

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

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE YEAR ENDED
DECEMBER 31, 2011

TOM RILEY, FINANCE DIRECTOR



Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the City of Washington Court House, Fayette County, prepared by Julian & Grube, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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Dave Yost
Auditor of State

July 24, 2012

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

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

Independent Accountants' Report

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

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Washington Court House, Fayette County, Ohio, as of and for the year ended December 31, 2011, which collectively comprise the City of Washington Court House's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Washington Court House's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Washington Court House, Fayette County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 19, during the year ended December 31, 2011, the City of Washington Court House adopted the provisions of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2012, on our consideration of the City of Washington Court House's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in dark ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.
June 25, 2012

CITY OF WASHINGTON COURT HOUSE, OHIO
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

The discussion and analysis of the City of Washington Court House's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. The purpose of this discussion and analysis is to look at the City's financial performance and discuss pertinent points to better help the reader to understand our performance.

Financial Highlights

Some of the City's financial highlights for the year ended December 31, 2011 include:

- The assets of the City exceeded its liabilities at the close of the most recent year by \$38,476,801.
- The City's total net assets decreased during the year by \$1,396,739, or 4%.
- Unrestricted assets were \$2,047,089.
- The City's total expenses were \$19,109,021, a decrease of \$1,456,114.
- Program revenues of \$8,464,575 reduced the net cost of the City's functions to be financed from the City's general revenues to \$10,644,446.
- The City's unassigned fund balance of the General Fund totaled \$953,241 at year end, or 14% of General Fund expenditures.

Overview of the Financial Statements

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

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

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

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

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

The City of Washington Court House maintains 41 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund and Permanent Improvement Fund, which are considered to be major funds. Data from the other 39 governmental funds are combined into a single, aggregated presentation.

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

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

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

Government-Wide Financial Statements

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Management's Discussion and Analysis
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Table 1 provides a summary of the City's net assets for 2011 compared to 2010:

	Governmental Activities		Business-Type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Assets:						
Current and Other Assets	\$ 8,615,137	\$ 8,804,264	\$ 2,001,314	\$ 2,086,715	\$ 10,616,451	\$ 10,890,979
Capital Assets, Net	<u>23,081,666</u>	<u>25,407,012</u>	<u>35,693,968</u>	<u>36,380,384</u>	<u>58,775,634</u>	<u>61,787,396</u>
Total Assets	<u>31,696,803</u>	<u>34,211,276</u>	<u>37,695,282</u>	<u>38,467,099</u>	<u>69,392,085</u>	<u>72,678,375</u>
Liabilities:						
Current and Other Liabilities	3,137,372	3,357,265	693,066	697,171	3,830,438	4,054,436
Long-Term Liabilities:						
Due Within One Year	911,887	2,449,157	1,250,494	1,215,757	2,162,381	3,664,914
Due in More than One Year	<u>14,226,389</u>	<u>13,222,272</u>	<u>10,696,076</u>	<u>11,863,213</u>	<u>24,922,465</u>	<u>25,085,485</u>
Total Liabilities	<u>18,275,648</u>	<u>19,028,694</u>	<u>12,639,636</u>	<u>13,776,141</u>	<u>30,915,284</u>	<u>32,804,835</u>
Net Assets:						
Invested in Capital Assets, Net	9,137,669	11,139,850	23,901,632	23,527,996	33,039,301	34,667,846
Restricted	3,390,411	2,428,747	-	-	3,390,411	2,428,747
Unrestricted	<u>893,075</u>	<u>1,613,985</u>	<u>1,154,014</u>	<u>1,162,962</u>	<u>2,047,089</u>	<u>2,776,947</u>
Total Net Assets	<u>\$ 13,421,155</u>	<u>\$ 15,182,582</u>	<u>\$25,055,646</u>	<u>\$24,690,958</u>	<u>\$ 38,476,801</u>	<u>\$ 39,873,540</u>

Total assets decreased \$3.3 million. Current and other assets decreased \$275,000, mostly due to a decline in property taxes receivable associated with lower anticipated property tax collections with increases in foreclosures and increased delinquencies. Capital assets decreased due to the absence of significant capital additions during 2011. In 2010, the City completed the State Route 62 project, purchased a tower truck and received a water tower that was donated by Fayette County.

Total liabilities decreased \$1.9 million. Current and other liabilities declined by approximately \$224,000, primarily due to a decrease in deferred revenue associated with the decline in property taxes receivable. Long-term liabilities due within one year decreased due to a \$1.63 million note outstanding at 2010 that was refinanced during 2011 as part of the \$2.135 million various purpose bond issuance and the City making its scheduled principal payments.

As noted earlier, the City's net assets, when reviewed over time, may serve as a useful indicator of the City's financial position. By far, the largest portion of the City's net assets (86%) reflects its investments in capital assets (e.g., land, buildings, machinery and equipment, infrastructure) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

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

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An additional portion of the City's net assets (9%) represents resources that are subject to restrictions on how they can be used. The remaining balance of \$2,047,089 or 5%, which are unrestricted net assets, may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net assets decreased from \$39,873,540 in 2010 to \$38,476,801 in 2011, a change of \$1,396,739 or 4%.

In order to further understand what makes up the changes in net assets for the current year, Table 2 gives readers further details regarding the results of activities for 2010 and 2011.

	Governmental Activities		Business-Type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,674,680	\$ 1,580,128	\$ 5,601,707	\$ 5,709,305	\$ 7,276,387	\$ 7,289,433
Operating Grants/Contributions	334,826	549,334	-	-	334,826	549,334
Capital Grants/Contributions	540,263	580,556	313,099	1,080,506	853,362	1,661,062
General Revenues:						
Municipal Income Taxes	5,091,866	4,951,227	-	-	5,091,866	4,951,227
Property and Other Taxes	1,352,510	1,489,552	-	-	1,352,510	1,489,552
Payment in Lieu of Taxes	852,197	757,649	-	-	852,197	757,649
Intergovernmental	1,576,689	1,633,223	-	-	1,576,689	1,633,223
Grants and Entitlements	3,100	1,600	-	-	3,100	1,600
Investment Earnings	39,391	37,497	10,384	5,643	49,775	43,140
Other	190,206	270,350	131,364	101,407	321,570	371,757
Total Revenues	<u>11,655,728</u>	<u>11,851,116</u>	<u>6,056,554</u>	<u>6,896,861</u>	<u>17,712,282</u>	<u>18,747,977</u>
Program Expenses						
Security of Person & Property	4,295,058	4,419,215	-	-	4,295,058	4,419,215
Public Health Services	300,029	314,783	-	-	300,029	314,783
Leisure Time Activities	67,642	63,102	-	-	67,642	63,102
Community Environment	2,172,864	2,245,870	-	-	2,172,864	2,245,870
Transportation	2,964,229	3,597,848	-	-	2,964,229	3,597,848
General Government	2,983,038	3,687,967	-	-	2,983,038	3,687,967
Interest and Fiscal Charges	595,095	644,065	-	-	595,095	644,065
Water	-	-	2,666,071	2,682,279	2,666,071	2,682,279
Sewer	-	-	2,982,948	2,816,987	2,982,948	2,816,987
Pool	-	-	82,047	93,019	82,047	93,019
Total Expenses	<u>13,377,955</u>	<u>14,972,850</u>	<u>5,731,066</u>	<u>5,592,285</u>	<u>19,109,021</u>	<u>20,565,135</u>
Excess (Deficit) before Transfers	(1,722,227)	(3,121,734)	325,488	1,304,576	(1,396,739)	(1,817,158)
Transfers	(39,200)	(36,000)	39,200	36,000	-	-
Change in Net Assets	<u>\$ (1,761,427)</u>	<u>\$ (3,157,734)</u>	<u>\$ 364,688</u>	<u>\$ 1,340,576</u>	<u>\$ (1,396,739)</u>	<u>\$ (1,817,158)</u>

