

City of Washington Court House

Fayette County

Regular Audit

January 1, 2010 through December 31, 2010

Year Audited Under GAGAS: 2010



Balestra, Harr & Scherer, CPAs, Inc.

528 South West St, P.O. Box 687, Piketon, Ohio 45661 Phone: 740.289.4131 Fax: 740.289.3639
9076 Ohio River Road, Wheelersburg, Ohio, 45694 Phone: 740.876.9121 Fax: 800.210.2573



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Washington Court House, Fayette County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 22, 2011

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City of Washington Court House
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Independent Auditor's Report

City of Washington Court House
Fayette County, Ohio
105 North Main Street
Washington Court House, OH 43160

To the City Council:

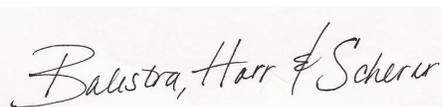
We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Washington Court House, Fayette County, Ohio, (the "City"), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 Court House, Fayette County, Ohio, as of December 31, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2011, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the result of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.



Balestra, Harr & Scherer, CPAs, Inc.
June 24, 2011

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Unaudited

The discussion and analysis of the City of Washington Court House's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2010. The purpose of this discussion and analysis is to look at the City's financial performance and discuss pertinent points to better help the reader to understand our performance.

Financial Highlights

1. The City's total net assets decreased \$1,817,158; net assets of the governmental activities decreased \$3,157,734; and net assets of the business-type activities increased \$1,340,576;
2. The General Fund fund balance of \$969,728 decreased \$345,089 or 26% from the previous year's balance of \$1,314,817.

Overview of the Financial Statements

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

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

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

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

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Unaudited

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

The City of Washington Court House maintains 45 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund and Permanent Improvement Fund, which are considered to be major funds. Data from the other 43 governmental funds are combined into a single, aggregated presentation.

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

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

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

Government-Wide Financial Statements

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

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

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Unaudited

Table 1 provides a summary of the City's net assets for 2010 compared to 2009:

| | Governmental Activities | | Business-Type Activities | | Total | |
|---------------------------------|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Assets: | | | | | | |
| Current and Other Assets | \$ 8,804,264 | \$ 8,580,767 | \$ 2,086,715 | \$ 2,109,999 | \$ 10,890,979 | \$ 10,690,766 |
| Capital Assets, Net | 25,407,012 | 26,546,163 | 36,380,384 | 36,072,206 | 61,787,396 | 62,618,369 |
| Total Assets | 34,211,276 | 35,126,930 | 38,467,099 | 38,182,205 | 72,678,375 | 73,309,135 |
| Liabilities: | | | | | | |
| Current and Other Liabilities | 3,357,265 | 2,121,887 | 697,171 | 641,584 | 4,054,436 | 2,763,471 |
| Long-Term Liabilities: | | | | | | |
| Due Within One Year | 2,449,157 | 835,687 | 1,215,757 | 1,189,730 | 3,664,914 | 2,025,417 |
| Due in More than One Year | 13,222,272 | 13,829,040 | 11,863,213 | 13,000,509 | 25,085,485 | 26,829,549 |
| Total Liabilities | 19,028,694 | 16,786,614 | 13,776,141 | 14,831,823 | 32,804,835 | 31,618,437 |
| Net Assets: | | | | | | |
| Invested in Capital Assets, Net | 11,139,850 | 12,887,585 | 23,527,996 | 22,114,504 | 34,667,846 | 35,002,089 |
| Restricted | 2,428,747 | 3,382,966 | - | - | 2,428,747 | 3,382,966 |
| Unrestricted | 1,613,985 | 2,069,765 | 1,162,962 | 1,235,878 | 2,776,947 | 3,305,643 |
| Total Net Assets | 15,182,582 | 18,340,316 | 24,690,958 | 23,350,382 | 39,873,540 | 41,690,698 |

Total net assets decreased \$1.8 million from net assets reported in the prior year. A \$3,157,734 decrease in net assets for governmental activities is the result of an increase in expenses as well as a decrease in revenues, primarily income and property taxes. In September, 2009 a major company that was also the largest income tax withholder moved out of the City. This decrease was felt primarily in 2010. Property taxes also show a decrease mainly due to the City receiving a large payment of tangible taxes when the same major company left in 2009 that was not received in 2010. The decrease in income taxes and property taxes were offset by an increase in intergovernmental revenue as a result of operating grants for community development received during 2010. A \$1,340,576 increase in net assets for business-type activities is due mainly to an increase in charges for services that relate to increased usage over the dry summer months. A capital contribution was also received from another fund for water and sewer improvements related to Shoop Road. Overall, expenses of the business-type activities were lower due to the City controlling costs. The capital assets of governmental activities decreased mainly due to depreciation expense. The increase in expenses in transportation and general government were related to maintenance and fewer of the expenses were capitalized during 2010. Overall, liabilities increased due to the issuance of long-term notes used to purchase fire equipment and road improvements.

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 (87%) 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.

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Unaudited

Although the City's investments in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (6%) represents resources that are subject to restrictions on how they can be used. The remaining balance of \$2,776,947 or 7%, 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 \$41,690,698 in 2009 to \$39,873,540 in 2010, a change of \$1,817,158 or 4%.

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 2009 and 2010.

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------------|-------------------------|----------------|--------------------------|--------------|----------------|----------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 1,580,128 | \$ 1,665,262 | \$ 5,709,305 | \$ 5,552,717 | \$ 7,289,433 | \$ 7,217,979 |
| Operating Grants/Contributions | 549,334 | 116,529 | - | - | 549,334 | 116,529 |
| Capital Grants/Contributions | 580,556 | 547,712 | 1,080,506 | 50,057 | 1,661,062 | 597,769 |
| General Revenues: | | | | | | |
| Municipal Income Taxes | 4,951,227 | 5,522,602 | - | - | 4,951,227 | 5,522,602 |
| Property and Other Taxes | 1,489,552 | 1,633,207 | - | - | 1,489,552 | 1,633,207 |
| Payment in Lieu of Taxes | 757,649 | 744,008 | - | - | 757,649 | 744,008 |
| Intergovernmental | 1,633,223 | 1,385,752 | - | - | 1,633,223 | 1,385,752 |
| Grants and Entitlements | 1,600 | 6,886 | - | - | 1,600 | 6,886 |
| Investment Earnings | 37,497 | 92,087 | 5,643 | 7,693 | 43,140 | 99,780 |
| Other | 270,350 | 189,354 | 101,407 | 66,601 | 371,757 | 255,955 |
| Total Revenues | 11,851,116 | 11,903,399 | 6,896,861 | 5,677,068 | 18,747,977 | 17,580,467 |
| Program Expenses | | | | | | |
| Security of Person & Property | 4,419,215 | 4,472,129 | - | - | 4,419,215 | 4,472,129 |
| Public Health Services | 314,783 | 320,279 | - | - | 314,783 | 320,279 |
| Leisure Time Activities | 63,102 | 65,505 | - | - | 63,102 | 65,505 |
| Community Environment | 2,245,870 | 2,528,189 | - | - | 2,245,870 | 2,528,189 |
| Transportation | 3,597,848 | 2,980,177 | - | - | 3,597,848 | 2,980,177 |
| General Government | 3,687,967 | 3,064,512 | - | - | 3,687,967 | 3,064,512 |
| Interest and Fiscal Charges | 644,065 | 635,350 | - | - | 644,065 | 635,350 |
| Water | - | - | 2,682,279 | 2,778,564 | 2,682,279 | 2,778,564 |
| Sewer | - | - | 2,816,987 | 2,819,985 | 2,816,987 | 2,819,985 |
| Pool | - | - | 93,019 | 81,541 | 93,019 | 81,541 |
| Total Expenses | 14,972,850 | 14,066,141 | 5,592,285 | 5,680,090 | 20,565,135 | 19,746,231 |
| Excess (Deficit) before Transfers | (3,121,734) | (2,162,742) | 1,304,576 | (3,022) | (1,817,158) | (2,165,764) |
| Transfers | (36,000) | (27,500) | 36,000 | 27,500 | - | - |
| Change in Net Assets | \$ (3,157,734) | \$ (2,190,242) | \$ 1,340,576 | \$ 24,478 | \$ (1,817,158) | \$ (2,165,764) |

Governmental Activities

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Unaudited

The most significant program expenses for the City are Security of Persons and Property, General Government, Transportation, and Community Environment. These programs account for 93% of the total governmental activities. Security of Persons and Property, which accounts for 30% of the total, represents costs associated with the operation of the Police Department and costs associated with providing firefighting and emergency medical services. General Government, which accounts for 24% of the total, represents costs associated with the general administration of city government, including the City Council, City Manager, City Auditor and Municipal Court. Transportation, which accounts for 24% of the total, represents costs associated with streets and their upkeep. Community Environment, which accounts for 15% of the total, represents costs associated with developing and improving the downtown.

