



Dave Yost
Auditor of State



Fund Accounting

Presented by:
Local Government Services

Ohio Auditor of State
Dave Yost

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Course Objectives

Answer the following questions:

- What is Fund Accounting?
- Why use Fund Accounting?
- How does Fund Accounting work?
- Different types of Funds
- Why and how do you create a new Fund?



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What is Fund Accounting?

- Fund accounting is the activity of analyzing, recording, summarizing, reporting, and interpreting the financial transactions of governments.
- This is accomplished through the use of Funds.



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Okay, So What is a Fund?

A Fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual balances, which are segregated for the purposes of carrying on specific activities in accordance with specific regulations, restrictions, or limitations.



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Interpretation Please!!

A fund segregates the monies of the entity according to legal or purpose restrictions.



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Why Fund Accounting?

- Fund accounting is the way governments track revenues with purpose restrictions against the expenditures made for those purposes.
- Fund accounting makes it easier to identify which monies are available for specific purposes.



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How Funds Work

- Villages/Townships generally have one checking account that is used for all funds.
- How does the Village/Township know how much of the checking account balance is allocated to each fund?



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How Funds Work

- A proper cashbook or cash journal is essential (see Appendix A)
 - Separate columns for receipts, disbursements, and fund balances for each fund
 - Total columns for receipts, disbursements, and fund balances



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There are 3 different fund types:

- Governmental Funds
- Proprietary Funds
- Fiduciary Funds



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Governmental Funds

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Permanent Funds



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General Fund

The operating fund of the government, 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 government for any purpose provided it is disbursed or transferred in accordance with Ohio law.



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Special Revenue Funds

Used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.



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Debt Service Funds

Used to account for financial resources that are restricted, committed, or assigned to expenditure for principal and interest.



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Capital Projects Funds

Used to account for financial resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of capital facilities and/or other capital assets.



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Permanent Funds

Used to account for the financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizens.



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Proprietary Funds

- Enterprise Funds
- Internal Service Funds



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Enterprise Funds

Used to account for any activity for which a fee is charged to external users for goods or services.



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Internal Service Funds

Used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.



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Fiduciary Funds

Used to report assets held in a trustee capacity for others and cannot be used to support the government's own programs.

- Pension Trust
- Investment Trust
- Private Purpose Trust
- Agency



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Pension Trust

Used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.



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Investment Trust

Used to account for the financial resources of an external investment pool that the government sponsors.

- Somewhat Rare



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Private Purpose Trust

Used to report all trust arrangements, other than those properly reported in pension or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments.



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Agency

Purely custodial in nature.

The Village/Township collects money on behalf of another entity and then remits the money to them.



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Why Create New Funds

- You have a new source of money that is legally or contractually required to be recorded separately from the other funds or is restricted by an outside resource provider.



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Why Create New Funds

- Example: The Village/Township receives a donation, in which the donator specifies for what purpose the money can be spent. The fund type will be determined by the purpose of the expenditure.



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How to Create a New Fund

- Look to AOS Bulletin 99-006 for guidance (see Appendix B)
- If it is not established by law, (ORC 5705.09 - referred to in Appendix B) either specifically, or in general, permission to establish a new fund comes from the Auditor of State's Office.



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AOS Permission

- Required under the following circumstances:
 - When management has to capture additional financial information about a specific revenue source or activity;
or
 - When the fund will be used to account for restricted gifts or bequests that will not be held in trust.



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AOS Approval

New and separate funds are justified:

- When the fund will provide information that can't be obtained with the addition of accounts within an already existing fund, or
- When it is necessary to demonstrate compliance with legal or contractual restrictions.



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Chart of Accounts

- A chart of accounts has been established as a way to standardize reporting requirements of local governments.
 - Identifies specific revenue source and expenditure type.



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Chart of Accounts

- The chart of accounts should be used by all Villages/Townships to maintain uniform accounting practices.
- The Village Officer's Handbook and Ohio Township Handbook both include appendices that detail the chart of accounts.
 - www.auditor.state.oh.us/publications



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Any Village
Cash Journal
9/30/2004

Receipts	Expenditures	Balances	Date	Particulars	Receipts #	Warrant #	Fund
		\$ 74,274.00	09/01/04	Opening Balances			
2,312.50		76,586.50	09/05/04	MVL TAX	831		2011
187.50		76,774.00	09/05/04	MVL TAX	831		2021
	1,500.00	75,274.00	09/01/04	BUGS BUNNY		7350	1000
	1,000.00	74,274.00	09/01/04	TOM		7351	2011
	5,000.00	69,274.00	09/02/04	JERRY		7352	1000
	2,500.00	66,774.00	09/02/04	SYLVESTER		7353	2011
	200.00	66,574.00	09/02/04	TWEETY		7354	1000
	350.00	66,224.00	09/02/04	MICKEY MOUSE		7355	2011
	500.00	65,724.00	09/05/04	MINNIE MOUSE		7356	2021
	500.00	65,224.00	09/05/04	GOOFEY		7357	2011
	500.00	64,724.00	09/05/04	PLUTO		7358	2011
	450.00	64,274.00	09/05/04	DONALD DUCK		7359	2021
	1,000.00	63,274.00	09/05/04	DAISY DUCK		7360	1000
	18.00	63,256.00	09/05/04	WINNIE THE POOH		7361	2021
	525.00	62,731.00	09/08/04	TIGGER		7362	2011
	200.00	62,531.00	09/08/04	PIGLET		7363	1000
	500.00	62,031.00	09/08/04	RABBIT		7364	2021
	1,000.00	61,031.00	09/08/04	ROO		7365	1000
	750.00	60,281.00	09/08/04	OWL		7366	2021
36,250.00		96,531.00	09/15/04	LOCAL GOVERNMENT REVENUE	832		1000
	100.00	96,431.00	09/10/04	ROAD RUNNER		7367	1000
	100.00	96,331.00	09/10/04	WIL E. COYOTE		7368	2011
500.00		96,831.00	09/30/04	PERMITS	834		1000
	2,500.00	94,331.00	09/10/04	ELMER FUDD		7369	2011
	750.00	93,581.00	09/10/04	PORKY PIG		7370	1000
	125.00	93,456.00	09/10/04	SPONGE BOB		7371	2011
	250.00	93,206.00	09/15/04	GEORGE JETSON		7372	1000
	2,800.00	90,406.00	09/15/04	ASTRO		7373	2021
	1,000.00	89,406.00	09/15/04	JANE		7374	1000
	150.00	89,256.00	09/15/04	BARNEY RUBBLE		7375	1000
	250.00	89,006.00	09/15/04	FRED FLINTSTONE		7376	1000
	750.00	88,256.00	09/18/04	DINO		7377	2011
	1,250.00	87,006.00	09/18/04	PEBBLES		7378	1000
	500.00	86,506.00	09/18/04	BAMBAM		7379	2021
	1,500.00	85,006.00	09/18/04	SCOOBY DOO		7380	1000
	250.00	84,756.00	09/18/04	SHAGGY		7381	2021
	1,250.00	83,506.00	09/18/04	NEMO		7382	1000
5,000.00		88,506.00	09/30/04	TRANSFERS IN			2021
	5,000.00	83,506.00	09/30/04	TRANSFERS OUT			1000
	18.00	83,488.00	09/30/04	SERVICE CHARGE			1000
610.00		84,098.00	09/30/04	INTEREST	835		1000
		84,098.00	09/30/04	INTEREST	835		2011
		84,098.00	09/30/04	INTEREST	835		2021
\$44,860.00	\$ 35,036.00	\$ 84,098.00		TOTALS			

General Fund		Ongoing	Street Maintenance		Ongoing	State Highway		Ongoing
Expenditures	Receipts	Balance	Expenditures	Receipts	Balance	Expenditures	Receipts	Balance
		\$ 37,398.00			\$ 6,177.00			\$ 30,699.00
		37,398.00		2,312.50	8,489.50			30,699.00
		37,398.00			8,489.50		187.50	30,886.50
1,500.00		35,898.00			8,489.50			30,886.50
		35,898.00	1,000.00		7,489.50			30,886.50
5,000.00		30,898.00			7,489.50			30,886.50
		30,898.00	2,500.00		4,989.50			30,886.50
200.00		30,698.00			4,989.50			30,886.50
		30,698.00	350.00		4,639.50			30,886.50
		30,698.00			4,639.50	500.00		30,386.50
		30,698.00	500.00		4,139.50			30,386.50
		30,698.00	500.00		3,639.50			30,386.50
		30,698.00			3,639.50	450.00		29,936.50
1,000.00		29,698.00			3,639.50			29,936.50
		29,698.00			3,639.50	18.00		29,918.50
		29,698.00	525.00		3,114.50			29,918.50
200.00		29,498.00			3,114.50			29,918.50
		29,498.00			3,114.50	500.00		29,418.50
1,000.00		28,498.00			3,114.50			29,418.50
		28,498.00			3,114.50	750.00		28,668.50
	36,250.00	64,748.00			3,114.50			28,668.50
100.00		64,648.00			3,114.50			28,668.50
		64,648.00	100.00		3,014.50			28,668.50
	500.00	65,148.00			3,014.50			28,668.50
		65,148.00	2,500.00		514.50			28,668.50
750.00		64,398.00			514.50			28,668.50
		64,398.00	125.00		389.50			28,668.50
250.00		64,148.00			389.50			28,668.50
		64,148.00			389.50	2,800.00		25,868.50
1,000.00		63,148.00			389.50			25,868.50
	-150.00	62,998.00			389.50			25,868.50
250.00		62,748.00			389.50			25,868.50
		62,748.00	750.00		-360.50			25,868.50
1,250.00		61,498.00			-360.50			25,868.50
		61,498.00			-360.50	500.00		25,368.50
1,500.00		59,998.00			-360.50			25,368.50
		59,998.00			-360.50	250.00		25,118.50
1,250.00		58,748.00			-360.50			25,118.50
		58,748.00			-360.50		5,000.00	30,118.50
5,000.00		53,748.00			-360.50			30,118.50
18.00		53,730.00			-360.50			30,118.50
	311.10	54,041.10			-360.50			30,118.50
		54,041.10		48.80	-311.70			30,118.50
		54,041.10			-311.70		250.10	30,368.60
\$ 20,268.00	\$36,911.10	\$ 54,041.10	\$ 8,850.00	\$ 2,361.30	\$ (311.70)	\$ 5,768.00	\$ 5,437.60	\$ 30,368.60

AUDITOR OF STATE BULLETIN 99-006
APRIL 6, 1999

TO: Fiscal Officer of All Subdivisions
All Independent Public Accountants

SUBJECT: Requests for New Funds

The Auditor of State receives numerous requests to establish new funds under the provisions of Ohio Rev. Code §5705.12 which states:

In addition to the funds provided for by sections 5705.09, 5705.121, 5705.13, and 5705.131 of the Revised Code, the taxing authority of a subdivision may establish, with the approval of and in the manner prescribed by the auditor of state, such other funds as are desirable, and may provide by ordinance or resolution that money derived from specified sources other than the general property tax shall be paid directly into such funds. The auditor of state shall consult with the tax commissioner before approving such funds.

