

City of Washington Court House

Fayette County

Single Audit

January 1, 2005 through December 31, 2005

BALESTRA, HARR & SCHERER CPAs, INC.

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Mary Taylor, CPA

Auditor of State

Members of Council
City of Washington Courthouse
105 North Main Street
Washington Courthouse, Ohio 43160

We have reviewed the *Independent Auditor's Report* of the City of Washington Courthouse, Fayette County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2005 through December 31, 2005. 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 Courthouse is responsible for compliance with these laws and regulations.

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Mary Taylor, CPA
Auditor of State

February 15, 2007

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

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

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, (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

City of Washington Court House
Independent Auditor's Report

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 18 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*.

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

Balestra, Harr & Scherer, CPAs, Inc.
November 22, 2006

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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, 2005. The purpose of this discussion and analysis is to look at the City's financial performance and discuss pertinent points to better help the reader to understand our performance.

Financial Highlights

1. The City's total net assets decreased \$1,878,898; net assets of the governmental activities decreased \$1,919,354; and net assets of the business-type activities increased \$40,456.
2. The General Fund fund balance of \$1,103,706 decreased \$197,498 or 15% from the previous year's balance of \$1,301,204.

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.

The government-wide financial statements can be found starting on page 11 of this report.

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Unaudited

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.

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 33 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 Shoop TIF Fund, which are considered to be major funds. Data from the other 31 governmental funds are combined into a single, aggregated presentation.

Proprietary Funds- The City uses enterprises 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.

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Unaudited

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

Table 1 provides a summary of the City's net assets for 2005 compared to 2004:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	8,056,724	6,646,886	2,210,277	2,289,719	10,267,001	8,936,605
Capital Assets, Net	<u>27,516,440</u>	<u>27,137,714</u>	<u>37,541,224</u>	<u>38,326,723</u>	<u>65,057,664</u>	<u>65,464,437</u>
Total Assets	<u>35,573,164</u>	<u>33,784,600</u>	<u>39,751,501</u>	<u>40,616,442</u>	<u>75,324,665</u>	<u>74,401,042</u>
Current and Other Liabilities	5,846,044	2,034,086	391,847	437,528	6,237,891	2,471,614
Due Within One Year	272,872	280,250	901,005	909,522	1,173,877	1,189,772
Due in More than One Year	<u>3,138,660</u>	<u>3,235,322</u>	<u>16,244,708</u>	<u>17,095,907</u>	<u>19,383,368</u>	<u>20,331,229</u>
Total Liabilities	<u>9,257,576</u>	<u>5,549,658</u>	<u>17,537,560</u>	<u>18,442,957</u>	<u>26,765,136</u>	<u>23,992,615</u>
Invested in CA	24,587,440	24,076,714	20,528,225	20,463,362	45,115,665	44,540,076
Restricted	1,020,438	898,623	-	-	1,020,438	898,623
Unrestricted	<u>707,710</u>	<u>3,259,605</u>	<u>1,685,716</u>	<u>1,710,123</u>	<u>2,393,426</u>	<u>4,969,728</u>
Total Net Assets	<u>26,315,588</u>	<u>28,234,942</u>	<u>22,213,941</u>	<u>22,173,485</u>	<u>48,529,529</u>	<u>50,408,427</u>

Total assets increased primarily due to an increase of cash of \$1.7 million, additions of capital assets of \$2.8 million and offset by current year depreciation of \$3.1 million.

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

As noted earlier, the City's net assets, when reviewed over time, may serve as a useful indicator of the City's financial position. By far, the largest portion of the City's net assets (93%) 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. An additional portion of the City's net assets represents resources that are subject to restrictions on how they can be used. These resources accounted for 2% of total net assets. The remaining balance of \$2,393,426 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 \$50,408,427 in 2004 to \$48,529,529 in 2005, a change of \$1,878,898 or 4%. This decrease in the City's total net assets is the result of a decrease in the net assets of the governmental activities of \$1,919,354 or 7% and an increase in the net assets of the business-type activities of \$40,456 or .2%.

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Unaudited

In order to further understand what makes up the changes in net assets for the current year, Table 2 gives readers further details regarding the results of activities for the 2004 and 2005.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenue:						
Program Revenue:						
Charges for Services	\$ 1,318,619	695,258	5,733,465	5,904,743	7,052,084	6,600,001
Oper. Grants & Contributions	599,447	57,251	30,776	-	630,223	57,251
Capital Grants & Contributions	<u>501,829</u>	<u>615,948</u>	<u>-</u>	<u>-</u>	<u>501,829</u>	<u>615,948</u>
Total Program Revenues	<u>2,419,895</u>	<u>1,368,457</u>	<u>5,764,241</u>	<u>5,904,743</u>	<u>8,184,136</u>	<u>7,273,200</u>
General Revenues:						
Property Taxes	1,827,715	1,833,213	-	-	1,827,715	1,833,213
Income Taxes	4,044,606	4,051,363	-	-	4,044,606	4,051,363
Intergovernmental	1,415,037	1,732,810	-	-	1,415,037	1,732,810
Grants and Entitlements	380,255	75,075	-	-	380,255	75,075
Investment Earnings	75,887	14,342	19,186	8,303	95,074	22,645
Miscellaneous	<u>356,813</u>	<u>703,846</u>	<u>298,743</u>	<u>207,633</u>	<u>655,556</u>	<u>911,479</u>
Total General Revenues	<u>8,100,313</u>	<u>8,410,649</u>	<u>317,929</u>	<u>215,936</u>	<u>8,418,242</u>	<u>8,626,585</u>
Total Revenues	<u>10,520,208</u>	<u>9,779,106</u>	<u>6,082,170</u>	<u>6,120,679</u>	<u>16,602,378</u>	<u>15,899,785</u>
Expenses:						
General Government	3,170,235	2,548,365	-	-	3,170,235	2,548,365
Security of Person and Property	4,038,744	3,807,150	-	-	4,038,744	3,807,150
Public Health	300,349	336,448	-	-	300,349	336,448
Transportation	2,954,551	2,912,988	-	-	2,954,551	2,912,988
Community Environment	1,707,047	2,222,125	-	-	1,707,047	2,222,125
Leisure Time Activities	67,618	64,271	-	-	67,618	64,271
Interest and Fiscal Charges	140,340	158,174	-	-	140,340	158,174
Water	-	-	2,923,313	3,033,847	2,923,313	3,033,847
Sewer	-	-	3,013,574	2,898,759	3,013,574	2,898,759
Pool	<u>-</u>	<u>-</u>	<u>165,505</u>	<u>163,329</u>	<u>165,505</u>	<u>163,329</u>
Total Expenses	<u>12,373,884</u>	<u>12,049,521</u>	<u>6,102,392</u>	<u>6,095,935</u>	<u>18,481,276</u>	<u>18,145,456</u>
Change in Net Assets Before Transfers	(1,858,676)	(2,270,415)	(20,222)	24,744	(1,878,898)	(2,245,671)
Transfers	<u>(60,678)</u>	<u>(79,825)</u>	<u>60,678</u>	<u>79,825</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(1,919,354)	(2,350,240)	40,456	104,569	(1,878,898)	(2,245,671)
Net Assets at Beginning of Year	<u>28,234,942</u>	<u>30,585,182</u>	<u>22,173,485</u>	<u>22,068,916</u>	<u>50,408,427</u>	<u>52,654,098</u>
Net Assets at End of Year	\$ <u>26,315,588</u>	<u>28,234,942</u>	<u>22,213,941</u>	<u>22,173,485</u>	<u>48,529,529</u>	<u>50,408,427</u>