Funding for the most significant programs indicated is from income taxes, property taxes and intergovernmental. The income tax revenue for 2010 was \$4,951,227. Of the \$11,851,116 in total revenues, income tax accounts for 42% of that total. The property tax revenue and payments in lieu of property taxes for 2010 was \$2,247,201 or 19% of total revenues. The intergovernmental revenue for 2010 was \$1,633,223 or 14% of total revenue. The charges for services revenue for 2010 was \$1,580,128 or 13% of total revenues. Operating Grants and Contributions of \$549,334 accounts for 4% of total revenues. Capital grants and contributions of \$580,556 accounts for 5% of the total and interest and other revenue make up the remaining 3%. Total governmental activities revenue decreased by approximately \$52,000 or less than 1%. The City monitors its sources of revenues very closely for fluctuations.

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

| | Total Cost of Services 2010 | Net Cost of Services 2010 | Total Cost of Services 2009 | Net Cost of Services 2009 |
|----------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Security of persons and property | \$ 4,419,215 | \$ 4,300,160 | \$ 4,472,129 | \$ 4,471,879 |
| Public health services | 314,783 | 238,032 | 320,279 | 238,883 |
| Leisure time activities | 63,102 | 63,102 | 65,505 | 65,505 |
| Community environment | 2,245,870 | 1,997,870 | 2,528,189 | 2,470,189 |
| Transportation | 3,597,848 | 2,888,862 | 2,980,177 | 2,431,830 |
| General government | 3,687,967 | 2,130,741 | 3,064,512 | 1,423,002 |
| Interest on long-term debt | 644,065 | 644,065 | 635,350 | 635,350 |
| Total Expenses | <u>\$ 14,972,850</u> | <u>\$ 12,262,832</u> | <u>\$ 14,066,141</u> | <u>\$ 11,736,638</u> |

It should be noted that 18% 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 \$12,262,832, 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.

Business-Type Activities

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Unaudited

The City's major business-type activities include water and sewer operations. The Water fund had operating revenues in 2010 of \$3,102,214 , which is an increase of \$101,605 from 2009. The increase is primarily due to an increase in usage during the dry summer months. The Sewer Fund had operating revenues in 2010 of \$2,652,079 , an increase of \$88,318 from 2009, also as a result of the increase in usage.

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 2010, the total fund balance for the General Fund was \$969,728 of which \$918,558 was unreserved. During the current year, the fund balance of the City's General Fund decreased by \$345,089 or 26%. The decrease in income taxes and property taxes related to a major company leaving the City was the main cause of the decrease in fund balance. The City continues to closely monitor costs and has not replaced any vacancies in the work force. No raises will be given except for step increases. In addition to the General Fund, the City had one other major fund during 2010: The Permanent Improvement Fund. At the end of 2010, the total fund balance of the Permanent Improvement Fund was \$680,935. Long-term note proceeds were received during 2010 for the purchase of fire equipment, contributing to the increase in fund balance.

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 increased by \$1,061,524 or 15%. Net assets in the Sewer Fund increased by \$279,652 or 2%. The increase in net assets of the Water and Sewer funds was due to an overall increase in usage as well as a capital contribution from another governmental fund for water and sewer capital assets.

General Fund Budgeting Highlights

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

For the General Fund, the original budgeted revenues were \$6,889,040 and the final budgeted revenues were \$6,891,240, reflecting only a slight increase. Actual revenues were \$6,603,399 due to lower income taxes and property taxes. Fines, licenses and permits were also lower than the prior year due to fewer collections.

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Unaudited

For the General Fund, the original budgeted expenditures and transfers were \$7,168,950 and the final budgeted expenditures and transfers were \$7,228,950. Actual expenditures were \$6,763,973, which was approximately \$400,000 less than the final budget due primarily to the City suspending certain budgeted raises.

Capital Assets and Debt Administration

The City's investment in capital assets for governmental and business-type activities as of December 31, 2010, amounts to \$34,667,846 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, improvements, equipment and infrastructure.

Total capital assets for governmental activities of the City of Washington Court House for the year 2010 were \$25,407,012 or \$1,139,151 less than in 2009. This decrease was due mainly to annual depreciation expense.

The increase in capital assets for business-type activities of \$308,178 to \$36,380,384 as of December 31, 2010 was as a result of added infrastructure that was contributed by another fund of the City.

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, 2010, the City of Washington Court House had \$27,574,442 in bonds, long-term notes, leases and loans outstanding with \$3,360,802 due within one year. The City's long-term debt decreased \$41,835 during 2010. Long-term notes of \$1,630,000 were issued in anticipation of bonds and were used to finance road improvements and the purchase of fire equipment.

Outstanding general obligation bonds consist of street, safety building, fire equipment 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.

In addition to the bonds, notes and loans, the City's long-term obligations include compensated absences, pension obligations and capital lease obligations. Additional information concerning the City's debt can be found in note 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 Court House continues to see considerable growth in the area. Slight cuts in local and state funding are currently not a cause of concern for the community. The long-term impact of these cuts is unknown at this time.

Contacting the City's Financial Management

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

CITY OF WASHINGTON COURT HOUSE, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| Assets | | | |
| Equity in pooled cash and investments | \$ 3,336,020 | \$ 1,035,072 | \$ 4,371,092 |
| Cash in segregated accounts | 40,712 | - | 40,712 |
| Receivables: | | | |
| Property taxes | 1,448,863 | - | 1,448,863 |
| Income taxes | 1,739,289 | - | 1,739,289 |
| Payment in lieu of taxes | 1,066,800 | - | 1,066,800 |
| Accounts | - | 622,705 | 622,705 |
| Loans | 64,717 | - | 64,717 |
| Interest | 6,378 | 2,014 | 8,392 |
| Intergovernmental | 830,027 | - | 830,027 |
| Prepaid items | 25,731 | 66,432 | 92,163 |
| Supplies inventory | 48,816 | 68,473 | 117,289 |
| Deferred charges | 196,911 | 292,019 | 488,930 |
| Nondepreciable capital assets | 1,078,475 | 1,329,624 | 2,408,099 |
| Depreciable capital assets, net | <u>24,328,537</u> | <u>35,050,760</u> | <u>59,379,297</u> |
| Total assets | <u>34,211,276</u> | <u>38,467,099</u> | <u>72,678,375</u> |
| Liabilities | | | |
| Accounts payable | 83,917 | 38,596 | 122,513 |
| Accrued wages payable | 259,507 | 80,037 | 339,544 |
| Intergovernmental payable | 309,198 | 72,864 | 382,062 |
| Matured compensated absences | 38,791 | - | 38,791 |
| Unearned revenue | 2,436,801 | - | 2,436,801 |
| Accrued interest payable | 79,051 | 155,674 | 234,725 |
| Notes payable | 150,000 | 350,000 | 500,000 |
| Noncurrent liabilities: | | | |
| Due within one year | 2,449,157 | 1,215,757 | 3,664,914 |
| Due in more than one year | <u>13,222,272</u> | <u>11,863,213</u> | <u>25,085,485</u> |
| Total liabilities | <u>19,028,694</u> | <u>13,776,141</u> | <u>32,804,835</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 11,139,850 | 23,527,996 | 34,667,846 |
| Restricted for: | | | |
| Capital projects | 1,295,609 | - | 1,295,609 |
| Debt service | 272,347 | - | 272,347 |
| Other purposes | 745,840 | - | 745,840 |
| Permanent endowment: | | | |
| Nonexpendable | 73,648 | - | 73,648 |
| Expendable | 41,303 | - | 41,303 |
| Unrestricted | <u>1,613,985</u> | <u>1,162,962</u> | <u>2,776,947</u> |
| Total net assets | <u>\$ 15,182,582</u> | <u>\$ 24,690,958</u> | <u>\$ 39,873,540</u> |

