

**CITY OF CIRCLEVILLE
PICKAWAY COUNTY**

REGULAR AUDIT

JANUARY 1, 2012 – DECEMBER 31, 2012





Dave Yost • Auditor of State

Members of City Council
City of Circleville
133 South Circle Street
Circleville, Ohio 43113

We have reviewed the *Independent Auditor's Report* of the City of Circleville, Pickaway County, prepared by Wilson, Shannon & Snow, Inc., for the audit period January 1, 2012 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

Finding for Recovery – Repaid Under Audit Severance Overpayment

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. **Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose** states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

Section 14.10(B) of the City’s Collective Bargaining Agreement with the International Association of Firefighters (IAFF) provides that “No employee shall receive a payment less than... one-fourth of the value of the employee’s accrued but unused sick leave to a maximum of one-fourth (1/4) of 960 hours or 240 hours.”

Contrary to the Collective Bargaining Agreement, upon calculating the retirement severance payout for former employee John E. Jones, the City did not reduce the sick leave hours used in calculation of his severance payout to a maximum of 240 hours; therefore the sick leave portion of Mr. Jones’ severance payout was for 342.08 hours, resulting in an overpayment of \$1,365.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is issued against John E. Jones for \$1,365 and in favor of the City of Circleville’s General Fund.

On May 9, 2013, John E. Jones repaid the City of Circleville the full amount of \$1,365.

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Members of City Council
City of Circleville
133 South Circle Street Circleville, Ohio 43113
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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 Circleville is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D" and a long, sweeping tail on the "y".

Dave Yost
Auditor of State

September 13, 2013

**CITY OF CIRCLEVILLE
PICKAWAY COUNTY, OHIO**

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City of Circleville
Pickaway County
133 South Court Street
Circleville, Ohio 43113



INDEPENDENT AUDITOR'S REPORT

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Circleville, Pickaway County, Ohio, (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We did not audit the financial statements of Berger Health System, the City's only discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for Berger Health System, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Wilson, Shannon & Snow, Inc.

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City of Circleville
Pickaway County
Independent Auditor's Report

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Circleville, Pickaway County, Ohio, as of December 31, 2012 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Income Tax Fund, and the Safety Forces Tax Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 21, the City has implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". As further disclosed in Note 21, the City restated the general fund balance and governmental activities to properly report previously recorded intergovernmental receivables. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Wilson, Shuman & Snow, Inc.

June 22, 2013

City of Circleville
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

The discussion and analysis of the City of Circleville's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

- The City's total net position decreased \$105,879. Net position of governmental activities increased \$72,260 while revenues of business-type activities failed to cover expenses by \$178,139.
- General revenues of governmental activities accounted for \$6,726,298. Program specific revenues in the form of charges for services, grants and contributions accounted for \$3,657,256 of total revenues of \$10,383,554.
- Enterprise funds reflected a total operating loss of \$74,769. The Waterworks Operating Fund reflected operating income of \$8,517 while the Sewer Operating Fund reflected an operating loss of \$83,286.
- The City had \$10,311,294 in expenses related to governmental activities; \$3,657,256 of these expenses were offset by program specific charges for services, grants and contributions. General revenues (primarily income taxes) of \$6,726,298 were adequate to provide for these programs. The City had \$4,002,804 in expenses related to business-type activities; \$3,727,586 of these expenses were offset by program specific charges for services, grants and contributions, which, along with general revenues of \$97,079, were not adequate to provide for such services.

Using This Annual Financial Report

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the City of Circleville's financial situation as a whole and also give a detailed view of the City's fiscal condition.

The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. The fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term, as well as the amount of funds available for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

City of Circleville
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

Reporting the City as a Whole

One of the most important questions asked about the City is “How did we do financially during 2012?” The Statement of Net Position and the Statement of Activities, which appear first in the City’s financial statements, report information on the City as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the City’s net position and change in net position. This change in net position is important because it informs the reader that, for the City as a whole, the financial position of the City has improved or diminished. In evaluating the overall financial health, the reader of these financial statements needs to take into account non-financial factors that also impact the City’s financial well-being. Some of these factors include the City’s tax base and the condition of capital assets.

In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities:

Governmental Activities – Most of the City’s services are reported here including security of persons and property, public health services, leisure time activities, community development, transportation, and general government.

Business-Type Activities – These services include water and sewer operations. Service fees for these operations are charged based upon the amount of usage. The intent is that the fees charged recoup operational costs.