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The most significant program expenses for the City are Security of Persons and Property, General Government, Transportation, and Community Environment. These programs account for 93% of the total governmental activities. Security of Persons and Property, which accounts for 32% of the total, represents costs associated with the operation of the Police Department and costs associated with providing firefighting and emergency medical services. General Government, which accounts for 22% of the total, represents costs associated with the general administration of city government, including the City Council, City Manager, City Auditor and Municipal Court. Transportation, which accounts for 22% of the total, represents costs associated with streets and their upkeep. Community Environment, which accounts for 16% of the total, represents costs associated with developing and improving the downtown.

Funding for the most significant programs indicated is from income taxes, property taxes and intergovernmental. The income tax revenue for 2011 was \$5,091,866. Of the \$11,655,728 in total revenues, income tax accounts for 44% of that total. The property tax revenue and payments in lieu of property taxes for 2011 was \$2,204,707 or 19% of total revenues. The intergovernmental revenue for 2011 was \$1,576,689 or 14% of total revenue. The charges for services revenue for 2011 was \$1,674,680 or 14% of total revenues. Operating Grants and Contributions of \$334,826 accounts for 3% of total revenues. Capital grants and contributions of \$540,263 accounts for 5% of the total and interest and other revenue make up the remaining 1%. Total governmental activities revenue decreased by approximately \$195,000 or less than 2%. The City monitors its sources of revenues very closely for fluctuations.

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

	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>
Security of persons and property	\$ 4,295,058	\$ 4,227,511	\$ 4,419,215	\$ 4,300,160
Public health services	300,029	214,884	314,783	238,032
Leisure time activities	67,642	67,642	63,102	63,102
Community environment	2,172,864	1,964,864	2,245,870	1,997,870
Transportation	2,964,229	2,423,601	3,597,848	2,888,862
General government	2,983,038	1,334,589	3,687,967	2,130,741
Interest on long-term debt	<u>595,095</u>	<u>595,095</u>	<u>644,065</u>	<u>644,065</u>
Total Expenses	<u>\$ 13,377,955</u>	<u>\$ 10,828,186</u>	<u>\$ 14,972,850</u>	<u>\$ 12,262,832</u>

It should be noted that 19% of the costs of services for governmental activities are derived from program revenues including charges for services, operating grants, capital grants and other contributions. As shown by the total net costs of \$10,828,186, the majority of the City's programs are funded by general revenues. A significant portion of the total general revenues consists of income taxes and property taxes.

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Management's Discussion and Analysis
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Unaudited

Business-Type Activities

The City's major business-type activities include water and sewer operations. The Water fund had operating revenues in 2011 of \$3,063,116, which is a decrease of \$39,098 from 2010. The decrease was due to lower tap and impact fees associated with the slowdown in construction. The Sewer Fund had operating revenues in 2011 of \$2,626,947, a decrease of \$25,132 from 2010, or less than 1%.

Financial Analysis of the City's Funds

Governmental Funds

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

The General Fund is the chief operating fund of the City. At the end of 2011, the total fund balance for the General Fund was \$977,280 of which \$953,241 was unassigned. During the current year, the fund balance of the City's General Fund increased by \$7,343, or less than 1%. In addition to the General Fund, the City had one other major fund during 2011: The Permanent Improvement Fund. At the end of 2011, the total fund balance of the Permanent Improvement Fund was \$1,004,442. Bond proceeds were received during 2011 to refinance the long-term note that was issued in 2010 for the purchase of fire equipment.

Proprietary Funds

The City's major proprietary funds are the Water Fund and the Sewer Fund. The City provides water and sewer services to city residents. Net assets in the Water Fund increased by \$402,334 or 5%. Net assets in the Sewer Fund decreased by \$37,807, or less than 1%. The increase in net assets of the Water Fund was due to an overall increase in usage.

General Fund Budgeting Highlights

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

For the General Fund, the original and final budgeted revenues were \$6,908,940, respectively. Actual revenues were \$6,614,651 due to lower property tax collections local government fund receipts. Fines, licenses and permits were also lower than the prior year due to fewer collections.

For the General Fund, the original budgeted expenditures were \$7,288,065 and the final budgeted expenditures were \$7,298,565, an increase of less than 1%. Actual expenditures were \$6,887,616, which was approximately \$411,000 less than the final budget due primarily to the City suspending certain budgeted raises and not rehiring when we have retirements.

CITY OF WASHINGTON COURT HOUSE, OHIO
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Capital Assets and Debt Administration

The City's investment in capital assets for governmental and business-type activities as of December 31, 2011, amounts to \$32,519,247 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, improvements, equipment and infrastructure.

Total capital assets for governmental activities of the City of Washington Court House for the year 2011 were \$23,081,666 or \$2,325,346 less than in 2010. This decrease was due mainly to annual depreciation expense.

The decrease in capital assets for business-type activities of \$686,416 to \$35,693,968 as of December 31, 2011 was also due mainly to annual depreciation expense.

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

As of December 31, 2011, the City of Washington Court House had \$25,906,387 in bonds, long-term notes, leases and loans outstanding with \$1,858,616 due within one year.

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

Revenue bonds in the Water Fund were refinanced during 2003 to receive a lower interest rate. In addition to the bonds, notes and loans, the City's long-term obligations include compensated absences, pension obligations and capital lease obligations. Additional information concerning the City's debt can be found in Note 8 of the notes to the basic financial statements.

Current Known Facts and Conditions

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

Contacting the City's Financial Management

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

CITY OF WASHINGTON COURT HOUSE, OHIO

Statement of Net Assets

December 31, 2011

		Governmental Activities	Business-Type Activities	Total
Assets				
Equity in pooled cash and investments	\$	3,399,605	944,926	4,344,531
Cash in segregated accounts		48,998	-	48,998
Receivables:				
Property taxes		1,232,798	-	1,232,798
Income taxes		1,720,267	-	1,720,267
Payment in lieu of taxes		1,020,000	-	1,020,000
Accounts		-	660,049	660,049
Loans		62,708	-	62,708
Interest		7,063	3,028	10,091
Intergovernmental		813,265	-	813,265
Prepaid items		26,735	62,104	88,839
Supplies inventory		27,612	67,239	94,851
Deferred charges		256,086	263,968	520,054
Nondepreciable capital assets		1,078,475	1,343,435	2,421,910
Depreciable capital assets, net		22,003,191	34,350,533	56,353,724
Total assets		<u>31,696,803</u>	<u>37,695,282</u>	<u>69,392,085</u>
Liabilities				
Accounts payable		117,161	63,234	180,395
Accrued wages payable		314,466	81,225	395,691
Intergovernmental payable		285,525	65,085	350,610
Unearned revenue		2,230,397	-	2,230,397
Accrued interest payable		49,823	133,522	183,345
Notes payable		140,000	350,000	490,000
Noncurrent liabilities:				
Due within one year		911,887	1,250,494	2,162,381
Due in more than one year		14,226,389	10,696,076	24,922,465
Total liabilities		<u>18,275,648</u>	<u>12,639,636</u>	<u>30,915,284</u>
Net Assets				
Invested in capital assets, net of related debt		9,137,669	23,901,632	33,039,301
Restricted for:				
Capital projects		1,085,419	-	1,085,419
Debt service		1,029,623	-	1,029,623
Other purposes		1,275,369	-	1,275,369
Unrestricted		893,075	1,154,014	2,047,089
Total net assets	\$	<u>13,421,155</u>	<u>25,055,646</u>	<u>38,476,801</u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO

