

City of Washington Court House

Fayette County

Regular Audit

January 1, 2007 through December 31, 2007



**Balestra, Harr & Scherer, CPAs, Inc.**

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528 South West St, P.O. Box 687, Piketon, Ohio 45661 Phone: 740.289.4131 Fax: 740.289.3639





Mary Taylor, CPA  
Auditor of State

City Council  
City of Washington Court House  
105 N. Main Street  
Washington Court House, Ohio 43160

We have reviewed the *Independent Auditor's Report* of the City of Washington Court House, Fayette County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2007 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

October 9, 2008

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**City of Washington Court House**  
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*For the Year Ended December 31, 2007*

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# BALESTRA, HARR & SCHERER CPAs, INC.

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

## Independent Auditor's Report

City of Washington Court House  
Fayette County, Ohio  
105 N. Main Street  
Washington Court House, Ohio 43160

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Washington Court House, Fayette County, (the City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 17 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored rectangular background.

Balestra, Harr & Scherer, CPAs, Inc.  
August 15, 2008

**CITY OF WASHINGTON COURT HOUSE, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

Unaudited

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The discussion and analysis of the City of Washington Court House's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2007. The purpose of this discussion and analysis is to look at the City's financial performance and discuss pertinent points to better help the reader to understand our performance.

**Financial Highlights**

1. The City's total net assets decreased \$1,617,843; net assets of the governmental activities decreased \$1,371,916; and net assets of the business-type activities decreased \$245,927;
2. The General Fund fund balance of \$1,185,630 decreased \$248,365 or 17% from the previous year's balance of \$1,433,995.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Washington Court House's basic financial statements. The City of Washington Court House's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements-** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector businesses. The statement of net assets presents information on all of the City of Washington Court House's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of activities presents information showing how the government's net assets changed during the recent fiscal year.

Both of the government-wide financial statements distinguish functions of the City of Washington Court House that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, transportation, community environment, basic utility services, public health and leisure time activities. The business-type activities include water, sewer, and pool operations.

**Fund Financial Statements-** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State law and by bond covenants. However, the City establishes many other funds to help control and manage money for particular purposes or to show that the City is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**CITY OF WASHINGTON COURT HOUSE, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

Unaudited

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*Governmental Funds-* Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental fund statements use the modified accrual basis of accounting and provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information may be useful in evaluating a government's near term financing requirements. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation which follows the fund financial statements.

The City of Washington Court House maintains 33 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, Safety Building Construction Fund, and the TIF Walmart Fund, which are considered to be major funds. Data from the other 30 governmental funds are combined into a single, aggregated presentation.

*Proprietary Funds-* The City uses enterprise funds to account for its water, sewer and pool operations. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities using the full accrual basis of accounting. The enterprise funds are used to report the same activities presented as business-type activities in the government-wide financial statements.

*Fiduciary Funds-* Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for the proprietary funds.

*Notes to the Financial Statements-* The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-Wide Financial Statements**

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions.

The statement of net assets and the statement of activities include all assets and liabilities using the full accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

**CITY OF WASHINGTON COURT HOUSE, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

Unaudited

Table 1 provides a summary of the City's net assets for 2007 compared to 2006:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and Other Assets	\$ 14,872,684	\$ 7,521,712	\$ 2,128,672	\$ 2,241,795	\$ 17,001,356	\$ 9,763,507
Capital Assets, Net	23,505,166	24,580,728	37,342,462	38,232,386	60,847,628	62,813,114
Total Assets	38,377,850	32,102,440	39,471,134	40,474,181	77,848,984	72,576,621
Liabilities:						
Current and Other Liabilities	2,043,320	5,404,184	375,477	357,004	2,418,797	5,761,188
Long-Term Liabilities:						
Due Within One Year	441,130	2,374,380	786,999	890,431	1,228,129	3,264,811
Due in More than One Year	13,857,587	916,147	14,714,086	15,386,247	28,571,673	16,302,394
Total Liabilities	16,342,037	8,694,711	15,876,562	16,633,682	32,218,599	25,328,393
Net Assets:						
Invested in Capital Assets, Net	16,883,928	21,784,728	22,044,590	22,075,938	38,928,518	43,860,666
Restricted	2,751,575	909,771	-	-	2,751,575	909,771
Unrestricted	2,400,310	713,230	1,549,982	1,764,561	3,950,292	2,477,791
Total Net Assets	\$22,035,813	\$ 23,407,729	\$23,594,572	\$23,840,499	\$ 45,630,385	\$47,248,228

Total net assets decreased \$1.6 million. There were slight increases in revenues but these increases do not cover expenses as they continue to rise. A significant portion of these additional expenditures were incurred as a result of special projects undertaken by the City to repair and maintain its investment in infrastructure and capital assets. While some of the capital improvement costs were capitalized in the Statement of Net Assets, certain projects did not meet the City's capitalization criteria and were expensed during the year. Capital assets decreased due to current year depreciation expense exceeding capital asset acquisitions. The increase in cash is a result of \$7.5 million in proceeds from the sale of bonds for the construction of a new safety building and is offset by an increase in long-term liabilities.

As noted earlier, the City's net assets, when reviewed over time, may serve as a useful indicator of the City's financial position. By far, the largest portion of the City's net assets (85%) reflects its investments in capital assets (e.g., land, buildings, machinery and equipment, infrastructure) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (6%) represents resources that are subject to restrictions on how they can be used. The remaining balance of \$3,950,292 or 9%, which are unrestricted net assets, may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net assets decreased from \$47,248,228 in 2006 to \$45,630,385 in 2007, a change of \$1,617,843 or 3%.

**CITY OF WASHINGTON COURT HOUSE, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

Unaudited

In order to further understand what makes up the changes in net assets for the current year, Table 2 gives readers further details regarding the results of activities for the 2006 and 2007.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,544,642	\$ 1,429,088	\$ 5,717,259	\$ 5,814,991	\$ 7,261,901	\$ 7,244,079
Operating Grants/Contributions	446,862	346,772	-	-	446,862	346,772
Capital Grants/Contributions	595,534	620,733	25,548	104,263	621,082	724,996
General Revenues:						
Municipal Income Taxes	4,535,608	4,454,394	-	-	4,535,608	4,454,394
Property and Other Taxes	1,403,692	1,938,594	-	-	1,403,692	1,938,594
Payment in Lieu of Taxes	603,997	-	-	-	603,997	-
Intergovernmental	1,441,620	1,715,149	-	-	1,441,620	1,715,149
Grants and Entitlements	73,128	83,316	-	-	73,128	83,316
Investment Earnings	333,934	177,286	54,354	35,255	388,288	212,541
Other	200,569	322,081	114,824	106,127	315,393	428,208
Total Revenues	11,179,586	11,087,413	5,911,985	6,060,636	17,091,571	17,148,049
Program Expenses						
Security of Person & Property	3,963,491	4,047,154	-	-	3,963,491	4,047,154
Public Health Services	360,919	289,829	-	-	360,919	289,829
Leisure Time Activities	61,659	65,721	-	-	61,659	65,721
Community Environment	1,564,199	2,058,208	-	-	1,564,199	2,058,208
Transportation	3,142,515	3,119,118	-	-	3,142,515	3,119,118
General Government	2,934,070	2,557,896	-	-	2,934,070	2,557,896
Interest and Fiscal Charges	461,689	258,522	-	-	461,689	258,522
Water	-	-	3,360,041	2,972,685	3,360,041	2,972,685
Sewer	-	-	2,699,213	2,895,225	2,699,213	2,895,225
Pool	-	-	161,618	164,992	161,618	164,992
Total Expenses	12,488,542	12,396,448	6,220,872	6,032,902	18,709,414	18,429,350
Excess (Deficit) before Transfers	(1,308,956)	(1,309,035)	(308,887)	27,734	(1,617,843)	(1,281,301)
Transfers	(62,960)	(68,006)	62,960	68,006	-	-
Change in Net Assets	\$ (1,371,916)	\$ (1,377,041)	\$ (245,927)	\$ 95,740	\$ (1,617,843)	\$ (1,281,301)

**CITY OF WASHINGTON COURT HOUSE, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

Unaudited

**Governmental Activities**

The most significant program expenses for the City are Security of Persons and Property, General Government, Transportation, and Community Environment. These programs account for 93% of the total governmental activities. Security of Persons and Property, which accounts for 32% of the total, represents costs associated with the operation of the Police Department and costs associated with providing firefighting and emergency medical services. General Government, which accounts for 23% of the total, represents costs associated with the general administration of city government, including the City Council, City Manager, City Auditor and Municipal Court. Transportation, which accounts for 25% of the total, represents costs associated with streets and their upkeep. Community Environment, which accounts for 13% of the total, represents costs associated with developing and improving the downtown.