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|----------------------|-------------------------|--|--|--|-----------------------------|------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental activities: | | | | | | | |
| Security of persons and property | \$ 4,419,215 | \$ - | \$ 119,055 | \$ - | \$ (4,300,160) | \$ - | \$ (4,300,160) |
| Public health services | 314,783 | 76,751 | - | - | (238,032) | - | (238,032) |
| Leisure time activities | 63,102 | - | - | - | (63,102) | - | (63,102) |
| Community environment | 2,245,870 | - | 248,000 | - | (1,997,870) | - | (1,997,870) |
| Transportation | 3,597,848 | 1,430 | 127,000 | 580,556 | (2,888,862) | - | (2,888,862) |
| General government | 3,687,967 | 1,501,947 | 55,279 | - | (2,130,741) | - | (2,130,741) |
| Interest on long-term debt | 644,065 | - | - | - | (644,065) | - | (644,065) |
| Total governmental activities | <u>14,972,850</u> | <u>1,580,128</u> | <u>549,334</u> | <u>580,556</u> | <u>(12,262,832)</u> | <u>-</u> | <u>(12,262,832)</u> |
| Business-type activities: | | | | | | | |
| Water | 2,682,279 | 3,033,695 | - | 638,550 | - | 989,966 | 989,966 |
| Sewer | 2,816,987 | 2,621,902 | - | 441,956 | - | 246,871 | 246,871 |
| Pool | 93,019 | 53,708 | - | - | - | (39,311) | (39,311) |
| Total business-type activities | <u>5,592,285</u> | <u>5,709,305</u> | <u>-</u> | <u>1,080,506</u> | <u>-</u> | <u>1,197,526</u> | <u>1,197,526</u> |
| Total | <u>\$ 20,565,135</u> | <u>\$ 7,289,433</u> | <u>\$ 549,334</u> | <u>\$ 1,661,062</u> | <u>\$ (12,262,832)</u> | <u>\$ 1,197,526</u> | <u>\$ (11,065,306)</u> |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Income taxes | | | | | 4,951,227 | - | 4,951,227 |
| Property taxes | | | | | 1,489,552 | - | 1,489,552 |
| Payment in lieu of taxes | | | | | 757,649 | - | 757,649 |
| Intergovernmental | | | | | 1,633,223 | - | 1,633,223 |
| Grants and contributions not restricted to specific programs | | | | | 1,600 | - | 1,600 |
| Investment earnings | | | | | 37,497 | 5,643 | 43,140 |
| Miscellaneous | | | | | 270,350 | 101,407 | 371,757 |
| Transfers | | | | | (36,000) | 36,000 | - |
| Total general revenues and transfers | | | | | <u>9,105,098</u> | <u>143,050</u> | <u>9,248,148</u> |
| Change in net assets | | | | | (3,157,734) | 1,340,576 | (1,817,158) |
| Net assets beginning of year | | | | | <u>18,340,316</u> | <u>23,350,382</u> | <u>41,690,698</u> |
| Net assets end of year | | | | | <u>\$ 15,182,582</u> | <u>\$ 24,690,958</u> | <u>\$ 39,873,540</u> |

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

| | General Fund | Permanent Improvement | Non-major Governmental Funds | Total Governmental Funds |
|---------------------------------------|---------------------|--------------------------|------------------------------------|--------------------------------|
| Assets | | | | |
| Equity in pooled cash and investments | \$ 774,480 | \$ 521,894 | \$ 2,039,646 | \$ 3,336,020 |
| Cash in segregated accounts | 32,682 | - | 8,030 | 40,712 |
| Receivables: | | | | |
| Property taxes | 446,292 | - | 1,002,571 | 1,448,863 |
| Income taxes | 1,144,077 | 301,140 | 294,072 | 1,739,289 |
| Payment in lieu of taxes | - | - | 1,066,800 | 1,066,800 |
| Loans | - | - | 64,717 | 64,717 |
| Interest | 6,378 | - | - | 6,378 |
| Intergovernmental | 450,913 | - | 379,114 | 830,027 |
| Prepays | 22,826 | - | 2,905 | 25,731 |
| Supplies inventory | - | - | 48,816 | 48,816 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 2,877,648</u> | <u>\$ 823,034</u> | <u>\$ 4,906,671</u> | <u>\$ 8,607,353</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 43,728 | \$ 1,401 | \$ 38,788 | \$ 83,917 |
| Notes payable | - | - | 150,000 | 150,000 |
| Accrued wages payable | 222,859 | - | 36,648 | 259,507 |
| Matured compensated absences payable | 38,791 | - | - | 38,791 |
| Intergovernmental payable | 279,112 | - | 30,086 | 309,198 |
| Deferred revenue | 1,323,430 | 140,698 | 2,549,092 | 4,013,220 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | <u>1,907,920</u> | <u>142,099</u> | <u>2,804,614</u> | <u>4,854,633</u> |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Encumbrances | 28,344 | 53,975 | 104,003 | 186,322 |
| Loans | - | - | 64,717 | 64,717 |
| Inventory | - | - | 48,816 | 48,816 |
| Prepays | 22,826 | - | 2,905 | 25,731 |
| Unreserved, reported in: | | | | |
| General fund | 918,558 | - | - | 918,558 |
| Special revenue funds | - | - | 792,373 | 792,373 |
| Capital projects funds | - | 626,960 | 701,945 | 1,328,905 |
| Debt service funds | - | - | 272,347 | 272,347 |
| Permanent funds | - | - | 114,951 | 114,951 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total fund balances | <u>969,728</u> | <u>680,935</u> | <u>2,102,057</u> | <u>3,752,720</u> |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities and fund balances | <u>\$ 2,877,648</u> | <u>\$ 823,034</u> | <u>\$ 4,906,671</u> | <u>\$ 8,607,353</u> |

See accompanying notes to the basic financial statements.

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

December 31, 2010

| | | |
|--|-----------|--------------------------|
| Total governmental fund balances | \$ | 3,752,720 |
| <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. | | 25,407,012 |
| Deferred charges in governmental activities are not financial resources and therefore are not reported in the funds. | | 196,911 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | | |
| Income taxes receivable | | 812,624 |
| Intergovernmental and other receivables | | 681,459 |
| Interest | | 3,473 |
| Property taxes | | 78,863 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds: | | |
| General obligation bonds | | (12,361,911) |
| Long-term notes | | (1,630,000) |
| Lease/purchase agreement | | (497,925) |
| Compensated absences | | (949,375) |
| Accrued interest on long-term debt | | (79,051) |
| OPWC loan | | <u>(232,218)</u> |
| Net assets of governmental activities | \$ | <u>15,182,582</u> |