The purpose of this Bulletin is to identify when a request under this code section is required and when a local government may create a new fund without the Auditor of State's approval.

When Requests are Unnecessary

Approval to establish a new fund is unnecessary when the creation of the desired fund is already authorized or required by statute. Whenever the creation of a fund is authorized or required by statute, either specifically by name, or in general, a separate letter requesting permission to establish the fund is not required.

Examples of specific statutory requirements are found in Ohio Rev. Code §3313.81, which requires that school districts establish food service funds, and in Ohio Rev. Code §5747.50, which requires that each county establish an undivided local government fund. Similar statutory provisions requiring the creation of a specific fund are scattered throughout the Revised Code.

General statutory requirements for the creation of funds are found in **Ohio Rev. Code §5705.09**. This code section states:

Each subdivision shall establish the following funds:

(A) General fund;

(B) Sinking fund whenever the subdivision has outstanding bonds other than serial bonds;

- (C) Bond retirement fund, for the retirement of serial bonds, notes, or certificates of indebtedness;
- (D) A special fund for each special levy;
- (E) A special bond fund for each bond issue;
- (F) A special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose;
- (G) A special fund for each public utility operated by a subdivision;
- (H) A trust fund for any amount received by a subdivision in trust.

Based on this statute, it is unnecessary to continue to request permission from the Auditor of State to establish a new fund when the purpose of the fund will be to record and expend the proceeds of debt, to account for a new grant whose use is restricted to a particular purpose or to account for money received in trust.

When Requests are Necessary

It is necessary to continue to submit requests to the Auditor of State when the creation of the fund is not specifically authorized by statute or when the purpose of the fund is not identified in Ohio Rev. Code §5705.09 (A) - (H). Situations in which it would be appropriate to continue to submit requests include: 1) when management wishes to create a new fund in order to capture additional financial information about a specific source of revenue or a specific activity; 2) when the fund will be used to account for restricted gifts or bequests that will not be held in trust; and 3) when management wants to impose internal restrictions on the use of otherwise unrestricted resources

Management often asks to create a new fund to determine how much revenue a specific source generates or how money from a specific source is being spent. In circumstances where the desired financial information can be obtained by creating additional accounts within an existing fund, the creation of a separate fund is generally considered unnecessary. An exception to this policy is made for requests for the creation of proprietary funds.

Proprietary funds are intended to account for activities that are similar to businesses. The activity is at least partially financed by charges for services or goods. Rates are usually set by the legislative authority, and the desire is to maintain accounting records which can demonstrate the extent that charges cover the costs of providing the goods or services. This is accomplished by tracking all revenues and the related expenses of an activity within a single fund. Requests for the creation of a proprietary fund are usually granted.

Sending a request to establish a new fund is still appropriate when the fund will be used to

account for restricted gifts or bequests not held in trust. The creation of a trust fund is not necessary to account for restricted gifts or donations; this money may be accounted for in a special revenue fund or, if restricted to the acquisition of fixed assets, in a capital projects fund. A trust fund is recommended only when there is a formal trust agreement with the donor. Requests to account for restricted gifts and donations are routinely granted based on the need to demonstrate compliance with donor restrictions.

Letters frequently request permission for a new fund based on management's wish to place internal restrictions on the use of otherwise unrestricted resources. These types of requests are generally not approved. It is the policy of the Auditor of State to refuse requests when approval would result in giving readers of financial statements the false impression that the use of the resources in the fund is restricted. The General Assembly has begun authorizing the creation of funds using unrestricted resources in certain specific circumstances. For example, H.B. 426 allows subdivisions to create funds for the payment of compensated absences and for the acquisition of fixed assets. The Auditor of State does not feel it is appropriate to extend this ability into areas where the legislature has not acted.

When responding to requests to establish new funds, the Auditor of State applies two basic guidelines. Separate funds are justified 1) when they will provide management with additional relevant financial information which is not obtainable using the current fund structure; and 2) when necessary to demonstrate compliance with legal or contractual restrictions.

When the purpose of a fund created under the provisions of Ohio Rev. Code §5705.12 has been fulfilled, the unexpended balance may be transferred to the general fund or to the bond retirement fund, but only after the payment of all obligations incurred and payable from the fund. (See Ohio Rev. Code §5705.14) Management may not simply modify or alter the purpose of the fund; that, in effect, creates a new fund and would require a second approval from the Auditor of State.

To request the creation of a new fund, complete the attached form. Send the form and a copy of the resolution or ordinance of the legislative authority authorizing the fund to:

Auditor of State's Office
Local Government Services Division
88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

The request can be deemed approved if you do not receive a letter disapproving the request from the Auditor of State's local government services division within 30 days from the date of submission.

Questions concerning this bulletin should be addressed to the Local Government Services Division of the State Auditors Office at (800) 345-2519.

AUDITOR OF STATE
REQUEST FOR FUND APPROVAL

Entity: _____

Fiscal Officer: _____

Phone No.: _____

Request Date: _____

Fund Requested: _____

Purpose of Fund: _____

Sources of Revenues: _____

Anticipated Expenditures: _____
(Types)

NOTE: Please attach a copy of the resolution requesting approval to establish the fund.



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**How to Read
Financial Reports**

Presented by: April C. Davis
Assistant Chief Project Manager

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Today's topics

- Why is your GAAP-Like Format OCBOA Report so important?
- How to get the most out of your OCBOA Report



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Why is your financial report so important?

- It gives a clear picture of your financial position
- It demonstrates the need for financial resources
- It provides evidence of how financial resources are being used
- It can help prevent financial distress in the future



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Who benefits from the use of your financial report?

- YOU! (the Reporting Entity)
- Auditors / Preparers
- The general public / Taxpayers
- Bond rating agencies
- Purchasers of debt



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Things to Keep in Mind

- Comparisons are key
 - looking at current year information is important, but making comparisons to prior years and/or comparing to similar entities can give you better insight of your overall financial condition
- Every entity is unique
 - when calculating ratios and analyzing numbers, remember the nature of your entity; what is right for one may not work for another



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Statement of Net Assets

- Structure as follows:
 - List assets first, then liabilities (if applicable), then net assets
 - List in order of liquidity starting with the most easily converted to cash
 - Divide net assets into three categories: capital assets net of related debt, restricted, unrestricted



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Statement of Net Assets

- Provides a quick look at your financial position
 - look at the change – did things improve, deteriorate, or did assets shift?
- Calculate the *magnitude* of the change:
net assets / total expenses
 - a higher ratio means better financial position



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Statement of Net Assets

- Comparing to similar sized entities in 2007:
 - Village of Chagrin Falls
unavailable
 - Village of Gates Mills
 $\$3,381,889 / 7,950,830 = 43\%$
 - Village of Mayfield
unavailable
 - Village of Wellsville
 $\$666,253 / 1,615,829 = 41\%$



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Statement of Activities

- Structure as follows:
 - Present operations by "program"
 - Allocate program revenues to the function or program that generates the revenue or for which the revenue is restricted
 - Program disbursements – program revenues = net disbursements
 - General revenues finance the net disbursements that are not funded by program revenues



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Statement of Activities

- Shows taxpayers where their money is being spent and why their money is needed
 - Expense lines that show net disbursements are being covered by general revenues such as property and income taxes
 - e.g. – Police and Fire show net disbursements of \$878,224 and \$367,564. Property Taxes Levied for Safety Forces brings in a total of \$182,180. This demonstrates the need for additional sources of revenue to cover these disbursements.



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Statement of Activities

- Calculate distribution of disbursements:

	Cash Disbursement	2007		
		% Distribution	2005	2004
General Government	908,666	24%	24%	27%
Security of Persons and Property:				
Police	1,113,694	29%	27%	29%
Fire	442,180	12%	16%	19%
Leisure Time Activities	161,177	4%	3%	2%
Community Environment	848,895	17%	19%	6%
Transportation	496,413	13%	8%	10%
Principal Retirement	33,764	1%	3%	6%
Interest and Fiscal Charges	2,022	0%	1%	1%
	3,836,872	100%	100%	100%

- good internal tool to analyze spending habits and see where adjustments need to be made (may be helpful to compare to prior years)



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Statement of Activities

- Compare to similar sized entities in 2007:

	Happiesee	Gates Mills	Wellsville
General Government	24%	16%	26%
Security of Persons and Property	41%	19%	45%
Public Health	0%	0%	5%
Leisure Time Activities	4%	4%	1%
Community Environment	17%	0%	6%
Basic Utility Services	0%	4%	0%
Transportation	13%	14%	8%
Capital Outlay	0%	5%	2%
Principal Retirement	1%	3%	7%
Interest and Fiscal Charges	0%	1%	0%
	100%	100%	100%

- this analysis shows a much higher distribution of resources going toward community environment expenditures in comparison to other entities



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Fund Financial Statements

- Similar to government-wide financials
 - same analyses can be done at the fund level (changes in fund balance, receipt and disbursement distributions by fund)
 - help to pinpoint areas that are doing well and those that are struggling



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Fund Financial Statements

- General fund assets to expenditures
 - 2007: $\$475,394/2,204,638 = 22\%$
 - 2004: $(\$361,091)/2,308,648 = (16\%)$
- Other governmental funds
 - 2007: $\$1,185,388/1,632,174 = 73\%$
 - 2004: $\$469,891/974,206 = 48\%$

General fund ratio improved while other governmental funds deteriorated.