The financial activities of Berger Health System, a component unit of the City of Circleville, are presented in a separate column on the Statement of Net Position and as a separately identified activity on the Statement of Activities. This discrete presentation is made in order to emphasize that it is a legally separate organization from the City of Circleville. However, the focus of the government-wide financial statements remains clearly on the City of Circleville as the primary government.

City of Circleville
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

Reporting the City's Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 12. Fund financial statements provide detailed information about the City's major funds – not the City as a whole. The City uses many funds to account for a multitude of financial transactions. Some funds are required by State law and bond covenants. Other funds may be established to help control, manage, and report money received for a particular purpose or to show that the City is meeting legal responsibilities for the use of grants. The City's major funds are the General Fund, the Income Tax Fund, the Safety Forces Tax Fund, the General Obligation Bond Retirement Fund, the Capital Improvement Fund, the Waterworks Operating Fund, and the Sewer Operating Fund.

Governmental Funds

Most of the City's 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. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Enterprise Funds

When the City charges citizens for the services it provides, with the intent of recapturing operating costs, these services are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Fiduciary Funds

The City's fiduciary funds are a private purpose trust fund and five agency funds. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and the private purpose trust fund is reported in the Statement of Changes in Fiduciary Net Position. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

City of Circleville
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

The City as a Whole

As stated previously, the Statement of Net Position provides the perspective of the City as a whole. Table 1 provides a summary of the City's net position for 2012 compared to 2011.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	Restated 2011	2012	2011	2012	Restated 2011	2012
Assets:						
Current and Other Assets	\$8,337,200	\$10,300,232	\$7,478,335	\$7,394,647	\$15,815,535	\$17,694,879
Nondepreciable Capital Assets	1,150,990	1,156,910	149,180	566,122	1,300,170	1,723,032
Depreciable Capital Assets, Net	<u>21,846,665</u>	<u>21,798,382</u>	<u>18,204,051</u>	<u>17,978,500</u>	<u>40,050,716</u>	<u>39,776,882</u>
Total Assets	<u>31,334,855</u>	<u>33,255,524</u>	<u>25,831,566</u>	<u>25,939,269</u>	<u>57,166,421</u>	<u>59,194,793</u>
Deferred Outflows of Resources:						
Deferred Charge on Refunding	<u>34,912</u>	<u>31,033</u>	<u>0</u>	<u>0</u>	<u>34,912</u>	<u>31,033</u>
Liabilities:						
Current and Other Liabilities	721,802	2,842,889	204,769	286,898	926,571	3,129,787
Long-Term Liabilities:						
Due Within One Year	668,844	679,055	167,577	182,200	836,421	861,255
Due in More Than One Year	<u>3,298,577</u>	<u>3,028,892</u>	<u>2,645,829</u>	<u>2,834,919</u>	<u>5,944,406</u>	<u>5,863,811</u>
Total Liabilities	<u>4,689,223</u>	<u>6,550,836</u>	<u>3,018,175</u>	<u>3,304,017</u>	<u>7,707,398</u>	<u>9,854,853</u>
Deferred Inflows of Resources:						
Property Taxes not Levied to Finance Current Year Operations	<u>821,000</u>	<u>803,917</u>	<u>0</u>	<u>0</u>	<u>821,000</u>	<u>803,917</u>
Net Position:						
Net Investment in Capital Assets	20,382,910	20,409,644	15,766,750	15,627,842	36,149,660	36,037,486
Restricted for:						
Capital Outlay	437	837	0	0	437	837
Safety Forces	129,774	137,445	0	0	129,774	137,445
Streets	674,296	586,456	0	0	674,296	586,456
Community Development	319,647	634,139	0	0	319,647	634,139
Other Purposes	733,961	824,750	0	0	733,961	824,750
Unrestricted	<u>3,618,519</u>	<u>3,338,533</u>	<u>7,046,641</u>	<u>7,007,410</u>	<u>10,665,160</u>	<u>10,345,943</u>
Total Net Position	<u>\$25,859,544</u>	<u>\$25,931,804</u>	<u>\$22,813,391</u>	<u>\$22,635,252</u>	<u>\$48,672,935</u>	<u>\$48,567,056</u>

City of Circleville
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

A significant increase in assets reported in Table 1 was due to an increase in current and other assets related to an increase in cash and cash equivalents. This increase was due to the receipt of bond anticipation note proceeds issued to finance roadway improvements that had not been spent at year-end.

Depreciable capital assets, net decreased as the result of current year depreciation exceeding current year additions.

Reviewing liabilities of governmental activities demonstrates a significant decrease in long-term liabilities. This decrease was primarily due to principal payments made on debt held by the City.

There was a significant increase in current and other liabilities due to the bond anticipation note issued in 2012 and reported as a current liability.

