



**Auditor of State
Betty Montgomery**

**CITY OF WASHINGTON
FAYETTE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Washington, Fayette County, Ohio (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Washington, Fayette County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis* for State and Local Governments, Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, Governmental Accounting Standards Board Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

December 16, 2004

CITY OF WASHINGTON, OHIO
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The discussion and analysis of the City of Washington's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. 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 understand our performance.

Financial Highlights

1. The City's total net assets decreased \$1,386,603; net assets of the governmental activities decreased \$1,028,069; and net assets of the business-type activities decreased \$358,534.
2. The General Fund fund balance of \$1,355,723 decreased \$94,800 or 6.5% from the previous year's balance of \$1,450,523. This was a result of increased expenses in salaries and fringe benefits.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Washington's basic financial statements. The City of Washington'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's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or 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 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.

The government-wide financial statements can be found starting on page 10 of this report.

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 Auditor 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.

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

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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 maintains 33 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General Fund, TIF Walmart-Kroger Fund, and TIF Walmart Distribution Center Fund, which are considered to be major funds. Data from the other 30 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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 Analysis

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.

Table 1 provides a summary of the City's net assets for 2003 compared to 2002:

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Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets:						
Current and Other Assets	\$6,626,759	\$6,521,523	\$2,928,001	\$4,574,239	\$9,554,760	\$11,095,762
Capital Assets, Net	29,015,406	31,143,649	39,164,282	39,973,671	68,179,688	71,117,320
Total Assets	35,642,165	37,665,172	42,092,283	44,547,910	77,734,448	82,213,082
Liabilities:						
Current and Other Liabilities	2,110,999	2,632,916	624,600	480,572	2,735,599	3,113,488
<i>Long-Term Liabilities:</i>						
Due Within One Year	446,137	840,342	1,616,701	1,553,326	2,062,838	2,393,668
Due in More Than One Year	3,177,775	3,256,591	17,782,006	20,086,562	20,959,781	23,343,153
Total Liabilities	5,734,911	6,729,849	20,023,307	22,120,460	25,758,218	28,850,309
Net Assets:						
Invested in Capital Assets, Net of Related Debt	25,796,706	27,046,716	19,826,153	18,463,270	45,622,859	45,509,986
Restricted	2,559,929	2,541,614	0	0	2,559,929	2,541,614
Unrestricted	1,550,619	1,346,993	2,242,763	3,964,180	3,793,382	5,311,173
Total Net Assets	\$29,907,254	\$30,935,323	\$22,068,916	\$22,427,450	\$51,976,170	\$53,362,773

Current assets decreased due to a decrease in cash and cash equivalents, which is the result of debt payments made during 2003.

Long-term liabilities decreased primarily due to the payment of debt obligations.

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 (86.3%) 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 is 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 represents resources that are subject to restrictions on how they can be used. These resources accounted for 8.5% of total net assets. The remaining balance of \$1,550,619 or 5.2% 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 \$53,362,773 in 2002 to \$51,976,170 in 2003, a change of \$1,386,603 or 2.5%. This decrease in the City's total net assets is the result of an decrease in the net assets of the

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governmental activities of \$1,028,069 or 3.3% and an decrease in the net assets of the business-type activities of \$358,534 or 1.6%.

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 current year. However, since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
Revenues:			
<i>Program Revenues:</i>			
Charges for Services	\$890,659	\$5,772,898	\$6,663,557
Operating Grants and Contributions	687,519	0	687,519
Capital Grants and Contributions	420,001	0	420,001
Total Program Revenues	<u>1,998,179</u>	<u>5,772,898</u>	<u>7,771,077</u>
<i>General Revenues:</i>			
Property Taxes	1,596,029	0	1,596,029
Estate Taxes	445,470	0	445,470
Income Taxes	3,799,949	0	3,799,949
Grants and Entitlements	2,094,325	0	2,094,325
Investment Earnings	57,058	47,578	104,636
Miscellaneous	819,502	61,857	881,359
Total General Revenues	<u>8,812,333</u>	<u>109,435</u>	<u>8,921,768</u>
Total Revenues	<u>10,810,512</u>	<u>5,882,333</u>	<u>16,692,845</u>
Expenses:			
General Government	2,679,603	0	2,679,603
<i>Security of Persons and Property:</i>			
Police	2,297,950	0	2,297,950
Fire	1,473,272	0	1,473,272
Public Health	313,421	0	313,421
Transportation	2,889,220	0	2,889,220

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	Governmental Activities	Business-Type Activities	Total
Community Environment	1,849,153	0	1,849,153
Basic Utility Services	18,445	0	18,445
Leisure Time Activities	81,003	0	81,003
Intergovernmental	31,500	0	31,500
Interest and Fiscal Charges	150,529	0	150,529
Pool	0	144,449	144,449
Water	0	3,365,601	3,365,601
Sewer	0	2,785,302	2,785,302
Total Expenses	11,784,096	6,295,352	18,079,448
Change in Net Assets Before Transfers	(973,584)	(413,019)	(1,386,603)
Transfers	(54,485)	54,485	0
Change in Net Assets	(1,028,069)	(358,534)	(1,386,603)
Net Assets at Beginning of Year	30,935,323	22,427,450	53,362,773
Net Assets at End of Year	\$29,907,254	\$22,068,916	\$51,976,170

Governmental Activities

The most significant program expenses for the City are Police, General Government, Transportation, Fire, and Community Environment. These programs account for 95% of the total governmental activities. Police, which accounts for 19.5% of the total, represents costs associated with the operation of the Police Department. General Government, which accounts for 22.7% of the total, represents costs associated with the general administration of city government including the City Council, City Manager, City Auditor, and Municipal Court. Fire, which accounts for 12.5% of the total, represents costs associated with providing firefighting and emergency medical services. Community Environment, which accounts for 15.7% of the total, represents costs associated with developing and improving the downtown. Transportation, which accounts for 24.5% of the total, represents costs associated with streets and their upkeep.

Funding for the most significant programs indicated above is from income taxes and grants and entitlements. The income tax revenue for 2003 was \$3,799,949. Of the \$10,810,512 in total revenues, income tax accounts for 35.2% of that total. The grants and entitlements revenue for 2003 was \$2,094,325 or 19.4% of total revenues. Charges for services of \$890,659 accounts for 8.2% of total revenues. Operating and capital grants and contributions account for 10.2% of the total and property taxes, interest and other revenue make up the remaining 27.0%.

The City monitors its source of revenues very closely for fluctuations.

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Business-Type Activities

To date, program revenues have been adequate to cover the costs of the City's business-type activities, which include the City's water, sewer and pool operations. Net assets did decrease slightly by \$358,534 or 1.6% for 2003.

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 revenues.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
General Government	\$2,679,603	\$1,941,783
<i>Security of Persons and Property:</i>		
Police	2,297,950	2,297,950
Fire	1,473,272	1,295,136
Public Health	313,421	190,182
Transportation	2,889,220	2,821,178
Community Environment	1,849,153	989,679
Basic Utility Services	18,445	(12,623)
Leisure Time Activities	81,003	80,603
Intergovernmental	31,500	31,500
Interest and Fiscal Charges	150,529	150,529
Total Expenses	\$11,784,096	\$9,785,917

It should be noted that 17.4% 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 \$9,785,917, 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.

