding disbursements in a timely manner.

We recommend the City establish a cash management system that ensures compliance with the Fifteen-Day disbursement rule.

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.315 (b)
DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-20740-001	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of debt payments concerning the City Garage and Sundry Building.	Yes	Corrected
2001-20740-002	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to vehicle purchases.	No	Partially Corrected- Expenditures were adjusted in the prior audit to reflect the correct funds; however, the fixed asset listing was not adjusted to reflect the assets in the correct funds. This has been referred to management in a separate letter dated September 2, 2003.
2001-20740-003	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to the Law Director fees.	Yes	Corrected
2001-20740-004	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to Sal Chemical Company.	Yes	Corrected
2001-20740-005	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to J. L. Uhrig, CPA.	Yes	Corrected
2001-20740-006	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to Zee Medical Services.	Yes	Corrected
2001-20740-007	Noncompliance Citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to various vendors.	Yes	Corrected
2001-20740-008	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of salaries based on the City's weekly time summaries.	Yes	Corrected

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.315 (b)
DECEMBER 31, 2002**

(Continued)

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-20740-009	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to Shelly & Sands.	Yes	Corrected
2001-20740-010	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to Landrum & Truck Paving Company.	Yes	Corrected
2001-20740-011	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to Cross Management Consulting Services.	Yes	Corrected
2001-20740-012	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to Bryan E. Davis Trucking Company.	Yes	Corrected
2001-20740-013	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to Economic Development Board Contributions.	Yes	Corrected
2001-20740-014	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to the GIS System.	Yes	Corrected
2001-20740-015	Noncompliance citation of Ohio Revised Code Section 5705.10 for overspending available cash balances.	No	Not Corrected. See Finding Number 2002-001.

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.315 (b)
DECEMBER 31, 2002**

(Continued)

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-20740-016	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to Bureau of Workers' Compensation.	Yes	Corrected
2001-20740-017	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to Dave's Cleaning Service.	Yes	Corrected
2001-20740-018	Noncompliance citation of Ohio Rev. Code Section 5705.10 for incorrect allocation of expenditures relating to the Boiler for the Memorial Building.	Yes	Corrected
2001-20740-019	Noncompliance citation of Ohio Rev. Code Section 5705.14 to 5705.16 for unallowable transfers from utility accounts to the general fund.	Yes	Corrected.
2001-20740-020	Noncompliance citation of Ohio Rev. Code Section 5705.41(D) for not certifying funds prior to the obligation being incurred.	No	Not Corrected. See Finding Number 2002-003.
2001-20740-021	Noncompliance citation of Ohio Rev. Code Section 5705.41(D) for blanket purchase orders being open at one time for more than one line-item and more than three months.	No	Not Corrected- During 2002, blanket purchase orders could not be distinguished from regular purchase orders, therefore, all were treated as regular purchase orders. This was reported to management in a separate letter dated September 2, 2003. Beginning in 2003, the City implemented new procedures to address the tracking of blanket purchase orders.
2001-20740-022	No documentation existed regarding extent of Council's review of budgetary information.	Yes	Corrected in July 2003.

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.315 (b)
DECEMBER 31, 2002**

(Continued)

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-20740-023	Estimated receipts exceeded actual receipts and resulted in a fund deficit	No	Not Corrected. See Finding Number 2002-002.
2001-20740-024	Conducting business with vendors who prepare false invoices.	No	Partially corrected. The City adopted Ordinance #60-02 "restricting the City from purchasing products from certain vendors", however, this has not been incorporated into the Personnel Policy and Procedure Manual. This has been referred to management in a separate letter dated September 2, 2003.
2001-20740-025	Finding for recovery against Ronald B. Speakman and Ohio Farmers Insurance, his bonding company, jointly and severally, in the amount of \$816.17, for public moneys illegally expended (relating to unallowable VISA credit card charges), in favor of the General Fund.	No	Not Corrected. The finding for recovery has not been repaid.
2001-20740-026	Finding for recovery against Matthew C. Danilko, Ronald B. Speakman and Ohio Farmers Insurance, their bonding company, jointly and severally, in the amount of \$156.98, for public monies illegally expended (relating to unallowable VISA credit card charges), in favor of the City's General Fund.	No	Not Corrected. The finding for recovery has not been repaid.
2001-20740-027	Finding for recovery against Richard M. Eubanks, Ronald B. Speakman and Ohio Farmers Insurance, their bonding company, jointly and severally, in the amount of \$151.92, for public monies illegally expended (relating to unallowable VISA credit card charges), in favor of the City's General Fund.	No	Not Corrected. The finding for recovery has not been repaid.

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.315 (b)
DECEMBER 31, 2002**

(Continued)