Funding for the most significant programs indicated is from income taxes, property taxes and intergovernmental. The income tax revenue for 2007 was \$4,535,608. Of the \$11,179,586 in total revenues, income tax accounts for 41% of that total. The property tax revenue and payments in lieu of property taxes for 2007 was \$2,007,689 or 18% of total revenues. The intergovernmental revenue for 2007 was \$1,441,620 or 13% of total revenue. The charges for services revenue for 2007 was \$1,544,642 or 14% of total revenues. Operating Grants and Contributions of \$446,862 accounts for 4% of total revenues. Capital grants and contributions of \$595,534 accounts for 5% of the total and interest and other revenue make up the remaining 5%. Total governmental activities revenue grew by \$92,173 or less than 1%. The City monitors its sources of revenues very closely for fluctuations.

Table 3 for governmental activities, indicates the total cost of services and the net cost of services. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by income and property tax revenues and unrestricted intergovernmental revenue.

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Security of persons and property	\$ 3,963,491	\$ 3,962,091	\$ 4,047,154	\$ 4,032,510
Public health services	360,919	253,077	289,829	197,307
Leisure time activities	61,659	61,659	65,721	65,721
Community environment	1,564,199	1,425,199	2,058,208	1,819,942
Transportation	3,142,515	2,291,826	3,119,118	2,466,503
General government	2,934,070	1,445,963	2,557,896	1,159,350
Interest on long-term debt	<u>461,689</u>	<u>461,689</u>	<u>258,522</u>	<u>258,522</u>
Total Expenses	<u>\$ 12,488,542</u>	<u>\$ 9,901,504</u>	<u>\$ 12,396,448</u>	<u>\$ 9,999,855</u>

It should be noted that 21% of the costs of services for governmental activities are derived from program revenues including charges for services, operating grants, capital grants and other contributions.

As shown by the total net costs of \$9,901,504, the majority of the City's programs are funded by general revenues. A significant portion of the total general revenues consists of income taxes and property taxes.

**CITY OF WASHINGTON COURT HOUSE, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

Unaudited

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**Business-Type Activities**

The City's major business-type activities include water and sewer operations. The Water fund had operating revenues in 2007 of \$2,990,747, which is a decrease of \$72,911 from 2006. The decrease is primarily due to a decrease in tap-in fees and impact fees received. The Sewer Fund had operating revenues in 2007 of \$2,741,272, a decrease of \$18,651 from 2006. The decrease is also due to less tap-in and industrial user fees received.

**Financial Analysis of the City's Funds**

**Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year. These funds are accounted for by using the modified accrual basis of accounting.

The General Fund is the chief operating fund of the City. At the end of 2007, the total fund balance for the General Fund was \$1,185,630 of which \$1,162,520 was unreserved. During the current year, the fund balance of the City's General Fund decreased by \$248,365 or 17%. The decrease in the General Fund balance is due to an decrease overall in the amount of funds received and the increase in expenditures for operating the City. In addition to the General Fund, the City had two other major funds during 2007: The Safety Building Capital Projects Fund and the Tax Increment Financing (TIF) – Walmart Capital Projects Fund. At the end of 2007, the total fund balance of the Safety Building Fund was \$7,139,669. The balance includes proceeds of general obligation bonds to be used for the construction of a new safety building for the police and fire departments. The balance in the TIF – Walmart Fund was \$165,642 as of the end of 2007. During the year the City received proceeds from the sale of bonds that were used to retire outstanding debt within this fund.

**Proprietary Funds**

The City's major proprietary funds are the Water Fund and the Sewer Fund. The City provides water and sewer services to city residents. Net assets in the Water Fund decreased by \$332,418 or 5%. Net assets in the Sewer Fund increased by \$85,085 or less than 1%. The increase in net assets of the Sewer fund was due to an overall decrease in the City's operational costs.

**General Fund Budgeting Highlights**

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a budget basis of cash receipts (revenues), and disbursements and encumbrances (expenditures). The most significant budgeted fund is the General Fund. The City does allow small interdepartmental budget changes that modify line items within departments within the same fund.

For the General Fund, the original budgeted revenues were \$6,907,540 and the final budgeted revenues were \$6,980,540. Amendments were made during the year due primarily to higher than expected property and other taxes.

**CITY OF WASHINGTON COURT HOUSE, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

Unaudited

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For the General Fund, the original budgeted expenditures and transfers were \$6,902,742 and the final budgeted expenditures and transfers were \$6,988,653. Amendments were made during the year due to higher than expected general government expenditures.

**Capital Assets and Debt Administration**

The City's investment in capital assets for governmental and business-type activities as of December 31, 2007, amounts to \$38,928,518 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, improvements, equipment and infrastructure.

Total capital assets for governmental activities of the City of Washington Court House for the year 2007 were \$23,505,166 or \$1,075,562 less than in 2006. This decrease was due to the annual depreciation expense.

The decrease in capital assets for business-type activities of \$889,924 to \$37,342,462 as of December 31, 2007 was due to the annual depreciation expense.

Additional information concerning the City's capital assets can be found in note 7 of the notes to the basic financial statements.

As of December 31, 2007, the City of Washington Court House had \$28,667,872 in bonds, notes and loans outstanding with \$990,818 due within one year. The City's long-term debt increased \$9,760,424 or 52% during 2007. The city issued a total of \$12,875,000 in general obligation bonds which retired two outstanding notes. The remaining amount will be used to construct a new safety building for the police and fire departments.

Outstanding general obligation bonds consist of street, safety building and wastewater treatment plant improvement issues. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged.

Revenue bonds in the Water Fund were refinanced during 2003 to receive a lower interest rate. In addition to the bonds, notes and loans, the City's long-term obligations include compensated absences, pension obligations and capital lease obligations. Additional information concerning the City's debt can be found in note 9 of the notes to the basic financial statements.

**Current Known Facts and Conditions**

In spite of the recent decline in the state economy, the City of Washington Court House continues to see considerable growth in the area. Slight cuts in local and state funding are currently not a cause of concern for the community. The long-term impact of these cuts is unknown at this time.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office, 105 N. Main Street, Washington C.H., Ohio 43160.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2007**

		Governmental Activities	Business-Type Activities	Total
<b><i>Assets</i></b>				
Equity in pooled cash and investments	\$	10,539,730	1,040,542	11,580,272
Cash in segregated accounts		42,003	-	42,003
Receivables:				
Property taxes		1,343,285	-	1,343,285
Income taxes		1,704,805	-	1,704,805
Accounts		-	604,339	604,339
Loans		65,763	-	65,763
Interest		59,726	7,678	67,404
Intergovernmental		851,896	-	851,896
Prepaid items		23,598	64,252	87,850
Supplies inventory		18,116	68,543	86,659
Deferred charges		223,762	343,318	567,080
Nondepreciable capital assets		1,555,951	1,329,624	2,885,575
Depreciable capital assets, net		21,949,215	36,012,838	57,962,053
Total assets		<u>38,377,850</u>	<u>39,471,134</u>	<u>77,848,984</u>
<b><i>Liabilities</i></b>				
Accounts payable		139,416	96,786	236,202
Accrued wages payable		229,440	54,076	283,516
Intergovernmental payable		165,691	11,791	177,482
Deferred revenue		1,288,631	-	1,288,631
Accrued interest payable		220,142	212,824	432,966
Noncurrent liabilities:				
Due within one year		441,130	786,999	1,228,129
Due in more than one year		13,857,587	14,714,086	28,571,673
Total liabilities		<u>16,342,037</u>	<u>15,876,562</u>	<u>32,218,599</u>
<b><i>Net Assets</i></b>				
Invested in capital assets, net of related debt		16,883,928	22,044,590	38,928,518
Restricted for:				
Capital projects		1,871,163	-	1,871,163
Other purposes		765,440	-	765,440
Permanent endowment:				
Nonexpendable		73,648	-	73,648
Expendable		41,324	-	41,324
Unrestricted		2,400,310	1,549,982	3,950,292
Total net assets	\$	<u>22,035,813</u>	<u>23,594,572</u>	<u>45,630,385</u>