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Unaudited

Governmental Activities

The most significant program expenses for the City are Security of Persons and Property, General Government, Transportation, and Community Environment. These programs account for 96% of the total governmental activities. Security of Persons and Property, which accounts for 33% 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 25% of the total, represents costs associated with the general administration of city government, including the City Council, City Manager, City Auditor and Municipal Court. Transportation, which accounts for 24% of the total, represents costs associated with streets and their upkeep. Community Environment, which accounts for 14% 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 2005 was \$4,044,606. Of the \$10,520,208 in total revenues, income tax accounts for 38% of that total. The property tax revenue for 2005 was \$1,827,715 or 17% of total revenues. The intergovernmental revenue for 2005 was \$1,415,037 or 13% of total revenue. The charges for services revenue for 2005 was \$1,318,619 or 13% of total revenues. Operating Grants and Contributions of \$599,447 accounts for 6% of total revenues. Capital grants and contributions of \$501,829 accounts for 5% of the total and interest and other revenue make up the remaining 8%.

The City monitors its source 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>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
General Government	\$	3,170,235	1,876,060	2,548,365	1,868,116
Security of Persons and Property		4,038,744	3,703,014	3,807,150	3,805,025
Public Health		300,349	223,558	336,448	243,988
Transportation		2,954,551	2,450,607	2,912,988	2,319,765
Community Environment		1,707,047	1,497,792	2,222,125	2,222,125
Leisure Time Activities		67,618	67,618	64,271	63,871
Interest and Fiscal Charges		<u>140,340</u>	<u>140,340</u>	<u>158,174</u>	<u>158,174</u>
Total Expenses	\$	<u>12,378,884</u>	<u>9,958,989</u>	<u>12,049,521</u>	<u>10,681,064</u>

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Unaudited

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 \$9,958,989, the majority of the City's programs are funded by general revenues. A significant portion of the total general revenues consists of income taxes and property taxes.

Business-Type Activities

The City's major business-type activities include water and sewer operations. The Water fund had operating revenues in 2005 of \$3,023,347, which is a decrease of \$67,033 from 2004. The decrease is primarily due to less tap in fees and main line extensions received. The Sewer Fund had operating revenues in 2005 of \$2,790,989, a decrease of \$28,844 from 2004. The decrease is primarily due to less set up fees received. Net assets did increase slightly in the business-type funds by \$40,456 or .2% for 2005.

Financial Analysis of the City's Funds

Governmental Funds

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

The General Fund is the chief operating fund of the City. At the end of 2005, the total fund balance for the General Fund was \$1,103,706 of which \$1,078,863 was unreserved. During the current year, the fund balance of the City's General Fund decreased by \$197,498 or 15%. The reduction in the General Fund balance is due to a reduction in the amount of funds received from the State of Ohio and Fayette County. In addition to the General Fund, the City had another major fund during 2005, the Shoop TIF major Capital Projects Fund. At the end of 2005, the total fund balance of the Shoop TIF Fund was (\$2,058,630). This negative balance is due to the note payable issued to pay for the Shoop TIF project. This was a new fund in 2005.

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 \$113,052 or 2%. Net assets in the Sewer Fund decreased by \$71,826 or 1%.

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Unaudited

General Fund Budgeting Highlights

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

For the General Fund, the original budgeted revenues were \$6,743,180 and the final budgeted revenues were \$6,747,198. Amendments were made during the year due to higher expected intergovernmental revenues.

For the General Fund, the original budgeted expenditures were \$6,677,445 and the final budgeted expenditures were \$6,699,455. Amendments were made during the year due to higher expected general government expenditures.

Capital Assets and Debt Administration

The City's investment in capital assets for governmental and business-type activities as of December 31, 2005, amounts to \$45,115,665 (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 2005 were \$27,516,440 or \$378,726 more than in 2004. This increase was due to the difference in additions and the annual depreciation expense.

The decrease in capital assets for business-type activities of \$785,499 to \$37,541,224 as of December 31, 2005 was due to the annual depreciation expense.

Additional information concerning the City's capital assets can be found in note 8 of the notes to the basic financial statements.

As of December 31, 2005, the City of Washington Court House had \$19,886,999 in bonds, notes and loans outstanding with \$979,551 due within one year. The City's long-term debt decreased \$972,362 or 5% during 2005.

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

**CITY OF WASHINGTON COURT HOUSE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Unaudited

Revenue bonds in the Water Fund were refinanced during 2003 to receive a lower interest rate. In addition to the bonded debt, the City's long-term obligations include compensated absences and capital lease obligations. Additional information concerning the City's debt can be found in note 10 of the notes to the basic financial statements.

Current Known Facts and Conditions

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

Contacting the City's Financial Management

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

CITY OF WASHINGTON COURT HOUSE, OHIO

STATEMENT OF NET ASSETS

DECEMBER 31, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in pooled cash and investments	\$ 4,088,840	1,317,796	5,406,636
Cash in segregated accounts	41,542	-	41,542
Receivables:			
Property taxes	1,487,945	-	1,487,945
Income taxes	1,545,454	-	1,545,454
Accounts	-	407,153	407,153
Loans	102,501	-	102,501
Interest	10,338	568	10,906
Intergovernmental	730,944	-	730,944
Prepaid items	24,010	62,928	86,938
Supplies inventory	25,150	50,633	75,783
Restricted Assets:			
Equity in pooled cash and investments	-	306	306
Deferred charges	-	370,893	370,893
Nondepreciable capital assets	2,704,952	1,329,624	4,034,576
Depreciable capital assets, net	24,811,488	36,211,600	61,023,088
Total assets	<u>35,573,164</u>	<u>39,751,501</u>	<u>75,324,665</u>
Liabilities			
Accounts payable	115,138	37,761	152,899
Contracts payable	850,831	-	850,831
Notes payable	3,000,000	-	3,000,000
Accrued wages payable	174,102	55,625	229,727
Intergovernmental payable	252,401	73,145	325,546
Deferred revenue	1,439,992	-	1,439,992
Accrued interest payable	13,580	225,316	238,896
Noncurrent liabilities:			
Due within one year	272,872	901,005	1,173,877
Due in more than one year	3,138,660	16,244,708	19,383,368
Total liabilities	<u>9,257,576</u>	<u>17,537,560</u>	<u>26,795,136</u>
Net Assets			
Invested in capital assets, net of related debt	24,587,440	20,528,225	45,115,665
Restricted for:			
Other purposes	909,293	-	909,293
Permanent endowment:			
Nonexpendable	73,648	-	73,648
Expendable	37,497	-	37,497
Unrestricted	707,710	1,685,716	2,393,426
Total net assets	<u>\$ 26,315,588</u>	<u>22,213,941</u>	<u>48,529,529</u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2005