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Fund Financial Statements

- Compare to other entities in 2007:
 - General fund assets to expenditures
 - Village of Gates Mills
 $\$1,437,127/3,882,627 = 37\%$
 - Village of Wellsville
 $\$171,279/897,426 = 19\%$
- In 2007, the City of Happiness' General fund is doing well in comparison to these entities



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MD&A

- Structure as follows:
 - Conceptual information about your entity's financial statements
 - An analysis of the financial information in the statements
 - Activities during the year regarding capital assets and long-term debt
 - Physical condition of infrastructure (if applicable)
 - Currently known facts bearing on the future finances of the government



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MD&A

- Great source of comparative information
- Allows entity to explain the activities underlying the numbers
- Highlights the major changes that occurred and the reasons behind those changes



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Notes – what's the big deal?

- Notes to the financial statements are management's tool for clarifying and supporting information provided in the financial statements.



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Basic rules in note preparation

- Include required disclosures
- Include only what you need
- Make sure that your disclosures are accurate (modify templates)
- Make sure the information ties to financial statements
- Check for changes in authoritative guidance
- Remember – these are your notes



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Planning for the Future

- Ultimately, when used properly, your financial statements can be a helpful tool for forecasting and preventing.....



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City of Happiness, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

The management's discussion and analysis for the City of Happiness's financial performance provides an overall review of the Government's financial activities for the year ended December 31, 2007, within the limitations of the Government's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Government's financial performance.

Financial Highlights

The City faced numerous challenges during 2007. The major challenges were to reduce expenditures in the general fund, street fund and water operating fund as well as maintain a balanced budget in all other funds.

- The City of Happiness utilized the services of the Regional Income Tax Agency (R.I.T.A.) during 2007. R.I.T.A. administers and collects the City's income taxes as of January 1, 2005. As a result, income tax collections for the City's General Fund are remaining consistent with the prior year, due in part to accelerated collections of delinquencies, collecting from prior non-filers, and enforcing the payment of quarterly estimated taxes by individuals.
- Major Grants: The major grants received by the City are CDBG, CHIP and Small Cities Formula Allocation Grants.
- Due primarily to negotiated wage freezes, and the reduction of expenditures in key departments, the City was able to eliminate the General Fund deficit balance.
- The deficit in the Street Fund was eliminated due mainly to cost cutting measures and diligence by the City's administration to keep the expenditures down. Transfers from the General Fund to the Area Agency on Aging, Street, and State Issue II funds also helped to maintain positive balances in those funds.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the City's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the City as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the City as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

City of Happiness, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
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Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The City has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the City's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the City of Happiness as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the City did financially during 2007, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the City at year-end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the City's general receipts.

These statements report the City's cash position and the changes in the cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the City's financial health. Over time, increases or decreases in the City's cash position is one indicator of whether the City's financial health is improving or deteriorating. When evaluating the City's financial condition, you should also consider other nonfinancial factors as well, such as the City's property tax base, the extent of the City's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, we divide the City into two major types of activities:

- *Governmental Activities* - Most of the City's programs and services are reported here, including general government, security of persons and property, leisure time activities, community environment and transportation. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the City's programs. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.
- *Business-Type Activities* - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The City has two enterprise funds, the water and sewer funds.

City of Happiness, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

Reporting on the Most Significant Funds of the City of Happiness

Fund Financial Statements

The analysis of the City's major funds begins on page 16. The fund financial reports give a detailed report of the activities within the funds. The City currently has thirty-five funds. These funds are in existence to provide a multitude of services to the citizens of Happiness. Each fund is in some ways an entity unto itself. Each fund has a designed revenue stream and restricted uses for the monies within the fund.

Governmental Funds All of the City's major activities (excluding the water and sewer funds) are reported in the governmental funds. This report shows how monies flow into and out of these funds and also shows what balances are available for future expenditures. The accounting method used to report this activity is the cash method. This method reports cash and like-cash items that can be converted into cash. This shows what level of financial resources is available or will be available to provide the services that the general government provides in the near future. These services include police and fire protection, as well as improving and maintaining the City's streets, parks, and city hall. The relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the government funds is reconciled in the financial statements.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the Government. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the City's programs.

The City of Happiness as a Whole

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

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Equity in Pooled Cash and Cash Equivalents	\$1,660,782	\$1,071,150	\$333,950	\$235,435	\$1,994,732	\$1,306,585
Net Assets						
Restricted for:						
Capital Projects	145,526	70,401	0	0	145,526	70,401
Other Purposes	1,039,862	830,850	0	0	1,039,862	830,850
Unrestricted (Deficit)	475,394	169,899	333,950	235,435	809,344	405,334
Total Net Assets	\$1,660,782	\$1,071,150	\$333,950	\$235,435	\$1,994,732	\$1,306,585

City of Happiness, Ohio
Management's Discussion and Analysis
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Net Assets of governmental activities increased \$589,632, or 55.05 percent during 2007. The primary reasons contributing to the increases in cash balances are an increase in program revenues and reductions in hospitalization and other employee benefit costs as a result of staff reductions and retirements.

Table 2 reflects the changes in net assets in 2007 from 2006.

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program Revenues						
Charges for Services	\$562,640	\$574,329	\$1,602,113	\$1,594,541	\$2,164,753	\$2,168,870
Operating Grants and Contributions	1,101,347	815,460	0	0	1,101,347	815,460
Capital Grants and Contributions	42,948	493,678	0	0	42,948	493,678
<i>Total Program Revenues</i>	<u>1,706,935</u>	<u>1,883,467</u>	<u>1,602,113</u>	<u>1,594,541</u>	<u>3,309,048</u>	<u>3,478,008</u>
General Revenues						
Property Taxes	413,612	411,701	0	0	413,612	411,701
Income Taxes	1,799,528	1,827,148	0	0	1,799,528	1,827,148
Grants and Entitlements	412,825	454,024	0	0	412,825	454,024
Investment Earnings	75,972	40,940	13,681	11,589	89,653	52,529
Proceeds of Notes	0	0	0	0	0	0
Premium on Notes	0	0	0	0	0	0
Miscellaneous	7,572	0	14,405	7,889	21,977	7,889
<i>Total General Revenues</i>	<u>2,709,509</u>	<u>2,733,813</u>	<u>28,086</u>	<u>19,478</u>	<u>2,737,595</u>	<u>2,753,291</u>
<i>Total Revenues</i>	<u>4,416,444</u>	<u>4,617,280</u>	<u>1,630,199</u>	<u>1,614,019</u>	<u>6,046,643</u>	<u>6,231,299</u>
Program Expenses						
General Government	938,666	910,183	0	0	938,666	910,183
Security of Persons and Property:						
Police	1,113,694	1,178,953	0	0	1,113,694	1,178,953
Fire	442,180	489,429	0	0	442,180	489,429
Leisure Time Activities	161,177	151,066	0	0	161,177	151,066
Community Environment	648,896	428,438	0	0	648,896	428,438
Transportation	496,413	702,589	0	0	496,413	702,589
Principal Retirement	33,764	96,009	0	0	33,764	96,009
Interest and Fiscal Charges	2,022	9,074	0	0	2,022	9,074
Water	0	0	1,521,684	1,580,331	1,521,684	1,580,331
Sewer	0	0	0	0	0	0
<i>Total Program Expenses</i>	<u>3,836,812</u>	<u>3,965,741</u>	<u>1,521,684</u>	<u>1,580,331</u>	<u>5,358,496</u>	<u>5,546,072</u>
Transfers	10,000	0	(10,000)	0	0	0
<i>Change in Net Assets</i>	<u>589,632</u>	<u>651,539</u>	<u>98,515</u>	<u>33,688</u>	<u>688,147</u>	<u>685,227</u>
<i>Net Assets (Deficit) Beginning of Year</i>	<u>1,071,150</u>	<u>419,611</u>	<u>235,435</u>	<u>201,747</u>	<u>1,306,585</u>	<u>621,358</u>
<i>Net Assets End of Year</i>	<u>\$1,660,782</u>	<u>\$1,071,150</u>	<u>\$333,950</u>	<u>\$235,435</u>	<u>\$1,994,732</u>	<u>\$1,306,585</u>

Program revenues represent only 54.73 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, fine money allocated to and restricted for use by the municipal court and grant money restricted by the State and Federal granting agencies. In addition, 48.42 percent of program revenue receipts are revenues received in the water fund for water usage.

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General receipts represent 45.27 percent of the total receipts, and of this amount, over 80.84 percent are taxes. Grants and entitlements not restricted for any purpose make up 15.08 percent of general receipts. Investment earnings and miscellaneous receipts are insignificant and are somewhat unpredictable revenue sources.

Disbursements for general government represent the overhead costs of running the City and the support services provided for the other Governmental activities. These include the costs of council, the mayor, administration, law, finance (income tax, central cash, accounts payable, and payroll), and the Municipal Court.