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-20740-028	Finding for recovery against Larry T. Fisher, Ronald B. Speakman and Ohio Farmers Insurance, their bonding company, jointly and severally, in the amount of \$143.26, for public monies illegally expended, (relating to unallowable VISA credit card charges), in favor of the City's General Fund.	No	Not Corrected. The finding for recovery has not been repaid.
2001-20740-029	Finding for recovery against Shalan L. Rhea, Ronald B. Speakman and Ohio Farmers Insurance, their bonding company, jointly and severally, in the amount of \$143.25, for public monies illegally expended, (relating to unallowable VISA credit card charges), in favor of the City's General Fund.	No	Not Corrected. The finding for recovery has not been repaid.
2001-20740-030	Reportable Condition relating to unallowable VISA charges.	No	Partially Corrected. The VISA card was canceled in April 2002; however, small amounts of unallowable VISA charges were made prior to cancellation. This has been referred to management in a separate letter dated September 2, 2003.
2001-20740-031	Finding for recovery of \$886.70 against Sally Penix, Ted Penix, and Ohio Farmers Insurance, their bonding company, jointly and severally, for public monies illegally expended, (relating to overcompensation), in favor of the City's General Fund.	No	Not Corrected. The finding for recovery has not been repaid.
2001-20740-032	Finding for recovery against William McManis and Ohio Farmers Insurance, his bonding company, and Ronald Speakman, Safety/Service Director, and Ohio Farmers Insurance, his bonding company, jointly and severally, in the amount of \$467.94, for public monies illegally expended, (relating to over compensation), in favor of the City's Electric Fund.	No	Not Corrected. The finding for recovery has not been repaid.

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.315 (b)
DECEMBER 31, 2002**

(Continued)

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-20740-033	Finding for recovery against Robert Campbell and Ohio Farmers Insurance, his bonding company, and Ronald Speakman and Ohio Farmers Insurance, his bonding company, jointly and severally, for public monies illegally expended, (relating to education incentives), in the amount of \$200 in favor of the City's General Fund.	No	Not Corrected. The finding for recovery has not been repaid.
2001-20740-034	Finding for recovery against Thomas Aldrich and Ohio Farmers Insurance, his bonding company, and Ronald Speakman and Ohio Farmers Insurance, his bonding company, jointly and severally, for public monies illegally expended, (relating to education incentives), in the amount of \$200 in favor of the City's General Fund.	No	Not Corrected. The finding for recovery has not been repaid.
2001-20740-035	Finding for recovery repaid under audit relating to utility charges for Montgomery Machine.	Yes	Corrected.
2001-20740-037	Cash Management noncompliance with the Fifteen-Day rule relating to the prompt disbursement of funds for Community Development Block Grant (CDBG).	No	Partially Corrected. Noncompliance occurred in 2003, see Finding Number 2002-003. For 2002, the Ohio Department of Development has accepted the response submitted by the City.
2001-20740-038	Activities Allowed or Unallowed Noncompliance/Questioned Cost concerning grant monies budgeted for rehabilitation projects being used for the purchase of new manufactured housing totaling \$73,529.	Yes	Corrected. The Ohio Department of Development has determined the expenditures were for eligible costs.
2001-20740-039	Reporting noncompliance relating to \$1,808.59 in unreimbursed expenditures.	Yes	Corrected. The Ohio Dept. of Development requested reimbursement of \$1,870.16 for grant A-D-99-135-1 which the City reimbursed on March 5, 2003.

**CITY OF JACKSON
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.315 (b)
DECEMBER 31, 2002**

(Continued)

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-20740-040	Reporting and Allowable Cost Noncompliance/Questioned Cost resulting from the City being unable to provide documentation to support \$4,248,000 of Other Funds Expended to Date that the City had reported within the 1998 Downtown Revitalization Grants Final Performance Report.	Yes	Corrected. Per the Ohio Department of Development, the City was able to provide adequate documentation on the other local funds contributed towards the grant and has met the thresholds of the Community Development Block Grant Downtown grant.
2001-20740-041	Reporting and Allowable Cost Noncompliance/Questioned Cost resulting from the City being unable to provide documentation to support matching funds totaling \$38,000, relating to the Engineering and Inspection costs included in the City's Final Performance Report for the 2000 Appalachian Regional Commission Program (Apple Water Tank Rehabilitation Project).	No	Not Corrected. The City is working with the Ohio Department of Development to resolve this finding.
2001-20740-042	Reporting Noncompliance concerning the Community Development Block Grant ARC Grant.	Yes	Corrected. Programs listed in finding have been closed out. No noncompliance of this nature noted in the current programs and the City has implemented a review process to review supporting documentation maintained by the grant consultants.
2001-20740-043	Allowable Cost Noncompliance relating to the 1998 School Based Partnership Grant.	No	Not Corrected. The granting agency had not been contacted as of September 2, 2003. The City has the understanding that the granting agency will be performing a grant audit and are awaiting notification of this.

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**CITY OF JACKSON
JACKSON COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)
DECEMBER 31, 2002**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-001	The City was placed in fiscal watch on November 18, 2002. As a result, a performance audit was performed by the Auditor of State. The City expects the performance audit to provide guidance on how to address this issue. As of September 2, 2003, the performance audit had not been released by the Auditor of State.	Undeterminable at this time.	Carl Barnett City Auditor
2002-002	The City was placed in fiscal watch on November 18, 2002. As a result, a performance audit was performed by the Auditor of State. The City expects the performance audit to provide guidance on how to address this issue. As of September 2, 2003, the performance audit had not been released by the Auditor of State.	Undeterminable at this time.	Carl Barnett City Auditor
2002-003	The City is working on procedure to assure prior certification and plans to utilize the "then and now" certificate when prior certification cannot be obtained.	Jan. 2004	Carl Barnett City Auditor
2002-004	The City contacted the Ohio Department of Development, in a letter dated June 17, 2003, concerning this issue which was also reported in the 2001 audit as finding #2001-037. Story Cool will continue to work with the granting agency to resolve this issue.	Jan. 2004	Story Cool Community Development/ Building Inspector



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CITY OF JACKSON

JACKSON 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
NOVEMBER 25, 2003**