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2007**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs</b>							
Governmental activities:							
Security of persons and property	\$ 3,963,491	-	1,400	-	(3,962,091)	-	(3,962,091)
Public health services	360,919	107,842	-	-	(253,077)	-	(253,077)
Leisure time activities	61,659	-	-	-	(61,659)	-	(61,659)
Community environment	1,564,199	-	139,000	-	(1,425,199)	-	(1,425,199)
Transportation	3,142,515	3,155	252,000	595,534	(2,291,826)	-	(2,291,826)
General government	2,934,070	1,433,645	54,462	-	(1,445,963)	-	(1,445,963)
Interest on long-term debt	461,689	-	-	-	(461,689)	-	(461,689)
Total governmental activities	<u>12,488,542</u>	<u>1,544,642</u>	<u>446,862</u>	<u>595,534</u>	<u>(9,901,504)</u>	<u>-</u>	<u>(9,901,504)</u>
Business-type activities:							
Water	3,360,041	2,944,752	-	-	-	(415,289)	(415,289)
Sewer	2,699,213	2,674,475	-	25,548	-	810	810
Pool	161,618	98,032	-	-	-	(63,586)	(63,586)
Total business-type activities	<u>6,220,872</u>	<u>5,717,259</u>	<u>-</u>	<u>25,548</u>	<u>-</u>	<u>(478,065)</u>	<u>(478,065)</u>
Total	\$ <u>18,709,414</u>	<u>271,837</u>	<u>446,862</u>	<u>621,082</u>	<u>(9,901,504)</u>	<u>(478,065)</u>	<u>(10,379,569)</u>
General revenues:							
Taxes:							
Income taxes					4,535,608	-	4,535,608
Property taxes					1,403,692	-	1,403,692
Payment in lieu of taxes					603,997	-	603,997
Intergovernmental					1,441,620	-	1,441,620
Grants and contributions not restricted to specific programs					73,128	-	73,128
Investment earnings					333,934	54,354	388,288
Miscellaneous					200,569	114,824	315,393
Transfers					(62,960)	62,960	-
Total general revenues and transfers					<u>8,529,588</u>	<u>232,138</u>	<u>8,761,726</u>
Change in net assets					(1,371,916)	(245,927)	(1,617,843)
Net assets beginning of year					<u>23,407,729</u>	<u>23,840,499</u>	<u>47,248,228</u>
Net assets end of year					\$ <u>22,035,813</u>	<u>23,594,572</u>	<u>45,630,385</u>

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2007**

	General Fund	Safety Building	TIF Walmart	Non-major Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in pooled cash and investments	\$ 724,604	7,168,257	165,642	2,481,227	10,539,730
Cash in segregated accounts	34,786	-	-	7,217	42,003
Receivables:					
Property taxes	365,006	-	-	978,279	1,343,285
Income taxes	1,295,652	-	-	409,153	1,704,805
Loans	-	-	-	65,763	65,763
Interest	20,757	38,678	-	291	59,726
Intergovernmental	500,679	-	-	351,217	851,896
Prepays	20,796	-	-	2,802	23,598
Supplies inventory	-	-	-	18,116	18,116
<b>Total assets</b>	<b>2,962,280</b>	<b>7,206,935</b>	<b>165,642</b>	<b>4,314,065</b>	<b>14,648,922</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	64,705	28,588	-	46,123	139,416
Accrued wages payable	203,830	-	-	25,610	229,440
Intergovernmental payable	161,220	-	-	4,471	165,691
Deferred revenue	1,346,895	38,678	-	1,496,624	2,882,197
<b>Total liabilities</b>	<b>1,776,650</b>	<b>67,266</b>	<b>-</b>	<b>1,572,828</b>	<b>3,416,744</b>
<b>Fund balances:</b>					
Reserved for:					
Encumbrances	2,314	-	-	155,888	158,202
Inventory	-	-	-	18,116	18,116
Prepays	20,796	-	-	2,802	23,598
Unreserved, reported in:					
General fund	1,162,520	-	-	-	1,162,520
Special revenue funds	-	-	-	1,218,784	1,218,784
Capital projects funds	-	7,139,669	165,642	1,230,675	8,535,986
Permanent funds	-	-	-	114,972	114,972
<b>Total fund balances</b>	<b>1,185,630</b>	<b>7,139,669</b>	<b>165,642</b>	<b>2,741,237</b>	<b>11,232,178</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,962,280</b>	<b>7,206,935</b>	<b>165,642</b>	<b>4,314,065</b>	<b>14,648,922</b>

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to  
Net Assets of Governmental Activities

December 31, 2007

<b>Total governmental fund balances</b>	\$ 11,232,178
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	23,505,166
Deferred charges in governmental activities are not financial resources and therefore are not reported in the funds.	223,762
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Income taxes receivable	791,634
Intergovernmental and other receivables	703,668
Interest	43,610
Property taxes	54,654
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	
General obligation bonds	(13,623,762)
Compensated absences	(574,600)
Accrued interest on long-term debt	(220,142)
Pension obligation	<u>(100,355)</u>
<b>Net assets of governmental activities</b>	\$ <u>22,035,813</u>

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2007**

	General Fund	Safety Building	TIF Walmart	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property taxes	\$ 422,866	-	-	972,313	1,395,179
Municipal income taxes	3,185,486	-	-	1,005,939	4,191,425
Intergovernmental	904,774	-	-	1,254,038	2,158,812
Charges for services	965,385	-	-	107,842	1,073,227
Fines, licenses and permits	597,350	-	-	168,245	765,595
Interest	140,585	110,038	-	53,679	304,302
Payment in lieu of taxes	-	-	352,237	348,496	700,733
Other	117,645	27,107	-	139,323	284,075
Total revenues	<u>6,334,091</u>	<u>137,145</u>	<u>352,237</u>	<u>4,049,875</u>	<u>10,873,348</u>
<b>Expenditures:</b>					
Current:					
Security of persons and property	3,370,191	-	-	435,822	3,806,013
Public health services	33,304	-	-	285,318	318,622
Leisure time activities	61,137	-	-	-	61,137
Community environment	820,908	-	271,837	439,440	1,532,185
Transportation	-	-	-	1,068,668	1,068,668
General government	2,233,956	-	-	510,229	2,744,185
Capital outlay	-	477,476	-	762,577	1,240,053
Debt service:					
Principal retirement	-	-	2,400	163,600	166,000
Interest and fiscal charges	-	-	43,491	210,754	254,245
Issuance costs	-	129,999	21,950	71,813	223,762
Total expenditures	<u>6,519,496</u>	<u>607,475</u>	<u>339,678</u>	<u>3,948,221</u>	<u>11,414,870</u>
Excess of revenues over (under) expenditures	<u>(185,405)</u>	<u>(470,330)</u>	<u>12,559</u>	<u>101,654</u>	<u>(541,522)</u>
<b>Other financing sources (uses):</b>					
Proceeds from issuance of bonds	-	7,480,000	1,052,500	4,342,500	12,875,000
Refunding of note	-	-	(1,052,500)	(1,052,500)	(2,105,000)
Bond premium	-	129,999	21,950	71,813	223,762
Transfers out	<u>(62,960)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(62,960)</u>
Total other financing sources (uses)	<u>(62,960)</u>	<u>7,609,999</u>	<u>21,950</u>	<u>3,361,813</u>	<u>10,930,802</u>
Net change in fund balance	(248,365)	7,139,669	34,509	3,463,467	10,389,280
Fund balance, beginning of year	<u>1,433,995</u>	<u>-</u>	<u>131,133</u>	<u>(722,230)</u>	<u>842,898</u>
Fund balance, end of year	<u>\$ 1,185,630</u>	<u>7,139,669</u>	<u>165,642</u>	<u>2,741,237</u>	<u>11,232,178</u>