Security of persons and property are the costs of police and fire protection; public health services are provided under a contract with the County District Board of Health; leisure time activities are the costs of maintaining the parks and playing fields; community environment represents expenditures for private residential rehab and other activities through the CHIP program, and other activities which include road paving under the Small Cities Formula Allocation Program, both of which are funded with Federal Community Development Block Grants. Transportation is the cost of maintaining the roads.

A separate five-year, three mill Safety Forces Levy provides approximately \$200,000 net of County Auditor and Treasurer's fees annually, allocated \$100,000 each to offset salaries from the Police and Fire Departments.

Debt service on the debt issued to acquire assets in the governmental-type activities is paid from income tax, real estate and personal property tax, gas tax, interest income, fees, licenses, permits and other various revenue sources.

Outstanding debt due to governmental-type activities was the result of payments on a lease-purchase of a fire truck, and payments on the prior accrued liability for police and fire pension funds.

In the business-type activities, user fees from a specific monthly charge per account are the primary revenue source for the repayment of debt. A decrease in debt from the business-type activities was the result of making OWDA and OPWC payments during the year.

The decrease in governmental liabilities was due to a reduction in expenditures in several of the City's departments.

Governmental Activities

If you look at the Statement of Activities on pages 14 and 15, you will see that the first column lists the major services provided by the City. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for general government, which includes the municipal court, security of persons and property, leisure time activities, community environment and transportation. General government expenditures account for 24.47 percent of all governmental disbursements. Security of persons and property, leisure time activities, community environment, transportation and debt service account for 40.55 percent, 4.20 percent, 16.91 percent, 12.94 percent and 0.93 percent, respectively, of governmental expenditures. The next three columns of the Statement of Activities entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and grants received by the government that must be used to provide a specific service. The Disbursements Receipt column compares the program receipts to the cost of the service. This "net cost" amount represents

City of Happiness, Ohio
Management's Discussion and Analysis
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the cost of the service, which is predominately money provided by local taxpayers. These net costs are paid from the general receipts that are presented at the bottom of the Statement of Activities. A comparison between the total cost of services and the net cost of services is presented in Table 3.

(Table 3)

	Governmental and Business-Type		Governmental and Business-Type	
	Total Cost Of Services 2007	Net Cost of Services 2007	Total Cost Of Services 2006	Net Cost of Services 2006
General Government	\$938,666	\$739,907	\$910,183	\$689,066
Security of Persons and Property:				
Police	1,113,694	878,224	1,178,953	913,955
Fire	442,180	367,564	489,429	398,174
Leisure Time Activities	161,177	139,442	151,066	138,426
Community Environment	648,896	28,932	428,438	(14,483)
Transportation	496,413	(59,978)	702,589	(147,947)
Principal Retirement	33,764	33,764	96,009	96,009
Interest and Fiscal Charges	2,022	2,022	9,074	9,074
Water	1,521,684	(80,429)	1,580,331	(14,210)
Total Expenses	\$5,358,496	\$2,049,448	\$5,546,072	\$2,068,064

Governmental Activities

The dependence upon property and income tax receipts is apparent as over \$2,213,140, or 57.68 percent of governmental activities are supported through these receipts.

Funding for governmental activities is derived from several sources, the largest of which is the City's municipal income tax. The income tax rate is 2.50 percent and generated \$1,799,528 in revenue for 2007, accounting for approximately 40.75 percent of governmental activities revenue. The revenue collected from the income tax was receipted into the following funds: 90 percent went to the general fund and 10 percent to the Park operating fund. Unrestricted State shared revenues (local government funds) received through the County for 2007 were \$412,825 and represent about 9.35 percent of governmental activities revenue.

The City of Happiness continues to suffer continued erosion of the tax base due to additional loss of jobs, a decline in the number of taxpayers, an aging population, retirement of residents with high paying jobs working in other communities and relocation of younger citizens to other area communities and outside of the local area due to lack of jobs.

Other factors affecting revenues and expenditures in the governmental activities include, but are not limited to the following:

- An increase in local real estate taxes from inside millage of approximately \$1,911, or less than one percent from 2006 to 2007.

City of Happiness, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
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- A decrease in Local Government Funding received directly from the State and County from 2006 to 2007 of \$41,199 or 9.98 percent.

Additional revenue is needed for the City to survive at its current level of operations. A property tax levy was on the ballot to provide an additional estimated \$330,000 annually, net of County Auditor and Treasurer's fees. This levy was defeated in February, 2005.

The City's Street Department (transportation) accounted for 12.94 percent of the expenses in the governmental activities or about \$496,413. The City street fund maintains a positive balance due to transfers from the general fund as well as expenditure reductions put in place by the City administration.

Business-Type Activities

The water operation of the Government is relatively small and routinely reports receipts and cash disbursements that are relatively equal. The infrastructure is beginning to age and the City has begun discussing the need for major repairs and how to fund those repairs. We have also received notification from the Ohio EPA that improvements may be necessary to satisfy new water quality standards.

The City operates one business-type activity, a water treatment plant and distribution system. The water plant generated revenues of \$1,630,199, while expenses were \$1,521,684. An average of approximately forty-four million gallons of water is processed each month.

During 2004, staffing was reduced with the layoff of the water meter reader, whose duties were absorbed by the water distribution utility/laborers and the retirement of an account clerk at the end of July 2005.

The City's Funds

Information about the City's governmental funds begins on page 16. All governmental funds had revenues of \$4,416,444 and expenditures of \$3,836,812. The funds are monitored monthly with adjustments made periodically during the year in budgets to accommodate yearly revenues.

The general fund had receipts of \$2,669,581 and cash disbursements of \$2,204,638 and encumbrances of \$148,096. The increase in the fund balance was attributable to reduced expenditures and an unexpected increase in inheritance tax receipts.

Information about the proprietary funds starts on page 19. All business type funds had operating revenues of \$1,616,518, which exceeded operating expenses of \$1,256,448 by \$360,070, or 22.27 percent of operating revenues. The excess in revenues over expenditures was due in large part to an increase in receipt of unpaid bills and an increase in water rates. This excess is offset by the principal and interest payments on the waterplant outstanding debt which causes an actual decrease of \$261,555 in net assets.

The City continually reviews revenues and expenditures of these funds, and the necessary adjustments are made to ensure strength in our enterprise funds.

City of Happiness, Ohio
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General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During 2007, the City amended its general fund budget to reflect changing circumstances. Final budgeted receipts were \$2,531,830. Actual receipts were \$2,669,581, or \$137,751 higher than anticipated, primarily due to higher than anticipated income tax collections due to more aggressive pursuit of delinquent accounts and persons for failure to file and pay income taxes and unanticipated amounts for estate taxes.

Capital Assets and Debt Administration

Capital Assets

The City does not currently keep track of its capital assets and infrastructure. The City does not have the assets to upgrade the accounting software and computer equipment to accomplish this task. It is not known when the City will have the means to upgrade its computer hardware and software to accomplish the task. Also, reductions in staff may additionally delay implementation.

Long-term Obligations

The City had \$3,703,109 in outstanding obligations, which is \$282,431 less than last year. These obligations are comprised of local government fund notes, OWDA and OPWC loans, a capital lease, and police and fire accrued pension liability.

(Table 4)
Outstanding Obligations at Year End

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Local Government Fund Notes	\$514,003	\$599,006	\$0	\$0	\$514,003	\$599,006
OWDA Loans	0	0	1,953,038	2,031,697	1,953,038	2,031,697
OPWC Loans	0	0	664,431	738,601	664,431	738,601
Capital Lease	0	33,764	0	0	0	33,764
Police and Fire Pension	571,637	582,472	0	0	571,637	582,472
Total	\$1,085,640	\$1,215,242	\$2,617,469	\$2,770,298	\$3,703,109	\$3,985,540

Governmental activities have 29.32 percent of the obligations. The local government fund notes were issued to pay long overdue accounts payable as well as outstanding unpaid Police and Fire and Ohio Public Employees pension payments. The capital lease is for a fire truck. For the business-type funds, the debt was issued for water system improvements and a water storage tank replacement.

Police and Fire Pension accrued liability payments are funded by two separate allocations of .3 mill inside millage, which generates approximately \$42,000 annually.

City of Happiness, Ohio
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Current Financial Issues

The City is continuing to pursue economic development. Construction of a new bridge across railroad tracks and the Mahoning River to provide access to land located in former steel mill property was completed in the fall of 2005.

The City is encouraging development of the land located in former steel mill property once the property has been environmentally cleared. A grant has been obtained for brownfield restoration and environmental studies.

The challenge for the City is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. The City relies heavily on local taxes and has very little industry to support the tax base. Faced with declining revenues, increased costs for goods and services, primarily energy costs, the City is attempting to hold down on expenditures wherever possible, and keep personnel costs in check.

There were increases in Workers' Compensation rates due to prior experience and abuse, with the general fund experiencing the greatest financial impact. The City's rate for 2006, payable on 2005 salaries was 9.6413 percent and the rate for 2007, payable on 2006 salaries was 7.2924 percent.

Additionally, the employer OPERS rate is scheduled to increase from 13.55 percent to 13.70 percent, while the employee rates increased from 8.50 percent to 9.0 percent for 2006, and an additional .50 percent in 2007 and again in 2008.

Contacting the City's Finance Department

This report is designed to provide the reader with a broad overview of the City's financial position, as well as a general understanding of the financial operations of the City. If you have any questions about this report or need any additional financial information, please contact Buddy Guy Jr., Director of Finance, 555 Blues Avenue, Happiness, Ohio 44444, telephone 555-555-5555.

