

**CITY OF WASHINGTON COURT HOUSE  
FAYETTE COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS***  
**(AUDITED)**

FOR THE YEAR ENDED  
DECEMBER 31, 2012

**TOM RILEY, FINANCE DIRECTOR**





# Dave Yost • Auditor of State

Members of 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 Julian & Grube, Inc., for the audit period January 1, 2012 through December 31, 2012. 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 19, 2013

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**CITY OF WASHINGTON COURT HOUSE  
FAYETTE COUNTY, OHIO**

TABLE OF CONTENTS

Independent Auditor’s Report .....	1 - 2
Management’s Discussion and Analysis .....	3 - 9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position .....	10
Statement of Activities .....	11
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	12
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities .....	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budget (Non-GAAP) Basis - General Fund.....	16
Statement of Net Position - Proprietary Funds.....	17
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds .....	18
Statement of Cash Flows - Proprietary Funds.....	19
Statement of Net Position - Fiduciary Funds .....	20
Statement of Changes in Net Position - Fiduciary Fund .....	21
Notes to the Basic Financial Statements .....	22 - 49
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	50 - 51

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### Independent Auditor's Report

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

To the Members of Council:

#### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Washington Court House, Fayette County, Ohio, as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise the City of Washington Court House's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City of Washington Court House's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City of Washington Court House's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

#### ***Opinion***

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, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the general fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 19 to the financial statements, during 2012, the City of Washington Court House adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2013, on our consideration of the City of Washington Court House'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Washington Court House's internal control over financial reporting and compliance.



Julian & Grube, Inc.  
June 20, 2013

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2012**  
*Unaudited*

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The discussion and analysis of the City of Washington Court House's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. 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**

Some of the City's financial highlights for the year ended December 31, 2012 include:

- The assets of the City exceeded its liabilities at the close of the most recent year by \$37,984,654.
- The City's total net position decreased during the year by \$492,147 or 1%.
- Total unrestricted net position was \$2,504,091.
- The City's total expenses were \$18,884,542, a decrease of \$224,479.
- Program revenues of \$8,789,929 reduced the net cost of the City's functions to be financed from the City's general revenues to \$10,094,613.
- The City's unassigned fund balance of the General Fund totaled \$665,031 at year end, or 10% of General Fund expenditures.

**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 position presents information on all of the City of Washington Court House's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position 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 City's net position 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, public health and leisure time activities. The business-type activities include water and sewer operations; the City closed the pool in 2011.

**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, 2012**  
*Unaudited*

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

The City of Washington Court House maintains 40 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 38 governmental funds are combined into a single, aggregated presentation.

*Proprietary Funds-* The City uses enterprise funds to account for its water and sewer operations. Proprietary funds are reported in the same way that all activities are reported in the statement of net position 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 position 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, 2012**  
*Unaudited*

Table 1 provides a summary of the City's net position for 2012 compared to 2011:

	Governmental Activities		Business-Type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Assets:</b>						
Current and Other Assets	\$ 9,077,507	\$ 8,615,137	\$ 2,254,103	\$ 2,001,314	\$ 11,331,610	\$ 10,616,451
Capital Assets, Net	<u>21,367,782</u>	<u>23,081,666</u>	<u>34,832,286</u>	<u>35,693,968</u>	<u>56,200,068</u>	<u>58,775,634</u>
<b>Total Assets</b>	<u><b>30,445,289</b></u>	<u><b>31,696,803</b></u>	<u><b>37,086,389</b></u>	<u><b>37,695,282</b></u>	<u><b>67,531,678</b></u>	<u><b>69,392,085</b></u>
<b>Liabilities:</b>						
Current and Other Liabilities	3,604,251	3,137,372	658,756	693,066	4,263,007	3,830,438
<b>Long-Term Liabilities:</b>						
Due Within One Year	970,734	911,887	1,304,897	1,250,494	2,275,631	2,162,381
Due in More than One Year	<u>13,503,328</u>	<u>14,226,389</u>	<u>9,505,058</u>	<u>10,696,076</u>	<u>23,008,386</u>	<u>24,922,465</u>
<b>Total Liabilities</b>	<u><b>18,078,313</b></u>	<u><b>18,275,648</b></u>	<u><b>11,468,711</b></u>	<u><b>12,639,636</b></u>	<u><b>29,547,024</b></u>	<u><b>30,915,284</b></u>
<b>Net Position:</b>						
Net investment in capital assets	8,098,140	9,137,669	24,067,182	23,901,632	32,165,322	33,039,301
Restricted	3,315,241	3,390,411	-	-	3,315,241	3,390,411
Unrestricted	<u>953,595</u>	<u>893,075</u>	<u>1,550,496</u>	<u>1,154,014</u>	<u>2,504,091</u>	<u>2,047,089</u>
<b>Total Net Position</b>	<u><b>\$ 12,366,976</b></u>	<u><b>\$ 13,421,155</b></u>	<u><b>\$25,617,678</b></u>	<u><b>\$25,055,646</b></u>	<u><b>\$ 37,984,654</b></u>	<u><b>\$ 38,476,801</b></u>

Total assets decreased by \$1,860,407, or 3%. Current and other assets increased by approximately \$715,000, with increases in receivables for income taxes and payments in lieu of taxes as the City began to see its local economy stabilize. The City's intergovernmental receivables also benefited from an increase in estate taxes over 2011. Capital assets decreased due to depreciation expense exceeding capital additions during 2012, contributing to the net decrease in total assets.

Total liabilities decreased by \$1,368,260, or 4%. Current and other liabilities increased by approximately \$433,000, primarily attributable to liabilities from a CDBG-funded project. Long-term liabilities decreased by approximately \$1.8 million, with the City making its scheduled principal payments and refunding of its Series 2003 Water Revenue Bonds, contributing to the net decrease in total liabilities.

As noted earlier, the City's net position, 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 position (85%) reflects its investments in capital assets (e.g., land, buildings, machinery and equipment, infrastructure) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

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

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2012**  
*Unaudited*

An additional portion of the City's net position (9%) represents resources that are subject to restrictions on how they can be used. The remaining balance of \$2,504,091, or 6%, which is unrestricted net position, may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net position decreased from \$38,476,801 in 2011 to \$37,984,654 in 2012, a change of \$492,147 or 1%.