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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 2003, the total fund balance for the General Fund was \$1,355,723 of which \$1,336,725 was unreserved. During the current year, the fund balance of the City's General Fund decreased by \$94,800 or 6.5%. The reduction in the General Fund balance is due to increased expenses in the Police, Fire, Law Director, and Municipal Court departments.

For the other major funds of the City, the TIF Walmart-Kroger fund balance increased by \$2,733 due to a slight decrease in capital expenditures. The TIF Walmart Distribution fund balance decreased by \$525,344 due to debt payments on the notes made during 2003.

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 \$280,765 or 4.2%. Net assets in the Sewer Fund decreased by \$77,875 or 0.4%.

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 \$5,861,742 and the final budgeted revenue amount was \$5,861,742. The final budget reflects no changes from the original budgeted figures.

For the General Fund, the final budgeted expenditures were \$6,141,660, as were the original budgeted expenditures. The City's original appropriations were set at \$6,084,840.

Capital Assets and Debt Administration

The City's investment in capital assets for governmental and business-type activities as of December 31, 2003, amounts to \$45,622,859 (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 for the year 2003 were \$29,015,406 or \$2,128,243 less than in 2002. This decrease was mostly due to the annual depreciation expense.

The decrease in capital assets for business-type activities of \$809,389 to \$39,164,282 as of December 31, 2003 was due primarily to the annual depreciation expense.

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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, 2003, the City of Washington had \$22,455,129 in bonds, notes and loans outstanding with \$1,593,822 due within one year. The City's long-term debt decreased by \$2,997,272 or 11.8% during 2003.

Outstanding general obligation bonds consist of street 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 bonded debt, the City's long-term obligations include compensated absences and capital lease obligations. Additional information concerning the City's debt can be found in note 8 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 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 City Auditor's Office, 105 N. Main Street, Washington C.H., Ohio 43160.

CITY OF WASHINGTON, OHIO

Statement of Net Assets

December 31, 2003

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Equity in Pooled Cash & Cash Equivalents	\$2,824,517	\$1,815,450	\$4,639,967
Cash and Cash Equivalents in Segregated Accounts	43,915	50	43,965
Accrued Interest Receivable	168	65	233
Accounts Receivable	0	550,997	550,997
Internal Balances	1,365	(1,365)	0
Intergovernmental Receivable	1,396,464	0	1,396,464
Income Taxes Receivable	786,206	0	786,206
Property Taxes Receivable	1,467,088	0	1,467,088
Loans Receivable	83,840	0	83,840
Materials and Supplies Inventory	13,818	86,423	100,241
Prepaid Items	9,378	30,123	39,501
<i>Restricted Assets:</i>			
Equity in Pooled Cash & Cash Equivalents	0	33,680	33,680
Deferred Charges	0	412,578	412,578
Nondepreciable Capital Assets	666,155	1,329,624	1,995,779
Depreciable Capital Assets, Net	28,349,251	37,834,658	66,183,909
Total Assets	<u>35,642,165</u>	<u>42,092,283</u>	<u>77,734,448</u>
Liabilities			
Accounts Payable	123,196	39,114	162,310
Contracts Payable	3,026	169,357	172,383
Accrued Wages Payable	129,519	36,567	166,086
Intergovernmental Payable	234,357	63,105	297,462
Accrued Interest Payable	153,813	224,891	378,704
Deferred Revenue	1,467,088	0	1,467,088
Notes Payable	0	91,566	91,566
<i>Long-Term Liabilities:</i>			
Due within One Year	446,137	1,616,701	2,062,838
Due in More Than One Year	3,177,775	17,782,066	20,959,841
Total Liabilities	<u>5,734,911</u>	<u>20,023,367</u>	<u>25,758,278</u>
Net Assets			
Investments in Capital Assets, Net of Related Debt	25,796,706	19,826,153	45,622,859
<i>Restricted for:</i>			
Capital Projects	1,143,128	0	1,143,128
<i>Permanent Fund Purpose:</i>			
Expendable	32,181	0	32,181
Nonexpendable	73,648	0	73,648
Other Purposes	1,336,567	0	1,336,567
Unrestricted (Deficit)	1,525,024	2,242,763	3,767,787
Total Net Assets	<u>\$29,907,254</u>	<u>\$22,068,916</u>	<u>\$51,976,170</u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON, OHIO
Statement of Activities
For the Year Ended December 31, 2003

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$2,679,603	\$555,391	\$134,530	\$47,899
<i>Security of Persons and Property:</i>				
Police	2,297,950	0	0	0
Fire	1,473,272	178,136	0	0
Public Health	313,421	123,239	0	0
Transportation	2,889,220	2,425	13,437	52,180
Community Environment	1,849,153	0	539,552	319,922
Basic Utility Services	18,445	31,068	0	0
Leisure Time Activities	81,003	400	0	0
Intergovernmental	31,500	0	0	0
Interest and Fiscal Charges	150,529	0	0	0
Total Governmental Activities	11,784,096	890,659	687,519	420,001
Business-Type Activities:				
Pool	144,449	87,684	0	0
Water	3,365,601	3,006,460	0	0
Sewer	2,785,302	2,678,754	0	0
Total Business-Type Activities	6,295,352	5,772,898	0	0
Totals	\$18,079,448	\$6,663,557	\$687,519	\$420,001

General Revenues:

Property Taxes Levied for:

 General Purposes

 Debt Service

 Capital Outlay

Municipal Income Taxes Levied for:

 General Purposes

 Capital Outlay

 Estate Taxes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Year - As Restated (See Note 4)

Net Assets at End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,941,783)	\$0	(\$1,941,783)
(2,297,950)	0	(2,297,950)
(1,295,136)	0	(1,295,136)
(190,182)	0	(190,182)
(2,821,178)	0	(2,821,178)
(989,679)	0	(989,679)
12,623	0	12,623
(80,603)	0	(80,603)
(31,500)	0	(31,500)
(150,529)	0	(150,529)
(9,785,917)	0	(9,785,917)
0	(56,765)	(56,765)
0	(359,141)	(359,141)
0	(106,548)	(106,548)
0	(522,454)	(522,454)
(9,785,917)	(522,454)	(10,308,371)
1,138,407	0	1,138,407
61,687	0	61,687
395,935	0	395,935
2,891,223	0	2,891,223
908,726	0	908,726
445,470	0	445,470
2,094,325	0	2,094,325
57,058	47,578	104,636
819,502	61,857	881,359
8,812,333	109,435	8,921,768
(54,485)	54,485	0
8,757,848	163,920	8,921,768
(1,028,069)	(358,534)	(1,386,603)
30,935,323	22,427,450	53,362,773
<u>\$29,907,254</u>	<u>\$22,068,916</u>	<u>\$51,976,170</u>