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2010

| | General Fund | Permanent Improvement | Non-Major Governmental Funds | Total Governmental Funds |
|--|-------------------|--------------------------|------------------------------------|--------------------------------|
| Revenues: | | | | |
| Property taxes | \$ 396,106 | \$ - | \$ 1,080,805 | \$ 1,476,911 |
| Municipal income taxes | 3,290,033 | 865,947 | 848,003 | 5,003,983 |
| Intergovernmental | 1,247,484 | 106,519 | 1,229,952 | 2,583,955 |
| Charges for services | 951,162 | - | 76,751 | 1,027,913 |
| Fines, licenses and permits | 535,307 | - | 242,848 | 778,155 |
| Interest | 36,143 | - | 3,839 | 39,982 |
| Payment in lieu of taxes | - | - | 757,649 | 757,649 |
| Other | 146,552 | 4,486 | 136,924 | 287,962 |
| Total revenues | <u>6,602,787</u> | <u>976,952</u> | <u>4,376,771</u> | <u>11,956,510</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Security of persons and property | 3,647,116 | - | 480,327 | 4,127,443 |
| Public health services | 34,017 | - | 270,931 | 304,948 |
| Leisure time activities | 62,692 | - | - | 62,692 |
| Community environment | 816,058 | - | 574,354 | 1,390,412 |
| Transportation | - | - | 1,540,977 | 1,540,977 |
| General government | 2,351,993 | 28,991 | 560,777 | 2,941,761 |
| Capital outlay | - | 1,494,314 | 1,383,861 | 2,878,175 |
| Debt service: | | | | |
| Principal retirement | - | 62,574 | 495,000 | 557,574 |
| Interest and fiscal charges | - | 23,291 | 590,971 | 614,262 |
| Total expenditures | <u>6,911,876</u> | <u>1,609,170</u> | <u>5,897,198</u> | <u>14,418,244</u> |
| Excess of revenues over (under) expenditures | <u>(309,089)</u> | <u>(632,218)</u> | <u>(1,520,427)</u> | <u>(2,461,734)</u> |
| Other financing sources (uses): | | | | |
| Proceeds of long-term notes | - | 898,000 | 732,000 | 1,630,000 |
| Transfers in | - | - | 75,000 | 75,000 |
| Transfers out | <u>(36,000)</u> | <u>-</u> | <u>(75,000)</u> | <u>(111,000)</u> |
| Total other financing sources (uses) | <u>(36,000)</u> | <u>898,000</u> | <u>732,000</u> | <u>1,594,000</u> |
| Net change in fund balance | (345,089) | 265,782 | (788,427) | (867,734) |
| Fund balance, beginning of year | <u>1,314,817</u> | <u>415,153</u> | <u>2,890,484</u> | <u>4,620,454</u> |
| Fund balance, end of year | <u>\$ 969,728</u> | <u>\$ 680,935</u> | <u>\$ 2,102,057</u> | <u>\$ 3,752,720</u> |

See accompanying notes to the basic financial statements.

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

Year Ended December 31, 2010

Net change in fund balances - total governmental funds \$ (867,734)

*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:

| | |
|----------------------|-------------|
| Capital outlay | 1,325,108 |
| Depreciation expense | (2,464,259) |

Revenue in the statement of activities that do not provide current financial resources are
not reported as revenues in the funds: (105,394)

Repayment of bond and note principal is an expenditure in the governmental funds, but the payment
reduces long-term liabilities in the statement of net assets. 557,574

Note proceeds provide current financial resources in governmental funds, but issuing debt increases
long-term liabilities in the statement of net assets. (1,630,000)

In the statement of activities, interest is accrued on outstanding bonds, whereas in
in governmental funds, an interest expenditure is reported when due. (29,803)

Some expenses reported in the statement of activities, such as compensated absences, pension and accrued
interest do not require the use current financial resources and therefore are not reported as
expenditures in governmental funds. 56,774

Change in net assets of governmental activities \$ (3,157,734)

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010

| | Enterprise Funds | | | Totals |
|---|---------------------|----------------------|--------------------------------|----------------------|
| | Water | Sewer | Nonmajor Enterprise Fund | |
| Assets | | | | |
| Current assets: | | | | |
| Equity in pooled cash and investments | \$ 566,199 | \$ 467,950 | \$ 923 | \$ 1,035,072 |
| Receivables: | | | | |
| Accounts | 340,689 | 282,016 | - | 622,705 |
| Interest | 1,091 | 923 | - | 2,014 |
| Prepaid Items | 32,326 | 33,638 | 468 | 66,432 |
| Materials and supplies inventory | 68,473 | - | - | 68,473 |
| Total current assets | <u>1,008,778</u> | <u>784,527</u> | <u>1,391</u> | <u>1,794,696</u> |
| Noncurrent assets: | | | | |
| Deferred charges | 292,019 | - | - | 292,019 |
| Nondepreciable capital assets | 1,067,410 | 262,214 | - | 1,329,624 |
| Depreciable capital assets, net | 14,666,070 | 20,384,690 | - | 35,050,760 |
| Total noncurrent assets | <u>16,025,499</u> | <u>20,646,904</u> | <u>-</u> | <u>36,672,403</u> |
| Total assets | <u>17,034,277</u> | <u>21,431,431</u> | <u>1,391</u> | <u>38,467,099</u> |
| Liabilities | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 24,778 | 13,818 | - | 38,596 |
| Accrued wages payable | 40,101 | 39,936 | - | 80,037 |
| Intergovernmental payable | 36,506 | 34,945 | 1,413 | 72,864 |
| Accrued interest payable | 81,787 | 73,887 | - | 155,674 |
| Notes payable | - | 350,000 | - | 350,000 |
| Capital lease payable | - | 45,317 | - | 45,317 |
| Loans payable | 178,932 | 336,835 | - | 515,767 |
| Compensated absences payable | 38,812 | 30,861 | - | 69,673 |
| Revenue bonds payable | 585,000 | - | - | 585,000 |
| Total current liabilities | <u>985,916</u> | <u>925,599</u> | <u>1,413</u> | <u>1,912,928</u> |
| Noncurrent liabilities: | | | | |
| Compensated absences payable | 109,130 | 47,779 | - | 156,909 |
| Capital lease payable | - | 47,628 | - | 47,628 |
| Loans payable | 2,148,957 | 4,004,719 | - | 6,153,676 |
| Revenue bonds payable | 5,505,000 | - | - | 5,505,000 |
| Total noncurrent liabilities | <u>7,763,087</u> | <u>4,100,126</u> | <u>-</u> | <u>11,863,213</u> |
| Total liabilities | <u>8,749,003</u> | <u>5,025,725</u> | <u>1,413</u> | <u>13,776,141</u> |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 7,315,591 | 16,212,405 | - | 23,527,996 |
| Unrestricted (deficit) | 969,683 | 193,301 | (22) | 1,162,962 |
| Total net assets | <u>\$ 8,285,274</u> | <u>\$ 16,405,706</u> | <u>\$ (22)</u> | <u>\$ 24,690,958</u> |

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2010

| | Enterprise Funds | | | Totals |
|---|---------------------|----------------------|--------------------------------|----------------------|
| | Water | Sewer | Nonmajor Enterprise Fund | |
| Operating revenues: | | | | |
| Charges for services | \$ 3,033,695 | \$ 2,621,902 | \$ 53,708 | \$ 5,709,305 |
| Other | <u>68,519</u> | <u>30,177</u> | <u>2,711</u> | <u>101,407</u> |
| Total operating revenues | <u>3,102,214</u> | <u>2,652,079</u> | <u>56,419</u> | <u>5,810,712</u> |
| Operating expenses: | | | | |
| Personnel services | 946,866 | 1,070,627 | 50,333 | 2,067,826 |
| Contractual services | 420,513 | 626,676 | 17,833 | 1,065,022 |
| Supplies and materials | 201,812 | 144,929 | 24,853 | 371,594 |
| Other | 467,825 | 345,872 | - | 813,697 |
| Depreciation | <u>259,574</u> | <u>462,697</u> | <u>-</u> | <u>722,271</u> |
| Total operating expenses | <u>2,296,590</u> | <u>2,650,801</u> | <u>93,019</u> | <u>5,040,410</u> |
| Operating income (loss) | 805,624 | 1,278 | (36,600) | 770,302 |
| Non-operating revenues (expenses): | | | | |
| Interest revenue | 3,039 | 2,604 | - | 5,643 |
| Interest expense and fiscal charges | (385,689) | (166,186) | - | (551,875) |
| Capital contribution | <u>638,550</u> | <u>441,956</u> | <u>-</u> | <u>1,080,506</u> |
| Total non-operating revenues (expenses) | <u>255,900</u> | <u>278,374</u> | <u>-</u> | <u>534,274</u> |
| Income (loss) before transfers | 1,061,524 | 279,652 | (36,600) | 1,304,576 |
| Transfers in | <u>-</u> | <u>-</u> | <u>36,000</u> | <u>36,000</u> |
| Change in net assets | 1,061,524 | 279,652 | (600) | 1,340,576 |
| Net assets, beginning of year | <u>7,223,750</u> | <u>16,126,054</u> | <u>578</u> | <u>23,350,382</u> |
| Net assets (deficit), end of year | <u>\$ 8,285,274</u> | <u>\$ 16,405,706</u> | <u>\$ (22)</u> | <u>\$ 24,690,958</u> |