In order to further understand what makes up the changes in net position for the current year, Table 2 gives readers further details regarding the results of activities for 2011 and 2012.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,640,693	\$ 1,674,680	\$ 5,585,509	\$ 5,601,707	\$ 7,226,202	\$ 7,276,387
Operating Grants/Contributions	786,479	334,826	-	-	786,479	334,826
Capital Grants/Contributions	727,191	540,263	50,057	313,099	777,248	853,362
General Revenues:						
Municipal Income Taxes	5,210,599	5,091,866	-	-	5,210,599	5,091,866
Property and Other Taxes	1,332,598	1,352,510	-	-	1,332,598	1,352,510
Payment in Lieu of Taxes	838,109	852,197	-	-	838,109	852,197
Intergovernmental	1,718,436	1,576,689	-	-	1,718,436	1,576,689
Grants and Entitlements	1,279	3,100	-	-	1,279	3,100
Investment Earnings	25,228	39,391	3,843	10,384	29,071	49,775
Other	227,519	190,206	89,355	131,364	316,874	321,570
Total Revenues	12,508,131	11,655,728	5,728,764	6,056,554	18,236,895	17,712,282
Program Expenses						
Security of Person & Property	4,351,138	4,295,058	-	-	4,351,138	4,295,058
Public Health Services	321,193	300,029	-	-	321,193	300,029
Leisure Time Activities	70,034	67,642	-	-	70,034	67,642
Community Environment	2,090,432	2,172,864	-	-	2,090,432	2,172,864
Transportation	3,320,425	2,964,229	-	-	3,320,425	2,964,229
General Government	2,775,486	2,983,038	-	-	2,775,486	2,983,038
Interest and Fiscal Charges	598,463	595,095	-	-	598,463	595,095
Water	-	-	2,653,918	2,666,071	2,653,918	2,666,071
Sewer	-	-	2,703,453	2,982,948	2,703,453	2,982,948
Pool	-	-	-	82,047	-	82,047
Total Expenses	13,527,171	13,377,955	5,357,371	5,731,066	18,884,542	19,109,021
Excess (Deficit) before Transfers and Special Item	(1,019,040)	(1,722,227)	371,393	325,488	(647,647)	(1,396,739)
Transfers	(35,139)	(39,200)	35,139	39,200	-	-
Special Item	-	-	155,500	-	155,500	-
Change in Net Position	\$ (1,054,179)	\$ (1,761,427)	\$ 562,032	\$ 364,688	\$ (492,147)	\$ (1,396,739)

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2012**  
*Unaudited*

**Governmental Activities**

The most significant program expenses for the City are Security of Persons and Property, General Government, Transportation, and Community Environment. These programs account for 93% of the total governmental activities. Security of Persons and Property, which accounts for 32% of the total, represents costs associated with the operation of the Police Department and costs associated with providing firefighting and emergency medical services. General Government, which accounts for 21% of the total, represents costs associated with the general administration of city government, including the City Council, City Manager, City Auditor and Municipal Court. Transportation, which accounts for 25% of the total, represents costs associated with streets and their upkeep. Community Environment, which accounts for 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 2012 was \$5,210,599. Of the \$12,508,131 in total revenues, income tax accounts for 42% of that total. The property tax revenue and payments in lieu of property taxes for 2012 was \$2,170,707 or 17% of total revenues. The intergovernmental revenue for 2012 was \$1,718,436 or 14% of total revenue.

Total governmental activities revenue increased by approximately \$852,000, or 7%. In addition to increases in income taxes previously discussed, the City received \$433,500 in CDBG funding for rental rehab projects and a contributed radio system valued at approximately \$132,000.

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

	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>
Security of persons and property	\$ 4,351,138	\$ 4,218,409	\$ 4,295,058	\$ 4,227,511
Public health services	321,193	228,152	300,029	214,884
Leisure time activities	70,034	70,034	67,642	67,642
Community environment	2,090,432	1,793,232	2,172,864	1,964,864
Transportation	3,320,425	2,331,768	2,964,229	2,423,601
General government	2,775,486	1,132,750	2,983,038	1,334,589
Interest on long-term debt	<u>598,463</u>	<u>598,463</u>	<u>595,095</u>	<u>595,095</u>
Total Expenses	<u>\$ 13,527,171</u>	<u>\$ 10,372,808</u>	<u>\$ 13,377,955</u>	<u>\$ 10,828,186</u>

It should be noted that 23% 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 \$10,372,808, 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. Total expenses only increased by approximately \$149,000, or 1%.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2012**  
*Unaudited*

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**Business-Type Activities**

The City's major business-type activities include water and sewer operations. The Water fund had operating revenues in 2012 of \$3,081,582, which is an increase of \$18,466 from 2011, or less than 1%. The Sewer Fund had operating revenues in 2012 of \$2,593,282, a decrease of \$33,665 from 2011, or 1%.

**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. Unassigned 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 2012, the total fund balance for the General Fund was \$770,878 of which \$665,031 was unassigned. During the current year, the fund balance of the City's General Fund decreased by \$206,402, or by 21% due to less revenue sharing received from the State of Ohio. Additionally, the General Fund received a one-time transfer of \$238,161 in 2011 from the Capital Improvement Fund with the City's repeal of the 5% income tax allocation for capital improvements. In addition to the General Fund, the City had one other major fund during 2012: The Permanent Improvement Fund. At the end of 2012, the total fund balance of the Permanent Improvement Fund was \$691,144. It experienced a decrease in fund balance during 2012 due to the City's purchase of vehicles, equipment and initiation of several planned projects.

**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 position in the Water Fund increased by \$552,507 or 6%. The net position in the Sewer Fund increased by only \$9,525, or less than 1%. The increase in the Water Fund's net position was attributed to an overall increase in consumption due to drier weather.

**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 and final budgeted revenues were \$6,655,496 and \$6,781,772, respectively, an increase of \$126,276, or 1.9%. Actual revenues were \$6,578,616 due to lower income tax collections. Fines, licenses and permits were also lower than the prior year due to fewer state highway patrols in Fayette County and reduced ticketing from City and county law enforcement agencies.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2012**  
*Unaudited*

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For the General Fund, the original budgeted expenditures of \$6,836,445 were increased during the year to \$7,300,148, or 6.8%, to budget for a retirement and additional court personnel. Actual expenditures were \$6,938,755, approximately \$361,000 less than the final budget due to lower than expected utility costs, due to a mild winter, attrition, and the City deciding to pay court personnel costs out of new court fund.

**Capital Assets and Debt Administration**

The City's net investment in capital assets for governmental and business-type activities as of December 31, 2012, amounts to \$31,986,814 (net of accumulated depreciation and related debt). This investment in capital assets includes land, construction in progress, buildings, improvements, equipment and infrastructure.

Total capital assets for governmental activities of the City of Washington Court House for the year 2012 were \$21,367,782 or \$1,713,884 less than in 2011. This decrease was due mainly to annual depreciation expense.

The decrease in capital assets for business-type activities of \$861,682 to \$34,832,286 as of December 31, 2012 was also due mainly to annual depreciation expense.

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

As of December 31, 2012, the City of Washington Court House had \$24,017,726 in bonds, long-term notes, leases and loans outstanding with \$1,947,258 due within one year.

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.

Revenue bonds in the Water Fund were refinanced during 2012 to receive a lower interest rate. In addition to the bonds, notes and loans, the City's long-term obligations include compensated absences and capital lease obligations. Additional information concerning the City's debt can be found in Note 8 of the notes to the basic financial statements.

**Current Known Facts and Conditions**

Despite a difficult national economy, the City does enjoy local economic stability and with a slight economic growth. Cuts in funding to local governments across the State have had a negative impact on the financial position of the City. Thus far, attrition of the City's workforce has helped to mitigate the full impact of these cuts. However, in the long-term, the City will need to reduce spending on basic services, like police and fire, or raise additional local revenues.