CITY OF WASHINGTON, OHIO
Balance Sheet
Governmental Funds
December 31, 2003

	General	TIF Walmart- Kroger	TIF Walmart- Services	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$793,626	\$65,417	\$205,479	\$1,759,995	\$2,824,517
Cash and Cash Equivalents in Segregated Accounts	39,227	0	0	4,688	43,915
Accrued Interest Receivable	168	0	0	0	168
Interfund Receivable	1,365	0	0	0	1,365
Intergovernmental Receivable	939,763	0	0	456,701	1,396,464
Income Taxes Receivable	597,517	0	0	188,689	786,206
Property Taxes Receivable	351,275	0	0	1,115,813	1,467,088
Notes Receivable	0	0	0	83,840	83,840
Materials and Supplies Inventory	0	0	0	13,818	13,818
Prepaid Items	7,837	0	0	1,541	9,378
<i>Total Assets</i>	<u>\$2,730,778</u>	<u>\$65,417</u>	<u>\$205,479</u>	<u>\$3,625,085</u>	<u>\$6,626,759</u>
Liabilities:					
Accounts Payable	\$34,743	\$0	\$0	\$88,453	\$123,196
Contracts Payable	0	2,700	0	326	3,026
Accrued Wages and Benefits	114,556	0	0	14,963	129,519
Intergovernmental Payable	94,078	0	0	0	94,078
Deferred Revenue	1,131,678	0	0	1,508,418	2,640,096
<i>Total Liabilities</i>	<u>1,375,055</u>	<u>2,700</u>	<u>0</u>	<u>1,612,160</u>	<u>2,989,915</u>
Fund Balances:					
Reserved for Encumbrances	18,998	1,850	0	140,634	161,482
Reserved for Debt Service	0	0	0	29,982	29,982
<i>Unreserved:</i>					
<i>Undesignated, Reported in:</i>					
General Fund	1,336,725	0	0	0	1,336,725
Special Revenue Funds	0	0	0	925,983	925,983
Capital Projects Funds	0	60,867	205,479	719,345	985,691
Permanent Fund	0	0	0	196,981	196,981
<i>Total Fund Balances</i>	<u>1,355,723</u>	<u>62,717</u>	<u>205,479</u>	<u>2,012,925</u>	<u>3,636,844</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,730,778</u>	<u>\$65,417</u>	<u>\$205,479</u>	<u>\$3,625,085</u>	<u>\$6,626,759</u>

See accompanying notes to the basic financial statements.

*CITY OF WASHINGTON, OHIO
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2003*

Total Governmental Funds Balances		\$3,636,844
<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.		29,015,406
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Intergovernmental Revenue		1,173,008
In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is reported reported when due.		(153,813)
Long-term liabilities, including bonds payable and notes payable, are not due and payable in the current period and therefore are not reported in the funds:		
Notes Payable	(2,587,000)	
General Obligation Bonds	(605,000)	
Intergovernmental Payable	(140,279)	
Capital Leases Payable	(38,996)	
Compensated Absences Payable	<u>(392,916)</u>	
Total		<u>(3,764,191)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$29,907,254</u></u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON, OHIO
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2003

	General	TIF Walmart- Kroger	TIF Walmart Distribution	All Other Governmental Funds	Total Governmental Funds
Revenues:					
Property Taxes	\$329,881	\$161,137	\$234,798	\$870,213	\$1,596,029
Municipal Income Taxes	2,891,223	0	0	908,726	3,799,949
Charges for Services	212,029	0	0	123,239	335,268
Fines, Licenses, and Permits	489,333	0	0	66,058	555,391
Intergovernmental	934,668	17,831	345,888	1,175,920	2,474,307
Interest	54,470	0	0	2,588	57,058
Other	752,622	0	0	66,880	819,502
<i>Total Revenues</i>	<u>5,664,226</u>	<u>178,968</u>	<u>580,686</u>	<u>3,213,624</u>	<u>9,637,504</u>
Expenditures:					
<i>Current:</i>					
General Government	1,831,756	0	0	121,167	1,952,923
<i>Security of Persons and Property:</i>					
Police	1,819,577	0	0	281,689	2,101,266
Fire	1,180,161	0	0	215,805	1,395,966
Public Health	0	0	0	272,045	272,045
Transportation	4,904	0	0	812,365	817,269
Community Environment	737,982	0	0	533,815	1,271,797
Leisure Time Activities	77,693	0	0	0	77,693
Intergovernmental	31,500	0	0	0	31,500
Capital Outlay	0	136,222	378,269	537,179	1,051,670
<i>Debt Service:</i>					
Principal Retirement	0	23,000	668,667	174,270	865,937
Interest and Fiscal Charges	0	17,013	59,094	112,313	188,420
<i>Total Expenditures</i>	<u>5,683,573</u>	<u>176,235</u>	<u>1,106,030</u>	<u>3,060,648</u>	<u>10,026,486</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(19,347)</u>	<u>2,733</u>	<u>(525,344)</u>	<u>152,976</u>	<u>(388,982)</u>
Other Financing Sources (Uses):					
Transfers In	0	0	0	20,968	20,968
Transfers Out	(75,453)	0	0	0	(75,453)
<i>Total Other Financing Sources (Uses)</i>	<u>(75,453)</u>	<u>0</u>	<u>0</u>	<u>20,968</u>	<u>(54,485)</u>
<i>Net Change in Fund Balances</i>	(94,800)	2,733	(525,344)	173,944	(443,467)
<i>Fund Balances (Deficit) at Beginning of Year</i>	<u>1,450,523</u>	<u>59,984</u>	<u>730,823</u>	<u>1,838,981</u>	<u>4,080,311</u>
<i>Fund Balances at End of Year</i>	<u>\$1,355,723</u>	<u>\$62,717</u>	<u>\$205,479</u>	<u>\$2,012,925</u>	<u>\$3,636,844</u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON, OHIO
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2003

Net Change in Fund Balances - Total Governmental Funds (\$443,467)

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

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

Capital Asset Additions	35,295	
Current Year Depreciation	(2,162,026)	
Total		(2,126,731)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (1,512)

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

Intergovernmental Revenue	613,529	
Total		613,529

Repayment of principal of long-term (e.g. bonds, notes, leases) is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 865,937

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 37,891

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as an expenditure in the governmental funds.