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO
STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2010

| | Enterprise Funds | | | Totals |
|---|---------------------|-------------------|--------------------------------|---------------------|
| | Water | Sewer | Nonmajor Enterprise Fund | |
| Cash flows from operating activities: | | | | |
| Cash received from customers | \$ 2,991,793 | \$ 2,593,228 | \$ 53,708 | \$ 5,638,729 |
| Cash payments for employee services and benefits | (913,574) | (1,059,395) | (49,662) | (2,022,631) |
| Cash payments to suppliers for goods and services | (602,589) | (770,111) | (42,686) | (1,415,386) |
| Cash payments for other operating expenses | (467,825) | (345,872) | - | (813,697) |
| Cash received from other operating revenue | 68,519 | 30,177 | 2,711 | 101,407 |
| Net cash provided (used) by operating activities | <u>1,076,324</u> | <u>448,027</u> | <u>(35,929)</u> | <u>1,488,422</u> |
| Cash flows from noncapital financing activities: | | | | |
| Contribution of capital | - | 50,057 | - | 50,057 |
| Transfers from other funds | - | - | 36,000 | 36,000 |
| Net cash provided by noncapital financing activities | <u>-</u> | <u>50,057</u> | <u>36,000</u> | <u>86,057</u> |
| Cash flows from capital and related financing activities: | | | | |
| Principal paid on capital lease | - | (43,118) | - | (43,118) |
| Interest paid on capital lease | - | (6,939) | - | (6,939) |
| Proceeds from notes | - | 350,000 | - | 350,000 |
| Principal payments | (736,346) | (675,850) | - | (1,412,196) |
| Interest paid | (364,933) | (164,692) | - | (529,625) |
| Net cash used by capital and related financing activities | <u>(1,101,279)</u> | <u>(540,599)</u> | <u>-</u> | <u>(1,641,878)</u> |
| Cash flows from investing activities: | | | | |
| Interest | 4,417 | 3,770 | - | 8,187 |
| Net change | (20,538) | (38,745) | 71 | (59,212) |
| Cash and pooled investments beginning of year | 586,737 | 506,695 | 852 | 1,094,284 |
| Cash and pooled investments end of year | <u>\$ 566,199</u> | <u>\$ 467,950</u> | <u>\$ 923</u> | <u>\$ 1,035,072</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Operating income (loss) | \$ 805,624 | \$ 1,278 | \$ (36,600) | \$ 770,302 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation | 259,574 | 462,697 | - | 722,271 |
| Changes in assets and liabilities: | | | | |
| Receivables | (41,902) | (28,674) | - | (70,576) |
| Prepaid items | - | (926) | - | (926) |
| Materials and supplies inventory | 5,938 | - | - | 5,938 |
| Accounts payable | 13,798 | 2,420 | - | 16,218 |
| Accrued wages | 17,817 | 14,017 | - | 31,834 |
| Intergovernmental payable | 10,656 | 7,989 | 671 | 19,316 |
| PERS pension liability | (11,213) | (13,190) | - | (24,403) |
| Compensated absences payable | 16,032 | 2,416 | - | 18,448 |
| Net cash provided (used) by operating activities | <u>\$ 1,076,324</u> | <u>\$ 448,027</u> | <u>\$ (35,929)</u> | <u>\$ 1,488,422</u> |

Noncash contribution: During 2010, the Water and Sewer Funds received \$588,493 and \$441,956 for infrastructure improvements and a building.

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010

| | <u>Private- Purpose Trust Fund</u> | <u>Agency Funds</u> |
|--|--|-------------------------|
| <i>Assets</i> | | |
| Equity in pooled cash and cash equivalents | \$ 14,084 | \$ 34,060 |
| Cash in segregated accounts | <u>-</u> | <u>57,699</u> |
| Total assets | <u>14,084</u> | <u>91,759</u> |
| <i>Liabilities</i> | | |
| Intergovernmental payable | - | 28,142 |
| Deposits held and due to others | <u>-</u> | <u>63,617</u> |
| Total liabilities | <u>-</u> | <u>\$ 91,759</u> |
| <i>Net Assets</i> | | |
| Held in trust | <u>\$ 14,084</u> | |

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED DECEMBER 31, 2010

| | <u>Private- Purpose Trust Fund</u> |
|-------------------------------|--|
| <i>Additions:</i> | |
| Miscellaneous | \$ 2,668 |
| Total additions | <u>2,668</u> |
| <i>Deductions:</i> | |
| Contractual Services | <u>1,499</u> |
| Total deductions | <u>1,499</u> |
| Change in net assets | 1,169 |
| Net assets, beginning of year | <u>12,915</u> |
| Net assets, end of year | <u>\$ 14,084</u> |

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - BUDGET (NON-GAAP) BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2010

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance From Final Budget</u> |
|---|----------------------------|-------------------------|-------------------|---|
| Revenues: | | | | |
| Property and other taxes | \$ 422,000 | \$ 422,000 | \$ 395,195 | \$ (26,805) |
| Municipal income taxes | 3,350,000 | 3,350,000 | 3,288,833 | (61,167) |
| Intergovernmental | 1,223,600 | 1,225,800 | 1,252,559 | 26,759 |
| Charges for services | 899,440 | 899,440 | 887,463 | (11,977) |
| Fines, licenses and permits | 736,000 | 736,000 | 611,802 | (124,198) |
| Interest | 100,000 | 100,000 | 42,514 | (57,486) |
| Other | 158,000 | 158,000 | 125,033 | (32,967) |
| Total revenues | <u>6,889,040</u> | <u>6,891,240</u> | <u>6,603,399</u> | <u>(287,841)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Security of persons and property | 3,763,132 | 3,763,132 | 3,565,842 | 197,290 |
| Public health services | 35,000 | 35,000 | 33,716 | 1,284 |
| Leisure time activities | 71,200 | 71,200 | 62,692 | 8,508 |
| Community environment | 853,685 | 853,685 | 825,144 | 28,541 |
| General government | 2,380,133 | 2,430,133 | 2,276,579 | 153,554 |
| Total expenditures | <u>7,103,150</u> | <u>7,153,150</u> | <u>6,763,973</u> | <u>389,177</u> |
| Excess of revenues over (under) expenditures | <u>(214,110)</u> | <u>(261,910)</u> | <u>(160,574)</u> | <u>101,336</u> |
| Other sources (uses): | | | | |
| Transfers out | (65,800) | (75,800) | (66,000) | 9,800 |
| Total other financing uses | <u>(65,800)</u> | <u>(75,800)</u> | <u>(66,000)</u> | <u>9,800</u> |
| Excess of revenues over (under) expenditures and other uses | (279,910) | (337,710) | (226,574) | 111,136 |
| Fund balance, beginning of year | 943,843 | 943,843 | 943,843 | - |
| Prior year encumbrances appropriated | 25,798 | 25,798 | 25,798 | - |
| Fund balance, end of year | <u>\$ 689,731</u> | <u>\$ 631,931</u> | <u>\$ 743,067</u> | <u>\$ 111,136</u> |

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

NOTE 1 – DESCRIPTION OF THE ENTITY

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Government-wide Financial Statements

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

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

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

Fund Financial Statements

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

Fund Accounting

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

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

- **General Fund** - The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.
- **Permanent Improvement** – The Permanent Improvement Fund is used to account for income tax revenues used for various improvements of the City.

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

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

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

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

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

Measurement Focus

Governmental-Wide Financial Statements

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

Fund Financial Statements

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

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

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

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

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

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

Unearned/Deferred Revenue

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of December 31, 2010, but which were levied to finance year 2011 operations, have been recorded as unearned revenue. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue to indicate they are not available to liquidate liabilities of the current period.

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

Expenses/Expenditures

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

Budgetary Accounting and Control

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

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

Tax Budget

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

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

Estimated Resources

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

The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement as final reflects the amounts in the final amended official certificate of estimated resources issued during 2010.