City of Happiness, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
Unaudited

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City of Happiness, Ohio
Statement of Net Assets - Modified Cash Basis
December 31, 2007

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,660,782	\$333,950	\$1,994,732
Net Assets			
Restricted for:			
Capital Projects	145,526	0	145,526
Other Purposes	1,039,862	0	1,039,862
Unrestricted	475,394	333,950	809,344
<i>Total Net Assets</i>	<u>\$1,660,782</u>	<u>\$333,950</u>	<u>\$1,994,732</u>

See accompanying notes to the basic financial statements

City of Happiness, Ohio
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2007

	Program Cash Receipts			
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$938,666	\$192,981	\$5,778	\$0
Security of Persons and Property:				
Police	1,113,694	225,405	10,065	0
Fire	442,180	72,124	2,492	0
Leisure Time Activities	161,177	21,735	0	0
Community Environment	648,896	6,545	608,962	4,457
Transportation	496,413	43,850	474,050	38,491
Principal Retirement	33,764	0	0	0
Interest and Fiscal Charges	2,022	0	0	0
<i>Total Governmental Activities</i>	3,836,812	562,640	1,101,347	42,948
Business-Type Activities				
Water	1,521,684	1,602,113	0	0
<i>Total</i>	\$5,358,496	\$2,164,753	\$1,101,347	\$42,948

General Receipts

Property Taxes Levied for:

 General Purposes

 Safety Forces

Income Taxes Levied for:

 General Purposes

 Parks

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Receipts

Total General Receipts and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$739,907)	\$0	(\$739,907)
(878,224)	0	(878,224)
(367,564)	0	(367,564)
(139,442)	0	(139,442)
(28,932)	0	(28,932)
59,978	0	59,978
(33,764)	0	(33,764)
(2,022)	0	(2,022)
(2,129,877)	0	(2,129,877)
0	80,429	80,429
(2,129,877)	80,429	(2,049,448)
231,432	0	231,432
182,180	0	182,180
1,619,575	0	1,619,575
179,953	0	179,953
412,825	0	412,825
75,972	13,681	89,653
7,572	14,405	21,977
2,709,509	28,086	2,737,595
10,000	(10,000)	0
589,632	98,515	688,147
1,071,150	235,435	1,306,585
\$1,660,782	\$333,950	\$1,994,732

City of Happiness, Ohio
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2007

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$475,394	\$1,185,388	\$1,660,782
Fund Balances			
Reserved for Encumbrances	148,096	502,101	650,197
Unreserved, Undesignated, Reported in:			
General Fund	327,298	0	327,298
Special Revenue Funds	0	830,595	830,595
Capital Projects Funds (Deficit)	0	(147,308)	(147,308)
<i>Total Fund Balances</i>	\$475,394	\$1,185,388	\$1,660,782

See accompanying notes to the basic financial statements

City of Happiness, Ohio
Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2007

	General	Other Governmental Funds	Total Governmental Funds
Receipts			
Property Taxes	\$187,605	\$226,007	\$413,612
Income Taxes	1,619,575	179,953	1,799,528
Intergovernmental	395,111	1,154,789	1,549,900
Investment Earnings	29,246	46,726	75,972
Charges for Services	50,042	12,735	62,777
Fines, Licenses and Permits	380,550	110,312	490,862
Contributions and Donations	0	16,221	16,221
Miscellaneous	7,452	120	7,572
<i>Total Receipts</i>	<u>2,669,581</u>	<u>1,746,863</u>	<u>4,416,444</u>
Disbursements			
Current:			
General Government	856,185	82,481	938,666
Security of Persons and Property:			
Police	945,682	168,012	1,113,694
Fire	333,396	108,784	442,180
Leisure Time Activities	0	161,177	161,177
Community Environment	33,589	615,307	648,896
Transportation	0	496,413	496,413
Debt Service:			
Principal Retirement	33,764	0	33,764
Interest and Fiscal Charges	2,022	0	2,022
<i>Total Disbursements</i>	<u>2,204,638</u>	<u>1,632,174</u>	<u>3,836,812</u>
<i>Excess of Receipts Over Disbursements</i>	<u>464,943</u>	<u>114,689</u>	<u>579,632</u>
Other Financing Sources (Uses)			
Transfer In	0	169,448	169,448
Transfer Out	(159,448)	0	(159,448)
<i>Total Other Financing Sources (Uses)</i>	<u>(159,448)</u>	<u>169,448</u>	<u>10,000</u>
<i>Net Change in Fund Balance</i>	305,495	284,137	589,632
<i>Fund Balances Beginning of Year</i>	<u>169,899</u>	<u>901,251</u>	<u>1,071,150</u>
<i>Fund Balances End of Year</i>	<u><u>\$475,394</u></u>	<u><u>\$1,185,388</u></u>	<u><u>\$1,660,782</u></u>

See accompanying notes to the basic financial statements

City of Happiness, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$181,000	\$180,350	\$187,605	\$7,255
Income Taxes	1,544,000	1,588,150	1,619,575	31,425
Intergovernmental	273,050	315,000	395,111	80,111
Investment Earnings	30,000	23,600	29,246	5,646
Charges for Services	34,000	42,000	50,042	8,042
Fines, Licenses and Permits	383,400	382,730	380,550	(2,180)
Donations	0	0	7,452	7,452
<i>Total Revenues</i>	2,445,450	2,531,830	2,669,581	137,751
Expenditures				
Current:				
General Government	1,045,298	1,148,449	856,185	292,264
Security of Persons and Property:				
Police	1,040,541	1,006,822	945,682	61,140
Fire	292,659	364,645	333,396	31,249
Community Environment	30,000	45,000	33,589	11,411
Debt Service:				
Principal Retirement	33,764	33,764	33,764	0
Interest and Fiscal Charges	2,022	2,022	2,022	0
<i>Total Expenditures</i>	2,444,284	2,600,702	2,204,638	396,064
<i>Excess of Revenues Under Expenditures</i>	1,166	(68,872)	464,943	533,815
Other Financing Uses				
Transfers Out	0	(159,448)	(159,448)	0
<i>Total Other Financing Sources (Uses)</i>	0	(159,448)	(159,448)	0
<i>Net Change in Fund Balance</i>	1,166	(228,320)	305,495	533,815
<i>Fund Deficit Beginning of Year</i>	93,841	93,841	93,841	0
Prior Year Encumbrances Appropriated	76,058	76,058	76,058	0
<i>Fund Balance (Deficit) End of Year</i>	\$171,065	(\$58,421)	\$475,394	\$533,815

See accompanying notes to the basic financial statements

City of Happiness, Ohio
Statement of Fund Net Assets - Modified Cash Basis
Enterprise Funds
December 31, 2007

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Current Assets			
Equity in Pooled Cash and Cash Equivalents	<u>\$331,963</u>	<u>\$1,987</u>	<u>\$333,950</u>
Net Assets			
Unrestricted	<u>\$331,963</u>	<u>\$1,987</u>	<u>\$333,950</u>

See accompanying notes to the basic financial statements

City of Happiness, Ohio
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Enterprise Funds
For the Year Ended December 31, 2007*

	Water	Sewer	Total
Operating Receipts			
Charges for Services	\$1,602,113	\$0	\$1,602,113
Miscellaneous	14,405	0	14,405
<i>Total Operating Receipts</i>	<u>1,616,518</u>	<u>0</u>	<u>1,616,518</u>
Operating Disbursements			
Personal Services	440,687	0	440,687
Fringe Benefits	235,394	0	235,394
Contractual Services	391,892	0	391,892
Materials and Supplies	131,133	0	131,133
Capital Outlay	46,904	0	46,904
Miscellaneous	10,438	0	10,438
<i>Total Operating Disbursements</i>	<u>1,256,448</u>	<u>0</u>	<u>1,256,448</u>
<i>Operating Income</i>	<u>360,070</u>	<u>0</u>	<u>360,070</u>
Non-Operating Receipts (Disbursements)			
Investment Earnings	13,681	0	13,681
Transfers Out	(10,000)	0	(10,000)
Redemption of Principal	(152,829)	0	(152,829)
Interest and Fiscal Charges	(112,407)	0	(112,407)
<i>Total Non-Operating Disbursements</i>	<u>(261,555)</u>	<u>0</u>	<u>(261,555)</u>
<i>Change in Net Assets</i>	98,515	0	98,515
<i>Net Assets Beginning of Year</i>	<u>233,448</u>	<u>1,987</u>	<u>235,435</u>
<i>Net Assets End of Year</i>	<u><u>\$331,963</u></u>	<u><u>\$1,987</u></u>	<u><u>\$333,950</u></u>

See accompanying notes to the basic financial statements

City of Happiness, Ohio
Statement of Fiduciary Assets and Liabilities - Modified Cash Basis
Agency Funds
December 31, 2007

Assets	
Equity in Pooled Cash and Cash Equivalents	\$363,007
Cash and Cash Equivalents in Segregated Accounts	<u>47,479</u>
<i>Total Assets</i>	<u><u>\$410,486</u></u>
 Liabilities	
Due to Others	\$96,893
Due to Other Governments	<u>313,593</u>
<i>Total Liabilities</i>	<u><u>\$410,486</u></u>

See accompanying notes to the basic financial statements

City of Happiness, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 1 - Reporting Entity

The City of Happiness is a charter municipal corporation formed under the laws of the State of Ohio. The City operates under its own Charter made effective November 3, 1970. The Charter, as amended, provides for a Council-Mayor form of government.

The Mayor, elected by the voters for a two-year term, is the head of the municipal government for ceremonial, administrative, and executive purposes, performs the judicial functions of the City and presides at Council meetings. The chief conservator of the peace, he oversees the enforcement of all laws and ordinances. He also appoints all department heads and executes all contracts, conveyances and evidences of indebtedness of the City.

Legislative authority is vested in a five member council with the President of Council being elected at large and four members elected to specific wards and serves a term of two years. Council enacts ordinances and resolutions relating to tax levies, appropriates and borrows money and accepts bids for materials and services and other municipal purposes.