Compensated Absences Payable	(16,979)	
Intergovernmental Payable	43,263	
Total		26,284

Change in Net Assets of Governmental Activities (\$1,028,069)

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON, OHIO
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual (Budget Basis)
General Fund
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$317,500	\$317,500	\$331,304	\$13,804
Municipal Income Taxes	2,805,000	2,805,000	2,844,718	39,718
Charges for Services	208,700	208,700	180,961	(27,739)
Licenses and Permits	50,000	50,000	27,305	(22,695)
Fines and Forfeitures	510,000	510,000	458,126	(51,874)
Intergovernmental	1,095,840	1,095,840	963,037	(132,803)
Interest	130,000	130,000	48,783	(81,217)
Other	744,702	744,702	751,207	6,505
Total Revenue	5,861,742	5,861,742	5,605,441	(256,301)
Expenditures:				
<i>Current:</i>				
General Government	2,006,163	2,062,983	1,839,296	223,687
<i>Security of Persons and Property:</i>				
Police	1,839,104	1,839,104	1,775,220	63,884
Fire	1,205,874	1,205,874	1,145,955	59,919
Community and Economic Development	790,791	790,791	746,989	43,802
Leisure Time Activities	80,680	80,680	78,322	2,358
Intergovernmental	35,400	35,400	31,500	3,900
Total Expenditures	5,958,012	6,014,832	5,617,282	397,550
Excess of Revenues Over (Under) Expenditures	(96,270)	(153,090)	(11,841)	141,249
Other Financing Sources (Uses):				
Transfers - Out	(126,828)	(126,828)	(75,453)	51,375
Total Other Financing Sources (Uses)	(126,828)	(126,828)	(75,453)	51,375
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(223,098)	(279,918)	(87,294)	192,624
Fund Balances (Deficit) at Beginning of Year	788,492	788,492	788,492	0
Prior Year Encumbrances Appropriated	23,962	23,962	23,962	0
Fund Balances (Deficit) at End of Year	\$589,356	\$532,536	\$725,160	\$192,624

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON, OHIO
Statement of Fund Net Assets
Proprietary Funds
December 31, 2003

	Enterprise Funds			Totals
	Water	Sewer	All Other Enterprise Funds	
Assets:				
<i>Current:</i>				
Equity in Pooled Cash & Cash Equivalents	\$1,095,474	\$718,862	\$1,114	\$1,815,450
Cash and Cash Equivalents in Segregated Accounts	0	50	0	50
Accounts Receivable	305,721	245,276	0	550,997
Materials and Supplies Inventory	86,423	0	0	86,423
Accrued Interest Receivable	37	28	0	65
Prepaid Items	15,678	14,240	205	30,123
<i>Noncurrent:</i>				
<i>Restricted Assets:</i>				
Equity in Pooled Cash & Cash Equivalents	33,680	0	0	33,680
Deferred Charges	412,578	0	0	412,578
Nondepreciable Capital Assets	1,067,410	262,214	0	1,329,624
Depreciable Capital Assets, Net	15,919,648	21,915,010	0	37,834,658
Total Assets	18,936,649	23,155,680	1,319	42,093,648
Liabilities:				
<i>Current:</i>				
Accounts Payable	10,810	28,304	0	39,114
Contracts Payable	169,357	0	0	169,357
Accrued Wages Payable	17,753	18,814	0	36,567
Compensated Absences Payable	67,068	85,136	0	152,204
Intergovernmental Payable	27,623	34,514	968	63,105
Accrued Interest Payable	104,582	120,309	0	224,891
Interfund Payable	0	1,365	0	1,365
Notes Payable	0	8,325	0	8,325
Capital Leases Payable	10,000	0	0	10,000
OWDA Loans Payable	133,899	525,598	0	659,497
General Obligation Bonds Payable	0	240,000	0	240,000
Revenue Bonds Payable	555,000	0	0	555,000
<i>Noncurrent:</i>				
Notes Payable	0	83,241	0	83,241
Capital Leases Payable	65,000	0	0	65,000
OWDA Loans Payable	3,247,047	6,055,793	0	9,302,840
General Obligation Bonds Payable	0	360,000	0	360,000
Revenue Bonds Payable	8,054,226	0	0	8,054,226
Total Liabilities	12,462,365	7,561,399	968	20,024,732
Net Assets:				
Invested in Capital Assets, Net of Related Debt	4,769,286	15,056,867	0	19,826,153
Unrestricted	1,704,998	537,414	351	2,242,763
Total Net Assets	\$6,474,284	\$15,594,281	\$351	\$22,068,916

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON, OHIO
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2003

	Enterprise Funds			Totals
	Water	Sewer	All Other Enterprise Funds	
Operating Revenues:				
Charges for Services	\$3,006,460	\$2,678,754	\$87,684	\$5,772,898
Other Operating Revenue	38,806	20,665	2,386	61,857
Total Operating Revenues	<u>3,045,266</u>	<u>2,699,419</u>	<u>90,070</u>	<u>5,834,755</u>
Operating Expenses:				
Personal Services	809,814	1,075,982	86,547	1,972,343
Contractual Services	922,331	470,102	28,243	1,420,676
Materials and Supplies	160,863	188,778	28,678	378,319
Depreciation	364,772	454,598	0	819,370
Utilities	0	9,910	0	9,910
Other Operating Expense	369,539	275,171	981	645,691
Total Operating Expenses	<u>2,627,319</u>	<u>2,474,541</u>	<u>144,449</u>	<u>5,246,309</u>
Operating Income (Loss)	<u>417,947</u>	<u>224,878</u>	<u>(54,379)</u>	<u>588,446</u>
Non-Operating Revenues (Expenses):				
Interest Income	39,570	8,008	0	47,578
Interest and Fiscal Charges	(738,282)	(310,761)	0	(1,049,043)
Total Non-Operating Revenues (Expenses)	<u>(698,712)</u>	<u>(302,753)</u>	<u>0</u>	<u>(1,001,465)</u>
Income (Loss) Before Transfers	<u>(280,765)</u>	<u>(77,875)</u>	<u>(54,379)</u>	<u>(413,019)</u>
Transfers - In	<u>0</u>	<u>0</u>	<u>54,485</u>	<u>54,485</u>
Change in Net Assets	(280,765)	(77,875)	106	(358,534)
Net Assets at Beginning of Year	<u>6,755,049</u>	<u>15,672,156</u>	<u>245</u>	<u>22,427,450</u>
Net Assets at End of Year	<u><u>\$6,474,284</u></u>	<u><u>\$15,594,281</u></u>	<u><u>\$351</u></u>	<u><u>\$22,068,916</u></u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON, OHIO
Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended December 31, 2003

	Enterprise Funds			Totals
	Water	Sewer	All Other Enterprise Funds	
Cash Flows from Operating Activities:				
Cash Received from Customers	\$2,917,703	\$2,591,436	\$87,684	\$5,596,823
Cash Received from Other Receipts	49,498	27,820	2,386	79,704
Cash Payments to Employees	(802,286)	(1,078,430)	(86,188)	(1,966,904)
Cash Payments for Contractual Services	(774,201)	(477,644)	(28,245)	(1,280,090)
Cash Payments for Supplies & Materials	(198,652)	(186,332)	(28,678)	(413,662)
Cash Payments for Other Expenses	(372,305)	(268,869)	(981)	(642,155)
Net Cash from Operating Activities	819,757	607,981	(54,022)	1,373,716
Cash Flows from Noncapital Financing Activities:				
Transfers-In from Other Funds	0	0	54,485	54,485
Net Cash from Noncapital Financing Activities	0	0	54,485	54,485
Cash Flows from Capital and Related Financing Activities:				
Proceeds Received from Bonds & Notes	7,780,000	0	0	7,780,000
Interest Paid on Bonds, Notes, Loans & Capital Leases	(52,376)	(309,914)	0	(362,290)
Principal Paid on Bonds, Notes, Loans & Capital Leases	(9,155,000)	(744,051)	0	(9,899,051)
Cash Paid to Acquire/Construct Capital Assets	0	(255)	0	(255)
Net Cash from Capital Related and Financing Activities	(1,427,376)	(1,054,220)	0	(2,481,596)
Cash Flows from Investing Activities:				
Interest Received on Investments	10,711	8,030	0	18,741
Sale of Investments	(473,753)	0	0	(473,753)
Net Cash from Investing Activities	(463,042)	8,030	0	(455,012)
Net Increase (Decrease) In Cash and Cash Equivalents	(1,070,661)	(438,209)	463	(1,508,407)
Cash and Cash Equivalents at Beginning of Year	2,199,815	1,157,121	651	3,357,587
Cash and Cash Equivalents at End of Year	\$1,129,154	\$718,912	\$1,114	\$1,849,180