Fund Balance Reserves

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

Reconciliation of Budget Basis to GAAP Basis

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

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund:

| | | |
|---|--------|-----------------------------|
| Net change in fund balance - GAAP Basis | \$ | (345,089) |
| Increase / (decrease): | | |
| Due to revenues | | 612 |
| Due to expenditures | | 188,352 |
| Due to other sources (uses) | | (30,000) |
| Due to encumbrances | | <u>(40,449)</u> |
| Net change in fund balance - Budget Basis | \$ | <u><u>(226,574)</u></u> |

Cash and Investments

Cash and investments of the City’s funds, except those held in restricted asset accounts, are pooled and invested in short-term investments in order to provide improved cash management. During 2010, the City’s funds were invested in interest bearing demand accounts and certificates of deposit with commercial banks, money market accounts, the State Treasury Assets Reserve of Ohio (STAR Ohio), U.S. agencies securities and U.S. Treasury obligations. For purposes of the statement of cash flows, the enterprise funds’ portion of cash and cash equivalents is considered a cash equivalent because the City is able to withdraw resources from the enterprise funds without prior notice or penalty.

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

STAR Ohio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price which is the price the investment could be sold for on December 31, 2010.

During 2010, the General Fund earned interest of \$36,143, of which \$26,654 was assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented as “equity in pooled cash and investments.”

Receivables

Receivables at December 31, 2010 consist of property and income taxes, interest, consumer accounts (billings for user charged services, included unbilled utility services), notes and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered collectible in full, including accounts receivables which, if delinquent, may be certified and collected as a special assessment, subject to foreclosure for nonpayment.

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

Loans receivable in the Non-major Governmental Funds represent low interest loans made by the City for community development projects and small businesses under the Community Development Block Grants (CDBG) program. The loans bear interest at annual rates ranging from 3 to 6 percent. The notes are to be repaid over periods ranging from 10 to 20 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 funds are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2010 are recorded as prepaid items.

Capital Assets

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

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

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Interest is capitalized on proprietary fund capital assets acquired with tax-exempt debt. There was no interest required to be capitalized during the 2010 fiscal year.

Deferred Charges

Bond issuance costs are deferred and amortized over the terms of the bonds using the straight-line method.

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Operating Revenues and Expenses

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

Interfund Transactions

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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.

Restricted for other purposes represents balances of State and Federal grants in Special Revenue Funds. Of the City's \$2,428,747 restricted net assets, none is restricted by enabling legislation.

Estimates

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

NOTE 3 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
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- (3) Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value daily and that the term of the agreement must not exceed thirty days;
- (4) Bonds and other obligations of the State of Ohio;
- (5) No-load money market funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreement secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- (6) The State Treasury Assets Reserve of Ohio (STAR Ohio); and
- (7) Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time.

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

- (1) Bonds of the State of Ohio;
- (2) Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is not default of principal, interest or coupons; and
- (3) Obligations of the City.

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

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

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

At year end, the carrying amount of the City's deposits was \$1,222,489 and the bank balance was \$1,264,516. Of the bank balance, \$813,965 and \$428,134, respectively was covered by FDIC and collateralized with securities held by the pledging financial institution's trust department or agent, respectively.

Investments: The City's investments at December 31, 2010 are summarized as follows:

| | Fair Value | Weighted Average Maturity (Years) |
|-----------------------------------|--------------|---|
| FHLB | \$ 2,283,576 | 3.24 |
| FNMA | 277,469 | 4.33 |
| FHLMC | 168,383 | 4.71 |
| Negotiable Certificate of Deposit | 250,580 | 0.06 |
| Star Ohio | 28,601 | - |
| Money Market | 277,549 | - |
| US Treasury | 9,000 | 1.00 |
| | \$ 3,295,158 | 2.67 |

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

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single user. The City is required to disclose the amount of investments with any one issuer that represent five percent or more of total investments. Investments issued by the U.S. Government and investments in external investment pools are excluded from this requirement. At December 31, 2010, the City's investments in FHLB, FNMA, FHLMC, negotiable certificate of deposit and money market make up 69%, 8%, 5%, 8% and 9% of the City's total investments respectively.

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

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

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

NOTE 4 - PROPERTY TAXES

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

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

The Fayette County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Washington Courthouse. The County Auditor periodically remits to the City its portion of the taxes collected. The assessed value upon which the 2010 taxes were collected was \$231,574,830. The full tax rate for all City operations applied for real property for fiscal year ended December 31, 2010 was \$9.35 per \$1,000 of assessed valuation. 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 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.

House Bill No. 66 was signed into law on June 30, 2005 and phases out the tax on tangible personal property of general businesses, telephone and telecommunication companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursement will be phased out.

Accrued property taxes receivable represents delinquent taxes outstanding and real tangible personal and public utility taxes which were measurable as of December 31, 2010. 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 2010 operations. The receivable is therefore offset by a credit to deferred revenue.

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

NOTE 5 – INTERFUND ACTIVITY

Interfund transfers for the year ended December 31, 2010, consisted of the following:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------------------|---------------------|----------------------|
| General | \$ - | \$ 36,000 |
| Nonmajor Enterprise Funds | 36,000 | - |
| Nonmajor Governmental Funds | <u>75,000</u> | <u>75,000</u> |
| Total | \$ <u>111,000</u> | \$ <u>111,000</u> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, or (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The \$75,000 transfer of funding the nonmajor governmental funds is due to the moving of the unexpended grant funding from the Community Housing Improvement Program and the CDBG Economic Development Program to the Neighborhood Revitalization Program, and was authorized by the Ohio Department of Development.

NOTE 6 - INCOME TAX

The City levies a municipal income tax of 1.45% on substantially all income earned within the City. In addition, the residents of the City are required to pay income tax on income earned outside of the City; however, the City allows a credit for income taxes paid to another municipality up to 100% of the City's current tax rate. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

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

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

| | <u>Balance</u> <u>1/01/10</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>at 12/31/10</u> |
|--|----------------------------------|-----------------------|------------------|--------------------------------------|
| Governmental Activities: | | | | |
| <i>Nondepreciable Capital Assets:</i> | | | | |
| Land | \$ 1,078,475 | \$ - | \$ - | \$ 1,078,475 |
| <i>Total Nondepreciable Capital Assets</i> | <u>1,078,475</u> | <u>-</u> | <u>-</u> | <u>1,078,475</u> |
| <i>Depreciable Capital Assets:</i> | | | | |
| Land Improvements | 479,483 | - | - | 479,483 |
| Buildings and Improvements | 9,042,379 | 145,000 | - | 9,187,379 |
| Equipment and Vehicles | 4,450,014 | 878,109 | - | 5,328,123 |
| Infrastructure | 50,808,436 | 301,999 | - | 51,110,435 |
| <i>Total Depreciable Capital Assets</i> | <u>64,780,312</u> | <u>1,325,108</u> | <u>-</u> | <u>66,105,420</u> |
| <i>Accumulated Depreciation:</i> | | | | |
| Land Improvements | (479,483) | - | - | (479,483) |
| Buildings and Improvements | (405,927) | (178,494) | - | (584,421) |
| Equipment and Vehicles | (3,229,921) | (293,453) | - | (3,523,374) |
| Infrastructure | (35,197,293) | (1,992,312) | - | (37,189,605) |
| <i>Total Accumulated Depreciation</i> | <u>(39,312,624)</u> | <u>(2,464,259)</u> | <u>-</u> | <u>(41,776,883)</u> |
| <i>Total Govt Activities Capital Assets, Net</i> | <u>\$ 26,546,163</u> | <u>\$ (1,139,151)</u> | <u>\$ -</u> | <u>\$ 25,407,012</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------------|---------------------|
| Security of Persons and Property | \$ 313,271 |
| Leisure Time Activities | 410 |
| Public Health | 7,890 |
| Transportation | 2,063,437 |
| General Government | <u>79,251</u> |
| Total Depreciation Expense | <u>\$ 2,464,259</u> |