On June 10, 2004, the Auditor of State's office declared the City of Happiness to be in a state of fiscal emergency in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the City, Council President, three financial consultants appointed by the Governor from various corporations and/or organizations who reside or work within the City and two representatives from the State of Ohio. This Commission approved a financial recovery plan which had been adopted by the City and the plan must be updated annually. Once the plan has been adopted, the City's discretion is limited in that all financial activity of the City must be conducted in accordance with the plan.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. For the City of Happiness this includes the departments and agencies that provide the following services: police and fire protection, emergency medical, parks, recreation, street maintenance and municipal court.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB)

City of Happiness, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The City does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the City's accounting policies.

A. Basis of Presentation

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

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

The government-wide statement of net assets presents the cash balance of the governmental and business-type activities of the City at year end. The government-wide statement of activities compares disbursements with program receipts for each function or program of the City's governmental activities and for the business-type activities of the City. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on a modified cash basis or draws from the City's general receipts.

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. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

B. 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 of the City are financed. The following are the City's major governmental funds:

City of Happiness, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

General Fund The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Proprietary Funds The City classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds. The following are descriptions of the City's enterprise funds.

Water Fund The water fund accounts for revenues generated from the charges for distribution of water service to the residential and commercial users located within the City.

Sewer Fund The sewer fund accounts for sewer services to the residential and commercial users located within the City. The costs of providing these services are financed primarily through user charges.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City only utilizes the agency fund type. The agency funds accounts for the sewer amounts collected and paid to the County and amounts collected by the municipal court that are paid to other governments.

C. Basis of Accounting

The City's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the City's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the City are described in the appropriate section in the note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2007 amounted to \$29,246, \$11,169 of which was assigned from other City funds.

City of Happiness, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

The City values investments and cash equivalents at cost. For presentation on the financial statements, the City classifies investments of the cash management pool as cash equivalents.

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented on the balance sheet as "cash and cash equivalents in segregated accounts."

E. Inventory and Prepaid Items

On the cash-basis of accounting, inventories of supplies and food service items are reported as disbursements when purchased. These items are not reflected as assets in the accompanying financial statements.

F. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the City's modified cash basis of accounting.

H. Long-term Obligations

The City's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal and interest payments are reported when paid.

I. Fund Balance Reserves

The City reserves any portion of fund balances legally segregated for a specific future use or which are not available for appropriation or disbursement. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

J. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions, enabling legislation (adopted by the City) or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$1,185,388 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include parks and recreation, law library and court computerization.

The City first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

City of Happiness, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

K. Interfund Activity

The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Governmental funds report interfund transfers as other financing sources/uses; proprietary funds report transfers after nonoperating receipts and disbursements. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

L. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the City Council may appropriate. The appropriations ordinance is the City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the City Council. The legal level of control has been established by the City Council at the object level for all funds. Any budgetary modifications at this level may only be made by ordinance of the City Council.

The certificate of estimated resources may be amended during the year if the City Finance Director projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate of estimated resources when the City Council adopted the original appropriations. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate of estimated resources in effect at the time the final appropriations ordinance were passed by City Council.

The City Council may amend appropriations throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation ordinance for a fund covering the entire year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation ordinance the City Council passed during the year.

Note 3 – Compliance

Ohio Administrative Code, section 117-2-03 (B), requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, the City prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other administrative remedies may be taken against the City.

The budgetary financial statements reflect amounts that ordinarily would result in noncompliance citations under Revised Code Chapter 5705. Since the City is in fiscal emergency, however, its financial operations are restricted by the provisions of Chapter 118 rather than Chapter 5705. Citations to Chapter 5705 would therefore be presented only for funds which did not contribute to the City being placed in fiscal emergency.

City of Happiness, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 4 –Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis for the general fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is that outstanding year end encumbrances are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The general fund encumbrances outstanding at year end (budgetary basis) amounted to \$148,096.

Note 5 - Deposits and Investments

Monies held by the City are classified by State statute into three categories.

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

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

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

Interim monies held by the City can 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 payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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 securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in the division are made only through eligible institutions; and

City of Happiness, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

6. The State Treasurer's investment pool (STAROhio);

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

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest, or coupons;
3. Obligations of the City.

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

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 finance director or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$2,329,347 of the City's bank balance of \$2,632,919 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Note 6 – Receivables

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2007 for real and public utility property taxes represents collections of the 2006 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) are for 2007 taxes.

2007 real property taxes are levied after October 1, 2007 on the assessed value as of January 1, 2007, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2007 real property taxes are collected in and intended to finance 2008.

City of Happiness, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2007 public utility property taxes became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes.

2007 tangible personal property taxes are levied after October 1, 2006, on the value as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments are being phased out to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may be paid annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable September 20.

The full tax rate for all City operations for the year ended December 31, 2007 was \$6.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$70,308,270
Other Real Estate	6,917,890
Public Utility Personal Property	2,619,360
Tangible Personal Property	<u>2,180,077</u>
Total	<u><u>\$82,025,597</u></u>

Real property taxes are payable annually or semi-annually. If paid annually, the 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 alternate payment dates to be established.

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

The County Treasurer collects property tax on behalf of all taxing districts within the City. The County Auditor periodically remits to the taxing districts their portions of the taxes collected.

B. Income Tax

The City levies and collects an income tax of 2.5 percent on all income earned within the City as well as on income of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. In 2007, the proceeds were allocated ninety percent to the general fund and ten percent to the park special revenue fund.

City of Happiness, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 7 - Contingencies

A. Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or any other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2007.

B. Litigation

The City of Happiness is a party to legal proceedings. The City management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Note 8 - Risk Management

The City of Happiness is exposed to various risks of loss to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disaster. During 2007, the City contracted with Ohio Plan Insurance for various types of insurance coverage as follows:

<u>Type</u>	<u>Coverage</u>	<u>Deductible</u>
Inland Marine	\$302,695	\$500
Property	19,144,971	1,000
Electronic Data Processing	122,000	500
Crime	52,100	100
Fleet Vehicle		
Physical Damage	50,000	500
Liability	2,000,000	500

Settled claims have not exceeded this coverage in any of the last three years. There has not been significant reduction in coverage from the prior year.

Healthcare is provided through United Healthcare with single coverage of \$391.48 per month, husband and wife coverage of \$853.41 per month, parent and child coverage of \$672.96 per month and full family coverage of \$1,216.29 per month.

Workers' compensation is provided by the State. The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

City of Happiness, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 9 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2007, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The employer's contribution rate for pension benefits for 2006 was 13.77 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 17.17 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$103,476, \$91,386, and \$95,676 respectively; 72.94 percent has been contributed for 2006 and 100 percent for 2005 and 2004. There were no contributions to the member-directed plans for 2006.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the employer is required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$86,167 and \$46,020 for the year ended December 31, 2007, \$76,885 and \$45,429 for the year ended December 31, 2006 and \$72,360 and \$56,260 for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 72.75 percent and 74.81 percent has been contributed for 2007.

City of Happiness, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 10 – Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.77 percent of covered payroll (17.17 percent for public safety and law enforcement); 5.0 percent of covered payroll was the portion that was used to fund health care from January 1 through June 30, 2007 and 6.0 percent from July 1 through December 31, 2007.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between .50 and 6 percent annually for the next nine years and 4 percent annually after nine years.

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

The number of active contributing participants in the traditional and combined plans was 374,979. Actual City contributions for 2007 which were used to fund postemployment benefits were \$64,091. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2006 (the latest information available) was \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008 which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter

City of Happiness, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 6.75 percent of covered payroll during 2007. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2007 that were used to fund postemployment health care benefits were \$49,475 for police and \$19,099 for firefighters. The OP&F's total health care expense for the year ended December 31, 2006 (the latest information available), was \$120,373,722, which was net of member contributions of \$58,532,848. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006 (the latest information available), was 14,120 for police and 10,563 for firefighters.

Note 11 –Leases

The City had a lease for a fire truck. The City disbursed \$35,786 to pay lease costs for the year ended December 31, 2007. The payment was comprised of \$33,764 in principal and \$2,022 in interest.

Note 12 - Long-Term Obligations

Original issue amounts and interest rates of the City's debt issues were as follows:

Debt Issue	Interest Rate	Original Issue	Year of Maturity
Governmental Activities			
<i>Local Government Fund Notes - 2005</i>	6.23%	\$746,939	2012
Business-Type Activities			
<i>OWDA Loans</i>			
Water Treatment Plant - 2000	5.16 - 5.54%	2,418,209	2024
<i>OPWC Loans</i>			
Liberty Sewer Water Tank - 1999	0.00%	809,670	2021
Water System Improvement - 1994	0.00%	505,300	2011

City of Happiness, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

The changes in long-term obligations during the year were as follows:

	Balance 12/31/06	Additions	Reductions	Balance 12/31/07	Amounts Due in One Year
Governmental Activities					
<i>Local Government Fund Notes</i>	\$599,006	\$0	(\$85,003)	\$514,003	\$90,364
<i>Other</i>					
Police and Fire Pension	582,472	0	(10,835)	571,637	11,300
Fire Truck Lease	33,764	0	(33,764)	0	0
<i>Total Governmental Activities</i>	<u>\$1,215,242</u>	<u>\$0</u>	<u>(\$129,602)</u>	<u>\$1,085,640</u>	<u>\$101,664</u>
Business-Type Activities					
<i>OWDA Loans</i>					
Water Treatment Plant	\$2,031,697	\$0	(\$78,659)	\$1,953,038	\$82,970
<i>OPWC Loans</i>					
Liberty Sewer Water Tank	587,011	0	(40,483)	546,528	40,484
Water System Improvement	151,590	0	(33,687)	117,903	33,687
<i>Total OPWC Loans</i>	<u>738,601</u>	<u>0</u>	<u>(74,170)</u>	<u>664,431</u>	<u>74,171</u>
<i>Total Business-Type Activities</i>	<u>\$2,770,298</u>	<u>\$0</u>	<u>(\$152,829)</u>	<u>\$2,617,469</u>	<u>\$157,141</u>

The local government fund notes and the police and fire pension liability will be paid from the general fund. The OWDA and OPWC loans will be paid with user charges from the water enterprise fund. The OWDA loans received a one-year forgiveness period due to the City's current financial constraints. Payments commenced during 2005. The OPWC loans received a two year forgiveness period due to the economic hardships that the City is facing. Payments commenced during 2006.