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities

Year Ended December 31, 2007

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<b>Net change in fund balances - total governmental funds</b>	\$ 10,389,280
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:	
Capital outlay	1,240,053
Depreciation expense	(2,297,193)
Loss on disposal of capital assets	(18,422)
 Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
	306,238
 Repayment of bond and note principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets.	
	2,271,000
 In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	
	(207,444)
 Proceeds from the sale of debt are eliminated in the statement of activities and reclassified.	
	(12,875,000)
 Some expenses reported in the statement of activities, such as compensated absences and pension do not require the use current financial resources and therefore are not reported as expenditures in governmental funds.	
	<u>(180,428)</u>
 <b>Change in net assets of governmental activities</b>	 \$ <u><u>(1,371,916)</u></u>

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2007**

	Enterprise Funds			Totals
	Water	Sewer	Nonmajor Enterprise Fund	
<b>Assets</b>				
Current assets:				
Equity in pooled cash and investments	\$ 583,063	456,771	708	1,040,542
Receivables:				
Accounts	326,110	278,229	-	604,339
Interest	5,403	2,275	-	7,678
Prepaid Items	31,878	32,140	234	64,252
Materials and supplies inventory	68,543	-	-	68,543
Total current assets	<u>1,014,997</u>	<u>769,415</u>	<u>942</u>	<u>1,785,354</u>
Noncurrent assets:				
Deferred charges	343,318	-	-	343,318
Nondepreciable capital assets	1,067,410	262,214	-	1,329,624
Depreciable capital assets, net	14,862,086	21,150,752	-	36,012,838
Total noncurrent assets	<u>16,272,814</u>	<u>21,412,966</u>	<u>-</u>	<u>37,685,780</u>
Total assets	<u>17,287,811</u>	<u>22,182,381</u>	<u>942</u>	<u>39,471,134</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts payable	55,955	40,831	942	97,728
Accrued wages payable	24,248	29,828	-	54,076
Intergovernmental payable	5,204	6,587	-	11,791
Accrued interest payable	123,141	89,683	-	212,824
Compensated absences payable	16,689	20,503	-	37,192
Notes payable	-	8,325	-	8,325
Capital lease payable	15,000	-	-	15,000
Pension obligation payable	6,606	7,383	-	13,989
OWDA loans payable	157,122	296,647	-	453,769
Revenue bonds payable	258,724	-	-	258,724
Total current liabilities	<u>662,689</u>	<u>499,787</u>	<u>942</u>	<u>1,163,418</u>
Noncurrent liabilities:				
Compensated absences payable	94,752	13,631	-	108,383
Notes payable	-	49,941	-	49,941
Capital lease payable	15,000	-	-	15,000
Pension obligation payable	20,611	23,038	-	43,649
OWDA loans payable	2,663,315	4,932,696	-	7,596,011
Revenue bonds payable	6,901,102	-	-	6,901,102
Total noncurrent liabilities	<u>9,694,780</u>	<u>5,019,306</u>	<u>-</u>	<u>14,714,086</u>
Total liabilities	<u>10,357,469</u>	<u>5,519,093</u>	<u>942</u>	<u>15,877,504</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	5,919,233	16,125,357	-	22,044,590
Unrestricted	1,011,109	537,931	942	1,549,982
Total net assets	\$ <u>6,930,342</u>	<u>16,663,288</u>	<u>942</u>	<u>23,594,572</u>

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2007**

	Enterprise Funds			Totals
	Water	Sewer	Nonmajor Enterprise Fund	
<b>Operating revenues:</b>				
Charges for services	\$ 2,944,752	2,674,475	98,032	5,717,259
Other	45,995	66,797	2,032	114,824
Total operating revenues	<u>2,990,747</u>	<u>2,741,272</u>	<u>100,064</u>	<u>5,832,083</u>
<b>Operating expenses:</b>				
Personnel services	933,462	1,036,990	94,077	2,064,529
Contractual services	362,249	586,565	34,895	983,709
Supplies and materials	186,756	157,783	32,646	377,185
Other	690,290	334,038	-	1,024,328
Depreciation	497,825	394,979	-	892,804
Total operating expenses	<u>2,670,582</u>	<u>2,510,355</u>	<u>161,618</u>	<u>5,342,555</u>
Operating income (loss)	320,165	230,917	(61,554)	489,528
<b>Non-operating revenues (expenses):</b>				
Interest revenue	36,876	17,478	-	54,354
Intergovernmental	-	25,548	-	25,548
Interest expense and fiscal charges	(689,459)	(188,858)	-	(878,317)
Total non-operating revenues (expenses)	<u>(652,583)</u>	<u>(145,832)</u>	<u>-</u>	<u>(798,415)</u>
Income (loss) before transfers	(332,418)	85,085	(61,554)	(308,887)
Transfers in	-	-	62,960	62,960
Change in net assets	(332,418)	85,085	1,406	(245,927)
Net assets, beginning of year	<u>7,262,760</u>	<u>16,578,203</u>	<u>(464)</u>	<u>23,840,499</u>
Net assets, end of year	\$ <u>6,930,342</u>	<u>16,663,288</u>	<u>942</u>	<u>23,594,572</u>

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2007**

	Enterprise Funds			Totals
	Water	Sewer	Nonmajor Enterprise Fund	
<b>Cash flows from operating activities:</b>				
Cash received from customers	\$ 2,937,409	2,671,210	98,032	5,706,651
Cash payments for employee services and benefits	(886,782)	(1,042,105)	(94,595)	(2,023,482)
Cash payments to suppliers for goods and services	(530,053)	(718,840)	(67,775)	(1,316,668)
Cash payments for other operating expenses	(679,853)	(334,038)	-	(1,013,891)
Cash received from other operating revenue	45,995	66,797	2,032	114,824
Net cash provided (used) by operating activities	<u>886,716</u>	<u>643,024</u>	<u>(62,306)</u>	<u>1,467,434</u>
<b>Cash flows from noncapital financing activities:</b>				
Intergovernmental revenue	-	25,548	-	25,548
Transfers from other funds	-	-	62,960	62,960
Net cash provided by noncapital financing activities	<u>-</u>	<u>25,548</u>	<u>62,960</u>	<u>88,508</u>
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of capital assets	-	(2,880)	-	(2,880)
Principal payments	(443,523)	(415,053)	-	(858,576)
Interest paid	(678,516)	(194,413)	-	(872,929)
Net cash used by capital and related financing activities	<u>(1,122,039)</u>	<u>(612,346)</u>	<u>-</u>	<u>(1,734,385)</u>
<b>Cash flows from investing activities:</b>				
Interest	33,781	16,003	-	49,784
Net change	(201,542)	72,229	654	(128,659)
Cash and pooled investments beginning of year	784,605	384,542	54	1,169,201
Cash and pooled investments end of year	<u>583,063</u>	<u>456,771</u>	<u>708</u>	<u>1,040,542</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	320,165	230,917	(61,554)	489,528
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	497,825	394,979	-	892,804
Changes in assets and liabilities:				
Receivables	(7,343)	(3,265)	-	(10,608)
Prepaid items	(56)	736	(234)	446
Materials and supplies inventory	(14,137)	-	-	(14,137)
Accounts payable	44,324	26,969	-	71,293
Accrued wages	2,058	3,556	-	5,614
Intergovernmental payable	(23,827)	(26,144)	(518)	(50,489)
PERS pension liability	27,217	30,421	-	57,638
Compensated absences payable	40,490	(15,145)	-	25,345
Net cash provided (used) by operating activities	<u>\$ 886,716</u>	<u>643,024</u>	<u>(62,306)</u>	<u>1,467,434</u>