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for	Operating	Capital	Governmental	Business-Type	Total
	Expenses	Services	Grants and Contributions	Grants and Contributions	Activities	Activities	
Functions/Programs							
Governmental activities:							
Security of persons and property	\$ 4,038,744	-	335,730	-	(3,703,014)	-	(3,703,014)
Public health services	300,349	76,791	-	-	(223,558)	-	(223,558)
Leisure time activities	67,618	-	-	-	(67,618)	-	(67,618)
Community environment	1,707,047	-	209,255	-	(1,497,792)	-	(1,497,792)
Transportation	2,954,551	2,115	-	501,829	(2,450,607)	-	(2,450,607)
General government	3,170,235	1,239,713	54,462	-	(1,876,060)	-	(1,876,060)
Interest on long-term debt	140,340	-	-	-	(140,340)	-	(140,340)
Total governmental activities	<u>12,378,884</u>	<u>1,318,619</u>	<u>599,447</u>	<u>501,829</u>	<u>(9,958,989)</u>	<u>-</u>	<u>(9,958,989)</u>
Business-type activities:							
Water	2,923,313	2,911,211	22,740	-	-	10,638	10,638
Sewer	3,013,574	2,721,113	8,036	-	-	(284,425)	(284,425)
Pool	165,505	101,141	-	-	-	(64,364)	(64,364)
Total business-type activities	<u>6,102,392</u>	<u>5,733,465</u>	<u>30,776</u>	<u>-</u>	<u>-</u>	<u>(338,151)</u>	<u>(338,151)</u>
Total	\$ <u>18,481,276</u>	<u>7,052,084</u>	<u>630,223</u>	<u>501,829</u>	<u>(9,958,989)</u>	<u>(338,151)</u>	<u>(10,297,140)</u>
General revenues:							
Taxes:							
Income taxes					4,044,606	-	4,044,606
Property taxes					1,827,715	-	1,827,715
Intergovernmental					1,415,037	-	1,415,037
Grants and contributions not restricted to specific programs					380,255	-	380,255
Investment earnings					75,887	19,186	95,073
Miscellaneous					356,813	298,743	655,556
Transfers					(60,678)	60,678	-
Total general revenues and transfers					<u>8,039,635</u>	<u>378,607</u>	<u>8,418,242</u>
Change in net assets					(1,919,354)	40,456	(1,878,898)
Net assets beginning of year					28,234,942	22,173,485	50,408,427
Net assets end of year					\$ <u>26,315,588</u>	<u>22,213,941</u>	<u>48,529,529</u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO

BALANCE SHEET

GOVERNMENTAL FUNDS

DECEMBER 31, 2005

		General Fund	Shoop TIF	Non-major Governmental Funds	Total Governmental Funds
Assets					
Equity in pooled cash and investments	\$	692,621	1,785,374	1,610,845	4,088,840
Cash in segregated accounts		36,973	-	4,569	41,542
Receivables:					
Property taxes		353,039	-	1,134,906	1,487,945
Income taxes		1,174,545	-	370,909	1,545,454
Loans		-	-	102,501	102,501
Interest		2,583	6,827	928	10,338
Intergovernmental		405,223	-	325,721	730,944
Prepays		21,216	-	2,794	24,010
Supplies inventory		-	-	25,150	25,150
Total assets		<u>2,686,200</u>	<u>1,792,201</u>	<u>3,578,323</u>	<u>8,056,724</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable		45,874	-	69,264	115,138
Contracts payable		-	850,831	-	850,831
Notes payable		-	3,000,000	-	3,000,000
Accrued wages payable		152,704	-	21,398	174,102
Matured compensated absences payable		39,523	-	-	39,523
Intergovernmental payable		195,669	-	56,732	252,401
Deferred revenue		1,148,724	-	1,638,396	2,787,120
Total liabilities		<u>1,582,494</u>	<u>3,850,831</u>	<u>1,785,790</u>	<u>7,219,115</u>
Fund balances:					
Reserved for:					
Encumbrances		3,627	824,396	87,830	915,853
Debt service		-	-	38,164	38,164
Inventory		-	-	25,150	25,150
Prepays		21,216	-	2,794	24,010
Unreserved, reported in:					
General fund		1,078,863	-	-	1,078,863
Special revenue funds		-	-	842,253	842,253
Capital projects funds		-	(2,883,026)	685,197	(2,197,829)
Permanent funds		-	-	111,145	111,145
Total fund balances		<u>1,103,706</u>	<u>(2,058,630)</u>	<u>1,792,533</u>	<u>837,609</u>
Total liabilities and fund balances	\$	<u>2,686,200</u>	<u>1,792,201</u>	<u>3,578,323</u>	<u>8,056,724</u>

See accompanying notes to the basic financial statements.

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

December 31, 2005

Total governmental fund balances	\$ 837,609
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*Amounts reported for governmental activities in the
statement of net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	27,516,440
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Other long-term assets are not available to pay for current-period
expenditures and therefore are deferred in the funds:

Income taxes receivable	722,157
Intergovernmental and other receivables	624,971

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	(565,000)
Notes payable	(2,364,000)
Compensated absences	(443,009)
Accrued interest on long-term debt	<u>(13,580)</u>

Net assets of governmental activities	\$ <u>26,315,588</u>
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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, 2005