The City's overall legal debt margin was \$8,098,685 with an unvoted debt margin of \$3,997,405 at December 31, 2007. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2007 are as follows:

	Local Government		Police and Fire	
	Fund Notes		Pension Liability	
	Principal	Interest	Principal	Interest
2008	\$90,364	\$5,628	\$11,300	\$24,176
2009	96,252	5,995	11,786	23,690
2010	102,426	6,379	12,292	23,184
2011	108,995	6,788	12,820	22,656
2012	115,966	7,222	13,371	22,106
2013 - 2017	0	0	75,975	101,405
2018 - 2022	0	0	93,755	83,625
2023 - 2027	0	0	115,697	61,683
2028 - 2032	0	0	142,770	34,611
2033 - 2037	0	0	81,871	5,227
Total	<u>\$514,003</u>	<u>\$32,012</u>	<u>\$571,637</u>	<u>\$402,363</u>

City of Happiness, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

	Business-Type Activities		
	OWDA Loan		OPWC Loans
	Principal	Interest	Principal
2008	\$82,970	\$107,513	\$74,171
2009	87,519	102,965	74,171
2010	92,315	98,170	74,171
2011	97,375	93,109	57,327
2012	102,712	87,771	40,484
2013 - 2017	534,042	352,371	202,420
2018 - 2022	645,207	197,200	141,687
2023 - 2025	310,898	26,067	0
Total	\$1,953,038	\$1,065,166	\$664,431

Note 13 – Interfund Transfers

During 2007, the following transfers were made:

Transfers In	Transfers Out		
	General	Water	Total
<i>Governmental Activities:</i>			
Area on Aging	\$12,500	\$0	\$12,500
Street Construction, Maintenance and Repair	17,100	0	17,100
Community Development	10,000	0	10,000
State Issue II	119,848	10,000	129,848
Total Transfers	\$159,448	\$10,000	\$169,448

The transfers to the area on aging, street construction, maintenance and repair and community development special revenue funds as well as the State issue II capital projects fund were to eliminate the deficit fund balances.



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The Budgetary Process – Ohio Budgetary Law

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April C. Davis and Anna Mary Thomas
Assistant Chief Project Manager and Assistant Project Manager
Local Government Services Section

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Objectives

- Identify elected officials role in the budgetary process
- Understand the process and timing issues
- Identify compliance items/limitations
- Review the budgetary documents



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Trustees/Council’s Role in the Budgetary Process

Taxes

- Set/approve property tax rates and levies
- Enact hotel and admissions taxes
- Enact municipal income taxes

Appropriations

- Establish legal level of control
- Approve annual or temporary appropriations
- Prepare appropriation ordinances or resolutions
- Approve amendments and supplemental appropriations



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Trustees/Council's Role in Budgetary Process

- Establish reserve funds – 5705.13
 - Budget stabilization, reserve balance accounts
 - Capital projects set-asides
- Establish target carryover balances
- Set/approve salaries of officers, clerks, and employees of the village (Sec. 731.13, RC)



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Trustees/Mayor's Role in Budgetary Process

- Preparation of the annual tax ordinance (see 705.17, Revised Code)
- Presentation of annual tax ordinance/tax budget to council/board of trustees



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Fiscal Officer's Role in Budgetary Process

- Identify and certify estimated receipts
- Certify purchase obligations
- Maintain financial records demonstrating compliance with budget (receipt, appropriations, cash disbursements)
- Prepare appropriation measurers (convenience issue)
- Assist with the preparation of the tax ordinance/tax budget (practical matter)



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Budgetary Documents

- Budgetary process is prescribed by the Chapter 5705 of the Ohio Revised Code and includes:
 - A tax budget
 - A resolution setting tax amounts and rates
 - An official certificate of estimated resources
 - A certificate of year-end balances
 - An amended official certificate of estimated resources
 - An appropriations ordinance or resolution
 - The county auditor’s certification of appropriations within estimated resources



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Definitions

Tax Budget – The tax budget is a financial plan for the operations of the next calendar year. It identifies how much money is expected from local, state, and federal sources, the anticipated carryover fund balances, and how much is needed to carry out governmental functions in the next calendar year. The budget is submitted to the county budget commission and used to fix property tax rates. In some counties the submission of a formal budget is no longer required.



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Definitions

Estimated resources – the estimated receipts the village/township expects to receive during the year plus the unencumbered/unreserved fund balance from the prior year.

Appropriations – the governing body’s authorization to spend the government’s resources.

Encumbrance – authorized purchase commitments related to unperformed contracts for goods or services. Expenditures and encumbrances reduce available appropriations.



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Tax Budget

- Used to set tax property tax rates
- Used to allocate local government fund
- Planning for the next year
- Presents need for tax levies
- May be waived by budget commission
- Annual Tax Ordinance to be prepared by the Mayor (705.17, Revised Code, not waived)
 - Once prepared, ordinance is to be submitted to Council by the Mayor



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Tax Budget Hearing

- Notice to be published 10 days before hearing
- Hearing is to provide interested parties with an opportunity to have input
- Tax budget to be adopted/approved by trustees/council by July 15
- Tax budget to be filed with the county auditor by July 20



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Tax Budget Hearing

Assumes adoption on July 15

When	Who	Action
May	Executive Officer	Instruct department heads to prepare estimate of revenues and expenditures for upcoming year.
June	Department Heads	File with the Executive Officer the estimate of revenues and expenditures.
June 15	Executive Officer	Present draft of budget to governing board for review.
Ten days before adopting	Governing board	File two copies of the budget with the fiscal officer for public inspection and set at least one public hearing.
Ten days before public hearing	Governing board	Give notice of hearing by at least one publication.
July 15	Governing board	Shall adopt tax budget.
July 20	Governing board	Shall submit budget to County Auditor.



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Content of the Tax Budget

- A summary of the amounts required from general property tax approved by budget commission and county auditor's estimated tax rates
- A summary of levies outside the 10 mill limitation exclusive of debt levies
- Actual and estimated receipts, disbursements and balances of the general fund (4 years)
- A summary of general obligation bonds and notes as of January 1st of coming year and the requirements of bond retirement fund
- A summary by fund of the amounts requested from general property tax and estimated tax rates
- An official certificate of estimated resources

Tax Budget

- After review of the tax budget by the budget commission, the village/township receives:
 - A signed copy of the tax budget
 - An "Official Certificate of Estimated Resources" (included in the tax budget)
 - A resolution accepting the amounts and rates for property tax as determined by the budget commission. It is to be adopted and returned by October 1.

Waiver of the Tax Budget

- The county budget commission, by an affirmative vote (5705.28, ORC) of a majority of the commission, may waive the requirement that a tax budget be adopted.
 - Waives the required budget hearing
 - Waives published legal notice of budget hearing
- The budget commission shall require a taxing authority to provide information to the commission as may be required by the commission to perform its duties.
 - Property tax information
 - Estimated fund balances and receipts for the official certificate

Estimated Resources

- Certificate of year-end balances
- Official certificate
- Amended official certificate
- Amendments
 - Fiscal officer’s responsibility
 - No approval of governing board required
 - Governing board may request fiscal officer to amend the certificate so they can appropriate the funds



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Certificate of Year-end Balances

- Proper title is “Certificate of Total Amount from All Sources Available for Expenditures and Balances”
- The purpose of this form is twofold
 - to report the actual unencumbered fund balances
 - to adjust estimated revenues, if necessary
- It is completed by the fiscal officer and filed with the county auditor **around the first of the year**
- **Exclude reserve balances**



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Official and Amended Certificates

- The official certificate is in the tax budget
 - Signed by the budget commission and returned in September
- Amended official certificate of estimated resources
 - First amended certificate generally issued after the year-end balances are certified
 - May be amended as needed throughout the year
- Fiscal officer responsible for estimates therein and the amendments



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Reasons to Amend the Official or Amended Official Certificate

- Upon a determination by the fiscal officer of a subdivision that the **revenue to be collected by the subdivision will be greater or less than the amount included in an official certificate**, the fiscal officer may certify the amount of the deficiency or excess to the commission, and if the commission determines that the fiscal officer's certification is reasonable, the commission shall certify an amended official certificate reflecting the deficiency or excess (5705.36, ORC).



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Reasons to Amend the Official or Amended Official Certificate

- Upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision **will be greater than** the amount included in an official certificate **and the legislative authority intends to appropriate and expend the excess revenue**, the fiscal officer shall certify the amount of the excess to the commission, and if the commission determines that the fiscal officer's certification is reasonable, the commission shall certify an amended official certificate reflecting the excess (5705.36, ORC).



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Reasons to Amend the Official or Amended Official Certificate

- Upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision **will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations**, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency (5705.36, ORC).



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Budgetary Compliance/Limitation

- The total appropriations made during the fiscal year from any fund shall not exceed the amount set forth as available for expenditure from such fund in the official certificate of estimated resources, or any amendment thereof, **certified prior to the making of the appropriation or supplemental appropriation** (5705.36, ORC).



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Appropriations Measurers

- Annual appropriation ordinance/resolution
 - Must adopt by April 1,
- Temporary appropriation ordinance/resolution
 - Covers Jan. 1 to Mar. 31, limited to ordinary expenditures
 - Items must be included in annual ...
- Amendments
 - Supplemental
 - Modifications (movement from one account to another within the same fund)



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What is an appropriation?