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2007**

		Private- Purpose Trust Fund	Agency Funds
		<u>          </u>	<u>          </u>
<b><i>Assets</i></b>			
Equity in pooled cash and cash equivalents	\$	12,911	32,004
Cash in segregated accounts		-	<u>46,808</u>
Total assets		<u>12,911</u>	<u>78,812</u>
<b><i>Liabilities</i></b>			
Intergovernmental payable		-	22,936
Undistributed monies		-	23,612
Deposits held and due to others		-	<u>32,264</u>
Total liabilities		<u>-</u>	<u>78,812</u>
<b><i>Net Assets</i></b>			
Held in trust	\$	<u>12,911</u>	

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**  
**YEAR ENDED DECEMBER 31, 2007**

		<u>Private- Purpose Trust Fund</u>
<b><i>Additions:</i></b>		
Interest	\$	<u>2,705</u>
Total additions		<u>2,705</u>
<b><i>Deductions:</i></b>		
Contractual Services		<u>13,365</u>
Total deductions		<u>13,365</u>
Change in net assets		(10,660)
Net assets, beginning of year		<u>23,571</u>
Net assets, end of year	\$	<u><u>12,911</u></u>

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL - BUDGET (NON-GAAP) BASIS**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2007**

	Original Budget	Final Budget	Actual	Variance From Final Budget
<b>Revenues:</b>				
Property and other taxes	\$ 444,000	491,300	484,316	(6,984)
Municipal income taxes	3,350,000	3,350,000	3,484,111	134,111
Intergovernmental	1,219,900	1,221,300	937,788	(283,512)
Charges for services	904,250	924,250	965,385	41,135
Fines, licenses and permits	700,000	700,000	597,969	(102,031)
Interest	160,000	160,000	118,480	(41,520)
Other	129,390	133,690	59,595	(74,095)
Total revenues	<u>6,907,540</u>	<u>6,980,540</u>	<u>6,647,644</u>	<u>(332,896)</u>
<b>Expenditures:</b>				
Current:				
Security of persons and property	3,570,747	3,572,797	3,462,952	109,845
Public health services	34,341	34,341	33,304	1,037
Leisure time activities	63,302	63,302	61,391	1,911
Community environment	991,455	1,014,955	961,525	53,430
General government	2,179,937	2,240,298	2,175,188	65,110
Total expenditures	<u>6,839,782</u>	<u>6,925,693</u>	<u>6,694,360</u>	<u>231,333</u>
Excess of revenues over (under) expenditures	<u>67,758</u>	<u>54,847</u>	<u>(46,716)</u>	<u>(101,563)</u>
<b>Other uses:</b>				
Transfers out	<u>(62,960)</u>	<u>(62,960)</u>	<u>(62,960)</u>	<u>-</u>
Total other financing uses	<u>(62,960)</u>	<u>(62,960)</u>	<u>(62,960)</u>	<u>-</u>
Excess of revenues over (under) expenditures and other uses	4,798	(8,113)	(109,676)	(101,563)
Fund balance, beginning of year	758,936	758,936	758,936	-
Prior year encumbrances appropriated	<u>26,082</u>	<u>26,082</u>	<u>26,082</u>	<u>-</u>
Fund balance, end of year	<u>\$ 789,816</u>	<u>776,905</u>	<u>675,342</u>	<u>(101,563)</u>

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2007**

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**NOTE 1 – DESCRIPTION OF THE ENTITY**

The City of Washington Court House (the "City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City operates under a city manager form of government and provides various services including police and fire protection, parks and recreation, planning, zoning, street maintenance and repair, and other governmental services. In addition, the City provides basic utilities in the form of water services and waste water treatment.

As required by generally accepted accounting principles, the basic financial statements present the City of Washington Court House (the primary government) and any component units. The City considered potential component units for inclusion in the financial statements. In determining whether to include a government department, agency, commission or organization as a component unit, the City must evaluate each entity as to whether they are legally separate and financially accountable based on criteria set forth by Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity". Legal separateness is evaluated on the basis of (1) its corporate name, (2) the right to sue or be sued and (3) the right to buy, sell, lease and mortgage property. Financial accountability is based on (1) the appointment of the governing authority and (2) the ability to impose will or (3) the providing of specific financial benefit or imposition of a specific financial burden. Another factor to consider in this evaluation is whether an entity is fiscally dependent on the City. The City included no component units in the financial statements.

The City is associated with Carnegie Public Library, which is defined as a related organization (Note 15).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Presentation**

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

**Government-wide Financial Statements**

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

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

Fund Accounting

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

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

- **General Fund** - The General Fund 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.
- **Safety Building** – The Safety Building Fund is used to account for the proceeds of bonds for the construction of a public safety building.
- **TIF Walmart Fund** – Used to account for the activity related to the Walmart tax increment financing district.

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

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
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Proprietary funds: Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. The City's proprietary funds are classified as enterprise funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

- **Water Fund** – This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.
- **Sewer Fund** – This fund accounts for the provision of sanitary sewer treatment to residential and commercial users located within the City.

Fiduciary funds: Fiduciary fund reporting focuses on net assets. The City has a private-purpose trust fund and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's trust fund is a private-purpose trust fund established to account for assets (escheat property) held for individuals as unclaimed funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency fund accounts for assets that are held pending determination of their disposition.

Measurement Focus

Governmental-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

Fund Financial Statements

All governmental fund types are accounted for using current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet.

The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
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Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: municipal income taxes, grants, state-levied shared taxes (including gasoline tax), fines and forfeitures, and investment earnings.

Deferred Revenue

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, 2007, but which were levied to finance year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

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

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
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Expenses/Expenditures

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

Budgetary Accounting and Control

Under Ohio law, City Council must adopt an appropriations budget by January 1<sup>st</sup> of a given year, or adopt a temporary appropriation measure with final passage of a permanent budget by April 1<sup>st</sup>, for all funds except Agency Funds. Budgets are adopted for each organizational unit by fund.

Each City department prepares a budget which is approved by City Council. All modifications made throughout the year to the original department budgets must be requested by the departmental management and approved through legal resolution by City Council, except in the travel transportation, materials and supplies, and contractual services and miscellaneous or other expenditure categories of each department.

Several budget modifications and supplemental appropriations were made during the year and each revised budget amount reported in the budget to actual comparisons includes all modifications and supplemental appropriations that were necessary.

The City maintains budgetary control by fund, department and object level. Ordinance does not permit expenditures and encumbrances to exceed appropriations for each fund. Unencumbered and unexpended appropriations lapse at year-end in all budgeted funds. Prior year encumbrances and corresponding prior year appropriations are carried forward as part of the budgetary authority for next year and are included in the original and revised budget amounts shown in the budget-to-actual comparisons.

The City's budgetary process accounts for certain transactions on a budgetary basis instead of a GAAP basis. The major differences between the budget basis and the GAAP basis are that revenues are recorded when actually received (budget basis) as opposed to when susceptible to accrual (GAAP basis), and expenditures are recorded when paid (budget basis) as opposed to when incurred (GAAP basis). Additionally, the City reflects outstanding encumbrances at year-end as expenditures on the budgetary basis.

Tax Budget

A budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 each year, for the period January 1 to December 31 of the following year.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
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Estimated Resources

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

The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement as final reflects the amounts in the final amended official certificate of estimated resources issued during 2007.

Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances, inventory and prepaids are recorded as reservations of fund balance.

Reconciliation of Budget Basis to GAAP Basis

While reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual (Budget Basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund:

Net change in fund balance - <i>GAAP Basis</i>	\$ (248,365)
Increase / (decrease):	
Due to revenues	313,553
Due to expenditures	(143,292)
Due to encumbrances	<u>(31,572)</u>
Net change in fund balance - <i>Budget Basis</i>	\$ <u><u>(109,676)</u></u>

Cash and Investments

Cash and investments of the City's funds, except those held in restricted asset accounts, are pooled and invested in short-term investments in order to provide improved cash management. During 2007, the City's funds were invested in interest bearing demand accounts and certificates of deposit with commercial banks, money market accounts, the State Treasury Assets Reserve of Ohio (STAR Ohio), U.S. agencies securities and U.S. Treasury obligations. For purposes of the statement of cash flows, the enterprise funds' portion of cash and cash equivalents is considered a cash equivalent because the City is able to withdraw resources from the enterprise funds without prior notice or penalty.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2007.