	General Fund	Shoop TIF	Non-Major Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 358,403	-	1,474,103	1,832,506
Municipal income taxes	3,128,747	-	988,026	4,116,773
Intergovernmental	995,200	-	1,644,780	2,639,980
Charges for services	901,455	-	76,791	978,246
Fines, licenses and permits	480,378	-	54,335	534,713
Interest	55,606	21,167	8,354	85,127
Other	291,464	-	218,839	510,303
Total revenues	<u>6,211,253</u>	<u>21,167</u>	<u>4,465,228</u>	<u>10,697,648</u>
Expenditures:				
Current:				
Security of persons and property	3,446,626	-	485,608	3,932,234
Public health services	34,750	-	265,958	300,708
Leisure time activities	64,265	-	-	64,265
Community environment	649,137	-	607,884	1,257,021
Transportation	-	-	952,190	952,190
General government	2,132,120	-	211,080	2,343,200
Capital outlay	-	2,079,797	1,699,418	3,779,215
Debt service:				
Principal retirement	-	-	132,000	132,000
Interest and fiscal charges	-	-	141,206	141,206
Total expenditures	<u>6,326,898</u>	<u>2,079,797</u>	<u>4,495,344</u>	<u>12,902,039</u>
Excess of revenues over (under) expenditures	<u>(115,645)</u>	<u>(2,058,630)</u>	<u>(30,116)</u>	<u>(2,204,391)</u>
Other financing sources (uses):				
Transfers in	-	-	21,175	21,175
Transfers out	<u>(81,853)</u>	<u>-</u>	<u>-</u>	<u>(81,853)</u>
Total other financing sources (uses)	<u>(81,853)</u>	<u>-</u>	<u>21,175</u>	<u>(60,678)</u>
Net change in fund balance	(197,498)	(2,058,630)	(8,941)	(2,265,069)
Fund balance, beginning of year	<u>1,301,204</u>	<u>-</u>	<u>1,801,474</u>	<u>3,102,678</u>
Fund balance, end of year	\$ <u>1,103,706</u>	<u>(2,058,630)</u>	<u>1,792,533</u>	<u>837,609</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, 2005

Net change in fund balances - total governmental funds \$ (2,265,069)

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

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

Capital outlay	2,729,016
Depreciation expense	(2,197,800)

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

Income taxes	(72,167)
Intergovernmental and other revenue	(93,974)

Repayment of bond and note principal is an expenditure in the governmental funds, but the payment
reduces long-term liabilities in the statement of net assets. 132,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in
in governmental funds, an interest expenditure is reported when due. 866

Loan repayments are reported as revenues and loans made are reported as expenses in the
governmental funds but only affect assets on the statement of net assets. (11,299)

In the statement of activities, the loss on disposal of capital assets is reported. Conversely, the
governmental funds report only proceeds from the disposal of capital assets
and no gain or loss is reported. (152,490)

Some expenses reported in the statement of activities, such as compensated absences
do not require the use current financial resources and therefore are not reported as
expenditures in governmental funds. 11,563

Change in net assets of governmental activities \$ (1,919,354)

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005

	Enterprise Funds			
	Water	Sewer	Nonmajor Enterprise Fund	Totals
Assets				
Current assets:				
Equity in pooled cash and investments	\$ 865,219	452,577	-	1,317,796
Receivables:				
Accounts	219,032	188,121	-	407,153
Interest	341	227	-	568
Prepaid Items	34,837	28,091	-	62,928
Materials and supplies inventory	50,633	-	-	50,633
Total current assets	<u>1,170,062</u>	<u>669,016</u>	<u>-</u>	<u>1,839,078</u>
Restricted assets:				
Equity in pooled cash and investments	<u>306</u>	<u>-</u>	<u>-</u>	<u>306</u>
Noncurrent assets:				
Deferred charges	370,893	-	-	370,893
Nondepreciable capital assets	1,067,410	262,214	-	1,329,624
Depreciable capital assets, net	<u>15,241,384</u>	<u>20,970,216</u>	<u>-</u>	<u>36,211,600</u>
Total noncurrent assets	<u>16,679,687</u>	<u>21,232,430</u>	<u>-</u>	<u>37,912,117</u>
Total assets	<u>17,850,055</u>	<u>21,901,446</u>	<u>-</u>	<u>39,751,501</u>
Liabilities				
Current Liabilities:				
Accounts payable	15,863	21,898	-	37,761
Accrued wages payable	26,361	29,264	-	55,625
Intergovernmental payable	37,067	35,063	1,015	73,145
Accrued interest payable	130,482	94,834	-	225,316
Compensated absences payable	33,889	10,565	-	44,454
Notes payable	-	8,325	-	8,325
Capital lease payable	10,000	-	-	10,000
OWDA loans payable	144,080	277,141	-	421,221
General obligation bonds payable	-	120,000	-	120,000
Revenue bonds payable	<u>297,005</u>	<u>-</u>	<u>-</u>	<u>297,005</u>
Total current liabilities	<u>694,747</u>	<u>597,090</u>	<u>1,015</u>	<u>1,292,852</u>
Noncurrent liabilities:				
Compensated absences payable	52,768	35,492	-	88,260
Notes payable	-	66,591	-	66,591
Capital lease payable	45,000	-	-	45,000
OWDA loans payable	2,970,897	5,516,071	-	8,486,968
General obligation bonds payable	-	120,000	-	120,000
Revenue bonds payable	<u>7,437,889</u>	<u>-</u>	<u>-</u>	<u>7,437,889</u>
Total noncurrent liabilities	<u>10,506,554</u>	<u>5,738,154</u>	<u>-</u>	<u>16,244,708</u>
Total liabilities	<u>11,201,301</u>	<u>6,335,244</u>	<u>1,015</u>	<u>17,537,560</u>
Net Assets				
Invested in capital assets, net of related debt	5,403,923	15,124,302	-	20,528,225
Unrestricted	<u>1,244,831</u>	<u>441,900</u>	<u>(1,015)</u>	<u>1,685,716</u>
Total net assets	<u>\$ 6,648,754</u>	<u>15,566,202</u>	<u>(1,015)</u>	<u>22,213,941</u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO

STATEMENT OF REVENUES, EXPENSES

AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2005

	Enterprise Funds			
	Water	Sewer	Nonmajor Enterprise Fund	Totals
Operating revenues:				
Charges for services	\$ 2,911,211	2,721,113	101,141	5,733,465
Other	112,136	69,876	2,916	184,928
Total operating revenues	3,023,347	2,790,989	104,057	5,918,393
Operating expenses:				
Personnel services	912,207	1,149,423	99,698	2,161,328
Contractual services	366,586	683,119	31,665	1,081,370
Supplies and materials	164,921	156,882	34,142	355,945
Other	421,204	330,070	-	751,274
Depreciation	378,322	476,538	-	854,860
Total operating expenses	2,243,240	2,796,032	165,505	5,204,777
Operating income (loss)	780,107	(5,043)	(61,448)	713,616
Non-operating revenues (expenses):				
Interest revenue	13,018	6,168	-	19,186
Intergovernmental	-	144,591	-	144,591
Interest expense and fiscal charges	(680,073)	(217,542)	-	(897,615)
Total non-operating revenues (expenses)	(667,055)	(66,783)	-	(733,838)
Income (loss) before transfers	113,052	(71,826)	(61,448)	(20,222)
Transfers in	-	-	60,678	60,678
Change in net assets	113,052	(71,826)	(770)	40,456
Net assets, beginning of year	6,535,702	15,638,028	(245)	22,173,485
Net assets, end of year	\$ 6,648,754	15,566,202	(1,015)	22,213,941