**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 Position

December 31, 2012

		Governmental Activities	Business-Type Activities	Total
<b>Assets</b>				
Equity in pooled cash and investments	\$	3,552,290	1,026,116	4,578,406
Cash held by others		-	300,000	300,000
Cash in segregated accounts		41,552	-	41,552
Receivables:				
Property taxes		1,137,099	-	1,137,099
Income taxes		1,805,433	-	1,805,433
Payment in lieu of taxes		1,118,000	-	1,118,000
Accounts		13,124	617,255	630,379
Loans		61,064	-	61,064
Interest		1,830	784	2,614
Intergovernmental		1,025,500	-	1,025,500
Prepaid items		24,124	63,716	87,840
Supplies inventory		53,601	67,724	121,325
Deferred charges		243,890	178,508	422,398
Nondepreciable capital assets		1,496,375	1,198,935	2,695,310
Depreciable capital assets, net		19,871,407	33,633,351	53,504,758
Total assets		<u>30,445,289</u>	<u>37,086,389</u>	<u>67,531,678</u>
<b>Liabilities</b>				
Accounts payable		744,055	88,008	832,063
Accrued wages payable		143,938	39,590	183,528
Intergovernmental payable		297,316	67,281	364,597
Unearned revenue		2,240,906	-	2,240,906
Accrued interest payable		48,036	113,877	161,913
Notes payable		130,000	350,000	480,000
Noncurrent liabilities:				
Due within one year		970,734	1,304,897	2,275,631
Due in more than one year		13,503,328	9,505,058	23,008,386
Total liabilities		<u>18,078,313</u>	<u>11,468,711</u>	<u>29,547,024</u>
<b>Net Position</b>				
Net investment in capital assets		8,098,140	24,067,182	32,165,322
Restricted for:				
Capital projects		1,062,547	-	1,062,547
Debt service		882,962	-	882,962
Other purposes		1,369,732	-	1,369,732
Unrestricted		953,595	1,550,496	2,504,091
Total net position	\$	<u>12,366,976</u>	<u>25,617,678</u>	<u>37,984,654</u>

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**

Statement of Activities

Year Ended December 31, 2012

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs</b>							
Governmental activities:							
Security of persons and property	\$ 4,351,138	-	-	132,729	(4,218,409)	-	(4,218,409)
Public health services	321,193	93,041	-	-	(228,152)	-	(228,152)
Leisure time activities	70,034	-	-	-	(70,034)	-	(70,034)
Community environment	2,090,432	-	297,200	-	(1,793,232)	-	(1,793,232)
Transportation	3,320,425	695	433,500	554,462	(2,331,768)	-	(2,331,768)
General government	2,775,486	1,546,957	55,779	40,000	(1,132,750)	-	(1,132,750)
Interest on long-term debt	598,463	-	-	-	(598,463)	-	(598,463)
Total governmental activities	<u>13,527,171</u>	<u>1,640,693</u>	<u>786,479</u>	<u>727,191</u>	<u>(10,372,808)</u>	<u>-</u>	<u>(10,372,808)</u>
Business-type activities:							
Water	2,653,918	3,017,616	-	-	-	363,698	363,698
Sewer	2,703,453	2,567,893	-	50,057	-	(85,503)	(85,503)
Total business-type activities	<u>5,357,371</u>	<u>5,585,509</u>	<u>-</u>	<u>50,057</u>	<u>-</u>	<u>278,195</u>	<u>278,195</u>
<b>Total</b>	<b>\$ <u>18,884,542</u></b>	<b><u>7,226,202</u></b>	<b><u>786,479</u></b>	<b><u>777,248</u></b>	<b><u>(10,372,808)</u></b>	<b><u>278,195</u></b>	<b><u>(10,094,613)</u></b>
General revenues and transfers:							
Taxes:							
Income taxes					5,210,599	-	5,210,599
Property taxes					1,332,598	-	1,332,598
Payment in lieu of taxes					838,109	-	838,109
Intergovernmental					1,718,436	-	1,718,436
Grants and contributions not restricted to specific programs					1,279	-	1,279
Investment earnings					25,228	3,843	29,071
Miscellaneous					227,519	89,355	316,874
Transfers					(35,139)	35,139	-
Total general revenues and transfers					<u>9,318,629</u>	<u>128,337</u>	<u>9,446,966</u>
Special item - sale of land					-	<u>155,500</u>	<u>155,500</u>
Change in net position					(1,054,179)	562,032	(492,147)
Net position beginning of year					<u>13,421,155</u>	<u>25,055,646</u>	<u>38,476,801</u>
Net position end of year					<u>\$ 12,366,976</u>	<u>25,617,678</u>	<u>37,984,654</u>

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**

Balance Sheet

Governmental Funds

December 31, 2012

	General Fund	Permanent Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in pooled cash and investments	\$ 432,968	698,946	2,420,376	3,552,290
Cash in segregated accounts	25,954	-	15,598	41,552
Receivables:				
Property taxes	358,742	-	778,357	1,137,099
Income taxes	1,245,119	311,017	249,297	1,805,433
Payment in lieu of taxes	-	-	1,118,000	1,118,000
Accounts	5,736	-	7,388	13,124
Loans	-	-	61,064	61,064
Interest	1,830	-	-	1,830
Intergovernmental	665,088	-	360,412	1,025,500
Prepays	21,219	-	2,905	24,124
Supplies inventory	-	-	53,601	53,601
<b>Total assets</b>	<b><u>2,756,656</u></b>	<b><u>1,009,963</u></b>	<b><u>5,066,998</u></b>	<b><u>8,833,617</u></b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	64,432	174,517	505,106	744,055
Notes payable	-	-	130,000	130,000
Accrued wages payable	121,159	-	22,779	143,938
Intergovernmental payable	264,900	-	32,416	297,316
Deferred revenue	<u>1,535,287</u>	<u>144,302</u>	<u>2,337,254</u>	<u>4,016,843</u>
<b>Total liabilities</b>	<b><u>1,985,778</u></b>	<b><u>318,819</u></b>	<b><u>3,027,555</u></b>	<b><u>5,332,152</u></b>
<b>Fund balances:</b>				
Nonspendable	21,219	-	56,506	77,725
Restricted	-	691,144	2,071,673	2,762,817
Committed	-	-	40,593	40,593
Assigned	84,628	-	-	84,628
Unassigned	<u>665,031</u>	<u>-</u>	<u>(129,329)</u>	<u>535,702</u>
<b>Total fund balances</b>	<b><u>770,878</u></b>	<b><u>691,144</u></b>	<b><u>2,039,443</u></b>	<b><u>3,501,465</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 2,756,656</u></b>	<b><u>1,009,963</u></b>	<b><u>5,066,998</u></b>	<b><u>8,833,617</u></b>

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to  
Net Position of Governmental Activities  
December 31, 2012

<b>Total governmental fund balances</b>	\$	3,501,465
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		21,367,782
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Income taxes receivable		837,660
Intergovernmental and other receivables		861,744
Interest		1,276
Delinquent property taxes		75,257
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		(12,715,000)
Unamortized bond premiums		(209,039)
Lease/purchase agreement		(381,093)
Compensated absences		(960,530)
Accrued interest on long-term debt		(48,036)
OPWC loan		(208,400)
Deferred charges associated with long-term liabilities are not reported in the funds.		243,890
 <b>Net position of governmental activities</b>	 \$	 <u>12,366,976</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, 2012