During 2007, the General Fund earned interest of \$140,585, of which \$105,128 was assigned from other funds.

Receivables

Receivables at December 31, 2007 consist of property and income taxes, interest, consumer accounts (billings for user charged services, included unbilled utility services), notes and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered collectible in full, including accounts receivables which, if delinquent, may be certified and collected as a special assessment, subject to foreclosure for nonpayment.

Loans receivable in the Non-major Governmental Funds represent low interest loans made by the City for community development projects and small businesses under the Community Development Block Grants (CDBG) program. The loans bear interest at annual rates ranging from 4 to 6 percent. The notes are to be repaid over periods ranging from 3 to 15 years.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
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Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, 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 recognized as expenditures in governmental funds and as expenses in the proprietary funds when consumed. Recorded inventories in the governmental funds are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2007 are recorded as prepaid items.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of two hundred dollars. The City's infrastructure consists of streets, traffic signals, flood wall, park lighting, and water and sewer lines, valves and meters.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the assets or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized. All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Machinery and Equipment	8 - 20 years
Vehicles	3 - 5 years
Infrastructure	25 years

Interest is capitalized on proprietary fund capital assets acquired with tax-exempt debt. There was no interest required to be capitalized during the 2007 fiscal year.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
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Compensated Absences

The City follows the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". The City records a liability for sick leave, vacation, and compensatory time when the obligation is attributable to services previously rendered, to rights that vest or accumulate, and where payment of the obligation is probable and can be reasonably determined.

The entire compensated absence liability is reported on the government-wide financial statements. In governmental funds, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignation or retirement. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. In proprietary funds, the entire amount of compensated absences is reported as a fund liability on the fund financial statements.

Accrued Liabilities and Long-Term Obligations

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

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sanitary sewer services and pool fees. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. Revenues and expenses that do not meet these definitions are classified as non-operating.

Interfund Transactions

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

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

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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Net Assets

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

Restricted for other purposes represents balances of State and Federal grants in Special Revenue Funds. Of the City's \$2,751,575 restricted net assets, none is restricted by enabling legislation.

Estimates

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

**NOTE 3 – 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 be either 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 moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim monies may be deposited or invested in the following securities:

- (1) United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- (2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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- (3) Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value 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 funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreement secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- (6) The State Treasury Assets Reserve of Ohio (STAR Ohio ); and
- (7) Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time.

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.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian. The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

**CITY OF WASHINGTON COURT HOUSE, OHIO  
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Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's custodial credit risk policy requires that deposits be collateralized as required by ORC Chapter 135. Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end, \$405,842 and \$1,997,649 of the City's bank balance of \$2,403,491 was covered by FDIC and collateralized with securities held by the pledging financial institution's trust department or agent, respectively.

Investments: The City's investments at December 31, 2007 are summarized as follows:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
FHLB	\$ 1,917,422	2.49
FNMA	6,847,236	0.11
US Treasury	13,000	1.00
Star Ohio and MM	868,496	-
	<u>\$ 9,646,154</u>	<u>0.57</u>

Credit Risk: It is the City's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality of the top 2 ratings by nationally recognized statistical rating organizations. The City's investments in FHLB and FNMA were rated AAA by Standard & Poor's and Aaa by Moody's. The City's investments in the U.S. Money Market Funds were rated AAAM by Standard & Poor's. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single user. The City is required to disclose the amount of investments with any one issuer that represent five percent or more of total investments. Investments issued by the U.S. Government and investments in external investment pools are excluded from this requirement. At December 31, 2007, the City's investments in FNMA and FHLB make up 71% and 20% of the City's total investments respectively.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a failure of a counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment securities are registered in the name of the City. The City's investment policy does not address custodial credit risk.

**CITY OF WASHINGTON COURT HOUSE, OHIO  
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Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the City manages its exposure to declines in fair value by limiting the maximum maturity of investments in its portfolio to five years.

**NOTE 4 - PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the City. Real property taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraisal market value. Real property taxes are collected in and intended to finance the year following the year in which they are levied.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 50% of cost). Tangible personal property taxes attach as a lien and are levied January 1 of the current year, the same year in which collections are made. Tangible personal property assessments are 12.5% of true value.

The assessed value upon which the 2007 taxes were collected was \$231,260,376. The full tax rate for all City operations applied for real property for fiscal year ended December 31, 2007 was \$9.35 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$5.95 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$6.26 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

The following represents the assessed tax values:

Real Property- 2006 Valuation		
Residential/Agricultural	\$	161,694,600
Commercial/Industrial		52,509,800
Total Real Property		214,204,400
Tangible Personal Property- 2006 Valuation		
General		12,472,106
Public Utilities		4,583,870
Total Personal Property		17,055,976
Total Assessed Valuation	\$	231,260,376

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

Tangible personal property taxes paid by multi-county taxpayers are due September 30. 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 30.

**CITY OF WASHINGTON COURT HOUSE, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2007**

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Accrued property taxes receivable represents delinquent taxes outstanding and real tangible personal and public utility taxes which were measurable as of December 31, 2007. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not intended to finance 2007 operations. The receivable is therefore offset by a credit to deferred revenue.

**NOTE 5 – INTERFUND ACTIVITY**

Interfund transfers for the year ended December 31, 2007, consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>	
General	\$ -	\$ 62,960	
Nonmajor Enterprise Funds	<u>62,960</u>	<u>-</u>	
Total	<u>\$ 62,960</u>	<u>\$ 62,960</u>	

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, or (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 6 - INCOME TAX**

The City levies a municipal income tax of 1.25% on substantially all income earned within the City. In addition, the residents of the City are required to pay income tax on income earned outside of the City; however, the City allows a credit for income taxes paid to another municipality up to 100% of the City's current tax rate. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are used for general fund operations, capital improvements, and permanent improvements as determined by the Council.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2007**

**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2007 was as follows:

	<b>Balance at 12/31/06</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at 12/31/07</b>
<b>Governmental Activities:</b>				
<i>Nondepreciable Capital Assets:</i>				
Land	\$ 625,155	\$ 453,320	\$ -	\$ 1,078,475
Construction in Progress	-	477,476	-	477,476
<i>Total Nondepreciable Capital Assets</i>	<u>625,155</u>	<u>930,796</u>	<u>-</u>	<u>1,555,951</u>
<i>Depreciable Capital Assets:</i>				
Land Improvements	496,272	-	(14,150)	482,122
Buildings and Improvements	1,538,934	-	-	1,538,934
Equipment and Vehicles	4,817,499	309,257	(255,220)	4,871,536
Infrastructure	50,570,264	-	-	50,570,264
<i>Total Depreciable Capital Assets</i>	<u>57,422,969</u>	<u>309,257</u>	<u>(269,370)</u>	<u>57,462,856</u>
<i>Accumulated Depreciation:</i>				
Land Improvements	(496,272)	-	14,150	(482,122)
Buildings and Improvements	(549,566)	(26,986)	-	(576,552)
Equipment and Vehicles	(3,264,225)	(247,398)	236,798	(3,274,825)
Infrastructure	(29,157,333)	(2,022,809)	-	(31,180,142)
<i>Total Accumulated Depreciation</i>	<u>(33,467,396)</u>	<u>(2,297,193)</u>	<u>250,948</u>	<u>(35,513,641)</u>
<i>Total Govt Activities Capital Assets, Net</i>	<u>\$ 24,580,728</u>	<u>\$ (1,057,140)</u>	<u>\$ (18,422)</u>	<u>\$ 23,505,166</u>

Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$	140,444
Leisure Time Activities		522
Public Health		9,001
Transportation		2,070,153
General Government		<u>77,073</u>
Total Depreciation Expense	\$	<u>2,297,193</u>