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO
STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2005

	Enterprise Funds			Totals
	Water	Sewer	Nonmajor Enterprise Fund	
Cash flows from operating activities:				
Cash received from customers	\$ 3,009,269	2,793,912	101,141	5,904,322
Cash payments for employee services and benefits	(907,018)	(1,161,041)	(99,698)	(2,167,757)
Cash payments to suppliers for goods and services	(546,994)	(889,039)	(65,604)	(1,501,637)
Cash payments for other operating expenses	(419,088)	(330,070)	-	(749,158)
Cash received from other operating revenue	112,136	69,876	2,916	184,928
Net cash provided by operating activities	<u>1,248,305</u>	<u>483,638</u>	<u>(61,245)</u>	<u>1,670,698</u>
Cash flows from noncapital financing activities:				
Intergovernmental revenue	-	144,591	-	144,591
Transfers from other funds	-	-	60,678	60,678
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(70,710)	(1,078)	-	(71,788)
Principal payments	(454,163)	(396,199)	-	(850,362)
Interest paid	(663,631)	(228,568)	-	(892,199)
Net cash used by capital and related financing activities	<u>(1,188,504)</u>	<u>(625,845)</u>	<u>-</u>	<u>(1,814,349)</u>
Cash flows from investing activities:				
Interest	15,298	6,043	-	21,341
Net change	75,099	8,427	(567)	82,959
Cash and pooled investments beginning of year	790,426	444,150	567	1,235,143
Cash and pooled investments end of year	<u>865,525</u>	<u>452,577</u>	<u>-</u>	<u>1,318,102</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	780,107	(5,043)	(61,448)	713,616
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	378,322	476,538	-	854,860
Changes in assets and liabilities:				
Receivables	98,058	72,799	-	170,857
Prepaid items	(20,494)	(15,775)	203	(36,066)
Materials and supplies inventory	12,570	-	-	12,570
Accounts payable	(5,447)	(33,263)	-	(38,710)
Accrued wages	2,445	(1,511)	-	934
Intergovernmental payable	5,345	(3,354)	-	1,991
Compensated absences payable	(2,601)	(6,753)	-	(9,354)
Net cash provided (used) by operating activities	<u>\$ 1,248,305</u>	<u>483,638</u>	<u>(61,245)</u>	<u>1,670,698</u>

See accompanying notes to the basic financial statements.

CITY OF WASHINGTON COURT HOUSE, OHIO

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

DECEMBER 31, 2005

		Private- Purpose Trust Fund	Agency Funds
<i>Assets</i>			
Equity in pooled cash and cash equivalents	\$	23,540	25,605
Cash in segregated accounts		-	43,037
Total assets		<u>23,540</u>	<u>68,642</u>
<i>Liabilities</i>			
Intergovernmental payable		-	24,551
Undistributed monies		-	17,806
Deposits held and due to others		-	26,285
Total liabilities		<u>-</u>	<u>68,642</u>
<i>Net Assets</i>			
Held in trust	\$	<u>23,540</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, 2005

		<u>Private- Purpose Trust Fund</u>
<i>Additions:</i>		
Interest	\$	<u>3,438</u>
Total additions		<u>3,438</u>
<i>Deductions:</i>		
Contractual Services		<u>1,922</u>
Total deductions		<u>1,922</u>
Change in net assets		1,516
Net assets, beginning of year		<u>22,024</u>
Net assets, end of year	\$	<u><u>23,540</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 - BUDGET AND ACTUAL - BUDGET (NON-GAAP) BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2005

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Property and other taxes	\$ 350,000	350,000	358,403	8,403
Municipal income taxes	3,009,140	3,009,140	3,178,301	169,161
Intergovernmental	2,145,900	2,149,918	995,200	(1,154,718)
Charges for services	238,700	238,700	259,455	20,755
Fines, licenses and permits	625,000	625,000	476,015	(148,985)
Interest	135,000	135,000	61,474	(73,526)
Other	239,440	239,440	933,464	694,024
Total revenues	<u>6,743,180</u>	<u>6,747,198</u>	<u>6,262,312</u>	<u>(484,886)</u>
Expenditures:				
Current:				
Security of persons and property	3,612,929	3,612,929	3,411,005	201,924
Public health services	34,750	34,750	34,750	-
Leisure time activities	66,700	66,700	64,525	2,175
Community environment	690,356	690,356	657,460	32,896
General government	2,262,710	2,294,720	2,152,057	142,663
Total expenditures	<u>6,667,445</u>	<u>6,699,455</u>	<u>6,319,797</u>	<u>379,658</u>
Excess of revenues over expenditures	<u>75,735</u>	<u>47,743</u>	<u>(57,485)</u>	<u>(105,228)</u>
Other uses:				
Transfers out	85,720	85,720	(81,853)	(167,573)
Total other financing uses	<u>85,720</u>	<u>85,720</u>	<u>(81,853)</u>	<u>(167,573)</u>
Excess of revenues over (under) expenditures and other uses	161,455	133,463	(139,338)	(272,801)
Fund balance, beginning of year	797,039	797,039	797,039	-
Prior year encumbrances appropriated	25,804	25,804	25,804	-
Fund balance, end of year	<u>\$ 984,298</u>	<u>956,306</u>	<u>683,505</u>	<u>(272,801)</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, 2005**

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 presents 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 16).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

**CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005**

Government-wide Financial Statements

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
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- ***Shoop TIF*** – The Shoop TIF Fund is used to account for the construction and developing of land for new shopping areas and housing.

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

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

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

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

Measurement Focus

Governmental-Wide Financial Statements

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

Fund Financial Statements

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

CITY OF WASHINGTON COURT HOUSE, OHIO
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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.

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.

CITY OF WASHINGTON COURT HOUSE, OHIO
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YEAR ENDED DECEMBER 31, 2005

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

Deferred Revenue

Deferred 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, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

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

Budgetary Accounting and Control

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

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

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

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

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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.

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 statements reflect the amounts in the final amended official certificate of estimated resources issued during 2005.

Fund Balance Reserves

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

CITY OF WASHINGTON COURT HOUSE, OHIO
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Reconciliation of Budget Basis to GAAP Basis

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

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

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

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

Net change in fund balance - GAAP Basis	\$ (197,498)
Increase / (decrease):	
Due to revenues	51,059
Due to expenditures	3,085
Due to encumbrances	<u>4,016</u>
Net change in fund balance - Budget Basis	\$ <u>(139,338)</u>

Cash and Investments

Cash and investments of the City's funds, except those held in restricted asset accounts, are pooled and invested in short-term investments in order to provide improved cash management. During 2005, the City's funds were invested in interest bearing demand accounts and certificates of deposit with commercial banks, money market accounts, the State Treasury Assets Reserve of Ohio (STAR Ohio), U.S. agencies securities and U.S. Treasury obligations. For purposes of the statement of cash flows, the enterprise funds' portion of cash and cash equivalents is considered a cash equivalent because the City is able to withdraw resources from the enterprise funds without prior notice or penalty.