Statement of Activities

Year Ended December 31, 2011

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Governmental activities:							
Security of persons and property	\$ 4,295,058	-	67,547	-	(4,227,511)	-	(4,227,511)
Public health services	300,029	85,145	-	-	(214,884)	-	(214,884)
Leisure time activities	67,642	-	-	-	(67,642)	-	(67,642)
Community environment	2,172,864	-	208,000	-	(1,964,864)	-	(1,964,864)
Transportation	2,964,229	365	-	540,263	(2,423,601)	-	(2,423,601)
General government	2,983,038	1,589,170	59,279	-	(1,334,589)	-	(1,334,589)
Interest on long-term debt	595,095	-	-	-	(595,095)	-	(595,095)
Total governmental activities	<u>13,377,955</u>	<u>1,674,680</u>	<u>334,826</u>	<u>540,263</u>	<u>(10,828,186)</u>	<u>-</u>	<u>(10,828,186)</u>
Business-type activities:							
Water	2,666,071	2,986,451	-	-	-	320,380	320,380
Sewer	2,982,948	2,574,930	-	313,099	-	(94,919)	(94,919)
Pool	82,047	40,326	-	-	-	(41,721)	(41,721)
Total business-type activities	<u>5,731,066</u>	<u>5,601,707</u>	<u>-</u>	<u>313,099</u>	<u>-</u>	<u>183,740</u>	<u>183,740</u>
Total	\$ <u>19,109,021</u>	<u>7,276,387</u>	<u>334,826</u>	<u>853,362</u>	<u>(10,828,186)</u>	<u>183,740</u>	<u>(10,644,446)</u>
General revenues and transfers:							
Taxes:							
Income taxes					5,091,866	-	5,091,866
Property taxes					1,352,510	-	1,352,510
Payment in lieu of taxes					852,197	-	852,197
Intergovernmental					1,576,689	-	1,576,689
Grants and contributions not restricted to specific programs					3,100	-	3,100
Investment earnings					39,391	10,384	49,775
Miscellaneous					190,206	131,364	321,570
Transfers					(39,200)	39,200	-
Total general revenues and transfers					<u>9,066,759</u>	<u>180,948</u>	<u>9,247,707</u>
Change in net assets					(1,761,427)	364,688	(1,396,739)
Net assets beginning of year					<u>15,182,582</u>	<u>24,690,958</u>	<u>39,873,540</u>
Net assets end of year					<u>\$ <u>13,421,155</u></u>	<u><u>25,055,646</u></u>	<u><u>38,476,801</u></u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO

Balance Sheet

Governmental Funds

December 31, 2011

	General Fund	Permanent Improvement	Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Assets				
Equity in pooled cash and investments \$	742,550	858,540	1,798,515	3,399,605
Cash in segregated accounts	38,734	-	10,264	48,998
Receivables:				
Property taxes	354,470	-	878,328	1,232,798
Income taxes	1,173,637	320,457	226,173	1,720,267
Payment in lieu of taxes	-	-	1,020,000	1,020,000
Loans	-	-	62,708	62,708
Interest	7,063	-	-	7,063
Intergovernmental	464,810	-	348,455	813,265
Prepays	23,830	-	2,905	26,735
Supplies inventory	-	-	27,612	27,612
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>2,805,094</u>	<u>1,178,997</u>	<u>4,374,960</u>	<u>8,359,051</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	49,006	33,046	35,109	117,161
Notes payable	-	-	140,000	140,000
Accrued wages payable	274,569	-	39,897	314,466
Intergovernmental payable	253,630	-	31,895	285,525
Deferred revenue	1,250,609	141,509	2,311,729	3,703,847
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>1,827,814</u>	<u>174,555</u>	<u>2,558,630</u>	<u>4,560,999</u>
Fund balances:				
Nonspendable	23,830	-	30,517	54,347
Restricted	-	1,004,442	1,852,434	2,856,876
Committed	-	-	31,438	31,438
Assigned	209	-	-	209
Unassigned	953,241	-	(98,059)	855,182
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>977,280</u>	<u>1,004,442</u>	<u>1,816,330</u>	<u>3,798,052</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances \$	<u>2,805,094</u>	<u>1,178,997</u>	<u>4,374,960</u>	<u>8,359,051</u>

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2011

Total governmental fund balances	\$	3,798,052
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		23,081,666
Deferred charges associated with long-term liabilities are not reported in the funds.		256,086
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Income taxes receivable		759,644
Intergovernmental and other receivables		622,800
Interest		5,897
Delinquent property taxes		85,109
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds		(13,320,000)
Unamortized bond premiums		(219,658)
Lease/purchase agreement		(440,116)
Compensated absences		(938,193)
Accrued interest on long-term debt		(49,823)
OPWC loan		<u>(220,309)</u>
 Net assets of governmental activities	 \$	 <u><u>13,421,155</u></u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended December 31, 2011

	General Fund	Permanent Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 337,095	-	1,009,169	1,346,264
Municipal income taxes	3,433,725	943,557	767,564	5,144,846
Intergovernmental	1,120,012	67,547	1,036,517	2,224,076
Charges for services	1,007,603	-	85,145	1,092,748
Fines, licenses and permits	565,087	-	238,489	803,576
Interest	36,095	-	872	36,967
Payment in lieu of taxes	-	-	852,197	852,197
Other	153,809	39,385	64,829	258,023
Total revenues	<u>6,653,426</u>	<u>1,050,489</u>	<u>4,054,782</u>	<u>11,758,697</u>
Expenditures:				
Current:				
Security of persons and property	3,555,128	-	424,073	3,979,201
Public health services	34,077	-	297,543	331,620
Leisure time activities	67,232	-	-	67,232
Community environment	920,432	-	818,098	1,738,530
Transportation	-	-	951,836	951,836
General government	2,268,175	13,830	438,150	2,720,155
Capital outlay	-	493,942	186,180	680,122
Debt service:				
Principal retirement	-	1,024,718	1,200,000	2,224,718
Bond issuance costs	-	30,907	38,353	69,260
Interest and fiscal charges	-	92,492	532,364	624,856
Total expenditures	<u>6,845,044</u>	<u>1,655,889</u>	<u>4,886,597</u>	<u>13,387,530</u>
Excess of revenues over (under) expenditures	<u>(191,618)</u>	<u>(605,400)</u>	<u>(831,815)</u>	<u>(1,628,833)</u>
Other financing sources (uses):				
Issuance of refunding bonds	-	915,000	1,220,000	2,135,000
Premiums on refunding bonds	-	13,907	19,458	33,365
Payments to escrow	-	-	(455,000)	(455,000)
Transfers in	238,161	-	-	238,161
Transfers out	(39,200)	-	(238,161)	(277,361)
Total other financing sources (uses)	<u>198,961</u>	<u>928,907</u>	<u>546,297</u>	<u>1,674,165</u>
Net change in fund balance	7,343	323,507	(285,518)	45,332
Fund balance, beginning of year, restated	<u>969,937</u>	<u>680,935</u>	<u>2,101,848</u>	<u>3,752,720</u>
Fund balance, end of year	<u>\$ 977,280</u>	<u>1,004,442</u>	<u>1,816,330</u>	<u>3,798,052</u>