	General Fund	Permanent Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Property taxes	\$ 334,641	-	1,007,809	1,342,450
Municipal income taxes	3,546,810	870,712	715,061	5,132,583
Intergovernmental	1,035,978	40,000	1,572,731	2,648,709
Charges for services	951,857	-	93,041	1,044,898
Fines, licenses and permits	501,527	-	305,992	807,519
Interest	29,218	-	631	29,849
Payment in lieu of taxes	-	-	838,109	838,109
Other	290,378	8,103	63,046	361,527
Total revenues	<u>6,690,409</u>	<u>918,815</u>	<u>4,596,420</u>	<u>12,205,644</u>
<b>Expenditures:</b>				
Current:				
Security of persons and property	3,703,464	-	392,583	4,096,047
Public health services	34,750	-	271,581	306,331
Leisure time activities	67,150	-	-	67,150
Community environment	799,639	-	859,592	1,659,231
Transportation	-	-	1,306,557	1,306,557
General government	2,291,808	-	386,215	2,678,023
Capital outlay	-	1,090,014	24,273	1,114,287
Debt service:				
Principal retirement	-	105,932	570,000	675,932
Interest and fiscal charges	-	36,167	562,506	598,673
Total expenditures	<u>6,896,811</u>	<u>1,232,113</u>	<u>4,373,307</u>	<u>12,502,231</u>
Excess of revenues over (under) expenditures	<u>(206,402)</u>	<u>(313,298)</u>	<u>223,113</u>	<u>(296,587)</u>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	20,000	20,000
Transfers out	-	-	(20,000)	(20,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(206,402)	(313,298)	223,113	(296,587)
Fund balance, beginning of year	<u>977,280</u>	<u>1,004,442</u>	<u>1,816,330</u>	<u>3,798,052</u>
Fund balance, end of year	<u>\$ 770,878</u>	<u>691,144</u>	<u>2,039,443</u>	<u>3,501,465</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, 2012

**Net change in fund balances - total governmental funds** \$ (296,587)

*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	785,049	
Depreciation expense	<u>(2,488,056)</u>	(1,703,007)

In the statement of activities, loss on disposal of capital assets is reported whereas only proceeds from sales are reported in the funds. (10,877)

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

Income taxes receivable	78,016	
Intergovernmental and other receivables	238,944	
Interest	(4,621)	
Delinquent property taxes	<u>(9,852)</u>	302,487

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

Compensated absences	(22,337)	
Amortization of bond issuance costs	(12,196)	
Amortization of bond premiums	<u>10,619</u>	(23,914)

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due. 1,787

Repayment of bond, note, and lease principal is an expenditure in the governmental funds, but the payments reduce long-term liabilities in the statement of net position. 675,932

**Change in net position of governmental activities** \$ (1,054,179)

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, 2012

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance From Final <u>Budget</u>
<b>Revenues:</b>				
Property and other taxes	\$ 330,000	330,000	334,641	4,641
Municipal income taxes	3,610,000	3,610,000	3,534,761	(75,239)
Intergovernmental	1,003,300	1,057,300	1,058,204	904
Charges for services	823,696	883,972	882,024	(1,948)
Fines, licenses and permits	598,000	598,000	514,007	(83,993)
Interest	70,000	70,000	29,841	(40,159)
Other	<u>220,500</u>	<u>232,500</u>	<u>225,138</u>	<u>(7,362)</u>
Total revenues	<u>6,655,496</u>	<u>6,781,772</u>	<u>6,578,616</u>	<u>(203,156)</u>
<b>Expenditures:</b>				
Current:				
Security of persons and property	3,740,412	3,762,212	3,632,679	129,533
Public health services	35,000	35,000	34,750	250
Leisure time activities	75,109	75,109	68,251	6,858
Community environment	794,717	875,732	870,757	4,975
General government	<u>2,191,207</u>	<u>2,552,095</u>	<u>2,332,318</u>	<u>219,777</u>
Total expenditures	<u>6,836,445</u>	<u>7,300,148</u>	<u>6,938,755</u>	<u>361,393</u>
Excess of revenues over (under) expenditures	<u>(180,949)</u>	<u>(518,376)</u>	<u>(360,139)</u>	<u>158,237</u>
<b>Other sources (uses):</b>				
Transfers out	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>	<u>15,000</u>
Total other financing sources (uses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>	<u>15,000</u>
Net change in fund balance	(195,949)	(533,376)	(360,139)	173,237
Fund balance, beginning of year	709,512	709,512	709,512	-
Prior year encumbrances appropriated	<u>34,283</u>	<u>34,283</u>	<u>34,283</u>	<u>-</u>
Fund balance, end of year	\$ <u>547,846</u>	<u>210,419</u>	<u>383,656</u>	<u>173,237</u>

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**

Statement of Net Position

Proprietary Funds

December 31, 2012

	Enterprise Funds			Totals
	Water	Sewer	Nonmajor Enterprise Fund	
<b>Assets</b>				
Current assets:				
Equity in pooled cash and investments	\$ 497,148	528,829	139	1,026,116
Cash held by others	300,000	-	-	300,000
Receivables:				
Accounts	332,414	284,841	-	617,255
Interest	392	392	-	784
Prepaid Items	32,326	31,390	-	63,716
Supplies inventory	67,724	-	-	67,724
Total current assets	<u>1,230,004</u>	<u>845,452</u>	<u>139</u>	<u>2,075,595</u>
Noncurrent assets:				
Deferred charges	178,508	-	-	178,508
Nondepreciable capital assets	936,721	262,214	-	1,198,935
Depreciable capital assets, net	14,089,662	19,543,689	-	33,633,351
Total noncurrent assets	<u>15,204,891</u>	<u>19,805,903</u>	<u>-</u>	<u>35,010,794</u>
Total assets	<u>16,434,895</u>	<u>20,651,355</u>	<u>139</u>	<u>37,086,389</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts payable	22,676	65,332	-	88,008
Accrued wages payable	19,949	19,641	-	39,590
Intergovernmental payable	31,622	35,659	-	67,281
Accrued interest payable	51,453	62,424	-	113,877
Notes payable	-	350,000	-	350,000
Loans payable	195,129	359,958	-	555,087
Compensated absences payable	36,259	28,551	-	64,810
Revenue bonds payable	685,000	-	-	685,000
Total current liabilities	<u>1,042,088</u>	<u>921,565</u>	<u>-</u>	<u>1,963,653</u>
Noncurrent liabilities:				
Compensated absences payable	99,890	51,643	-	151,533
Loans payable	1,766,973	3,300,723	-	5,067,696
Revenue bonds payable	4,285,829	-	-	4,285,829
Total noncurrent liabilities	<u>6,152,692</u>	<u>3,352,366</u>	<u>-</u>	<u>9,505,058</u>
Total liabilities	<u>7,194,780</u>	<u>4,273,931</u>	<u>-</u>	<u>11,468,711</u>
<b>Net Position</b>				
Net investment in capital assets	8,271,960	15,795,222	-	24,067,182
Unrestricted	968,155	582,202	139	1,550,496
Total net position	<u>\$ 9,240,115</u>	<u>16,377,424</u>	<u>139</u>	<u>25,617,678</u>

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Funds  
Year Ended December 31, 2012