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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, 2005.

During 2005, the General Fund earned interest of \$55,606, of which \$39,654 was assigned from other funds.

Receivables

Receivables at December 31, 2005 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 4 to 6 percent. The notes are to be repaid over periods ranging from 3 to 15 years.

Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis.

The costs of inventory items are recognized as expenditures in governmental funds and as expenses in the proprietary funds when consumed. Recorded inventories in the governmental fund types are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005 are recorded as prepaid items.

CITY OF WASHINGTON COURT HOUSE, OHIO
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Restricted Assets

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of 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 2005 fiscal year.

Compensated Absences

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

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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, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sanitary sewer services. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund.

Interfund Transactions

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

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

CITY OF WASHINGTON COURT HOUSE, OHIO
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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.

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 4 – 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 five year period of designation of depositories. Inactive deposits must be either evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

- (1) United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;

CITY OF WASHINGTON COURT HOUSE, OHIO
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- (2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- (3) Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value daily and that the term of the agreement must not exceed thirty days;
- (4) Bonds and other obligations of the State of Ohio;
- (5) No-load money market 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.

CITY OF WASHINGTON COURT HOUSE, OHIO
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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."

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, \$2,463,902 of the City's bank balance of \$2,885,856 was exposed to custodial credit risk since it was insured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Investments: The City's investments at December 31, 2005 are summarized as follows:

	<u>Fair Value</u>	<u>Average Maturity Years</u>
FNMA	\$ 492,190	0.83
FFCB	493,280	0.67
FHLB	496,878	0.42
US Treasury Bonds	14,000	1
FHLMC	1,073,303	1.67
STAR Ohio	25,160	n/a
US Money Market Funds	<u>414,863</u>	n/a
Total	\$ <u>3,009,674</u>	

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

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single user. The City is required to disclose the amount of investments with any one issuer that represent five percent or more of total investments. Investments issued by the U.S. Government, investments, and investments in external investment pools are excluded from this requirement. At December 31, 2005, the City's investments in FNMA, FFCB, FHLB, FHLMC and U.S. Money Market Funds make up 16.4%, 16.4%, 16.5%, 35.7% and 13.8% respectively.

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

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

NOTE 5 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the City. Real property taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of 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. Tangible personal property assessments are 25% of true value for machinery and equipment and 24% of true value for inventory.

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The assessed value upon which the 2005 taxes were collected was \$210,452,786. The full tax rate for all City operations applied for real property for fiscal year ended December 31, 2005 was \$9.35 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$5.95 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$6.26 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

The following represents the assessed tax values:

Real Property - 2004 Valuation	
Residential/Agricultural	\$ 132,123,480
Commercial/Industrial	45,079,700
Total Real Property	<u>177,203,180</u>
Tangible Personal Property - 2004 Valuation	
General	28,096,266
Public Utilities	5,153,340
Total Personal Property	<u>33,249,606</u>
Total Assessed Valuation	<u><u>\$ 210,452,786</u></u>

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

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

Accrued property taxes receivable represents delinquent taxes outstanding and real tangible personal and public utility taxes which were measurable as of December 31, 2005. 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 2005 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, 2005

NOTE 6 – INTERFUND ACTIVITY

Interfund transfers for the year ended December 31, 2005, consisted of the following:

		<u>Transfers In</u>	<u>Transfers Out</u>
General	\$	-	81,853
Nonmajor governmental funds		21,175	-
Nonmajor enterprise funds		<u>60,678</u>	<u>-</u>
Total	\$	<u>81,853</u>	<u>81,853</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.

NOTE 7 - INCOME TAX

The City levies a municipal income tax of 1.25% on substantially all income earned within the City. In addition, the residents of the City are required to pay income tax on income earned outside of the City; however, the City allows a credit for income taxes paid to another municipality up to 100% of the City's current tax rate. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

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

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

Governmental Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 666,155	-	(41,000)	625,155
Construction in Progress	<u>-</u>	<u>2,079,797</u>	<u>-</u>	<u>2,079,797</u>
Subtotal	<u>666,155</u>	<u>2,079,797</u>	<u>(41,000)</u>	<u>2,704,952</u>
<i>Capital assets being depreciated:</i>				
Land Improvements	518,120	-	(21,848)	496,272
Buildings and Improvements	1,769,349	-	(230,415)	1,538,934

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

Equipment and Vehicles	4,095,304	649,219	(159,036)	4,585,487
Infrastructure	<u>49,378,195</u>	<u>-</u>	<u>-</u>	<u>49,378,195</u>
Subtotal	<u>55,760,968</u>	<u>649,219</u>	<u>(411,299)</u>	<u>55,998,888</u>
Totals at historical cost	<u>56,427,123</u>	<u>2,729,016</u>	<u>(452,299)</u>	<u>58,703,840</u>
Less accumulated depreciation:				
Land Improvements	513,874	2,831	(21,848)	494,857
Buildings and Improvements	649,800	26,986	(154,205)	522,581
Equipment and Vehicles	2,942,496	192,857	(123,756)	3,011,597
Infrastructure	<u>25,183,239</u>	<u>1,975,126</u>	<u>-</u>	<u>27,158,365</u>
Total accumulated depreciation	29,289,409	2,197,800	(299,809)	31,187,400
Capital assets, net	\$ <u>27,137,714</u>	<u>531,216</u>	<u>(152,490)</u>	<u>27,516,440</u>

Depreciation expense was charged to governmental functions as follows:

Security of persons and property	\$ 114,246
Leisure time activities	3,353
Public Health	8,727
Transportation	1,997,942
General government	<u>73,532</u>
	\$ <u>2,197,800</u>

Business-type Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ <u>1,329,624</u>	<u>-</u>	<u>-</u>	<u>1,329,624</u>
<i>Capital assets being depreciated:</i>				
Land Improvements	713,630	-	-	713,630
Buildings and Improvements	25,650,587	-	-	25,650,587
Equipment and Vehicles	2,933,897	71,788	(15,895)	2,989,790
Capital Leased Assets	140,000	-	-	140,000
Infrastructure	<u>20,479,005</u>	<u>-</u>	<u>-</u>	<u>20,479,005</u>
Subtotal	<u>49,917,119</u>	<u>71,788</u>	<u>(15,895)</u>	<u>49,973,012</u>
Totals at historical cost	<u>51,246,743</u>	<u>71,788</u>	<u>(15,895)</u>	<u>51,302,636</u>

Less accumulated depreciation:

Land Improvements	712,237	253	-	712,490
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CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

Buildings and Improvements	5,273,458	429,653	-	5,703,111
Equipment and Vehicles	2,372,243	159,633	(13,468)	2,518,408
Capital Leased Assets	107,333	9,334	-	116,667
Infrastructure	<u>4,454,749</u>	<u>255,987</u>	<u>-</u>	<u>4,710,736</u>
Total accumulated depreciation	<u>12,920,020</u>	<u>854,860</u>	<u>(13,468)</u>	<u>13,761,412</u>
Capital assets, net	\$ <u>38,326,723</u>	<u>(783,072)</u>	<u>(2,427)</u>	<u>37,541,224</u>

Depreciation expense was charged to segments as follows:

Water	\$ 378,322
Sewer	<u>476,538</u>
Total depreciation expense	\$ <u>854,860</u>

NOTE 9 – NOTES PAYABLE

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than those principal maturities that would have been required if the bonds had been issued at the expiration of the initial five year period.