Net investment in capital assets of governmental activities increased an insignificant amount from the prior year.

While the City's governmental restricted net position does not represent a very significant percentage of overall net position, governmental restricted net position, when viewed alone, did experience an increase of \$325,512. The most significant increase was in restricted net position for community development due to the City receiving Community Development Block Grants. Unrestricted governmental net position had a decrease of \$279,986 as a result of increases in employee salaries and benefits and insurance costs being paid from unrestricted resources.

In total, assets and liabilities of business-type activities increased \$107,703 and \$285,842, respectively, which are insignificant increases. However, non-depreciable capital assets increased \$416,942 due to an increase in construction in progress related to the water treatment plant improvement project. Depreciable capital assets, net decreased significantly as a result of current year depreciation exceeding additions. The total net position of business-type activities decreased insignificantly by \$178,139.

City of Circleville
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

Table 2 shows the changes in net position for the years ended December 31, 2012 and 2011.

Table 2
Changes In Net Position

	Governmental Activities		Business-Type Activities		Total	
	Restated				Restated	
	2011	2012	2011	2012	2011	2012
Revenues:						
Program Revenues:						
Charges for Services	\$1,719,328	\$2,023,027	\$3,222,915	\$3,723,314	\$4,942,243	\$5,746,341
Operating Grants and Contributions	925,333	1,467,530	0	4,272	925,333	1,471,802
Capital Grants and Contributions	349	166,699	0	0	349	166,699
Total Program Revenues	<u>2,645,010</u>	<u>3,657,256</u>	<u>3,222,915</u>	<u>3,727,586</u>	<u>5,867,925</u>	<u>7,384,842</u>
General Revenues:						
Property Taxes	889,763	812,757	0	0	889,763	812,757
Income Taxes	4,746,441	4,776,061	0	0	4,746,441	4,776,061
Other Local Taxes	261,245	247,220	0	0	261,245	247,220
Grants and Entitlements not Restricted to Specific Programs	1,017,553	669,536	0	0	1,017,553	669,536
Unrestricted Investment Earnings	95,828	129,489	0	0	95,828	129,489
Unrestricted Contributions and Donations	10,000	16,875	0	0	10,000	16,875
Gain on Sale of Capital Assets	0	14,200	0	9,550	0	23,750
Miscellaneous	203,422	60,160	8,806	87,529	212,228	147,689
Total General Revenues	<u>7,224,252</u>	<u>6,726,298</u>	<u>8,806</u>	<u>97,079</u>	<u>7,233,058</u>	<u>6,823,377</u>
Total Revenues	<u>\$9,869,262</u>	<u>\$10,383,554</u>	<u>\$3,231,721</u>	<u>\$3,824,665</u>	<u>\$13,100,983</u>	<u>\$14,208,219</u>

(continued)

City of Circleville
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

Table 2
Changes In Net Position
(Continued)

	Governmental Activities		Business-Type Activities		Total	
	Restated				Restated	
	2011	2012	2011	2012	2011	2012
Program Expenses:						
Security of Persons and Property:						
Police	\$2,589,908	\$2,579,478	\$0	\$0	\$2,589,908	\$2,579,478
Fire	1,787,658	1,832,832	0	0	1,787,658	1,832,832
Other	228,191	183,720	0	0	228,191	183,720
Public Health Services	309,164	182,914	0	0	309,164	182,914
Leisure Time Activities:						
Parks and Recreation	166,942	152,550	0	0	166,942	152,550
Swimming Pool	30,350	29,660	0	0	30,350	29,660
Other	25,247	25,341	0	0	25,247	25,341
Community Development:						
City Funded	9,145	10,787	0	0	9,145	10,787
Grant Funded	515,001	183,865	0	0	515,001	183,865
Basic Utility Services	817	0	0	0	817	0
Transportation	1,951,190	2,024,595	0	0	1,951,190	2,024,595
General Government	2,719,916	2,919,138	0	0	2,719,916	2,919,138
Interest and						
Fiscal Charges	246,092	186,414	0	0	246,092	186,414
Waterworks Operating	0	0	1,536,819	1,724,909	1,536,819	1,724,909
Sewer Operating	0	0	2,083,408	2,277,895	2,083,408	2,277,895
Total Expenses	10,579,621	10,311,294	3,620,227	4,002,804	14,199,848	14,314,098
Increase (Decrease) in Net Position	(710,359)	72,260	(388,506)	(178,139)	(1,098,865)	(105,879)
Net Position at Beginning of Year	26,569,903	25,859,544	23,201,897	22,813,391	49,771,800	48,672,935
Net Position at End of Year	\$25,859,544	\$25,931,804	\$22,813,391	\$22,635,252	\$48,672,935	\$48,567,056

Governmental Activities

Program revenues, which are primarily represented by charges for permits, fines, and departmental services, as well as restricted intergovernmental revenues were \$3,657,256 of total revenues for 2012 of \$10,383,554 and were significantly higher than in 2011. Operating grants and contributions increased as a result of the City being awarded various federal and state grants during 2012.