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2007**

	<b>Balance at 12/31/06</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at 12/31/07</b>
<b>Business Type Activities:</b>				
<i>Nondepreciable Capital Assets:</i>				
Land	\$ 1,329,624	\$ -	\$ -	\$ 1,329,624
Construction in Progress	-	-	-	-
<i>Total Nondepreciable Capital Assets</i>	1,329,624	-	-	1,329,624
<i>Depreciable Capital Assets:</i>				
Land Improvements	713,630	-	-	713,630
Buildings and Improvements	25,650,587	-	-	25,650,587
Equipment and Vehicles	3,021,092	2,880	(19,771)	3,004,201
Capital Leased Assets	140,000	-	-	140,000
Infrastructure	22,009,823	-	-	22,009,823
<i>Total Depreciable Capital Assets</i>	51,535,132	2,880	(19,771)	51,518,241
<i>Accumulated Depreciation:</i>				
Land Improvements	(712,743)	(253)	-	(712,996)
Buildings and Improvements	(6,132,762)	(429,653)	-	(6,562,415)
Equipment and Vehicles	(2,663,525)	(166,961)	19,771	(2,810,715)
Capital Leased Assets	(126,000)	(9,333)	-	(135,333)
Infrastructure	(4,997,340)	(286,604)	-	(5,283,944)
<i>Total Accumulated Depreciation</i>	(14,632,370)	(892,804)	19,771	(15,505,403)
<i>Total Bus. Activities Capital Assets, Net</i>	\$ 38,232,386	\$ (889,924)	\$ -	\$ 37,342,462

Depreciation expense was charged to segments as follows:

Water	\$ 497,825
Sewer	394,979
Total Depreciation Expense	\$ 892,804

**NOTE 8- NOTES PAYABLE**

Outstanding short-term notes of \$3,165,000 at December 31, 2006 were retired during 2007 with general obligation bond proceeds.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2007**

**NOTE 9 – LONG-TERM LIABILITIES**

The changes in the City's long-term liabilities for the year ended December 31, 2007 were as follows:

	<u>Balance at 1/1/07</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at 12/31/07</u>	<u>Amount Due Within One Year</u>
<b><i>Governmental Activities:</i></b>					
Municipal Court Building	\$ 141,000	\$ -	\$ (141,000)	\$ -	-
Capital Improvement (TIF) Note	2,110,000	-	(2,110,000)	-	-
Capital Improvement Bonds	545,000	-	(20,000)	525,000	20,000
Various Purpose GO Bonds:					
Note Refinancing	-	2,105,000	-	2,105,000	45,000
Safety Services Bonds	-	7,480,000	-	7,480,000	205,000
Tax Increment Financing Bonds	-	3,290,000	-	3,290,000	-
Premium on Refinancing Bonds	-	223,762	-	223,762	-
PERS Pension Liability	-	100,355	-	100,355	24,356
Compensated Absences Payable	494,527	574,600	(494,527)	574,600	146,774
<b><i>Total Governmental Activities</i></b>	<b><u>\$ 3,290,527</u></b>	<b><u>\$ 13,773,717</u></b>	<b><u>\$ (2,765,527)</u></b>	<b><u>\$ 14,298,717</u></b>	<b><u>\$ 441,130</u></b>

The Capital Improvement Bonds mature in 2022 and have an interest rate of 6.20%.

On September 6, 2007 the City issued \$12,875,000 various purpose general obligation bonds. The proceeds of the issue included retiring \$3,165,000 in various purpose infrastructure improvement notes, \$2,105,000 in an outstanding capital improvement TIF note and \$7,480,000 for the construction of a new safety building for the police and fire departments. The interest rate of the bonds range from 4.25% to 5.0% and will mature fully in 2032.

General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged.

General obligation bonds payable will be paid from the Debt Service Fund, TIF Funds and the Safety Building Improvement Fund. Compensated absences will be paid by the fund which pays the employee's salary.

The City, through an agreement with the Public Employee's Retirement System, has deferred the last quarter of pension obligations beyond December 31, 2007. The City is obligated to pay three installments with amounts due December 31, 2008 and 2009 and the last amount due January 1, 2011. This liability is paid by the fund which pays the employee's retirement benefits.

	<u>Balance at 1/1/07</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at 12/31/07</u>	<u>Amount Due Within One Year</u>
<b><i>Business Type Activities:</i></b>					
Sewer Improvement Bonds	\$ 120,000	\$ -	\$ (120,000)	\$ -	-
Water System Bonds	782,889	-	(278,063)	504,826	258,724
Water System Bonds	6,655,000	-	-	6,655,000	-
OWDA Loan	5,516,071	-	(286,728)	5,229,343	296,647
OWDA Loan	2,970,897	-	(150,460)	2,820,437	157,122
Capital Lease	45,000	-	(15,000)	30,000	15,000
Sewer Issue II Note	66,591	-	(8,325)	58,266	8,325
PERS Pension Liability	-	57,638	-	57,638	13,989
Compensated Absences Payable	120,230	145,575	(120,230)	145,575	37,192
<b><i>Total Business Type Activities</i></b>	<b><u>\$ 16,276,678</u></b>	<b><u>\$ 203,213</u></b>	<b><u>\$ (978,806)</u></b>	<b><u>\$ 15,501,085</u></b>	<b><u>\$ 786,999</u></b>

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2007**

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The sewer issue note payable matures in 2014 and is non-interest bearing and will be repaid from the Sewer Fund.

In 2003, the City refunded its water system revenue bonds. Revenue bonds pay interest at rates ranging from 2.85% to 4.25% and mature in 2019. The revenue bonds are retired through the Water Fund using water utility revenues.

In connection with the revenue bonds listed above, the County has pledged future customer revenues, net of specified operating expenses, to repay this debt. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The bonds are payable, through their final maturities, solely from net revenues applicable to the Water Fund. Total interest and principal remaining to be paid on these bonds is \$9,920,009.

The Ohio Water Development Authority loans were made for the purpose of improving the City's water and wastewater treatment facilities. Property and revenue of the Water and Sewer Funds have been pledged to repay these debts. The loans mature in 2021 and carry interest rates of 3.43% and 4.38%. Each of these OWDA loans will be repaid from Water Fund and Sewer Fund revenues.

In connection with the OWDA loans listed above, the County has pledged future customer revenues of the Water and Sewer Funds, net of specified operating expenses and net of debt service requirements on revenue bonds (which have first priority and a lien on net income available for debt service), to repay this debt. The loans are payable, through their final maturities, from net revenues applicable to the Water and Sewer Funds. Total interest and principal remaining to be paid on these loans is \$10,394,786.

Principal and interest requirements to retire the City's governmental activities' outstanding notes and bonds as of December 31, 2007, are as follows:

	Capital Improvement Bonds		Various Purpose Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 20,000	32,550	250,000	730,231
2009	25,000	31,310	445,000	580,124
2010	25,000	29,760	470,000	561,211
2011	25,000	28,210	490,000	541,236
2012	30,000	26,660	505,000	520,411
2013-2017	170,000	104,470	2,865,000	2,271,519
2018-2022	230,000	44,330	3,595,000	1,553,269
2023-2027	-	-	3,250,000	622,850
2027-2032	-	-	1,005,000	139,725
<b>Total</b>	<b>\$ 525,000</b>	<b>297,290</b>	<b>12,875,000</b>	<b>7,520,576</b>

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2007**

Principal and interest requirements to retire the City's business-type activities' outstanding notes, bonds, and loans as of December 31, 2007, are as follows:

		<u>Issue II</u>	<u>Water Revenue Bonds</u>		<u>OWDA Loans</u>	
		<u>Principal</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$	8,325	258,724	613,597	453,769	298,677
2009		8,325	246,102	596,219	470,989	281,458
2010		8,325	565,000	257,322	488,872	263,575
2011		8,325	585,000	238,960	507,443	245,005
2012		8,325	600,000	218,485	526,732	225,716
2013-2017		16,641	3,365,000	737,166	2,950,056	812,182
2018-2021		-	1,540,000	98,434	2,651,919	218,393
Total	\$	<u>58,266</u>	<u>7,159,826</u>	<u>2,760,183</u>	<u>8,049,780</u>	<u>2,345,006</u>

**NOTE 10 – CAPITAL LEASES**

The City has entered into lease agreements as lessee for the water storage tank of Fayette County for 20 years and for six city vehicles for three years. Each of these lease agreements qualifies as a capital lease for accounting purposes (title transfers at the end of the lease term) and, therefore have been recorded at the present value of the future minimum lease payments as of the date of inception.

These lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the governmental funds. In the proprietary funds, capital lease principal payments reduce the liability and the interest payments are reported as interest and fiscal charges expense. The following is a schedule of the future minimum lease payments for the capital leases, and the present value of the future minimum lease payments at December 31, 2007:

<b>Year Ending</b>		
<b>December 31</b>		
2008	\$	16,800
2009		<u>15,600</u>
Total Future Minimum Lease Payments		32,400
Less: Amount Representing Interest		<u>2,400</u>
Present Value of Future Minimum		
Lease Payments	\$	<u>30,000</u>

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2007**

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**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Plan and Combined Plan. Members of the Member-Directed Plan do not qualify for ancillary benefits. The authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 9.5% of their annual covered salary to fund pension obligations. The employer pension contribution rate for the City is 13.85% 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, 2007, 2006, and 2005 were \$527,967, \$511,493, and \$501,760, respectively: 71 percent has been contributed for 2007 and 100 percent for 2006 and 2005.

Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the city is required to contribute 19.5% for police officers and 24% for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for police and firefighters were \$224,588 and \$ 203,699 for the year ended December 31, 2007, \$213,621 and \$ 205,261 for the year ended December 31, 2006, and \$212,299 and \$ 204,756 for the year ended December 31, 2005. 70 percent for police and 72 percent for firefighters has been contributed for 2007 with the remainder being reported as a liability. 100 percent has been contributed for 2006 and 2005.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2007**

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**NOTE 12 - POSTEMPLOYMENT BENEFITS**

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 45. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.85% of covered payroll.

OPER's Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2007, the employer contribution allocated to the health care plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 5.0% and 6.0% of covered payroll, respectively. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Benefits are advance-funded using the entry age normal actual cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.5%, an annual increase in active employee total payroll of 4% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.5% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rates plus an additional factor ranging from 0.5% to 6.3% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investments assets, not to exceed a 12 percent corridor.

At December 31, 2006, the number of active contributing participants in the Traditional and Combined Plans totaled 374,979. The City's actual contributions for the current year, which were used to fund postemployment benefits was \$210,000. The actual contribution and the actuarially required contribution amounts are the same. OPER's net assets available for payment of benefits at December 31, 2006, (the latest information available) were \$12 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2007**

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Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefits recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code provides that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 6.75% of covered payroll was applied to the postemployment health care program in 2007. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2007 that were used to fund OPEB were approximately \$78,000 for police and \$57,000 for fire. The number of participants eligible to receive health care benefits as of December 31, 2006, (the latest information available) was 14,120 for police and 10,563 for firefighters. The Fund's total health care expenses for the year ended December 31, 2006 were \$120.4 million, which was net of member contributions of \$58.5 million.

**NOTE 13 – OTHER EMPLOYEE BENEFITS**

Compensated Absences

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, the City accrues a liability for sick leave and vacation when the obligation is attributable to services previously rendered, to rights that vest or accumulate, and where payment of the obligation is probable and can be reasonably determined.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2007**

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Sick leave accumulates at the rate of .0575 hours of sick leave for each hour of work completed with a maximum of 80 hours per pay period. Employees who have ten years of service, hired prior to April 12, 1991 who have sick leave accumulated receive payment upon retirement at a rate of one hour for each hour of accumulated and unused sick leave, to a maximum of 960 hours. Employees who have ten years of service, hired after April 12, 1991 who have sick leave accumulated receives payment upon retirement at a rate of one hour for each four hours of accumulated and unused sick leave, to a maximum of 240 hours. Individuals leaving the employment of the City prior to retirement or at retirement with less than ten years of service lose their accumulated sick leave. A liability has been recognized in the accompanying financial statements for a portion of the sick leave hours of those employees who have ten years of service and are age 50 or older, or have thirty years with local government employment as well as other employees who are expected to become eligible in the future to receive such payments. A liability for accrued vacation has been recognized based on the amount of unused vacation hours for each employee. Vacation is accumulated based upon length of service as follows:

<u>Employee Service</u>	<u>Vacation Credit</u>
After 1 year	2 weeks
After 10 years	3 weeks
After 15 years	4 weeks
After 22 years	5 weeks

Vacation leave must be used within the current calendar year unless the employee is unable to use his vacation due to the operational needs of the employer. Without this, such excess leave is eliminated from the employee's leave balance. In the case of death, termination, or retirement, an employee (or his estate) is paid for the unused vacation.

Health Care Benefits

The City has elected to provide employee medical/surgical and prescription drug benefits through Medical Mutual of Ohio Insurance Company. The employees share the cost of the monthly premium with the City.

**NOTE 14 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2007, the City contracted with various commercial carriers for property, auto, crime, and liability insurance as well as public official bonds.

The City maintains comprehensive insurance coverage for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured. Worker's compensation benefits are provided through the State Bureau of Workers' Compensation. The City pays all public officials' bonds by statute.

The City has not incurred any significant reductions in insurance coverage from coverage in the prior year by major category of risk. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2007**

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**NOTE 15 – RELATED ORGANIZATION**

The Carnegie Public Library is a related organization of the City. The City is not financially accountable for this fiscally independent organization. The imposition of will or financial benefit/burden relationship criteria outlined in GASB Statement No. 14 does not apply and the City's accountability is limited to the appointment of all members to the governing board of the Library.

**NOTE 16 – CONTINGENT LIABILITIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

**NOTE 17 - CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended December 31, 2007, the City of Washington Court House has implemented GASB Statement No. 48 "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.*" This principle establishes criteria that governments use to ascertain whether certain transactions should be regarded as sales or collateralized borrowings, and disclosure requirements for future revenues that are pledged or sold. The implementation of this principle had no effect on previously reported net assets or fund balances.

**NOTE 18 – SUBSEQUENT EVENT**

The City passed an additional 0.20% per annum income tax effective January 1, 2008 for the construction of the new police and fire buildings and the purchase of related items necessary for the function of the buildings.

# BALESTRA, HARR & SCHERER CPAs, INC.

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

City of Washington Court House  
Fayette County, Ohio  
105 N. Main Street  
Washington Court House, Ohio 43160

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Washington Court House, Fayette County, (the City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 15, 2008, wherein we noted the City implemented Governmental Accounting Standard Board Statement Number 48. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial report: 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

**Internal Control Over Financial Reporting (Continued)**

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we do not believe the significant deficiency described above is also a material weakness.

We also noted a certain internal control matter that we reported to the City's management in a separate letter dated August 15, 2008.

**Compliance and Other Matters**

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

We did note certain noncompliance or other matters that we reported to the City's management in a separate letter dated August 15, 2008.

We intend this report solely for the information and use of management and members of City Council. We intend it for no one other than these specified parties.

  
Balestra, Harr & Scherer, CPAs, Inc.  
August 15, 2008

**CITY OF WASHINGTON COURT HOUSE, OHIO  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**Finding 2007-1**

**Significant Deficiency – Misstatement**

Financial statement misstatements were identified during the audit that should have been prevented or detected by the City's internal controls over financial reporting. Misstatements were identified within the following balances:

- Depreciation in the water and sewer funds.

Correction of these misstatements was deemed immaterial by both the auditors and the City's management. The accompanying financial statements have not been adjusted to correct these misstatements. The City should implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported.

**Client Response:**

The client chose not to respond.





Mary Taylor, CPA  
Auditor of State

CITY OF WASHINGTON COURT HOUSE  
FAYETTE 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 6, 2008