	Enterprise Funds			Totals
	Water	Sewer	Nonmajor Enterprise Fund	
<b>Operating revenues:</b>				
Charges for services	\$ 3,017,616	2,567,893	-	5,585,509
Other	63,966	25,389	-	89,355
Total operating revenues	<u>3,081,582</u>	<u>2,593,282</u>	-	<u>5,674,864</u>
<b>Operating expenses:</b>				
Personnel services	970,967	1,012,957	-	1,983,924
Contractual services	365,937	522,934	-	888,871
Supplies and materials	232,555	172,197	-	404,752
Other	390,833	342,172	-	733,005
Depreciation	280,511	522,977	-	803,488
Total operating expenses	<u>2,240,803</u>	<u>2,573,237</u>	-	<u>4,814,040</u>
Operating income	840,779	20,045	-	860,824
<b>Non-operating revenues (expenses):</b>				
Interest revenue	2,093	1,750	-	3,843
Interest expense and fiscal charges	(413,115)	(130,216)	-	(543,331)
Total non-operating revenues (expenses)	<u>(411,022)</u>	<u>(128,466)</u>	-	<u>(539,488)</u>
Income (loss) before contributions, transfers, and special item	429,757	(108,421)	-	321,336
Capital contribution	-	85,196	-	85,196
Transfers in	-	32,750	-	32,750
Transfers out	(32,750)	-	-	(32,750)
Special item - sale of land	155,500	-	-	155,500
Change in net position	552,507	9,525	-	562,032
Net position, beginning of year	<u>8,687,608</u>	<u>16,367,899</u>	<u>139</u>	<u>25,055,646</u>
Net position, end of year	\$ <u>9,240,115</u>	<u>16,377,424</u>	<u>139</u>	<u>25,617,678</u>

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**

Statement of Cash Flows

Proprietary Funds

Year Ended December 31, 2012

	Enterprise Funds			Totals
	Water	Sewer	Nonmajor Enterprise Fund	
<b>Cash flows from operating activities:</b>				
Cash received from customers	\$ 3,039,004	2,589,299	-	5,628,303
Cash payments for employee services and benefits	(1,014,886)	(1,032,531)	-	(2,047,417)
Cash payments to suppliers for goods and services	(614,079)	(662,057)	-	(1,276,136)
Cash payments for other operating expenses	(382,280)	(345,404)	-	(727,684)
Cash received from other operating revenue	63,966	25,389	-	89,355
Net cash provided by operating activities	<u>1,091,725</u>	<u>574,696</u>	<u>-</u>	<u>1,666,421</u>
<b>Cash flows from noncapital financing activities:</b>				
Contribution of capital	-	50,057	-	50,057
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of capital assets	(51,167)	-	-	(51,167)
Proceeds from sale of assets	300,000	-	-	300,000
Principal paid on capital lease	-	(47,628)	-	(47,628)
Interest paid on capital lease	-	(2,429)	-	(2,429)
Proceeds from notes and bonds	5,180,000	350,000	-	5,530,000
Principal payments	(5,781,855)	(694,038)	-	(6,475,893)
Interest paid on notes and bonds	(460,642)	(133,616)	-	(594,258)
Net cash used by capital and related financing activities	<u>(813,664)</u>	<u>(527,711)</u>	<u>-</u>	<u>(1,341,375)</u>
<b>Cash flows from investing activities:</b>				
Interest	3,215	2,872	-	6,087
Net change	281,276	99,914	-	381,190
Cash and pooled investments beginning of year	515,872	428,915	139	944,926
Cash and pooled investments end of year	<u>797,148</u>	<u>528,829</u>	<u>139</u>	<u>1,326,116</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	840,779	20,045	-	860,824
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	280,511	522,977	-	803,488
Changes in assets and liabilities:				
Receivables	21,388	21,406	-	42,794
Prepaid items	(1,605)	(7)	-	(1,612)
Supplies inventory	(485)	-	-	(485)
Accounts payable	(4,944)	29,718	-	24,774
Accrued wages	(21,529)	(20,106)	-	(41,635)
Intergovernmental payable	(755)	2,951	-	2,196
Compensated absences payable	(21,635)	(2,288)	-	(23,923)
Net cash provided by operating activities	\$ <u>1,091,725</u>	<u>574,696</u>	<u>-</u>	<u>1,666,421</u>

Noncash contribution: During 2012, the Sewer Fund received a dump truck and communications tower totaling \$67,889.

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**

Statement of Net Position

Fiduciary Funds

December 31, 2012

	<u>Private- Purpose Trust Fund</u>	<u>Agency Funds</u>
<b><i>Assets</i></b>		
Equity in pooled cash and cash equivalents	\$ 15,607	33,949
Cash in segregated accounts	<u>-</u>	<u>33,715</u>
Total assets	<u>15,607</u>	<u>67,664</u>
<b><i>Liabilities</i></b>		
Intergovernmental payable	-	26,002
Deposits held and due to others	<u>-</u>	<u>41,662</u>
Total liabilities	<u>-</u>	<u>67,664</u>
<b><i>Net Position</i></b>		
Held in trust	\$ <u>15,607</u>	

See accompanying notes to the basic financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**

Statement of Changes in Net Position

Fiduciary Fund

Year Ended December 31, 2012

	<u>Private- Purpose Trust Fund</u>
<b><i>Additions:</i></b>	
Miscellaneous	\$ <u>3,696</u>
Total additions	<u>3,696</u>
<b><i>Deductions:</i></b>	
Contractual Services	<u>6,791</u>
Total deductions	<u>6,791</u>
Change in net position	(3,095)
Net position, beginning of year	<u>18,702</u>
Net position, end of year	\$ <u><u>15,607</u></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, 2012**

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**NOTE 1 – DESCRIPTION OF THE ENTITY**

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

As required by generally accepted accounting principles, the basic financial statements present the City of Washington Court House (the primary government) and any component units. The City considered potential component units for inclusion in the financial statements. In determining whether to include a government department, agency, commission or organization as a component unit, the City must evaluate each entity as to whether they are legally separate and financially accountable based on criteria set forth by Governmental Accounting Standards Board (GASB). 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 accounting principles generally accepted in the United States of America (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 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 position 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 position 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, 2012**

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

The statement of net position 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, 2012**

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

Proprietary funds: Proprietary fund reporting focuses on changes in net position, 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 position. 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 funds account for assets that are held pending determination of their disposition. The City's three agency funds consist of the Law Enforcement Trust, Betterment of Inma, and Street Replacement.

Measurement Focus

Governmental-Wide Financial Statements

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

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 liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position present increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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, 2012**

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

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 revenue 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, 2012, but which were levied to finance year 2013 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, 2012**

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

Expenses/Expenditures

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

Budgetary Accounting and Control

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

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

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

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

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

Tax Budget

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

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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

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 2012.

Reconciliation of Budget Basis to GAAP Basis

While reporting financial position, results of operations and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (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 (Non-GAAP 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 restricted, committed or assigned fund balance (GAAP).

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

Net change in fund balance - GAAP Basis	\$ (206,402)
Increase / (decrease):	
Due to revenues	(111,793)
Due to expenditures	8,624
Due to encumbrances	<u>(50,568)</u>
Net change in fund balance - Budget Basis	\$ <u><u>(360,139)</u></u>

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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

Cash and Investments

Cash and investments of the City's funds, except those held in restricted asset accounts, are pooled and invested in short-term investments in order to provide improved cash management. During 2012, 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), and U.S. agencies securities. 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, 2012.