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended December 31, 2011

Net change in fund balances - total governmental funds		\$ 45,332
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:		
Capital outlay	180,673	
Depreciation expense	<u>(2,484,605)</u>	(2,303,932)
In the statement of activities, loss on disposal of capital assets is reported whereas only proceeds from sales are reported in the funds.		
		(21,414)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Income taxes receivable	(52,980)	
Intergovernmental and other receivables	(58,659)	
Interest	2,424	
Delinquent property taxes	<u>6,246</u>	(102,969)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Compensated absences	11,182	
Amortization of bond issuance costs	(10,085)	
Amortization of bond premiums	<u>10,618</u>	11,715
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due.		
		29,228
Repayment of bond, note, and lease principal is an expenditure in the governmental funds, but the payments reduce long-term liabilities in the statement of net assets.		
		2,679,718
Issuance of bonds provides current financial resources to governmental funds. Also, governmental funds report the effect over issuance costs and premiums and similar items when debt is first issued:		
Issuance of bonds	(2,135,000)	
Issuance of premiums	(33,365)	
Bond issuance costs	<u>69,260</u>	<u>(2,099,105)</u>
Change in net assets of governmental activities		\$ <u>(1,761,427)</u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual - Budget (Non-GAAP) Basis

General Fund

Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Property and other taxes	\$ 427,000	427,000	336,625	(90,375)
Municipal income taxes	3,360,000	3,360,000	3,387,893	27,893
Intergovernmental	1,242,000	1,244,000	1,142,206	(101,794)
Charges for services	957,440	957,440	940,102	(17,338)
Fines, licenses and permits	628,000	628,000	611,802	(16,198)
Interest	90,000	90,000	30,252	(59,748)
Other	<u>204,500</u>	<u>202,500</u>	<u>165,771</u>	<u>(36,729)</u>
Total revenues	<u>6,908,940</u>	<u>6,908,940</u>	<u>6,614,651</u>	<u>(294,289)</u>
Expenditures:				
Current:				
Security of persons and property	3,852,271	3,852,271	3,615,896	236,375
Public health services	35,000	35,000	34,077	923
Leisure time activities	72,200	72,200	66,569	5,631
Community environment	915,519	915,519	877,438	38,081
General government	<u>2,413,075</u>	<u>2,423,575</u>	<u>2,293,636</u>	<u>129,939</u>
Total expenditures	<u>7,288,065</u>	<u>7,298,565</u>	<u>6,887,616</u>	<u>410,949</u>
Excess of revenues over (under) expenditures	<u>(379,125)</u>	<u>(389,625)</u>	<u>(272,965)</u>	<u>116,660</u>
Other sources (uses):				
Transfers in	-	238,160	238,161	1
Transfers out	<u>(36,750)</u>	<u>(55,950)</u>	<u>(39,200)</u>	<u>16,750</u>
Total other financing sources (uses)	<u>(36,750)</u>	<u>182,210</u>	<u>198,961</u>	<u>16,751</u>
Net change in fund balance	(415,875)	(207,415)	(74,004)	133,411
Fund balance, beginning of year	743,067	743,067	743,067	-
Prior year encumbrances appropriated	<u>40,449</u>	<u>40,449</u>	<u>40,449</u>	<u>-</u>
Fund balance, end of year	<u>\$ 367,641</u>	<u>576,101</u>	<u>709,512</u>	<u>133,411</u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO

Statement of Net Assets

Proprietary Funds

December 31, 2011

	Enterprise Funds			Totals
	Water	Sewer	Nonmajor Enterprise Fund	
Assets				
Current assets:				
Equity in pooled cash and investments	\$ 515,872	428,915	139	944,926
Receivables:				
Accounts	353,802	306,247	-	660,049
Interest	1,514	1,514	-	3,028
Prepaid Items	30,721	31,383	-	62,104
Materials and supplies inventory	67,239	-	-	67,239
Total current assets	969,148	768,059	139	1,737,346
Noncurrent assets:				
Deferred charges	263,968	-	-	263,968
Nondepreciable capital assets	1,081,221	262,214	-	1,343,435
Depreciable capital assets, net	14,351,756	19,998,777	-	34,350,533
Total noncurrent assets	15,696,945	20,260,991	-	35,957,936
Total assets	16,666,093	21,029,050	139	37,695,282
Liabilities				
Current Liabilities:				
Accounts payable	27,620	35,614	-	63,234
Accrued wages payable	41,478	39,747	-	81,225
Intergovernmental payable	32,377	32,708	-	65,085
Accrued interest payable	65,269	68,253	-	133,522
Notes payable	-	350,000	-	350,000
Capital lease payable	-	47,628	-	47,628
Loans payable	186,856	348,200	-	535,056
Compensated absences payable	39,336	28,474	-	67,810
Revenue bonds payable	600,000	-	-	600,000
Total current liabilities	992,936	950,624	-	1,943,560
Noncurrent liabilities:				
Compensated absences payable	118,448	54,008	-	172,456
Loans payable	1,962,101	3,656,519	-	5,618,620
Revenue bonds payable	4,905,000	-	-	4,905,000
Total noncurrent liabilities	6,985,549	3,710,527	-	10,696,076
Total liabilities	7,978,485	4,661,151	-	12,639,636
Net Assets				
Invested in capital assets, net of related debt	8,042,988	15,858,644	-	23,901,632
Unrestricted (deficit)	644,620	509,255	139	1,154,014
Total net assets	\$ 8,687,608	16,367,899	139	25,055,646