See accompanying notes to the basic financial statements.

continued

CITY OF WASHINGTON, OHIO
Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended December 31, 2003

	Enterprise Funds			Totals
	Water	Sewer	All Other Enterprise Funds	
Reconciliation of Operating Income to Net Cash from Operating Activities:				
Operating Income (Loss)	\$417,947	\$224,878	(\$54,379)	\$588,446
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:				
Depreciation Expense	364,772	460,943	0	825,715
<i>Changes in Assets & Liabilities:</i>				
(Increase) Decrease in Accounts Receivable	(80,430)	(80,163)	0	(160,593)
(Increase) Decrease in Material & Supply Inventory	(36,508)	0	0	(36,508)
(Increase) Decrease in Prepaid Items	(6,253)	(6,031)	(2)	(12,286)
Increase (Decrease) in Accounts Payable	(4,261)	14,831	0	10,570
Increase (Decrease) in Contracts Payable	156,091	(7,136)	0	148,955
Increase (Decrease) in Accrued Wages Payable	304	(193)	0	111
Increase (Decrease) in Compensated Absences Payable	7,283	543	0	7,826
Increase (Decrease) in Interfund Payable	0	1,365	0	1,365
Increase (Decrease) in Intergovernmental Payable	812	(1,056)	359	115
Net Cash from Operating Activities	<u>\$819,757</u>	<u>\$607,981</u>	<u>(\$54,022)</u>	<u>\$1,373,716</u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON, OHIO
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2003

	Private Purpose Trust	Agency Fund
Assets:		
Equity in Pooled Cash & Cash Equivalents	\$51,750	\$21,893
Cash and Cash Equivalents in Segregated Accounts	0	39,433
Total Assets	51,750	61,326
Liabilities:		
Intergovernmental Payable	0	28,606
Undistributed Monies	0	9,145
Deposits Held and Due to Others	0	23,575
Total Liabilities	0	\$61,326
Net Assets:		
Held in Trust for Other Individuals and Organizations	\$51,750	

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON, OHIO
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended December 31, 2003

	Private Purpose Trust
Additions:	
Miscellaneous	\$2,597
Total Additions	2,597
Deductions:	
Contractual Services	21,262
Other	676
Total Deductions	21,938
Changes in Net Assets	(19,341)
Net Assets at Beginning of Year	71,091
Net Assets at End of Year	\$51,750

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 1 - DESCRIPTION OF THE ENTITY

The City of Washington (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 presents the City of Washington (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 governmental 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.

Based on GASB Statement No. 14 criteria, the Carnegie Public Library is considered a related organization and disclosed in Note 13.

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 most significant of the City's accounting policies are described below.

Basis of Presentation

The City's basic financial statements consists 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.

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

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:** This fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.
- ◆ **TIF Walmart-Kroger Fund:** This fund accounts for the financing of infrastructure improvements in the Walmart - Kroger development area of the City.
- ◆ **TIF Walmart Distribution Center Fund:** This fund accounts for the financing of infrastructure improvements in the Walmart Distribution Center development within the City.

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

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are 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

Government-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 funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

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

Like the government-wide statements, all 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.

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 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 or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

Deferred revenue arises 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, 2003, but which were levied to finance fiscal year 2004 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.

Expenses/Expenditures

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

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 1st of a given year, or adopt a temporary appropriation measure with final passage of a permanent budget by April 1st, 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 and 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 of each year, for the period January 1 to December 31 of the following year.

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 reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are recorded as a reservation of fund balance.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations.

The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

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).

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>Budget Basis</i>	(\$87,294)
Adjustments:	
Revenue Accruals	58,785
Expenditure Accruals and Encumbrances	(66,291)
<i>GAAP Basis</i>	(\$94,800)

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2003, the City's funds were invested in interest bearing demand accounts and certificates of deposit with commercial banks, repurchase agreements, the State Treasury Assets Reserve of Ohio (STAR Ohio), and U.S. Treasury obligations. For purposes of the combined 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, 2003.

During 2003, the General Fund earned interest revenue of \$54,470, of which \$39,966 was assigned from other funds.

Receivables

Receivables at December 31, 2003 consist of property and income taxes, interest, consumer accounts (billings for user charged services, including unbilled utility services), inter fund, 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.

Notes receivable in the Special Revenue 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 notes 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.

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 fund types 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.

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003 are recorded as prepaid items. Under the consumption method, no reserve for prepaids is recorded in the accompanying financial statements.

Restricted Assets

Restricted assets in the enterprise funds represent cash and cash equivalents that are restricted in their use by legal or contractual requirements.

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 five 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 asset 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 following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	40 years	40 years
Machinery and Equipment	8 - 20 years	8 - 20 years
Vehicles	3 - 5 years	3 - 5 years
Infrastructure	25 years	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 2003 fiscal year.

Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences".

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The noncurrent portion of the liability is not reported on the fund financial statements. 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 judgements, 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. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund.

Inter fund Transactions

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in 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.

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.

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

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 - CHANGES IN ACCOUNTING BASIS AND RESTATEMENTS

A. Changes in Accounting Basis

For the year 2003, the City implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At December 31, 2002, there was no effect on fund balance/equity as a result of implementing GASB Statement Nos. 37 and 38, and GASB Interpretation No. 6.

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

The government-wide financial statements present the City's programs as governmental and business-type activities. The beginning net asset amount for governmental and business-type programs reflect the change in fund balance/equity at December 31, 2002, caused by the conversion to the accrual basis of accounting.

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 3 - CHANGES IN ACCOUNTING BASIS AND RESTATEMENTS (Continued)

B. Restatement of Fund Balance/Equity

The restatements for fund reclassifications and GASB Statement No. 34 had the following effects on fund balance/equity of the major and non-major funds of the City as they were previously reported.