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

| | <u>Balance 1/1/2010</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 12/31/2010</u> |
|--|-----------------------------|-------------------|------------------|-------------------------------|
| Business Type Activities: | | | | |
| <i>Nondepreciable Capital Assets:</i> | | | | |
| Land | \$ 1,329,624 | \$ - | \$ - | \$ 1,329,624 |
| <i>Total Nondepreciable Capital Assets</i> | <u>1,329,624</u> | <u>-</u> | <u>-</u> | <u>1,329,624</u> |
| <i>Depreciable Capital Assets:</i> | | | | |
| Land Improvements | 713,630 | - | - | 713,630 |
| Buildings and Improvements | 25,651,127 | 616,250 | - | 26,267,377 |
| Equipment and Vehicles | 3,230,137 | - | (42,821) | 3,187,316 |
| Capital Leased Assets | 140,000 | - | (140,000) | - |
| Infrastructure | 22,009,823 | 414,199 | - | 22,424,022 |
| <i>Total Depreciable Capital Assets</i> | <u>51,744,717</u> | <u>1,030,449</u> | <u>(182,821)</u> | <u>52,592,345</u> |
| <i>Accumulated Depreciation:</i> | | | | |
| Land Improvements | (713,251) | (127) | - | (713,378) |
| Buildings and Improvements | (7,198,587) | (283,772) | - | (7,482,359) |
| Equipment and Vehicles | (3,003,287) | (23,009) | 42,821 | (2,983,475) |
| Capital Leased Assets | (140,000) | - | 140,000 | - |
| Infrastructure | (5,947,010) | (415,363) | - | (6,362,373) |
| <i>Total Accumulated Depreciation</i> | <u>(17,002,135)</u> | <u>(722,271)</u> | <u>182,821</u> | <u>(17,541,585)</u> |
| <i>Total Business Activities Capital Assets, Net</i> | <u>\$ 36,072,206</u> | <u>\$ 308,178</u> | <u>\$ -</u> | <u>\$ 36,380,384</u> |

Depreciation expense was charged to segments as follows:

| | |
|----------------------------|-------------------|
| Water | \$ 259,574 |
| Sewer | <u>462,697</u> |
| Total Depreciation Expense | <u>\$ 722,271</u> |

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

NOTE 8 – LONG-TERM LIABILITIES

The changes in the City’s long-term liabilities for the year ended December 31, 2010 were as follows:

| | Balance at 1/1/10 | Issued | Retired | Balance at 12/31/10 | Amount Due Within One Year |
|--------------------------------------|------------------------------|---------------------|-----------------------|--------------------------------|---|
| <i>Governmental Activities:</i> | | | | | |
| Capital Improvement Bonds | \$ 480,000 | \$ - | \$ (25,000) | \$ 455,000 | \$ 25,000 |
| <i>Various Purpose GO Bonds:</i> | | | | | |
| Note Refinancing | 1,990,000 | - | (75,000) | 1,915,000 | 80,000 |
| Safety Services Bonds | 6,980,000 | - | (310,000) | 6,670,000 | 325,000 |
| Tax Increment Financing Bonds | 3,210,000 | - | (85,000) | 3,125,000 | 85,000 |
| Premium on Refinancing Bonds | 205,861 | - | (8,950) | 196,911 | - |
| Long-Term Notes | - | 1,630,000 | - | 1,630,000 | 1,630,000 |
| Lease/Purchase Agreement | 554,545 | - | (56,620) | 497,925 | 57,809 |
| OPWC Loan | 238,172 | - | (5,954) | 232,218 | 11,909 |
| PERS Pension Liability | 38,044 | - | (38,044) | - | - |
| Compensated Absences Payable | 968,105 | 818,610 | (837,340) | 949,375 | 234,439 |
| Total Governmental Activities | \$ 14,664,727 | \$ 2,448,610 | \$ (1,441,908) | \$ 15,671,429 | \$ 2,449,157 |

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

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

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

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

On March 9, 2010, the City issued \$732,000 in bond anticipation notes used to pay for improvements to U.S. Route 62 and will be paid with future payments in lieu of taxes from the Shoop TIF Fund. These notes were refinanced with long-term bonds on March 1, 2011 and are classified as long-term.

On May 19, 2010, the City issued \$898,000 in bond anticipation notes used to pay for fire equipment and will be paid with income tax monies from the Permanent Improvement fund. The notes were issued at a rate of 2.375% and will mature on May 19, 2011. These notes were refinanced with long-term bonds on March 1, 2011 and are classified as long-term.

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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During 2009, the City entered into a lease/purchase agreement for \$610,000 at an interest rate of 4.2% for a comprehensive energy program and energy capital services for the city as a whole. These improvements include installation of energy saving equipment and will be repaid from the Permanent Improvement Fund over the next ten years.

The City received monies from the Ohio Public Works Commission for traffic signal upgrades in the amount of \$238,172. This interest-free loan will be repaid over the next twenty years from the Permanent Improvement Fund.

| | Balance at 1/1/10 | Issued | Retired | Balance at 12/31/10 | Amount Due Within One Year |
|--|------------------------------|-------------------|-----------------------|--------------------------------|---|
| <i>Business Type Activities:</i> | | | | | |
| Water System Bonds | \$ 6,655,000 | \$ - | \$ (565,000) | \$ 6,090,000 | \$ 585,000 |
| OWDA Loan | 4,625,786 | - | (317,526) | 4,308,260 | 328,511 |
| OWDA Loan | 2,499,235 | - | (171,346) | 2,327,889 | 178,932 |
| Capital Lease | 136,063 | - | (43,118) | 92,945 | 45,317 |
| Sewer Issue II Note | 41,618 | - | (8,324) | 33,294 | 8,324 |
| PERS Pension Liability | 24,403 | - | (24,403) | - | - |
| Compensated Absences Payable | 208,134 | 175,994 | (157,546) | 226,582 | 69,673 |
| <i>Total Business Type Activities</i> | \$ 14,190,239 | \$ 175,994 | \$ (1,287,263) | \$ 13,078,970 | \$ 1,215,757 |

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

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

In connection with the revenue bonds listed above, the County has pledged future customer revenues, net of specified operating expenses, to repay this debt. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The bonds are payable, through their final maturities, solely from net revenues applicable to the Water Fund. Total interest and principal remaining to be paid on these bonds is \$7,383,045.

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

In connection with the OWDA loans listed above, the County has pledged future customer revenues of the Water and Sewer Funds, net of specified operating expenses and net of debt service requirements on revenue bonds (which have first priority and a lien on net income available for debt service), to repay this debt. The loans are payable, through their final maturities, from net revenues applicable to the Water and Sewer Funds. Total interest and principal remaining to be paid on these loans is \$8,137,445.

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

Principal and interest requirements to retire the City's governmental activities' outstanding notes and bonds as of December 31, 2010, are as follows:

| | | Capital Improvement Bonds | | Various Purpose Bonds | | OPWC |
|-----------|----|---------------------------|----------------|-----------------------|------------------|----------------|
| | | Principal | Interest | Principal | Interest | Principal |
| 2011 | \$ | 25,000 | 28,210 | 490,000 | 561,211 | 11,909 |
| 2012 | | 30,000 | 26,660 | 505,000 | 541,236 | 11,909 |
| 2013 | | 30,000 | 24,800 | 530,000 | 520,411 | 11,909 |
| 2014 | | 30,000 | 22,940 | 545,000 | 500,969 | 11,909 |
| 2015 | | 35,000 | 21,080 | 570,000 | 478,444 | 11,909 |
| 2016-2020 | | 205,000 | 70,680 | 3,270,000 | 2,014,125 | 59,545 |
| 2021-2025 | | 100,000 | 9,300 | 4,140,000 | 1,199,150 | 59,545 |
| 2026-2030 | | - | - | 1,230,000 | 337,075 | 53,583 |
| 2031-2032 | | - | - | 430,000 | 57,600 | - |
| Total | \$ | <u>455,000</u> | <u>203,670</u> | <u>11,710,000</u> | <u>6,210,221</u> | <u>232,218</u> |