During 2012, the General Fund earned interest of \$29,218, of which \$24,171 was assigned from other funds.

Receivables

Receivables at December 31, 2012 consist of property and income taxes, interest, consumer accounts (billings for user charged services, included unbilled utility services), loans and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered collectible in full, including accounts receivables which, if delinquent, may be certified and collected as a special assessment, subject to foreclosure for nonpayment.

Loans receivable in the Non-major Governmental Funds represent low interest loans made by the City for community development projects and small businesses under the Community Development Block Grants (CDBG) program. The loans bear interest at annual rates ranging from 3 to 6 percent. The loans are to be repaid over periods ranging from 10 to 20 years.

Inventories

Inventories are presented at cost on a first-in, first-out basis and are expensed when used. 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.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012 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 position 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 position and in the respective funds.

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

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

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

Interest is capitalized on proprietary fund capital assets acquired with tax-exempt debt. There was no interest required to be capitalized during the 2012 fiscal year.

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.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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

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 funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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

Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

***Nonspendable*** – The nonspendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The “not in a spendable form” criterion includes items that are not expected to be converted into cash.

***Restricted*** – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

***Committed*** – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

***Assigned*** – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the City Council.

***Unassigned*** – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, or unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its 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 position is available.

Restricted for other purposes represents balances of State and Federal grants in Special Revenue Funds. Of the City's \$3,315,241 restricted net position, none is restricted by enabling legislation.

Estimates

The preparation of financial statements in conformity with GAAP 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.

Special Item

The City sold land during the year. The proceeds from the sale are being held by the Community Improvement Corporation of Washington for future land development and reported in the statements as cash held by others.

**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;

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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**NOTE 3 – DEPOSITS AND INVESTMENTS - continued**

- (2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- (3) Written repurchase agreements in the securities listed above, provided that the 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**  
**Year Ended December 31, 2012**

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**NOTE 3 – DEPOSITS AND INVESTMENTS - continued**

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 \$1,588,831 and the bank balance was \$1,718,933. The City’s bank balance was covered by FDIC and collateralized with securities held by the pledging financial institution’s trust department or agent, respectively.

At December 31, 2012, \$300,000 was being maintained by the Community Improvement Corporation of Washington for land development.

Investments: The City’s investments at December 31, 2012 are summarized as follows:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Concentration of Credit Risk</u>
FNMA	\$ 1,250,565	4.40	40.16%
FHLMC	497,475	4.99	15.97%
Negotiable Certificate of Deposit	185,952	0.88	5.97%
STAROhio	28,639	-	0.92%
Series HH Bonds	6,000	-	0.19%
Money Markets	<u>1,145,767</u>	-	<u>36.79%</u>
	<u>\$ 3,114,398</u>		<u>100.00%</u>

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

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

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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**NOTE 3 – DEPOSITS AND INVESTMENTS - continued**

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 and public utility property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of 2011 taxes.

2012 real property taxes are levied after October 1, 2012 on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

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

Public utility tangible personal property current is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes, which became a lien December 31, 2011 are levied after October 1, 2012, and are collected in 2013 with real property taxes.

The Fayette County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Washington Court House. The County Auditor periodically remits to the City its portion of the taxes collected. The assessed value upon which the 2012 taxes were collected was \$209,868,210. The full tax rate for all City operations applied for real property for fiscal year ended December 31, 2012 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.

Accrued property taxes receivable represents delinquent taxes outstanding and real tangible personal and public utility taxes which were measurable as of December 31, 2012. 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 2012 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, 2012**

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**NOTE 5 – INTERFUND ACTIVITY**

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.

Interfund transfers in the Fund Financial Statements for the year ended December 31, 2012, consisted of \$20,000 being transferred from the Nonmajor Governmental Court-Police Project Fund to the Nonmajor Governmental Court Supervision Fund, as instructed by a court order, and a \$32,750 dump truck transferred from the Water Fund to the Sewer Fund. In the Government-wide Financial Statements, a \$35,139 communications tower was transferred from Governmental Activities to Business-Type Activities. This transaction was reported in the Fund Financial Statements as a capital contribution in the Sewer Fund.

**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, permanent improvements, and the safety building, as determined by the Council.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

**NOTE 7 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Balance</u> <u>1/1/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/12</u>
<b>Governmental Activities:</b>				
<i>Nondepreciable Capital Assets:</i>				
Land	\$ 1,078,475	\$ -	\$ -	\$ 1,078,475
Construction in progress	-	417,900	-	417,900
<i>Total Nondepreciable Capital Assets</i>	<u>1,078,475</u>	<u>417,900</u>	<u>-</u>	<u>1,496,375</u>
<i>Depreciable Capital Assets:</i>				
Land Improvements	494,483	-	-	494,483
Buildings and Improvements	9,187,379	24,739	-	9,212,118
Equipment and Vehicles	5,374,087	342,410	(249,381)	5,467,116
Infrastructure	51,110,435	-	-	51,110,435
<i>Total Depreciable Capital Assets</i>	<u>66,166,384</u>	<u>367,149</u>	<u>(249,381)</u>	<u>66,284,152</u>
<i>Accumulated Depreciation:</i>				
Land Improvements	(480,983)	(3,000)	-	(483,983)
Buildings and Improvements	(790,923)	(208,974)	-	(999,897)
Equipment and Vehicles	(3,726,332)	(306,221)	238,504	(3,794,049)
Infrastructure	(39,164,955)	(1,969,861)	-	(41,134,816)
<i>Total Accumulated Depreciation</i>	<u>(44,163,193)</u>	<u>(2,488,056)</u>	<u>238,504</u>	<u>(46,412,745)</u>
<i>Total Govt Activities Capital Assets, Net</i>	<u>\$ 23,081,666</u>	<u>\$ (1,703,007)</u>	<u>\$ (10,877)</u>	<u>\$ 21,367,782</u>

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

**NOTE 7 – CAPITAL ASSETS – continued**

Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$	381,802
Leisure Time Activities		2,884
Public Health		14,972
Transportation		2,010,765
General Government		<u>77,633</u>
Total Depreciation Expense	\$	<u><u>2,488,056</u></u>

	<u>Balance</u>		<u>Additions</u>		<u>Deletions</u>		<u>Balance</u>
	<u>1/1/12</u>						<u>12/31/12</u>
<b>Business Type Activities:</b>							
<i>Nondepreciable Capital Assets:</i>							
Land	\$ 1,343,435	\$ -	\$ (144,500)	\$			1,198,935
<i>Total Nondepreciable Capital Assets</i>	<u>1,343,435</u>	<u>-</u>	<u>(144,500)</u>				<u>1,198,935</u>
<i>Depreciable Capital Assets:</i>							
Land Improvements	748,769	-	-				748,769
Buildings and Improvements	26,530,419	35,139	-				26,565,558
Equipment and Vehicles	3,042,419	51,167	(17,777)				3,075,809
Infrastructure	<u>22,424,022</u>	<u>-</u>	<u>-</u>				<u>22,424,022</u>
<i>Total Depreciable Capital Assets</i>	<u>52,745,629</u>	<u>86,306</u>	<u>(17,777)</u>				<u>52,814,158</u>
<i>Accumulated Depreciation:</i>							
Land Improvements	(716,892)	(7,028)	-				(723,920)
Buildings and Improvements	(7,774,279)	(297,959)	-				(8,072,238)
Equipment and Vehicles	(2,842,359)	(13,621)	17,777				(2,838,203)
Infrastructure	<u>(7,061,566)</u>	<u>(484,880)</u>	<u>-</u>				<u>(7,546,446)</u>
<i>Total Accumulated Depreciation</i>	<u>(18,395,096)</u>	<u>(803,488)</u>	<u>17,777</u>				<u>(19,180,807)</u>
<i>Total Bus. Activities Capital Assets, Net</i>	<u>\$ 35,693,968</u>	<u>\$ (717,182)</u>	<u>\$ (144,500)</u>	\$			<u>34,832,286</u>