	General	TIF Walmart - Kroger	TIF Walmart Distribution	Non-major	Total Governmental Activities
Governmental Activities:					
Fund Balance at December 31, 2002	\$1,450,523	\$59,984	\$730,823	\$1,838,285	\$4,079,615
Prior Period Adjustment	0	0	0	696	696
Fund Balance Restated at December 31, 2002	<u>1,450,523</u>	<u>59,984</u>	<u>730,823</u>	<u>1,838,981</u>	<u>4,080,311</u>
<i>GASB 34 Adjustments:</i>					
Intergovernmental Receivable					559,479
Capital Assets					31,143,649
Accrued Interest Payable					(191,704)
Intergovernmental Payable					(183,542)
<i>Long-Term Obligations:</i>					
Capital Leases Payable					(76,331)
Compensated Absences Payable					(375,937)
Long-Term Notes Payable					(3,400,602)
General Obligation Bonds Payable					(620,000)
Net Assets at December 31, 2002					<u><u>\$30,935,323</u></u>

NOTE 4 - CASH 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 two 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.

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 4 - CASH DEPOSITS AND INVESTMENTS (Continued)

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 or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- (3) Written repurchase agreements in the securities listed above, provided that the 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 mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- (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 no default of principal, interest or coupons;
- (3) Obligations of the City.

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

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.

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 4 - CASH DEPOSITS AND INVESTMENTS (Continued)

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 amounts available for deposit and investment are as follows:

* Cash and Cash Equivalents (Carrying Amount)	\$4,713,610
* Cash and Cash Equivalents in Segregated Accounts (Carrying Amount)	83,398
* Restricted Assets: Investments (Carrying Amount)	33,680
* Reconciling Items (Net) to Arrive at Bank Balances of Deposits	15,299
Total Available for Deposit and Investment (Bank Balance of Deposits/Carrying Amount of Investments)	\$4,845,987

Any depository that receives a City deposit or investment is required to pledge to the investing authority as collateral eligible securities of aggregate fair value that, when added to the portion of the deposit by the Federal Deposit Insurance Corporation, equals or exceeds the amount of City funds deposited.

A public depository may, at its option, pledge a single pool of eligible securities to secure the repayment of all public monies held by the depository. The pool of securities so pledged must have a current fair value at least equal to 105% of all public monies on deposit with the depository including the amount covered by federal insurance. For purposes of the Statement of Cash Flows, proprietary fund participation in the State Treasurer's Investment Pool (STAR Ohio) is treated as a demand account and reported as a cash equivalent on the Balance Sheet. In addition, all highly liquid investments held with a maturity of three months or less when purchased, are considered cash equivalents. Only separate investments with a maturity of greater than three months are reported as investments on the Balance Sheet.

The Governmental Accounting Standards Board (GASB Statement No. 3) has established credit risk categories for deposits and investments as follows:

Category 1: Deposits that are insured or collateralized with securities held by the City or its agent in the City's name;

Investments that are insured or registered, or securities held by the City or its agent in the City's name;

Category 2: Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name;

Investments that are uninsured and unregistered, with securities held by the counter-party's trust department or agent in the City's name;

Category 3: Deposits that are uncollateralized or collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the City's name;

Investments that are uninsured and unregistered, with securities held by the counter-party or its trust department or agent but not in the City's name.

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 4 - CASH DEPOSITS AND INVESTMENTS (Continued)

Based on the above criteria, the City's deposits and investments at December 31, 2003 are classified as follows:

	Category			Bank Balance	Carrying Amount	Fair Value
	1	2	3			
<i>Deposits:</i>						
Demand Deposits	\$338,635	\$0	\$906,119	\$1,244,754	\$1,229,455	
Certificates of Deposit	392,935	956,167	0	1,349,102	1,349,102	
Total Deposits	<u>\$731,570</u>	<u>\$956,167</u>	<u>\$906,119</u>	<u>\$2,593,856</u>	<u>\$2,578,557</u>	
<i>Investments:</i>						
U.S. Treasury Notes			\$47,680	\$0	\$47,680	\$47,680
State Treasury Assets Reserve of Ohio*			0	0	24,092	24,092
U.S. Treasury Bonds			2,180,359	0	2,180,359	2,180,359
Total Investments			<u>\$2,228,039</u>	<u>\$0</u>	<u>\$2,252,131</u>	<u>\$2,252,131</u>

* The City's investment in the State Treasury Assets Reserve of Ohio (STAR Ohio) is not categorized because it is not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents, and investments in the basic financial statements is based on criteria set forth in GASB Statement No. 9. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments in the basic financial statements and the classifications per GASB Statement No. 3 is as follows:

	Cash	Investments
Per Combined Balance Sheet	\$4,830,688	\$0
U.S. Treasury Notes	(47,680)	47,680
U.S. Treasury Bonds	(2,180,359)	2,180,359
State Treasury Assets Reserve of Ohio (STAR Ohio)	(24,092)	24,092
Per GASB Statement No. 3	<u>\$2,578,557</u>	<u>\$2,252,131</u>

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 5 - 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 appraised 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 25% of true value for machinery and equipment and 24% of true value for inventory.

The assessed value upon which the 2003 taxes were collected was \$207,086,661. The full tax rate for all City operations applied to real property for fiscal year ended December 31, 2003 was \$7.10 per \$1,000 of assessed valuation.

After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$5.94 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$6.74 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.

Real Property - 2002 Valuation:

Residential/Agricultural	\$130,755,130
Commercial/Industrial	46,612,450
Total Real Property	<u>177,367,580</u>

Tangible Personal Property - 2003 Valuation:

General	24,428,311
Public Utilities	5,290,770
Total Personal Property	<u>29,719,081</u>
Total Assessed Valuation	<u><u>\$207,086,661</u></u>

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.

Accrued property taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable as of December 31, 2003. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not intended to finance 2003 operations. The receivable is therefore offset by a credit to deferred revenue.

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 6 - INTERFUND ACTIVITY

As of December 31, 2003, receivables and payables that resulted from various interfund transactions were as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$1,365	\$0
<i>Enterprise Funds:</i>		
Sewer Fund	0	1,365
<i>Total Enterprise Funds</i>	0	1,365
<i>Total - All Funds</i>	\$1,365	\$1,365

All balances resulted from the time lag between the dates that (1) reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

A summary of interfund transfers for 2003 were as follows:

Transfers Out	Transfers In			Total
	General	Nonmajor Special Revenue	Nonmajor Enterprise	
General	\$0	\$20,968	\$54,485	\$75,453

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 7 - CAPITAL ASSETS

A summary of changes in general capital assets during 2003 were as follows:

	Restated December 31, 2002	Additions	Deletions	Balance December 31, 2003
Governmental Activities:				
<i>Nondepreciable Capital Assets:</i>				
Land	\$666,155	\$0	\$0	\$666,155
Total Non-depreciable Capital Assets	666,155	0	0	666,155
<i>Depreciable Capital Assets:</i>				
Land Improvements	518,120	0	0	518,120
Buildings and Improvements	1,657,249	0	0	1,657,249
Equipment and Vehicles	3,879,333	35,295	(116,821)	3,797,807
Capital Leased Assets	117,063	0	0	117,063
Infrastructure	49,378,195	0	0	49,378,195
Total Depreciable Capital Assets	55,549,960	35,295	(116,821)	55,468,434
<i>Accumulated Depreciation:</i>				
Land Improvements	(508,214)	(2,830)	0	(511,044)
Buildings and Improvements	(592,416)	(28,131)	0	(620,547)
Equipment and Vehicles	(2,727,147)	(132,525)	115,309	(2,744,363)
Capital Leased Assets	(11,706)	(23,412)	0	(35,118)
Infrastructure	(21,232,983)	(1,975,128)	0	(23,208,111)
Total Accumulated Depreciation	(25,072,466)	(2,162,026)	115,309	(27,119,183)
Depreciable Capital Assets, Net	30,477,494	(2,126,731)	(1,512)	28,349,251
Governmental Activities Capital Assets, Net	\$31,143,649	(\$2,126,731)	(\$1,512)	\$29,015,406