City of Circleville
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

As previously mentioned, general revenues were \$6,726,298 of total revenues for 2012. The 1.5 percent income tax is the largest source of revenue for the City of Circleville, making up \$4,776,061 of revenues for governmental activities for the year ended 2012. The City provides a 50 percent tax credit for income taxes paid to another municipality up to 100 percent of the City's current tax rate.

On a cash basis, income tax revenue was stagnating with an increase of less than 0.01 percent from 2004 to 2008. The main contributing factors were the downturn in the economy and the loss of the City's industrial base. However, the implementation of reduced credit kept revenue losses to a minimum. Then, in 2009, the municipal income tax accelerated its downward turn when it fell by 2.48 percent. The City's major employers were stable but receipts from reduced credit reflected significant revenue losses. Municipal income tax revenues showed an increase of 1.86 percent in 2011 and 1.01 percent in 2012. This improvement was directly attributable to the City's core employers, who started to show a recovery from the economic downturn. Reduced credit continued to lag, reflecting the significant levels of unemployment that continues to exist.

The City of Circleville, in conjunction with its economic development initiative, the Pickaway Progress Partnership (P³) continues to aggressively pursue economic growth in the City. P³ is developing a strategy to help entrepreneurs in the City through its Innovative Investment and Startup Business Support committees.

Grants and Entitlements not Restricted to Specific Programs made up \$669,536 of revenue for governmental activities of the City of Circleville for the year ended 2012. Property taxes made up \$812,757 of revenue for governmental activities for a total of \$6,258,354 of all revenue coming from income taxes, property taxes, and grant and entitlements not restricted to specific programs.

City of Circleville
 Management's Discussion and Analysis
 For the Year Ended December 31, 2012
 (Unaudited)

Governmental program expenses as a percentage of total governmental expenses for 2012 are expressed as follows:

Security of Persons and Property:	
Police	25.02%
Fire	17.77
Other	1.78
Public Health Services	1.77
Leisure Time Activities:	
Parks and Recreation	1.48
Swimming Pool	0.29
Other	0.25
Community Development:	
City Funded	0.10
Grant Funded	1.78
Transportation	19.63
General Government	28.32
Interest and Fiscal Charges	1.81
	100.00%

The above chart clearly indicates the City's major source of expenses, 44.57 percent is related to the operating of safety forces. A distant second, 28.32 percent, is the administration of general government activities within the City. All other forms of governmental operations represent 27.11 percent of expenditures. A comparison to the prior year demonstrates that expenses were relatively consistent with those in the previous year.

Business-Type Activities

The City's business-type activities include water and sewer services.

The Waterworks Operating Fund collects fees charged for the sale of water. Those fees are then used to maintain lines for delivery, to treat water for further consumption, and to maintain its treatment facility and storage towers.

The Sewer Operating Fund conducts the operations of the City's wastewater collection and treatment system. Money that is collected from the fees which are billed based on the number of gallons of water used is placed in this fund for use in the maintenance of the collection system and improvements to the treatment plant.

City of Circleville
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

Program revenues for business-type activities, which are primarily represented by charges for water and sewer services provided to residents and businesses within the City, demonstrated a significant increase from the prior year which was due to rate increases for both water and sewer services. Program expenses for business-type activities increased from the prior year which was primarily related to depreciation expense and personnel services and benefits.

The City's Funds

Information about the City's major governmental funds begins on page 22. All governmental funds had total revenues of \$9,983,721 and expenditures of \$10,661,439. The General Fund balance decreased \$59,942. Revenues and expenditures were relatively consistent when compared to 2011. The largest increase in revenues was in charges for services which increased due to the implementation of an indirect cost allocation plan by the City.

The Income Tax Fund balance decreased \$653. This is the result of the City's collection expenditures exceeding revenues during the year.

The Safety Forces Tax Fund balance increased \$26,855 from the prior year. This was the result of greater income tax revenues being receipted into this fund than expenditures made from the fund.

The General Obligation Bond Retirement Fund balance decreased \$116,976. This was the result of annual debt service payments exceeding income tax revenues received during the year.