Depreciation expense was charged to segments as follows:

Water	\$	280,511
Sewer		<u>522,977</u>
Total Depreciation Expense	\$	<u><u>803,488</u></u>

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

**NOTE 8 – LONG-TERM LIABILITIES**

The changes in the City’s long-term liabilities for the year ended December 31, 2012 were as follows:

	<u>Balance at 1/1/12</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at 12/31/12</u>	<u>Amount Due Within One Year</u>
<i>Governmental Activities:</i>					
Various Purpose 2007 GO Bonds:					
Note Refinancing	\$ 1,835,000	-	(80,000)	1,755,000	85,000
Safety Services	6,345,000	-	(335,000)	6,010,000	350,000
Tax Increment Financing	3,040,000	-	(90,000)	2,950,000	95,000
Premium on Series 2007	187,961	-	(8,951)	179,010	-
Various Purpose 2011 GO Bonds:					
Road Way Improvement	745,000	-	(30,000)	715,000	30,000
Refunding	440,000	-	(35,000)	405,000	35,000
Fire Apparatus	915,000	-	(35,000)	880,000	40,000
Premium on Series 2011	31,697	-	(1,668)	30,029	-
Lease/Purchase Agreement	440,116	-	(59,023)	381,093	60,262
OPWC Loan	220,309	-	(11,909)	208,400	11,909
Compensated Absences Payable	938,193	512,154	(489,817)	960,530	263,563
<i>Total Governmental Activities</i>	<u>\$ 15,138,276</u>	<u>512,154</u>	<u>(1,176,368)</u>	<u>14,474,062</u>	<u>970,734</u>

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 4.125% to 5.0% and will mature fully in 2032.

On March 8, 2011, the City issued \$2,135,000 various purpose refunding general obligation bonds. The proceeds of the issue included \$1,660,000 to refinance bond anticipation notes and related costs issued to pay for roadway improvements and fire equipment and \$475,000 to currently refund the outstanding Series 1997 Capital Improvement Bonds. The interest rate on the Series 2011 bonds range from 2.0% to 5.0% and will mature fully in 2030.

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 Permanent Improvement Fund, the Safety Building Improvement Fund, and various TIF Funds. Compensated absences will be paid by the fund which pays the employee’s salary.

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 six 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 eighteen years from the Permanent Improvement Fund.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

**NOTE 8 – LONG-TERM LIABILITIES** – *continued*

	<u>Balance</u> <u>at 1/1/12</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>at 12/31/12</u>	<u>Amount Due</u> <u>Within One</u> <u>Year</u>
<b><i>Business Type Activities:</i></b>					
Water System Bonds:					
Series 2003 Revenue Refunding \$	5,505,000	-	(5,505,000)	-	-
Series 2012 Revenue Refunding	-	5,180,000	(90,000)	5,090,000	685,000
Premium on Series 2012	-	99,002	(12,375)	86,627	-
Deferred amount on refunding	-	(235,198)	29,400	(205,798)	-
OWDA Sewer Loan	3,979,749	-	(339,876)	3,639,873	351,635
OWDA Water Loan	2,148,957	-	(186,855)	1,962,102	195,129
Capital Lease	47,628	-	(47,628)	-	-
Sewer Issue II Note	24,970	-	(4,162)	20,808	8,323
Compensated Absences Payable	240,266	141,051	(164,974)	216,343	64,810
<b><i>Total Business Type Activities</i></b>	<b>\$ 11,946,570</b>	<b>5,184,855</b>	<b>(6,321,470)</b>	<b>10,809,955</b>	<b>1,304,897</b>

The Sewer Issue II note payable matures in 2015 and is non-interest bearing and will be repaid from the Sewer Fund.

In March 2012, the City issued \$5,180,000 in water system revenue refunding bonds. The proceeds were used to currently refund the outstanding Series 2003 water system revenue refunding bonds. The current refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new bonds) of \$248,665. The interest rate on the Series 2012 bonds is 2.0%, will mature in 2019, and will be retired through the Water Fund using water utility revenues.

In connection with the revenue bonds listed above, the City 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 \$5,505,100.

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 City 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 \$6,632,552.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

**NOTE 8 – LONG-TERM LIABILITIES** – *continued*

Principal and interest requirements to retire the City’s governmental activities’ outstanding notes and bonds as of December 31, 2012, are as follows:

		<u>Series 2007 Bonds</u>		<u>Series 2011 Bonds</u>		<u>OPWC</u>
		<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2013	\$	530,000	500,969	105,000	75,460	11,909
2014		545,000	478,444	105,000	73,360	11,909
2015		570,000	455,281	115,000	71,260	11,909
2016		595,000	431,056	115,000	68,385	11,909
2017		625,000	405,769	115,000	65,510	11,909
2018-2022		3,595,000	1,553,269	585,000	268,850	59,545
2023-2027		3,250,000	622,850	500,000	161,985	59,540
2028-2032		1,005,000	139,725	360,000	36,500	29,770
Total	\$	<u>10,715,000</u>	<u>4,587,363</u>	<u>2,000,000</u>	<u>821,310</u>	<u>208,400</u>

Principal and interest requirements to retire the City’s business-type activities’ outstanding notes, bonds, and loans as of December 31, 2012, are as follows:

		<u>Issue II</u>	<u>Water Revenue Bonds</u>		<u>OWDA Loans</u>	
		<u>Principal</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$	8,323	685,000	101,800	546,764	205,685
2014		8,323	700,000	88,100	567,568	184,880
2015		4,162	710,000	74,100	589,176	163,271
2016		-	730,000	59,900	611,619	140,828
2017		-	740,000	45,300	634,929	117,519
2018-2021		-	1,525,000	45,900	2,651,919	218,394
Total	\$	<u>20,808</u>	<u>5,090,000</u>	<u>415,100</u>	<u>5,601,975</u>	<u>1,030,577</u>

**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 - 2.625%	12/28/2011	\$ 140,000	-	140,000	-
Court Special Project BAN - 2.5%	12/27/2012	-	130,000	-	130,000
		\$ <u>140,000</u>	<u>130,000</u>	<u>140,000</u>	<u>130,000</u>
<u>Business-Type Activities:</u>					
Wastewater Treatment System BAN - 2.625%	12/28/2011	\$ 350,000	-	350,000	-
Wastewater Treatment System BAN - 2.5%	12/27/2012	-	350,000	-	350,000
		\$ <u>350,000</u>	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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**NOTE 9 – SHORT-TERM OBLIGATIONS** – *continued*

The City issued \$490,000 in various purpose bond anticipation notes on December 28, 2011. \$350,000 of the notes was issued to pay for engineering costs related to the sewer treatment plant and was paid with user fees of the Sewer Fund. The other \$140,000 was issued to pay for court related equipment and was paid with court fees from the Court Special Project Fund. In December 2012, the City issued bond anticipation notes in the amount of \$480,000 that provided funding to rollover the bond anticipation notes issued in December 2011.