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 7 - CAPITAL ASSETS (Continued)

For governmental activities, depreciation expense was charged to functions as follows:

Governmental Activities	
General Government	\$64,298
Public Safety	86,793
Public Health	9,146
Leisure Time Activities	3,310
Transportation	1,998,479
Governmental Activities Depreciation Expense	\$2,162,026

	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003
Business-Type Activities:				
<i>Nondepreciable Capital Assets:</i>				
Land	\$1,329,624	\$0	\$0	\$1,329,624
<i>Depreciable Capital Assets:</i>				
Land Improvements	713,630	0	0	713,630
Buildings and Improvements	25,650,587	0	0	25,650,587
Machinery, Equipment and Vehicles	2,933,177	255	(6,345)	2,927,087
Infrastructure	20,479,005	0	0	20,479,005
Capital Leased Equipment	140,000	0	0	140,000
Total Depreciable Capital Assets	49,916,399	255	(6,345)	49,910,309
<i>Accumulated Depreciation:</i>				
Land Improvements	(268,305)	0	0	(268,305)
Buildings and Improvements	(4,869,791)	(406,655)	0	(5,276,446)
Machinery, Equipment and Vehicles	(2,102,816)	(137,669)	6,345	(2,234,140)
Infrastructure	(3,942,773)	(255,987)	0	(4,198,760)
Capital Leased Assets	(88,667)	(9,333)	0	(98,000)
Total Accumulated Depreciation	(11,272,352)	(809,644)	6,345	(12,075,651)
Depreciable Capital Assets, Net	38,644,047	(809,389)	0	37,834,658
Business-Type Activities Capital Assets, Net	\$39,973,671	(\$809,389)	\$0	\$39,164,282

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 8 - DEBT OBLIGATIONS

The following is a summary of the City's note obligation activity for the year ended December 31, 2003:

Purpose/ Description	Maturity Date	Interest Rate	Balance January 1, 2003	Issued	Retired	Balance December 31, 2003	Amounts Due Within One Year
<i>Notes Payable:</i>							
<i>Governmental Activities:</i>							
Municipal Court Building	2007	5.50%	\$247,000	\$0	\$25,000	\$222,000	\$26,000
Fire Truck	2004	4.85%	78,602	0	78,602	0	0
Capital Improvement (TIF) Note	2007	4.25%	3,075,000	0	710,000	2,365,000	85,000
Totals			<u>\$3,400,602</u>	<u>\$0</u>	<u>\$813,602</u>	<u>\$2,587,000</u>	<u>\$111,000</u>
<i>Business-Type Activities:</i>							
Sewer Issue II Note	2014	N/A	\$99,891	\$0	\$8,325	\$91,566	\$8,325
Totals			<u>\$99,891</u>	<u>\$0</u>	<u>\$8,325</u>	<u>\$91,566</u>	<u>\$8,325</u>

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 8 - DEBT OBLIGATIONS (Continued)

The following is a summary of the City's general obligation bonds, revenue bonds and OWDA loan obligations activity for the year ended December 31, 2003:

Purpose/ Description	Maturity Date	Interest Rate	Balance January 1, 2003	Issued	Retired	Balance December 31, 2003	Amounts Due Within One Year
<i>General Obligation Bonds:</i>							
<i>Governmental Activities:</i>							
Capital Improvement Bonds	2022	6.20%	\$620,000	\$0	\$15,000	\$605,000	\$20,000
Totals			\$620,000	\$0	\$15,000	\$605,000	\$20,000
<i>Business-Type Activities:</i>							
Sewer Improvement Bonds	2004	6.00%	\$235,000	\$0	\$115,000	\$120,000	\$120,000
Sewer Improvement Bonds	2007	6.38%	600,000	0	120,000	480,000	120,000
Totals			\$835,000	\$0	\$235,000	\$600,000	\$240,000
<i>Revenue Bonds Payable:</i>							
<i>Business-Type Activities:</i>							
Water System Bonds	2019	2.85 - 5.37%	\$9,984,226	\$0	\$8,585,000	\$1,399,226	\$0
Water System Bonds	2019	4.34%	0	7,780,000	570,000	7,210,000	555,000
Totals			\$9,984,226	\$7,780,000	\$9,155,000	\$8,609,226	\$555,000
<i>OWDA Loans Payable</i>							
<i>Business-Type Activities:</i>							
OWDA Loan	2004	6.40%	\$497,692	\$0	\$241,084	\$256,608	\$256,608
OWDA Loan	2004	8.38%	15,411	0	7,396	8,015	8,015
OWDA Loan	2021	3.43%	6,569,014	0	252,246	6,316,768	260,975
OWDA Loan	2021	4.38%	3,509,167	0	128,221	3,380,946	133,899
Totals			\$10,591,284	\$0	\$628,947	\$9,962,337	\$659,497

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 8 - DEBT OBLIGATIONS (Continued)

Outstanding general obligation bonds consist of street 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.

Refunding Bonds - During fiscal year 2004, the District issued \$7,780,000 of revenue bonds for the current refunding of the 1993 series bonds. The refunding was undertaken to reduce total future debt service payments. The refunding resulted in an economic gain of and a reduction of \$136,413 in future debt service payments. The refunding bonds are retired through the Water Fund using water utility revenues.

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 Enterprise Funds have been pledged to repay these debts. Each of these OWDA loans will be repaid from Enterprise Fund revenues.

The annual requirements to amortize all Enterprise note debt, bonded debt and loans outstanding as of December 31, 2003, are as follows:

Year Ending December 31	Sewer Issue II Note	Sewer Improvement Bonds	Water System Bonds	OWDA Loans
2004	8,325	277,560	820,648	1,041,585
2005	8,325	142,950	1,248,005	759,961
2006	8,325	135,300	1,243,005	759,961
2007	8,325	127,650	1,243,005	759,961
2008	8,325	0	1,240,526	759,961
2009 - 2013	41,625	0	4,529,658	3,799,806
2014 - 2018	8,316	0	4,100,355	3,799,806
2019 - 2039	0	0	818,363	2,138,529
Total	91,566	683,460	15,243,565	13,819,570
Less: Amount Representing Interest	0	83,460	6,634,339	3,857,233
Principal Balance	\$91,566	\$600,000	\$8,609,226	\$9,962,337

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 8 - DEBT OBLIGATIONS (Continued)

The annual requirements to amortize all general long-term note and bonded debt outstanding as of December 31, 2003 are as follows.