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended December 31, 2011

	Enterprise Funds			Totals
	Water	Sewer	Nonmajor Enterprise Fund	
Operating revenues:				
Charges for services	\$ 2,986,451	2,574,930	40,326	5,601,707
Other	76,665	52,017	2,682	131,364
Total operating revenues	<u>3,063,116</u>	<u>2,626,947</u>	<u>43,008</u>	<u>5,733,071</u>
Operating expenses:				
Personnel services	1,035,498	1,063,485	43,448	2,142,431
Contractual services	352,366	568,561	16,846	937,773
Supplies and materials	194,333	162,347	21,753	378,433
Other	381,227	379,396	-	760,623
Depreciation	352,133	658,965	-	1,011,098
Total operating expenses	<u>2,315,557</u>	<u>2,832,754</u>	<u>82,047</u>	<u>5,230,358</u>
Operating income (loss)	747,559	(205,807)	(39,039)	502,713
Non-operating revenues (expenses):				
Interest revenue	5,289	5,095	-	10,384
Interest expense and fiscal charges	(350,514)	(150,194)	-	(500,708)
Total non-operating revenues (expenses)	<u>(345,225)</u>	<u>(145,099)</u>	<u>-</u>	<u>(490,324)</u>
Income (loss) before				
contributions and transfers	402,334	(350,906)	(39,039)	12,389
Capital contribution	-	313,099	-	313,099
Transfers in	-	-	39,200	39,200
Change in net assets	402,334	(37,807)	161	364,688
Net assets (deficit), beginning of year	<u>8,285,274</u>	<u>16,405,706</u>	<u>(22)</u>	<u>24,690,958</u>
Net assets (deficit), end of year	<u>\$ 8,687,608</u>	<u>16,367,899</u>	<u>139</u>	<u>25,055,646</u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO

Statement of Cash Flows

Proprietary Funds

Year Ended December 31, 2011

	Enterprise Funds			Totals
	Water	Sewer	Nonmajor Enterprise Fund	
Cash flows from operating activities:				
Cash received from customers	\$ 2,973,338	2,550,699	40,326	5,564,363
Cash payments for employee services and benefits	(1,028,408)	(1,061,938)	(44,861)	(2,135,207)
Cash payments to suppliers for goods and services	(541,018)	(710,220)	(38,131)	(1,289,369)
Cash payments for other operating expenses	(381,227)	(376,163)	-	(757,390)
Cash received from other operating revenue	76,665	52,017	2,682	131,364
Net cash provided (used) by operating activities	<u>1,099,350</u>	<u>454,395</u>	<u>(39,984)</u>	<u>1,513,761</u>
Cash flows from noncapital financing activities:				
Contribution of capital	-	50,057	-	50,057
Transfers from other funds	-	-	39,200	39,200
Net cash provided by noncapital financing activities	<u>-</u>	<u>50,057</u>	<u>39,200</u>	<u>89,257</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(51,630)	(10,010)	-	(61,640)
Principal paid on capital lease	-	(45,317)	-	(45,317)
Interest paid on capital lease	-	(4,740)	-	(4,740)
Proceeds from notes	-	350,000	-	350,000
Principal payments	(763,932)	(686,836)	-	(1,450,768)
Interest paid on notes and bonds	(338,981)	(151,088)	-	(490,069)
Net cash used by capital and related financing activities	<u>(1,154,543)</u>	<u>(547,991)</u>	<u>-</u>	<u>(1,702,534)</u>
Cash flows from investing activities:				
Interest	4,866	4,504	-	9,370
Net cash provided by investing activities	<u>4,866</u>	<u>4,504</u>	<u>-</u>	<u>9,370</u>
Net change	(50,327)	(39,035)	(784)	(90,146)
Cash and pooled investments beginning of year	<u>566,199</u>	<u>467,950</u>	<u>923</u>	<u>1,035,072</u>
Cash and pooled investments end of year	<u>515,872</u>	<u>428,915</u>	<u>139</u>	<u>944,926</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	747,559	(205,807)	(39,039)	502,713
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	352,133	658,965	-	1,011,098
Changes in assets and liabilities:				
Receivables	(13,113)	(24,230)	-	(37,343)
Prepaid items	1,605	2,255	468	4,328
Materials and supplies inventory	1,234	-	-	1,234
Accounts payable	2,842	21,796	-	24,638
Accrued wages	1,377	(189)	-	1,188
Intergovernmental payable	(4,129)	(2,237)	(1,413)	(7,779)
Compensated absences payable	9,842	3,842	-	13,684
Net cash provided (used) by operating activities	\$ <u>1,099,350</u>	<u>454,395</u>	<u>(39,984)</u>	<u>1,513,761</u>

Noncash contribution: During 2011, the Sewer Fund received a lift station from the County valued at \$263,042.

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO

Statement of Fiduciary Net Assets

Fiduciary Funds

December 31, 2011

	<u>Private- Purpose Trust Fund</u>	<u>Agency Funds</u>
<i>Assets</i>		
Equity in pooled cash and cash equivalents	\$ 18,702	32,238
Cash in segregated accounts	<u>-</u>	<u>44,160</u>
Total assets	<u>18,702</u>	<u>76,398</u>
<i>Liabilities</i>		
Intergovernmental payable	-	34,191
Deposits held and due to others	<u>-</u>	<u>42,207</u>
Total liabilities	<u>-</u>	<u>76,398</u>
<i>Net Assets</i>		
Held in trust	\$ <u>18,702</u>	

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO

Statement of Changes in Fiduciary Net Assets

Fiduciary Fund

Year Ended December 31, 2011

	<u>Private- Purpose Trust Fund</u>
<i>Additions:</i>	
Miscellaneous	\$ <u>11,779</u>
Total additions	<u>11,779</u>
<i>Deductions:</i>	
Contractual Services	<u>7,161</u>
Total deductions	<u>7,161</u>
Change in net assets	4,618
Net assets, beginning of year	<u>14,084</u>
Net assets, end of year	\$ <u><u>18,702</u></u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 1 – DESCRIPTION OF THE ENTITY

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Government-wide Financial Statements

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

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

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

Fund Financial Statements

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

Fund Accounting

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

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

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

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

Measurement Focus

Governmental-Wide Financial Statements

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

Fund Financial Statements

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

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

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

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

Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

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

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

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

Unearned/Deferred Revenue

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, have been recorded as unearned revenue. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

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

Expenses/Expenditures

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

Budgetary Accounting and Control

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

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

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

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

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

Tax Budget

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Estimated Resources

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

The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement as final reflects the amounts in the final amended official certificate of estimated resources issued during 2011.

Reconciliation of Budget Basis to GAAP Basis

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

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

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

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

Net change in fund balance - GAAP Basis	\$ 7,343
Increase / (decrease):	
Due to revenues	(38,775)
Due to expenditures	(8,289)
Due to encumbrances	<u>(34,283)</u>
Net change in fund balance - Budget Basis	<u><u>(74,004)</u></u>

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

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

Cash and Investments

Cash and investments of the City's funds, except those held in restricted asset accounts, are pooled and invested in short-term investments in order to provide improved cash management. During 2011, the City's funds were invested in interest bearing demand accounts and certificates of deposit with commercial banks, money market accounts, the State Treasury Assets Reserve of Ohio (STAR Ohio), and U.S. agencies securities. For purposes of the statement of cash flows, the enterprise funds' portion of cash and cash equivalents is considered a cash equivalent because the City is able to withdraw resources from the enterprise funds without prior notice or penalty.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2011.

During 2011, the General Fund earned interest of \$36,095, of which \$27,641 was assigned from other funds.

Receivables

Receivables at December 31, 2011 consist of property and income taxes, interest, consumer accounts (billings for user charged services, included unbilled utility services), notes and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered collectible in full, including accounts receivables which, if delinquent, may be certified and collected as a special assessment, subject to foreclosure for nonpayment.