**NOTE 10 – CAPITAL LEASES**

The City previously entered into lease agreements for sewer equipment of \$227,145 and energy-saving equipment of \$610,000. The sewer equipment lease was paid off during the year. The energy-saving equipment was scheduled to be repaid over ten years and has six years remaining. This lease obligation meets the criteria of a capital lease as defined by GASB Statement No. 62, 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.

The following is a schedule of the future minimum lease payments for the capital lease, and the present value of the future minimum lease payments at December 31, 2012:

<b>Year Ending December 31</b>		
2013	\$	76,268
2014		75,002
2015		73,710
2016		72,391
2017		71,044
2018		<u>69,669</u>
Total Future Minimum Lease Payments		438,084
Less: Amount Representing Interest		<u>56,991</u>
Present Value of Future Minimum Lease Payments	\$	<u><u>381,093</u></u>

**NOTE 11 - 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

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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**NOTE 11 - PENSION PLANS - continued**

**Ohio Public Employees Retirement System**

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension 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. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension 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, by visiting <https://www.opers.org/investments/cafr.shtml>, or by calling (614) 222-6705 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and employer contribution rates were consistent across all three plans. The 2012 member contribution rates were 10% of their annual salary for members in state and local classifications. The City was required to contribute 14% of covered payroll for employees. The City's required contributions to OPERS for the years ended December 31, 2012, 2011, and 2010 were \$529,000, \$548,000, and \$531,000, respectively; 87% has been contributed for 2012 and 100% for 2011 and 2010.

**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, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to OP&F the fund for police and firefighters, respectively were \$221,000 and \$214,000 for the year ended December 31, 2012, \$229,000 and \$209,000 for the year ended December 31, 2011, and \$247,000 and \$187,000 for the year ended December 31, 2010. 79% has been contributed for police officers for 2012 and 100% for police officers for 2011 and 2010. 70% has been contributed for firefighters for 2012 and 100% for fire for 2011 and 2010.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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**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**

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 an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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 coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14% of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code. 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 Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan was 4.0% during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered to 1% for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's contributions for 2012, 2011 and 2010 which were used to fund postemployment benefits were \$151,000, \$157,000, and \$193,000, respectively; 87% has been contributed for 2012 and 100% for 2011 and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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**NOTE 12 - POSTEMPLOYMENT BENEFITS** – *continued*

Ohio Police and Fire Pension Fund

The City contributes to the 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 an 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.

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 24.0% 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 24.0% 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, 2012, 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 contributions allocated to the healthcare plan for 2012, 2011 and 2010 were \$76,000, \$79,000, and \$86,000, respectively for police, and \$60,000, \$59,000, and \$53,000, respectively for fire. 79% has been contributed for police for 2012 and 100% for police for 2011 and 2010. 70% has been contributed for fire for 2012 and 100% for fire for 2011 and 2010.

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.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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**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. City employees who have ten years of service, hired prior to March 1, 1992 for police officers, July 1, 1992 for firefighters, and April 12, 1991 for all other employees, 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.

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 2012, 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.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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**NOTE 14 - RISK MANAGEMENT** – *continued*

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 set forth by GASB 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**

**Litigation**

The City has been assessed a penalty of \$3,150,500 by the Ohio Environmental Protection Agency. The City is vehemently contesting the amount of the penalty and is vigorously defending its position. The outcome is undeterminable at this time.

**Federal and State Grants**

The City received federal and state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. The City believes all expenditures meet grant qualifications.

**NOTE 17 – FUND DEFICITS**

At December 31, 2012, the City had deficits in the following funds:

Nonmajor Governmental Funds:	
Court Special Project Fund	\$ 101,759
Voted Police Levy Fund	17,362
Voted Street Light Levy Fund	<u>10,208</u>
	<u>\$ 129,329</u>

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.

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

**NOTE 18 – FUND BALANCES**

Fund balance is classified as nonspendable, restricted, committed, assigned and unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and nonmajor governmental funds are presented below:

<u>Fund Balances</u>	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><i>Nonspendable</i></b>				
Prepays	\$ 21,219	-	2,905	24,124
Inventory	-	-	53,601	53,601
<b><i>Total Nonspendable</i></b>	<u>21,219</u>	<u>-</u>	<u>56,506</u>	<u>77,725</u>
<b><i>Restricted for</i></b>				
Police	-	-	29,106	29,106
Fire	-	-	71,425	71,425
Streets	-	-	340,117	340,117
Cemetery	-	-	354,536	354,536
Community development	-	-	47,408	47,408
Municipal court	-	-	121,428	121,428
Debt service	-	162,842	768,156	930,998
Capital projects	-	528,302	274,278	802,580
Other purposes	-	-	65,219	65,219
<b><i>Total Restricted</i></b>	<u>-</u>	<u>691,144</u>	<u>2,071,673</u>	<u>2,762,817</u>
<b><i>Committed to</i></b>				
Bridge maintenance	-	-	40,593	40,593
<b><i>Total Committed</i></b>	<u>-</u>	<u>-</u>	<u>40,593</u>	<u>40,593</u>
<b><i>Assigned to</i></b>				
Budget Resource	84,419	-	-	84,419
Economic Development	209	-	-	209
<b><i>Total Assigned</i></b>	<u>84,628</u>	<u>-</u>	<u>-</u>	<u>84,628</u>
<b><i>Unassigned (Deficit)</i></b>	<u>665,031</u>	<u>-</u>	<u>(129,329)</u>	<u>535,702</u>
<b><i>Total Fund Balance</i></b>	<u>\$ 770,878</u>	<u>691,144</u>	<u>2,039,443</u>	<u>3,501,465</u>

**CITY OF WASHINGTON COURT HOUSE, OHIO**  
**Notes to the Basic Financial Statements**  
**Year Ended December 31, 2012**

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**NOTE 19 – CHANGE IN ACCOUNTING PRINCIPLES**

The City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 62 incorporates Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989 into GASB authoritative literature. GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position.

**NOTE 20– COMMITMENTS**

As discussed previously, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end, the amount of encumbrances outstanding was as follows:

General Fund	\$ 50,568
Permanent Improvement	203,207
Nonmajor Governmental Funds	<u>475,820</u>
	\$ <u>729,595</u>



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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

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

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Washington Court House's basic financial statements and have issued our report thereon dated June 20, 2013, wherein we noted as discussed in Note 19, the City of Washington Court House adopted Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the City of Washington Court House's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City of Washington Court House's internal control. Accordingly, we have not opined on it.

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 combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City of Washington Court House's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Members of Council  
City of Washington Court House

***Compliance and Other Matters***

As part of reasonably assuring whether the City of Washington Court House'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, opining 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*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Government's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City of Washington Court House's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.  
June 20, 2013

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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 1, 2013**