The Capital Improvement Fund balance decreased \$283,138 from the prior year. This decrease was the result of the City expending monies for capital projects.

General Fund Budgeting Highlights

During 2012, the City amended its General Fund budget as needed. Original budgeted revenues and other financing sources in the amount of \$4,530,362 were less than final budgeted revenues and other financing sources of \$4,803,701 which represents a significant increase. This increase was due to the award of three grants with anticipated receipts of \$357,951. Once collections proved to be greater than originally anticipated, the City adjusted its budget accordingly. Final budgeted revenues and other financing sources were more than actual revenues and other financing sources of \$4,768,378. The difference of \$35,323 was due to insignificant variances in the revenue accounts and to timing of grant dollar receipts.

City of Circleville
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

The increase in expenditures and other financing uses from the original to the final budget was \$273,339, which is attributed to the City amending its budget for the receipt of \$277,302 in Moving Ohio Forward Grant dollars. The difference in actual expenditures and other financing uses compared to the final budget and other financing uses was \$544,448, a significant reduction. The primary cause of this reduction was a decrease in actual expenditures for general government of \$281,520. This is primarily related to the City practicing cost savings measures in departmental expenditures. The City continues to place tight restraints on all discretionary expenditures. A capital budgeting program has been developed requiring all departments to validate all capital expenditure requests with departmental capital planning programs.

Actual General Fund revenues were less than expenditures by \$180,260. The City experienced several retirements that required the usage of accumulated balances in the funds from which the retirees were paid. The cost of providing hospitalization benefits to its employees has placed a significant strain on City resources. With the continued decline in financing resources, the City struggles to fund existing programs. It has been the decision of the City to use the accumulated carryover balance from prior years to continue critical functions. The consensus has been that by using the reserves it will give the City time to acquire new revenue sources and implement additional cost savings measures.

Capital Assets and Debt Administration

Capital Assets

At the end of 2012, the City had \$22,955,292, in capital assets (net of accumulated depreciation) for governmental activities, a decrease of \$42,363. Increases included land, land improvements, building improvements, various equipment, various vehicle purchases, and various street improvements. Disposals of capital assets included an asphalt roller, police cruisers, dump trucks, and tractor, and street resurfacing within the City. The decrease in capital assets is the result of current year depreciation exceeding current year additions for the year.

The City also had \$18,544,622 in capital assets (net of accumulated depreciation) for business-type activities, an increase of \$191,391. Increases included construction in progress for the water treatment plant improvements, chlorine tank divider walls, and new water lines.

See Note 8 of the Notes to the Basic Financial Statements for more detailed information.

City of Circleville
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

Debt

The City's outstanding debt obligations at year-end included general obligation bonds in the amount of \$3,035,000 and premiums on bonds issued of \$57,797 for governmental activities. Business-type activities had debt obligations in the amount of \$2,560,000 relating to general obligation bonds and Ohio Water Development Authority loans of \$295,249. The City's long-term obligations also included capital leases for governmental activities, as well as compensated absences for governmental activities and business-type activities.

See Notes 12 and 13 of the Notes to the Basic Financial Statements for more detailed information.

Current Issues

On a cash basis, the City of Circleville's municipal income tax base increased 1.01 percent in 2012. The major contributor to the increase in municipal income tax receipts was business filing revenues which demonstrated a 11.40 percent increase. Business withholding accounts remained stagnant as business continued to proceed with caution on the expansion of their employment base. Individual filing receipts declined by 1.48 percent as unemployment in Pickaway County remained the highest in the Columbus Metropolitan Area. Revenues from the reduced credit declined by less than a percent reflecting the slow recovery in the employment opportunities for local residents. The municipal income tax continues to be the major factor in financing governmental operations. This is reflected by the fact that 38 percent of the City's cash basis revenues are generated by the income tax. Circleville City Council altered the one percent split between the General Fund and the Capital Improvement Fund in 2012. The City placed 60 percent of the municipal income tax into general operations and 40 percent into capital improvements in response to the continued decline in local government fund revenues and the complete elimination of the personal property tax reimbursement from the State of Ohio. The 0.50 percent voter approved safety forces tax and the reduced credit tax revenue are used solely for safety forces expenditures. This designated revenue provides 40.14 percent of the dollars needed to operate the City's safety forces. Since 2008 the City has experienced a 41.95 percent reduction in revenues received from other governmental sources, mainly the State of Ohio. This continued deterioration of revenues received from the State of Ohio has placed a heavier burden on the local tax base to fund critical municipal operations.