	<u>Issue</u> <u>Date</u>	<u>Balance</u> <u>January 1,</u> <u>2005</u>	<u>Issued</u>	<u>(Retired)</u>	<u>Balance</u> <u>December 31,</u> <u>2005</u>
4.25% Various Purpose Infrastructure Improvement Notes	11/10/05	\$ -	3,000,000	-	3,000,000

NOTE 10 – LONG-TERM LIABILITIES

The changes in the City's long-term liabilities for the year ended December 31, 2005 were as follows:

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

Description	Maturity Date	Interest Rate	1/1/2005 Balance	Issued	Retired	12/31/2005 Balance	Amounts Due
							Within One Year
Governmental Activities:							
Notes Payable:							
Municipal Court Building	2007	5.50%	\$ 196,000	-	27,000	169,000	28,000
Capital Improvement (TIF)	2007	4.25%	2,280,000	-	85,000	2,195,000	85,000
General Obligation Bonds:							
Capital Improvement Bonds	2022	6.20%	585,000	-	20,000	565,000	20,000
Compensated Absences			<u>454,572</u>	<u>482,532</u>	<u>454,572</u>	<u>482,532</u>	<u>139,872</u>
Total Governmental Activities			\$ <u>3,515,572</u>	<u>482,532</u>	<u>586,572</u>	<u>3,411,532</u>	<u>272,872</u>

The Municipal Court Building and Capital Improvement (TIF) notes payable mature in 2007 and bear interest at 5.5% and 4.25%, respectively.

The Capital Improvement Bonds mature in 2022 and have an interest rate of 6.2%. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged.

Both bonds payable and notes payable will be paid from the Debt Service Fund, TIF Funds and Permanent Improvement Fund. Compensated absences will be paid by the fund which pays the employee's salary.

Description	Maturity Date	Interest Rate	1/1/2005 Balance	Issued	Retired	12/31/05 Balance	Due Within One Year
Business-Type Activities:							
Notes Payable:							
Sewer Issue II	2014	NA	\$ 83,241	-	8,325	74,916	8,325
General Obligation Bonds:							
Sewer Improvements	2007	6.38%	360,000	-	120,000	240,000	120,000
Revenue Bonds:							
Water System Bonds	2019	2.85-4.25%	1,399,226	-	319,332	1,079,894	297,005
Water System Bonds	2019	2.85-4.25%	6,655,000	-	-	6,655,000	-
OWDA Loans:							
OWDA Loan	2021	3.43%	6,061,086	-	267,874	5,793,212	277,141
OWDA Loan	2021	3.43%	3,239,808	-	124,831	3,114,977	144,080

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

Capital Lease	65,000	-	10,000	55,000	10,000
Compensated Absences	<u>142,078</u>	<u>132,714</u>	<u>142,078</u>	<u>132,714</u>	<u>44,454</u>
Total Business Activities	\$ <u>18,005,439</u>	<u>132,714</u>	<u>992,440</u>	<u>17,145,713</u>	<u>901,005</u>

The sewer issue note payable matures in 2014 and is non-interest bearing. The sewer improvement general obligation bonds bear interest at 6.38% and mature in 2007. Both the sewer note and bonds will be repaid from the Sewer Fund.

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

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.

Principal and interest requirements to retire the City's governmental activities' outstanding notes and bonds as of December 31, 2005, are as follows:

		<u>Municipal Court Note</u>		<u>Capital Improvement Note</u>		<u>Capital Improvement Bonds</u>	
		<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$	28,000	6,929	85,000	93,287	20,000	35,030
2007		141,000	5,781	2,110,000	89,675	20,000	33,790
2008		-	-	-	-	20,000	32,550
2009		-	-	-	-	25,000	31,310
2010		-	-	-	-	25,000	29,760
2011-2015		-	-	-	-	150,000	123,690
2016-2020		-	-	-	-	205,000	70,680
2021-2022		-	-	-	-	100,000	9,300
Total	\$	<u>169,000</u>	<u>12,710</u>	<u>2,195,000</u>	<u>182,962</u>	<u>565,000</u>	<u>366,110</u>

Principal and interest requirements to retire the City's business-type activities' outstanding notes, bonds, and loans as of December 31, 2005, are as follows:

		<u>Issue II</u>	<u>Sewer Imp. Bonds</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>	<u>Principal</u>	<u>Interest</u>
2006	\$	8,325	120,000	15,300	297,005	545,318	421,221	331,226
2007		8,325	120,000	7,650	278,062	564,260	437,188	315,260
2008		8,325	-	-	258,724	613,597	453,770	298,678
2009		8,325	-	-	246,103	596,219	470,989	281,458
2010		8,325	-	-	565,000	257,322	488,872	263,575
2011-2015		33,291	-	-	3,125,000	977,017	2,737,683	1,024,557

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

2016-2020	-	-	-	2,965,000	316,028	3,300,393	461,842
2021-2022	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>598,073</u>	<u>14,897</u>
Total	\$ <u>74,916</u>	<u>240,000</u>	<u>22,950</u>	<u>7,734,894</u>	<u>3,869,761</u>	<u>8,908,189</u>	<u>2,991,493</u>

NOTE 11 – CAPITAL LEASES

The City has entered into lease agreements as lessee for the water storage tank of Fayette County for 20 years and for six city vehicles for three years. Each of these lease agreements qualifies as a capital lease for accounting purposes (title transfers at the end of the lease term) and, therefore have been recorded at the present value of the future minimum lease payments as of the date of inception.