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

Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recognized as expenditures in governmental funds and as expenses in the proprietary funds when consumed.

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2011 are recorded as prepaid items.

Capital Assets

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

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

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

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

Interest is capitalized on proprietary fund capital assets acquired with tax-exempt debt. There was no interest required to be capitalized during the 2011 fiscal year.

Deferred Charges

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

Compensated Absences

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Operating Revenues and Expenses

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

Interfund Transactions

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

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

Fund Balances

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

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The “not in a spendable form” criterion includes items that are not expected to be converted into cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

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

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

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

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

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

Net Assets

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

Restricted for other purposes represents balances of State and Federal grants in Special Revenue Funds. Of the City's \$3,390,411 restricted net assets, none is restricted by enabling legislation.

Estimates

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

NOTE 3 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

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

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

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

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

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

At year end, the carrying amount of the City’s deposits was \$1,149,236 and the bank balance was \$1,246,797. The City’s bank balance was covered by FDIC and collateralized with securities held by the pledging financial institution’s trust department or agent, respectively.

Investments: The City’s investments at December 31, 2011 are summarized as follows:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Concentration of Credit Risk</u>
FHLB	\$ 732,055	2.30	21.92%
FNMA	1,253,078	4.72	37.52%
FHLMC	501,970	4.82	15.03%
Negotiable Certificate of Deposit	184,930	1.88	5.54%
STAROhio	28,617	-	0.86%
Series HH Bonds	9,000	-	0.27%
Money Markets	<u>629,745</u>	-	<u>18.86%</u>
	<u>\$ 3,339,395</u>		<u>100.00%</u>

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS - continued

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

NOTE 4 - PROPERTY TAXES

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

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

The Fayette County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Washington Court House. The County Auditor periodically remits to the City its portion of the taxes collected. The assessed value upon which the 2011 taxes were collected was \$229,671,580. The full tax rate for all City operations applied for real property for fiscal year ended December 31, 2011 was \$9.35 per \$1,000 of assessed valuation. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

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

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

Accrued property taxes receivable represents delinquent taxes outstanding and real tangible personal and public utility taxes which were measurable as of December 31, 2011. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not intended to finance 2011 operations. The receivable is therefore offset by a credit to deferred revenue.

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 5 – INTERFUND ACTIVITY

Interfund transfers for the year ended December 31, 2011, consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 238,161	\$ 39,200
Nonmajor Governmental Funds	-	238,161
Nonmajor Enterprise Funds	<u>39,200</u>	<u>-</u>
Total	\$ <u>277,361</u>	\$ <u>277,361</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, or (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfer from the nonmajor governmental funds (capital improvement fund) was to close the fund and return the monies back to the fund where the monies originally came from.

NOTE 6 - INCOME TAX

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

Income tax proceeds are used for general fund operations, permanent improvements, and safety building, as determined by the Council. In 2011, Council passed Ordinance No. 11-2011 to repeal Ordinance No. 32-90 to close the Capital Improvement Fund and discontinue the five percent earmark of the income tax collections from the General Fund into the Capital Improvement Fund.

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance at 1/01/11	Additions	Deletions	Balance at 12/31/11
Governmental Activities:				
<i>Nondepreciable Capital Assets:</i>				
Land	\$ 1,078,475	\$ -	\$ -	\$ 1,078,475
<i>Total Nondepreciable Capital Assets</i>	1,078,475	-	-	1,078,475
<i>Depreciable Capital Assets:</i>				
Land Improvements	479,483	15,000	-	494,483
Buildings and Improvements	9,187,379	-	-	9,187,379
Equipment and Vehicles	5,328,123	165,673	(119,709)	5,374,087
Infrastructure	51,110,435	-	-	51,110,435
<i>Total Depreciable Capital Assets</i>	66,105,420	180,673	(119,709)	66,166,384
<i>Accumulated Depreciation:</i>				
Land Improvements	(479,483)	(1,500)	-	(480,983)
Buildings and Improvements	(584,421)	(206,502)	-	(790,923)
Equipment and Vehicles	(3,523,374)	(301,253)	98,295	(3,726,332)
Infrastructure	(37,189,605)	(1,975,350)	-	(39,164,955)
<i>Total Accumulated Depreciation</i>	(41,776,883)	(2,484,605)	98,295	(44,163,193)
<i>Total Govt Activities Capital Assets, Net</i>	\$ 25,407,012	\$ (2,303,932)	\$ (21,414)	\$ 23,081,666

Depreciation expense was charged to governmental functions as follows:

Security of Persons and Property	\$ 376,137
Leisure Time Activities	410
Public Health	11,491
Transportation	2,017,061
General Government	79,506
Total Depreciation Expense	\$ 2,484,605

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 7 – CAPITAL ASSETS – continued

	Balance at 1/01/11	Additions	Deletions	Balance at 12/31/11
Business Type Activities:				
<i>Nondepreciable Capital Assets:</i>				
Land	\$ 1,329,624	\$ 13,811	\$ -	\$ 1,343,435
<i>Total Nondepreciable Capital Assets</i>	1,329,624	13,811	-	1,343,435
<i>Depreciable Capital Assets:</i>				
Land Improvements	713,630	35,139	-	748,769
Buildings and Improvements	26,267,377	263,042	-	26,530,419
Equipment and Vehicles	3,187,316	12,690	(157,587)	3,042,419
Infrastructure	22,424,022	-	-	22,424,022
<i>Total Depreciable Capital Assets</i>	52,592,345	310,871	(157,587)	52,745,629
<i>Accumulated Depreciation:</i>				
Land Improvements	(713,378)	(3,514)	-	(716,892)
Buildings and Improvements	(7,482,359)	(291,920)	-	(7,774,279)
Equipment and Vehicles	(2,983,475)	(16,471)	157,587	(2,842,359)
Infrastructure	(6,362,373)	(699,193)	-	(7,061,566)
<i>Total Accumulated Depreciation</i>	(17,541,585)	(1,011,098)	157,587	(18,395,096)
 <i>Total Bus. Activities Capital Assets, Net</i>	 \$ 36,380,384	 \$ (686,416)	 \$ -	 \$ 35,693,968

Depreciation expense was charged to segments as follows:

Water	\$ 352,133
Sewer	658,965
Total Depreciation Expense	\$ 1,011,098

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 8 – LONG-TERM LIABILITIES

The changes in the City’s long-term liabilities for the year ended December 31, 2011 were as follows:

	<u>Balance at 1/1/11</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance at 12/31/11</u>	<u>Amount Due Within One Year</u>
<i>Governmental Activities:</i>					
Capital Improvement Bonds	\$ 455,000	-	(455,000)	-	-
Various Purpose 2007 GO Bonds:					
Note Refinancing	1,915,000	-	(80,000)	1,835,000	80,000
Safety Services	6,670,000	-	(325,000)	6,345,000	335,000
Tax Increment Financing	3,125,000	-	(85,000)	3,040,000	90,000
Premium on Series 2007	196,911	-	(8,950)	187,961	-
Various Purpose 2011 GO Bonds:					
Road Way Improvement	-	745,000	-	745,000	30,000
Refunding	-	475,000	(35,000)	440,000	35,000
Fire Apparatus	-	915,000	-	915,000	35,000
Premium on Series 2011	-	33,365	(1,668)	31,697	-
Long-Term Notes	1,630,000	-	(1,630,000)	-	-
Lease/Purchase Agreement	497,925	-	(57,809)	440,116	59,023
OPWC Loan	232,218	-	(11,909)	220,309	11,909
Compensated Absences Payable	949,375	355,745	(366,927)	938,193	235,955
<i>Total Governmental Activities</i>	<u>\$ 15,671,429</u>	<u>2,524,110</u>	<u>(3,057,263)</u>	<u>15,138,276</u>	<u>911,887</u>

On September 6, 2007 the City issued \$12,875,000 various purpose general obligation bonds. The proceeds of the issue included retiring \$3,165,000 in various purpose infrastructure improvement notes, \$2,105,000 in an outstanding capital improvement TIF note and \$7,480,000 for the construction of a new safety building for the police and fire departments. The interest rate of the bonds range from 3.85% to 5.0% and will mature fully in 2032.

On March 8, 2011, the City issued \$2,135,000 various purpose refunding general obligation bonds. The proceeds of the issue included \$1,660,000 to refinance bond anticipation notes and related costs issued to pay for roadway improvements and fire equipment and \$475,000 to currently refund the outstanding Series 1997 Capital Improvement Bonds. The current refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new bonds) of \$65,255. The interest rate on the Series 2011 bonds range from 2.0% to 5.0% and will mature fully in 2030.

General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged. General obligation bonds payable will be paid from the Permanent Improvement Fund, the Safety Building Improvement Fund, and various TIF Funds. Compensated absences will be paid by the fund which pays the employee’s salary.

The City entered into a lease/purchase agreement for \$610,000 at an interest rate of 4.2% for a comprehensive energy program and energy capital services for the city as a whole. These improvements include installation of energy saving equipment and will be repaid from the Permanent Improvement Fund over the next seven years.

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 8 – LONG-TERM LIABILITIES – *continued*

	Balance			Balance	Amount Due
	at 1/1/11	Issued	Retired	at 12/31/11	Within One
					Year
<i>Business Type Activities:</i>					
Water System Bonds	\$ 6,090,000	-	(585,000)	5,505,000	600,000
OWDA Sewer Loan	4,308,260	-	(328,511)	3,979,749	339,876
OWDA Water Loan	2,327,889	-	(178,932)	2,148,957	186,856
Capital Lease	92,945	-	(45,317)	47,628	47,628
Sewer Issue II Note	33,294	-	(8,324)	24,970	8,324
Compensated Absences Payable	226,582	144,667	(130,983)	240,266	67,810
<i>Total Business Type Activities</i>	\$ 13,078,970	144,667	(1,277,067)	11,946,570	1,250,494

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

In 2003, the City refunded its water system revenue bonds. Revenue bonds pay interest at rates ranging from 3.5% to 4.25% and mature in 2019. The revenue bonds are retired through the Water Fund using water utility revenues.

In connection with the revenue bonds listed above, the City has pledged future customer revenues, net of specified operating expenses, to repay this debt. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The bonds are payable, through their final maturities, solely from net revenues applicable to the Water Fund. Total interest and principal remaining to be paid on these bonds is \$6,559,090.

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

In connection with the OWDA loans listed above, the City has pledged future customer revenues of the Water and Sewer Funds, net of specified operating expenses and net of debt service requirements on revenue bonds (which have first priority and a lien on net income available for debt service), to repay this debt. The loans are payable, through their final maturities, from net revenues applicable to the Water and Sewer Funds. Total interest and principal remaining to be paid on these loans is \$7,384,999.

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 8 – LONG-TERM LIABILITIES – *continued*

Principal and interest requirements to retire the City’s governmental activities’ outstanding notes and bonds as of December 31, 2011, are as follows:

		<u>Series 2007 Bonds</u>		<u>Series 2011 Bonds</u>		<u>OPWC</u>
		<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2012	\$	505,000	520,411	100,000	77,460	11,909
2013		530,000	500,969	105,000	75,460	11,909
2014		545,000	478,444	105,000	73,360	11,909
2015		570,000	455,281	115,000	71,260	11,909
2016		595,000	431,056	115,000	68,385	11,909
2017-2021		3,430,000	1,719,038	610,000	290,000	59,545
2022-2026		3,705,000	802,550	480,000	182,845	59,541
2027-2031		1,120,000	190,125	470,000	60,000	41,678
2032		<u>220,000</u>	<u>9,900</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$	<u>11,220,000</u>	<u>5,107,774</u>	<u>2,100,000</u>	<u>898,770</u>	<u>220,309</u>

Principal and interest requirements to retire the City’s business-type activities’ outstanding notes, bonds, and loans as of December 31, 2011, are as follows:

		<u>Issue II</u>	<u>Water Revenue Bonds</u>		<u>OWDA Loans</u>	
		<u>Principal</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$	8,324	600,000	218,485	526,732	225,716
2013		8,323	625,000	196,885	546,763	205,685
2014		8,323	645,000	173,760	567,568	184,880
2015		-	670,000	148,928	589,176	163,271
2016		-	700,000	122,798	611,619	140,828
2017-2021		<u>-</u>	<u>2,265,000</u>	<u>193,234</u>	<u>3,286,848</u>	<u>335,913</u>
Total	\$	<u>24,970</u>	<u>5,505,000</u>	<u>1,054,090</u>	<u>6,128,706</u>	<u>1,256,293</u>

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 9 – SHORT-TERM OBLIGATIONS

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

	<u>Issue Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>					
Court Special Project BAN - 1.75%	12/29/2010	\$ 150,000	-	150,000	-
Court Special Project BAN - 2.625%	12/28/2011	-	140,000	-	140,000
		\$ 150,000	140,000	150,000	140,000
<u>Business-Type Activities:</u>					
Wastewater Treatment System BAN - 1.75%	12/29/2010	\$ 350,000	-	350,000	-
Wastewater Treatment System BAN - 2.625%	12/28/2011	-	350,000	-	350,000
		\$ 350,000	350,000	350,000	350,000

The City issued \$500,000 in various purpose bond anticipation notes on December 29, 2010. \$350,000 of the notes was issued to pay for engineering costs related to the sewer treatment plant and was paid with user fees of the Sewer Fund. The other \$150,000 was issued to pay for court related equipment and was paid with court fees from the Court Special Project Fund. In December 2011, the City issued bond anticipation notes in the amount of \$490,000 that provided funding to rollover the bond anticipation notes issued in December 2010.

NOTE 10 – CAPITAL LEASES

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

These lease obligations meet the criteria of a capital lease as defined by FASB guidance, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the governmental funds. In the proprietary funds, capital lease principal payments reduce the liability and the interest payments are reported as interest and fiscal charges expense.