City of Circleville
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

Table 3
Municipal Income Tax Cash Basis Revenues
2006 Through 2012

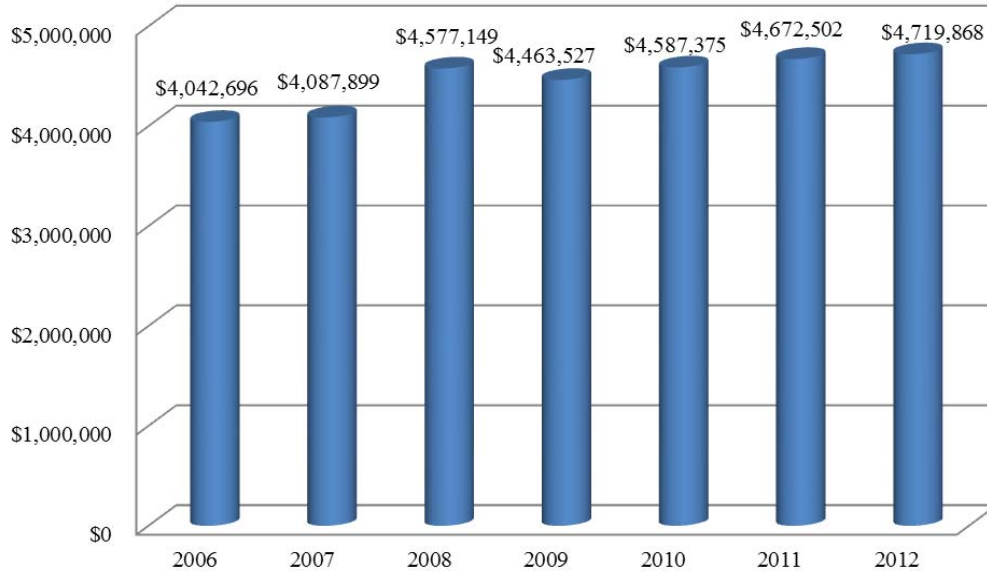
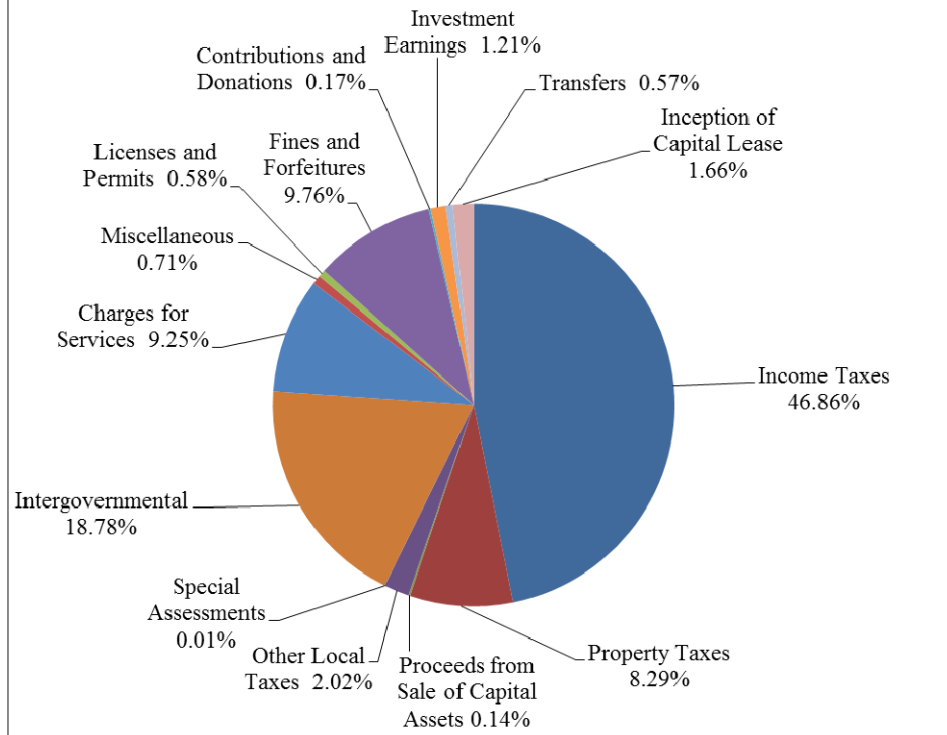
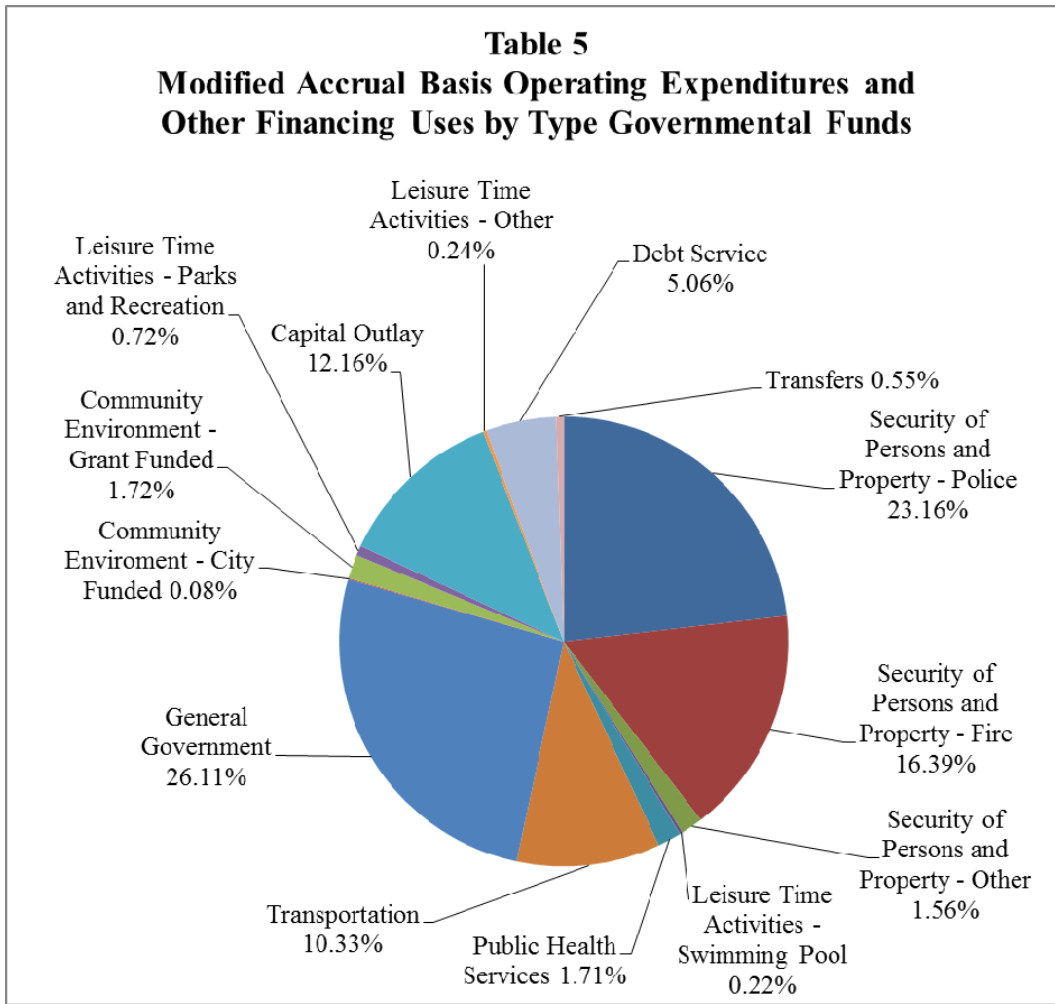