Year Ending December 31	Municipal Court Building Note	Capital Improvement Note	Capital Improvement Bonds
2004	35,102	185,513	57,510
2005	35,036	181,900	56,270
2006	34,929	178,287	55,030
2007	146,781	2,199,675	53,790
2008	0	0	52,550
2009 - 2013	0	0	275,740
2014 - 2018	0	0	273,930
2019 - 2023	0	0	220,070
Total	251,848	2,745,375	1,044,890
Less: Amount Representing Interest	29,848	380,375	439,890
Principal Balance	<u>\$222,000</u>	<u>\$2,365,000</u>	<u>\$605,000</u>

The following is a summary of the changes in the City's other long-term obligations for the year ended December 31, 2003:

Obligation	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003	Amounts Due Within One Year
<i>Other Long-Term Obligations</i>					
<i>Governmental Activities:</i>					
Compensated Absences	\$375,937	\$384,826	\$367,847	\$392,916	\$276,141
Capital Lease	76,331	0	37,335	38,996	38,996
Totals	<u>\$452,268</u>	<u>\$384,826</u>	<u>\$405,182</u>	<u>\$431,912</u>	<u>\$315,137</u>
<i>Obligations Payable from Enterprise Funds:</i>					
Compensated Absences	\$144,378	\$156,632	\$148,806	\$152,204	\$100,845
Capital Lease	85,000	0	10,000	75,000	10,000
Totals	<u>\$229,378</u>	<u>\$156,632</u>	<u>\$158,806</u>	<u>\$227,204</u>	<u>\$110,845</u>

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 9 - 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 qualify 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 risk 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, 2003:

Year Ending December 31	Enterprise Funds	Governmental Funds
2004	15,600	40,732
2005	14,800	0
2006	14,000	0
2007	18,000	0
2008	16,800	0
2009	15,600	0
Total Future Minimum Lease Payments	94,800	40,732
Less: Amount Representing Interest	19,800	1,736
Present Value of Future Minimum Lease Payments	\$75,000	\$38,996

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 10 - PENSION OBLIGATIONS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$292,970, \$294,145, and \$305,222, respectively; 75.94 percent has been contributed for 2003 and 100 percent for 2002 and 2001.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43125-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for police and firefighters were \$105,091 and \$115,446 the year ended December 31, 2003, \$106,961, \$111,009 for the year ended December 31, 2002, and \$101,110 and \$108,554 for the year ended December 31, 2001. The full amount has been contributed for 2002 and 2001. 72.23 percent for police and 75.01 percent for firefighters has been contributed for 2003 with the remainder being reported as a liability.

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 11 - POST EMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$171,327. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choice will incorporate a cafeteria approach, offering a broader range of health care options. The Plan used a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

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

B. Ohio Police and Fire Pension Fund

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

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 11 - POST EMPLOYMENT BENEFITS (Continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$69,316 for police and \$55,059 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

NOTE 12 - 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.

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.

CITY OF WASHINGTON, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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 13 - RISK MANAGEMENT

The City is exposed to various risks of loss torts, theft or damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2003, the City contracted with various commercial carriers for property, auto, crime, and liability insurances, as well as public official bonds. Coverages provided are as follows:

Type of Coverage	Annual Aggregate	Deductible
Buildings and Contents - Replacement Cost	\$70,943,353	\$10,000
General Liability - Per Occurrence/Aggregate	2,000,000/3,000,000	0
Public Official Liability	2,000,000	5,000
Law Enforcement	2,000,000	5,000
Auto Liability	1,000,000	500
Auto Comprehensive	1,000,000	500
Auto Collision	1,000,000	1,000
Flood	5,000,000	250,000
Earthquake	15,000,000	250,000
Electronic Data Processing Equipment	324,000	500/1,000
	Various Amounts	
Public Officials Bond	up to 250,000	0
Blanket Bond	250,000	0
Contractor's Equipment	800,000	1,000
Inland Marine	4,419,500	1,000

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. Workers' 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, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 14 - 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 do not apply and the City's accountability is limited to the appointment of all members to the governing board of the Library.

NOTE 15 - 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.

**CITY OF WASHINGTON
FAYETTE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

Federal Grantor Pass Through Grantor Program Title	Pass Through Entity Number Grant Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed through Ohio Department of Development</i>			
<u>Community Development Block Grants</u>		14.228	
Formula Allocation	A-F-01-195-1		\$2,900
	A-F-02-195-1		87,518
Community Housing Improvement Program	A-C-01-195-01		66,956
Downtown Improvement Grant	A-T-02-195-01		<u>111,315</u>
Total CFDA # 14.228			<u>268,689</u>
<u>Home Investment Partnership Program</u>		14.239	
Community Housing Improvement Program	A-C-01-195-02		<u>100,389</u>
Total U.S. Department of Housing and Urban Development			<u>369,078</u>
U.S. DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT AGENCY			
<i>Passed through Ohio Adjutant General's Emergency Management Agency</i>			
<u>Federal Emergency Management Agency</u>		83.544	
Snow Emergency Public Assistance	FEMA-1453-DR047-81214-00		<u>13,437</u>
Total U.S. Department of Federal Emergency Management Agency			<u>13,437</u>
U.S. DEPARTMENT OF JUSTICE			
<u>Bulletproof Vest Grant Partnership Program</u>		16.607	
Bulletproof Vest Program			<u>4,266</u>
Total U.S. Department of Justice			<u>4,266</u>
TOTAL FEDERAL EXPENDITURES			<u><u>\$386,781</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**CITY OF WASHINGTON
FAYETTE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – REVOLVING LOAN

The City of Washington administers a Community Development Building Grant Revolving Loan Program with funds provided by the U.S. Department of Housing and Urban Development. The purpose of the program is to stimulate community development activity by providing low or no interest loans to low income individuals or businesses. As of December 31, 2003, the total amount of loans outstanding was \$83,693.



Auditor of State Betty Montgomery

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Washington, Fayette County, Ohio (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 16, 2004, which indicated that the City had implemented a new financial reporting model, as required by Governmental Auditing Standards Board (GASB) Statement No. 34, GASB Statement No. 37, GASB Statement No. 38, GASB Statement No. 41, and Interpretation No. 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to the City's management in a separate letter dated December 16, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the City's management in a separate letter dated December 16, 2004.

City of Washington
Fayette County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management, city council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 16, 2004



Auditor of State Betty Montgomery

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

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

To the City Council:

Compliance

We have audited the compliance of the City of Washington, Fayette County, Ohio (the City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2003. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.

Internal Control Over Compliance

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

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

This report is intended for the information and use of the audit committee, management, city council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 16, 2004

**CITY OF WASHINGTON
FAYETTE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FISCAL YEAR END DECEMBER 31, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	14.239 Home Investment Partnership Program
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

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CITY OF WASHINGTON
FAYETTE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2003

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Failure to certify the availability of funds.	No	Partially corrected, showed significant improvement, moved to management letter.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

CITY OF WASHINGTON

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
JANUARY 20, 2005**