Principal and interest requirements to retire the City's business-type activities' outstanding notes, bonds, and loans as of December 31, 2010, are as follows:

| | | Issue II | Water Revenue Bonds | OWDA Loans | | |
|-----------|----|---------------|---------------------|------------------|------------------|------------------|
| | | Principal | Principal | Interest | Principal | Interest |
| 2011 | \$ | 8,324 | 585,000 | 238,960 | 507,443 | 245,005 |
| 2012 | | 8,324 | 600,000 | 218,485 | 526,732 | 225,716 |
| 2013 | | 8,323 | 625,000 | 196,885 | 546,763 | 205,685 |
| 2014 | | 8,323 | 645,000 | 173,760 | 567,568 | 184,880 |
| 2015 | | - | 670,000 | 148,927 | 589,177 | 163,271 |
| 2016-2020 | | - | 2,965,000 | 316,028 | 3,300,393 | 461,842 |
| 2021-2022 | | - | - | - | 598,073 | 14,897 |
| Total | \$ | <u>33,294</u> | <u>6,090,000</u> | <u>1,293,045</u> | <u>6,636,149</u> | <u>1,501,296</u> |

**CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010**

NOTE 9 – SHORT-TERM OBLIGATIONS

The following activity was related to the issuance of short-term obligations:

| | <u>Issue Date</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|-----------------------|------------------------------|------------------|------------------|---------------------------|
| <u>Governmental Activities:</u> | | | | | |
| Court Special Project BAN - 1.75% | 12/29/2010 | \$ - | \$ 150,000 | \$ - | \$ 150,000 |
| <u>Business-Type Activities:</u> | | | | | |
| Wastewater Treatment System BAN - 1.75% | 12/29/2010 | \$ 350,000 | \$ 350,000 | \$ 350,000 | \$ 350,000 |

The City issued \$500,000 in various purpose bond anticipation notes on December 29, 2010. \$350,000 of the notes was issued to pay for engineering costs related to the sewer treatment plant and will be paid with user fees of the Sewer Fund. The other \$150,000 was issued to pay for court related equipment and will be paid with court fees from the Court Special Project Fund. The notes were issued at a rate of 1.75 percent and will mature December 29, 2011.

NOTE 10 – CAPITAL LEASES

The City previously entered into a lease agreement as lessee for the water storage tank of Fayette County for 20 years. Also, sewer equipment for \$227,145 and energy-saving equipment of \$610,000 were leased. The sewer equipment will be repaid over four years and the energy-saving equipment will be repaid over ten years. Each of these lease agreements qualifies as a capital lease for accounting purposes (title transfers at the end of the lease term) and, therefore have been recorded at the present value of the future minimum lease payments as of the date of inception.

These lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the governmental funds. In the proprietary funds, capital lease principal payments reduce the liability and the interest payments are reported as interest and fiscal charges expense.

CITY OF WASHINGTON COURT HOUSE, OHIO
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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, 2010:

| Year Ending December 31 | |
|---|------------|
| 2011 | \$ 128,778 |
| 2012 | 127,564 |
| 2013 | 76,268 |
| 2014 | 73,710 |
| 2015 | 73,710 |
| 2016-2018 | 213,104 |
| Total Future Minimum Lease Payments | 693,134 |
| Less: Amount Representing Interest | 102,264 |
| Present Value of Future Minimum Lease Payments | \$ 590,870 |

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Both the Ohio Police and Firemen’s Disability and Pension Fund and the Ohio Public Employees Retirement System are reported using GASB Statement No. 27 “Accounting for Pensions by State and Local Governmental Employers”. Substantially all City employees are covered by one of the two cost-sharing multiple-employer defined benefit pension plans, namely, the Police and Firemen’s Disability and Pension Fund or the Ohio Public Employees Retirement System of Ohio (OPERS). Both funds provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries

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 percent 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 that may be obtained by writing to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

CITY OF WASHINGTON COURT HOUSE, OHIO
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The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and employer contribution rates were consistent across all three plans discussed above. Separate divisions for law enforcement and public safety divisions exist only within the Traditional Plan. The 2010 member contribution rates were 10% of their annual salary for members in state and local classifications. Public safety and law enforcement members contributed at a rate of 10.5% and 11.1%, respectively. The City was required to contribute 14% of covered payroll for employees and 17.87% for employees engaged in law enforcement and public safety. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2010, 2009, and 2008 were \$530,607, \$542,968, and \$521,525, respectively: 87 percent has been contributed for 2010 and 100 percent for 2009 and 2008.

Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the city is required to contribute 19.5% for police officers and 24% for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for police and firefighters, respectively were \$247,252 and \$187,384 for the year ended December 31, 2010, \$242,241 and \$197,654 for the year ended December 31, 2009, and \$251,691 and \$201,103 for the year ended December 31, 2008. 73 percent has been contributed for police for 2010 and 100 percent for police for 2009 and 2008. 74 percent has been contributed for fire for 2010 and 100 percent for fire for 2009 and 2008.

NOTE 12 - POSTEMPLOYMENT BENEFITS

Statement 45 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting by Employers for Post-employment benefits other than Pension," establishes standards for disclosure information for postemployment benefits other than pension benefits. Both OPERS and OP&F have post-employment benefits that meet the definition as described in GASB Statement 45

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) maintains a cost-sharing multiple employer defined benefit postemployment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage.

In order to qualify for postemployment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of and Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14% of covered payroll, and public safety and law enforcement employers contributed at 17.87%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2010, the employer contribution allocated to the health care plan was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Actual employer contributions for 2010, 2009 and 2008 which were used to fund postemployment benefits were \$193,000, \$228,000 and \$261,000, respectively; 87 percent has been contributed for 2010 and 100 percent for 2009 and 2008.

The Health Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006-2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final increase in January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependent.

OP&F provides access to post-retirement health care coverage for 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. The health care coverage provided by OP&F meets the definition of and Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of payroll of active pension members, currently 19.5% and 24% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Service Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The City's actual contributions for 2010, 2009 and 2008 that were used to fund postemployment benefits were \$86,000, \$84,000 and \$87,000, respectively for police and \$53,000, \$56,000, and \$57,000, respectively for fire. 73 percent has been contributed for police for 2010 and 100 percent for police for 2009 and 2008. 74 percent has been contributed for fire for 2010 and 100 percent for fire for 2009 and 2008.

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

NOTE 13 – OTHER EMPLOYEE BENEFITS

Compensated Absences

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

Accumulated Unpaid Vacation

City employees earn vacation leave at varying rates based upon length of service. Vacation leave may accumulate up to a maximum of two years for non-salaried employees and three years for salaried employees. In the case of death, termination, or retirement, an employee (or his estate) is paid for the unused vacation.

Accumulated Unpaid Sick Leave

City employees earn sick leave at varying rates based upon length of service and when the employee was hired. Employees who have ten years of service, hired prior to April 12, 1991 and 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.

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

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.

Health Care Benefits

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

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2010, the City contracted with various commercial carriers for property, auto, crime, and liability insurance as well as public official bonds.

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

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

NOTE 15 – RELATED ORGANIZATION

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

NOTE 16 – CONTINGENT LIABILITIES

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

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

NOTE 17 – FUND DEFICITS

At December 31, 2010, the City had deficits in the following funds:

| | |
|----------------------------|-----------|
| Court Special Project Fund | \$ 60,672 |
| Community Corrections Fund | 1,677 |

These deficits are due to accruals recorded for notes payable and accrued salaries. The General Fund provides transfers to cover fund deficit balances; however, this is done when cash is needed and not when accruals occur.

NOTE 18 – SUBSEQUENT EVENTS

On March 1, 2011, the City issued \$2,135,000 in various purpose general obligation bonds to retire outstanding notes related to sewer improvements, fire equipment and infrastructure improvements. Interest rates range from 2.0% to 5.0% and will mature December 1, 2030.



**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards***

City of Washington Court House
Fayette County
105 North Main Street
Washington Court House, OH 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 Court House, Fayette County, Ohio, (the “City”) as of and for the year ended December 31, 2010, which collectively comprise the City’s basic financial statements and have issued our report thereon dated June 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States’ *Government Auditing Standards*.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

City Council
City of Washington Court House
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

Compliance and Other Matters

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

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

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

Balestra, Harr & Scherer, CPAs, Inc.
June 24, 2011

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Dave Yost • Auditor of State

CITY OF WASHINGTON COURT HOUSE

FAYETTE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 4, 2011