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 10 – CAPITAL LEASES – *continued*

The following is a schedule of the future minimum lease payments for the capital leases, and the present value of the future minimum lease payments at December 31, 2011:

Year Ending December 31	
2012	\$ 127,564
2013	76,268
2014	75,002
2015	73,710
2016	72,391
2017-2018	140,713
Total Future Minimum Lease Payments	565,648
Less: Amount Representing Interest	77,904
Present Value of Future Minimum Lease Payments	\$ 487,744

NOTE 11 - PENSION PLANS

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

Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member Directed Plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 11 - PENSION PLANS - continued

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, OH 43215-4642, by visiting <https://www.opers.org/investments/cafr.shtml>, or by calling (614) 222-6705 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. The 2011 member contribution rates were 10% of their annual salary for members in state and local classifications. The City was required to contribute 14% of covered payroll for employees. The City's required contributions to OPERS for the years ended December 31, 2011, 2010, and 2009 were \$548,000, \$531,000, and \$543,000, respectively; 87% has been contributed for 2011 and 100% for 2010 and 2009.

Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to OP&F the fund for police and firefighters, respectively were \$229,000 and \$209,000 for the year ended December 31, 2011, \$247,000 and \$187,000 for the year ended December 31, 2010, \$242,000 and \$198,000 and for the year ended December 31, 2009. 73% has been contributed for police officers for 2011 and 100% for police officers for 2010 and 2009. 78% has been contributed for firefighters for 2011 and 100% for fire for 2010 and 2009.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

Ohio Public Employees Retirement System

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 12 - POSTEMPLOYMENT BENEFITS – *continued*

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14% of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's contributions for 2011, 2010 and 2009 which were used to fund postemployment benefits were \$157,000, \$193,000, and \$228,000, respectively; 87% has been contributed for 2011 and 100% for 2010 and 2009.

The Health Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006-2008. These rate increases allowed additional funds to be allocated to the health care plan.

Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 12 - POSTEMPLOYMENT BENEFITS – *continued*

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits are codified in Chapter 742 of the Ohio Revised Code.

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of payroll of active pension members, currently 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The City's contributions allocated to the healthcare plan for 2011, 2010 and 2009 were \$79,000, \$86,000, and \$84,000, respectively for police, and \$59,000, \$53,000, and \$56,000, respectively for fire. 73% has been contributed for police for 2011 and 100% for police for 2010 and 2009. 78% has been contributed for fire for 2011 and 100% for fire for 2010 and 2009.

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

NOTE 13 – OTHER EMPLOYEE BENEFITS

Compensated Absences

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

Accumulated Unpaid Vacation

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 13 – OTHER EMPLOYEE BENEFITS – *continued*

Accumulated Unpaid Sick Leave

City employees earn sick leave at varying rates based upon length of service and when the employee was hired. City employees who have ten years of service, hired prior to March 1, 1992 for police officers, July 1, 1992 for firefighters, and April 12, 1991 for all other employees, and who have sick leave accumulated, receive payment upon retirement at a rate of one hour for each hour of accumulated and unused sick leave, to a maximum of 960 hours.

Employees who have ten years of service, hired after April 12, 1991 who have sick leave accumulated receives payment upon retirement at a rate of one hour for each four hours of accumulated and unused sick leave, to a maximum of 240 hours. Individuals leaving the employment of the City prior to retirement or at retirement with less than ten years of service lose their accumulated sick leave.

A liability has been recognized in the accompanying financial statements for a portion of the sick leave hours of those employees who have ten years of service and are age 50 or older, or have thirty years with local government employment as well as other employees who are expected to become eligible in the future to receive such payments.

Health Care Benefits

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

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2011, the City contracted with various commercial carriers for property, auto, crime, and liability insurance as well as public official bonds.

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

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

NOTE 15 – RELATED ORGANIZATION

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 16 – CONTINGENT LIABILITIES

Litigation

The City is of the opinion that ultimate disposition of claims and legal proceedings will not have a material effect on the financial condition of the City.

Federal and State Grants

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

NOTE 17 – FUND DEFICITS

At December 31, 2011, the City had deficits in the following funds:

Nonmajor Governmental Funds:	
Court Special Project Fund	\$ 88,571
Voted Police Levy Fund	7,897
Community Corrections Fund	<u>1,591</u>
	<u>\$ 98,059</u>

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

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 18 – FUND BALANCES

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

<u>Fund Balances</u>	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Nonspendable</i>				
Prepays	\$ 23,830	-	2,905	26,735
Inventory	-	-	27,612	27,612
<i>Total Nonspendable</i>	<u>23,830</u>	<u>-</u>	<u>30,517</u>	<u>54,347</u>
<i>Restricted for</i>				
Police	-	-	27,299	27,299
Fire	-	-	42,859	42,859
Streets	-	-	292,859	292,859
Cemetery	-	-	366,135	366,135
Community development	-	-	48,305	48,305
Municipal court	-	-	58,227	58,227
Debt service	-	290,748	547,404	838,152
Capital projects	-	713,694	371,725	1,085,419
Other purposes	-	-	97,621	97,621
<i>Total Restricted</i>	<u>-</u>	<u>1,004,442</u>	<u>1,852,434</u>	<u>2,856,876</u>
<i>Committed to</i>				
Bridge maintenance	-	-	31,438	31,438
<i>Total Committed</i>	<u>-</u>	<u>-</u>	<u>31,438</u>	<u>31,438</u>
<i>Assigned to</i>				
Economic Development	209	-	-	209
<i>Total Assigned</i>	<u>209</u>	<u>-</u>	<u>-</u>	<u>209</u>
<i>Unassigned (Deficit)</i>	<u>953,241</u>	<u>-</u>	<u>(98,059)</u>	<u>855,182</u>
<i>Total Fund Balance</i>	<u>\$ 977,280</u>	<u>1,004,442</u>	<u>1,816,330</u>	<u>3,798,052</u>

CITY OF WASHINGTON COURT HOUSE, OHIO
Notes to the Basic Financial Statements
Year Ended December 31, 2011

NOTE 19 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT

The City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 enhances the usefulness of fund balance information by providing clarified fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of GASB Statement No. 54 resulted in the reclassification of a certain fund and restatement of the City’s beginning fund balance:

		General	Nonmajor Governmental Funds
Fund Balance at December 31, 2010	\$	969,728	2,102,057
Change in fund classification		209	(209)
Restated Fund Balance at December 31, 2010	\$	969,937	2,101,848

NOTE 20 – SUBSEQUENT EVENTS

On March 12, 2012, the City issued \$5,180,000 in Series 2012 Water Improvement Refunding Bonds to currently refund the Series 2003 Water Improvement Bonds. Interest rate on the bonds is 2.0% and will mature December 1, 2019.

NOTE 21 – OTHER COMMITMENTS

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

General Fund	\$	34,283
Permanent Improvement		59,107
Nonmajor Governmental Funds		70,135
	\$	260,816



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

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

To the Members of Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Washington Court House, Fayette County, Ohio, as of and for the year ended December 31, 2011, which collectively comprise the City of Washington Court House's basic financial statements and have issued our report thereon dated June 25, 2012. We noted the City of Washington Court House adopted Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Members of Council
City of Washington Court House

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the City of Washington Court House's management in a separate letter dated June 25, 2012.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
June 25, 2012



Dave Yost • Auditor of State

CITY OF WASHINGTON COURT HOUSE

FAYETTE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 07, 2012