- A legal authorization granted by the legislative body to make expenditures and incur obligations for specific purposes. An appropriation usually is limited in amount and time it may be expended.
- Does not imply cash is available to be spent immediately



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Appropriations Measurers

- Timing issues
 - No appropriation measure **shall become effective until** the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed the official or amended official estimate.
 - The county auditor shall give a certificate forthwith upon receiving from the appropriating authority a **certified copy** of the appropriation measure.



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Budgetary Compliance/Limitations

- Estimated Resources Vs. Appropriations
 - Estimated resources equals cash fund balance minus prior year-end encumbrances, minus reserves, plus current year estimated receipts.
- Appropriations Vs. Expenditures
 - Expenditures equal cash disbursements plus encumbrances



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Legal Level of Control

- The level a which the trustees/council sets appropriations, for example
 - Fund (**does not meet required statutory level**)
 - Fund and department/activity
 - Fund, department/activity, major object
 - Fund, department/activity, all objects
- Legal level of control should remain consistent throughout the year



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Legal Level of Control

• Example of fund level

– General	xxx,xxx
– Street/Gas Tax	xxx,xxx
– State Highway/MVL	xxx,xxx
– Water	xxx,xxx
– Sewer	<u>xxx,xxx</u>
– Total appropriations	<u>xxx,xxx</u>



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Legal Level of Control

• Example of fund and program/activity level

– General Fund	
• Police operations	xxx,xxx
• Fire operations	xxx,xxx
• Street lighting	xxx,xxx
• Mayor’s office	xxx,xxx
• Auditor	xxx,xxx
• Treasurer	<u>xxx,xxx</u>
– Total General Fund	<u>xxx,xxx</u>



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Legal Level of Control

• Example - fund department/activity, and major object level

– General Fund	
• Police operations	
– Personal services	xxx,xxx
– All other expenditures	xxx,xxx
• Fire operations	
– Personal services	xxx,xxx
– All other expenditures	xxx,xxx

• This is the minimum level implied by statute



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Legal Level of Control

- Example - fund department/activity, and major object level
 - General Fund
 - Police operations xxx,xxx
 - Salaries and wages xxx,xxx
 - Employee benefits xxx,xxx
 - Contractual services xxx,xxx
 - Materials and supplies xxx,xxx
 - Other xxx,xxx
 - Capital outlay xxx,xxx
 - Total Police operations xxx,xxx



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Legal Level of Control

- Example - fund department/activity, and all objects
 - General Fund
 - Police operations
 - Personal services
 - » Regular salaries and wages xxx,xxx
 - » Overtime xxx,xxx
 - Employee benefits
 - » Employer retirement xxx,xxx
 - » Health insurance xxx,xxx
 - » Workers' compensation xxx,xxx
 - Contractual services
 - » Utilities xxx,xxx
 - » Liability insurance xxx,xxx
 - Total Police operations xxx,xxx



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What legal level should be used?

- What legal level should be used?
 - Considerations
 - Frequencies of amendments
 - Flexibility to be granted to management
 - Existence of other budgetary policies or control levels



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Legal Level of Control

- Statutory appropriation level
 - Section 5705.38(C), Revised Code, appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services.

 - Implies salaries and other as the minimum level to be appropriated for each office, department, and division

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Recording/Posting of the Budget

- Ohio Administrative Code, Section 117-2-02(C)(1)
 - All local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.
 - Estimated receipts posted to the accounting system should equal the estimated receipts on the certificate of estimated resources.
 - Appropriations posted to the accounting system should equal the sum of the annual appropriation measurer and all supplemental appropriation measurers.

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Monitoring of the Budget

- Who should review the monthly financial reports?
 - Council/Trustees
 - Finance committee
 - Mayor
 - Fiscal officer
 - Department heads

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Monitoring of the Budget

- What should be reviewed?
 - Estimated receipts vs. actual receipts
 - Estimated resources vs. appropriations
 - Appropriations vs. expenditures
 - Outstanding purchase orders/contracts/encumbrances
 - Fund cash and unencumbered cash balances



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Monitoring of the Budget

- Fiscal officer and Mayor/Trustees should:
 - Review appropriation line-items for possible deficiencies or excesses in the appropriated amounts
 - Modifications/Amendments to appropriations
 - Old outstanding purchase orders
 - Close to free up available appropriations
 - Appropriateness of disbursements charged to expenditure line-items
 - Collection of receipts
 - Amendments to estimated resources
 - Available fund cash and unencumbered balances
 - Balances and year-to-date amounts



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Certification of the Fiscal Officer

- Types of certifications
 - Standard certification
 - Blanket certification
 - Super blanket certification
 - Then and now certification



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Certification of the Fiscal Officer

- Standard certification states:
 - It is hereby certified that the amount of \$_____ required to meet the obligation or contract has been lawfully appropriated for such purpose and is in the treasury or in process of collection to the credit of _____ fund free from any previous encumbrances.



Certification of the Fiscal Officer

- Blanket and super blanket certification states:
 - It is hereby certified that the amount of \$_____ has been lawfully appropriated, authorized, or directed for such purpose and is in the treasury or in process of collection to the credit of (line item appropriation account) in the _____ fund free previous and then outstanding obligations or certifications.



Certification of the Fiscal Officer

- Then and now certification states:
 - It is hereby certified that both at the time of the making of this contract or order and at the date of the execution of this certification, the amount of \$_____ was appropriated for such contract or order and is in the treasury or in the process of collection to the credit of the _____ fund free from any previous encumbrances.



Certification of the Fiscal Officer

- Use of purchase orders
 - Section 117-2-02(C)(2), Ohio Administrative Code, states, “Purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation account(s), as required by section 5705.41 (D) of the Revised Code. Purchase orders are not effective unless the fiscal officer’s certificate is attached. The certificate should be attached at the time a commitment to purchase goods or services is made.”



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“Standard” Purchase Order

- Used for:
 - Normal purchases where a single vendor and specific items and quantities are ordered
- Attributes:
 - specific items, quantities, and unit costs
 - single vendor
 - Expires when the contract or order is filled or cancelled
 - May include multiple funds and appropriation accounts
 - No dollar limit, limit is amount certified for the PO



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Blanket Purchase Order

- Used for:
 - The purchase of a variety of items over a specified period of time from a variety of vendors
- Attributes:
 - Single or multiple vendors
 - No specific items or quantities, or prices
 - Dollar amount set by ordinance or resolution of the governing board - requires majority vote
 - Limited to the current year (90 day limit repealed)
 - Single fund and account (only one blanket PO may be open at a time to an account)
 - Must be labeled “Blanket Purchase Order”



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Super Blanket Purchase Order

- Used for:
 - Used for certain types of expenditures that are recurring and reasonably predictable
- Attributes:
 - Single or multiple vendors
 - Limited to one expenditure code per SBPO
 - \$ limit is the amount appropriated to that line-item
 - Cannot extend beyond current fiscal year
 - Limited to specific goods and/or services
 - Multiple SBPO may exist per account code



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Super Blanket Purchase Order

- May be used for:
 - the services of an accountant, architect, attorney at law, physician, professional engineer, construction project manager, consultant, surveyor, or appraiser by or on behalf of the subdivision or contracting authority;
 - fuel oil, gasoline, food items, roadway materials, and utilities;
 - any purchases exempt from competitive bidding under section [125.04](#) of the Revised Code; and,
 - any other specific expenditure that is a recurring and reasonably predictable operating expense.



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COMPARISON OF BUDGET AND APPROPRIATED

Fund	Name	Jan 1 Cash Balance	Budget Carry Over Encumbrance	Reserve Balance Accounts (Twp Only)	Budget Revenue Amount	Resources Available for Appropriation	Appropriated Amount	Variance
1000	General	\$325,727.41	\$0.00	\$0.00	\$485,034.31	\$810,761.72	\$610,761.72	\$200,000.00
2011	Street Const. Maint. & Repair	9,085.64	0.00	0.00	156,700.00	165,785.64	167,142.92	-1,357.28
2021	State Highway	2,613.85	0.00	0.00	7,500.00	10,113.85	10,055.76	58.09
2031	Cemetery	2,260.00	0.00	0.00	17,740.00	20,000.00	19,400.00	600.00
2041	Park Fund	26.62	0.00	0.00	0.00	26.62	26.62	0.00
2061	State Grant	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2081	Drug Law Enforcement	9,731.27	0.00	0.00	3,032.91	12,764.18	12,764.18	0.00
2091	Law Enforcement Trust	1,363.50	0.00	0.00	500.00	1,863.50	1,428.50	435.00
2141	Fire Fund	15,788.18	0.00	0.00	166,951.28	182,739.46	173,939.46	8,800.00
2901	Liberty Monument	1,398.10	0.00	0.00	600.70	1,998.80	1,698.10	300.70
4951	Permanent	158,382.74	0.00	0.00	2,000.00	160,382.74	160,382.74	0.00
5101	Water Fund	193,156.76	0.00	0.00	362,306.21	555,462.97	510,101.96	45,361.01
5201	Sewer Fund	444,401.32	0.00	0.00	400,000.00	844,401.32	844,401.32	0.00
5301	Electric Fund	591,355.39	0.00	0.00	1,945,775.15	2,537,130.54	2,317,410.19	219,720.35
5601	Trash Fund	14,896.61	0.00	0.00	157,780.88	172,677.49	153,320.71	19,356.78
5701	Enterprise Improvement	1,344.46	0.00	0.00	560,000.00	561,344.46	600,000.00	-38,655.54
5702	Enterprise Improvement/WATER	0.00	0.00	0.00	600,000.00	600,000.00	560,000.00	40,000.00
5781	Meter Deposit Funds	128,479.30	0.00	0.00	20,000.00	148,479.30	148,479.30	0.00
		\$1,900,011.15	\$0.00	\$0.00	\$4,885,921.44	\$6,785,932.59	\$6,291,313.48	\$494,619.11