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

The following is a schedule of the future minimum lease payments for the capital leases, and the present value of the future minimum lease payments at December 31, 2005:

Year Ending December 31	
2006	\$ 14,000
2007	18,000
2008	16,800
2009	<u>15,600</u>
Total Future Minimum Lease Payments	64,400
Less: Amount Representing Interest	<u>9,400</u>
Present Value of Future Minimum Lease Payments	\$ <u>55,000</u>

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Plan and Combined Plan. Members of the Member-Directed Plan do not qualify for ancillary benefits. The authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans discussed above. Separate divisions for law enforcement and public safety exist only within the Traditional Plan. The 2005 member contribution rates were 8.5% of their annual salary for members in classifications other than law enforcement and public safety. Members in the law enforcement classification contributed at a rate of 10.1%. Public safety division members contributed at 9%. The City was required to contribute 13.55% of covered payroll for employees and 16.70% for employees engaged in law enforcement and public safety. The City's required contributions to OPERS for the years ended December 31, 2005, 2004, and 2003 were \$501,760, \$515,576, and \$464,297, respectively: 72 percent has been contributed for 2005 and 100 percent for 2004 and 2003 .

**CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005**

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 percent of their annual covered salary to fund pension obligations while the city is required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for police and firefighters were \$212,299 and \$ 204,756 for the year ended December 31, 2005, \$213,461 and \$ 193,490 for the year ended December 31, 2004, and \$174,407 and \$ 170,505 for the year ended December 31, 2003. 71 percent for police and 71 percent for firefighters has been contributed for 2005 with the remainder being reported as a liability.

NOTE 13 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.70 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actual cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

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

The number of active contributing participants in the traditional and combined plans was 355,287. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$148,000. The actual contribution and the actuarially required contribution amounts are the same. OPERS net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

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

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

Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program in 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund OPEB were approximately \$84,000 for police and \$66,000 for fire. The number of participants eligible to receive health care benefits as of December 31, 2004, (the latest information available) was 13,812 for police and 10,528 for firefighters. The Fund's total health care expenses for the year ended December 31, 2004 were \$102 million, which was net of member contributions of \$55.7 million.

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 14 – 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.

Sick leave accumulates at the rate of .0575 hours of sick leave for each hour of work completed with a maximum of 80 hours per pay period. Employees who have ten years of service, hired prior to April 12, 1991 who have sick leave accumulated receive payment upon retirement at a rate of one hour for each hour of accumulated and unused sick leave, to a maximum of 960 hours. Employees who have ten years of service, hired after April 12, 1991 who have sick leave accumulated receives payment upon retirement at a rate of one hour for each four hours of accumulated and unused sick leave, to a maximum of 240 hours. Individuals leaving the employment of the City prior to retirement or at retirement with less than ten years of service lose their accumulated sick leave. A liability has been recognized in the accompanying financial statements for a portion of the sick leave hours of those employees who have ten years of service and are age 50 or older, or have thirty years with local government employment as well as other employees who are expected to become eligible in the future to receive such payments. A liability for accrued vacation has been recognized based on the amount of unused vacation hours for each employee. Vacation is accumulated based upon length of service as follows:

<u>Employee Service</u>	<u>Vacation Credit</u>
After 1 year	2 weeks
After 10 years	3 weeks
After 15 years	4 weeks
After 22 years	5 weeks

Vacation leave must be used within the current calendar year unless the employee is unable to use his vacation due to the operational needs of the employer. Without this, such excess leave is eliminated from the employee's leave balance. In the case of death, termination, or retirement, an employee (or his estate) is paid for the unused vacation.

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 15 - 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 2005, the City contracted with various commercial carriers for property, auto, crime, and liability insurance as well as public official bonds.

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

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 16 – RELATED ORGANIZATIONS

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

NOTE 17 – CONTINGENT LIABILITIES

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

NOTE 18- CHANGE IN ACCOUNTING PRINCIPLES

For the year ended December 31, 2005, the City implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures". The implementation of this Statement requires additional disclosure for deposit and investments, but had no effect on the City's beginning fund balances or net assets.

NOTE 19- ACCOUNTABILITY

The Shoop TIF major Capital Projects Fund had a deficit fund balance of \$2,058,630. This negative balance is due to an accrual for Notes Payable. The General Fund provides transfers when cash is required, not when expenditures are incurred.

CITY OF WASHINGTON COURT HOUSE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE 20- CONTRACT COMMITMENTS

The City had the following outstanding contractual commitment at December 31, 2005.

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Outstanding Balance</u>
Blue Pantheon Development	\$1,854,680	\$1,219,319	\$635,361

NOTE 21- SUBSEQUENT EVENTS

In June 2006, the City issued \$3 million in bond anticipation notes for the purpose of repaying notes issued in November 2005 (See Note 9). Notes will mature in November 2006, including interest payable at a rate of 5.5 percent.

In November 2006, the City issued \$3,165,000 in bond anticipation notes for the purposes of repaying notes issued in June 2006 and to provide additional funds for the pending infrastructure improvement project. Notes will mature in November 2007, including interest payable at a rate of 4.06 percent.

City of Washington Court House
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
United States Department of Housing and Urban Development			
<i>Passed through the Ohio Department of Development</i>			
Community Development Block Grants - State's Program	A-C-04-195-1	14.228	\$45,000
Community Development Block Grants - State's Program	A-F-04-195-1		371,000
Total Community Development Block Grants - State's Program			416,000
HOME Investment Partnerships Program	A-C-04-195-2	14.239	153,554
Total United States Department of Housing and Urban Development			569,554
United States Department of Homeland Security			
<i>Passed through the Ohio Department of Public Safety</i>			
Public Assistance Grants	FEMA-1580-DR-047-81718	97.036	83,337
<i>Direct</i>			
Assistance to Firefighters Grants	N	97.044	166,250
Total United States Department of Homeland Security			249,587
Total Federal Financial Assistance			<u><u>\$819,141</u></u>

N - direct from the federal government.

See accompanying notes to the Schedule of Federal Awards Expenditures

City of Washington Court House
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2005

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – MATCHING REQUIREMENTS

Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

BALESTRA, HARR & SCHERER CPAs, INC.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

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, (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 22, 2006, in which we indicated that the City implement GASB Statement No. 40. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the City in a separate letter dated November 22, 2006.

City of Washington Court House

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*
Page 2

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

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

Balestra, Harr & Scherer, CPAs, Inc.
November 22, 2006

BALESTRA, HARR & SCHERER CPAs, INC.

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Washington Court House, Fayette County, (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

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

City of Washington Court House

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Page 2

Internal Control Over Compliance (Continued)

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

We noted certain matters that we reported to the management of the City in a separate letter dated November 22, 2006.

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

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

Balestra, Harr & Scherer, CPAs, Inc.

November 22, 2006

City of Washington Court House
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Year Ended December 31, 2005

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Community Development Block Grants, CFDA #14.228
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

City of Washington Court House
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
(Continued)
For the Year Ended December 31, 2005

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

CITY OF WASHINGTON COURTHOUSE

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
MARCH 1, 2007**