Table 4
Modified Accrual Basis Revenues and Other Financing
Sources by Type Governmental Funds



City of Circleville
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)



Governmental fund operating revenues of the City decreased in 2012 from 2011. The City continues to budget with a cautionary agenda. The capital improvement program of the City was increased by 25.15 percent from 2011 expenditures. In 2012, the City received significant grant dollars for street improvement transportation projects. In addition to grant dollars the City completed 1.41 miles of roadway mill and fill projects. The beginning stages of the Clark Drive/US 22 road expansion project were initiated in 2012. The \$2.2 million project will be a three year capital improvement project. On a cash basis, the City spent 13.4 percent of its operating budget on capital improvements in 2012. The City's capital assets included current year additions of \$2,048,985 and annual depreciation of \$1,899,957 for the year. The City is a service provider to its residents, which explains why 59 percent of its operating budget is attributable to personnel services. This is an increase from 2011 and reflects in an increase in the cost of City employee salary and benefits and not in an increase in employee counts. The safety forces (Police, Fire, and EMS) contribute 58.73 percent of the personnel services cost for the City. The City's administrative and safety departments continue to operate with reduced staffing.

City of Circleville
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

The resources available to the City for operating and capital improvements remain limited. The City constantly utilizes grants and alternative funding opportunities coupled with City revenues to maximize its ability to implement capital projects. The City used a TANF grant in the amount of \$10,426 for a summer youth program that worked on beautification projects throughout the City. In 2012, \$166,699 in OPWC funds were received for the improvement of City streets. A Moving Ohio Grant for \$174,310 was obtained to rid the City of blighted properties. The Circleville Police Department received \$9,236 in grant dollars that was used to replace bullet proof vests. In 2012, the City, in conjunction with P³, continued to utilize \$43,112 in Clean Ohio grants to address environmental concerns in the community. The clean-up of these environmental areas will allow the City to move forward with job ready sites for future economic development.

The base income tax revenues have stabilized but continue to show minimal growth. The current economic downturn continues with little recovery indicators indicated in the local economy. The City administration and legislative body continue to institute budget restraints in efforts to modify budgetary expenditures to reflect existing revenue streams. The City of Circleville continues to evaluate current revenue streams in order to provide cost effective services for its citizens. A vibrant working collaboration with P³, which is a consortium of other Pickaway County local governments and private industry, is the driving mechanism utilized for future economic development in the City. The City's legislative and administrative bodies aggressively pursue economic development opportunities in order to restore vital resources to the community. The City of Circleville continuously promotes collaborative efforts that will enhance economic development in the area in order to restore Circleville to a community with a strong financial base.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Gayle Spangler, City Auditor, City of Circleville, 133 South Court Street, Circleville, Ohio 43113.

City of Circleville
Statement of Net Position
December 31, 2012

	<i>Primary Government</i>		<i>Total</i>
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$5,593,694	\$6,656,088	\$12,249,782
Cash and Cash Equivalents	0	0	0
Cash and Cash Equivalents with Fiscal Agents	34,831	0	34,831
Investments	0	0	0
Accrued Interest Receivable	21,627	0	21,627
Accounts Receivable	18,433	629,930	648,363
Intergovernmental Receivable	1,372,769	0	1,372,769
Income Taxes Receivable	1,519,040	0	1,519,040
Materials and Supplies Inventory	133,042	87,356	220,398
Prepaid Items	40,317	21,273	61,590
Property Taxes Receivable	827,088	0	827,088
Other Local Taxes Receivable	44,325	0	44,325
Loans Receivable	695,066	0	695,066
Other Assets	0	0	0
Capital Assets:			
Nondepreciable Capital Assets	1,156,910	566,122	1,723,032
Depreciable Capital Assets, Net	21,798,382	17,978,500	39,776,882
Total Assets	33,255,524	25,939,269	59,194,793
<u>Deferred Outflows Of Resources</u>			
Deferred Charge On Refunding	31,033	0	31,033
<u>Liabilities:</u>			
Accounts Payable	189,374	40,219	229,593
Contracts Payable	0	51,107	51,107
Retainage Payable	0	10,424	10,424
Accrued Wages Payable	86,301	28,827	115,128
Intergovernmental Payable	309,978	49,785	359,763
Matured Bonds Payable	20,000	0	20,000
Matured Interest Payable	14,831	0	14,831
Accrued Interest Payable	12,405	8,924	21,329
Bond Anticipation Notes Payable	2,210,000	0	2,210,000
Refundable Deposits	0	97,612	97,612
Long-Term Liabilities:			
Due Within One Year	679,055	182,200	861,255
Due in More Than One Year	3,028,892	2,834,919	5,863,811
Total Liabilities	6,550,836	3,304,017	9,854,853
<u>Deferred Inflows Of Resources</u>			
Property Taxes	803,917	0	803,917
<u>Net Position:</u>			
Net Investment in Capital Assets	20,409,644	15,627,842	36,037,486
Restricted for:			
Capital Outlay	837	0	837
Safety Forces	137,445	0	137,445
Streets	586,456	0	586,456
Community Development	634,139	0	634,139
Other Purposes	824,750	0	824,750
Permanent Endowments	0	0	0
Unrestricted	3,338,533	7,007,410	10,345,943
Total Net Position	\$25,931,804	\$22,635,252	\$48,567,056

See Accompanying Notes to the Basic Financial Statements

<i>Component Unit</i>	
<i>Berger Health System</i>	<i>Total Reporting Entity</i>
\$0	\$12,249,782
10,874,333	10,874,333
0	34,831
26,129,724	26,129,724
0	21,627
7,883,469	8,531,832
1,202,144	2,574,913
0	1,519,040
1,172,191	1,392,589
1,704,984	1,766,574
0	827,088
0	44,325
0	695,066
65,595	65,595
5,147,272	6,870,304
31,902,532	71,679,414
86,082,244	145,277,037
0	31,033
3,351,904	3,581,497
0	51,107
0	10,424
3,144,509	3,259,637
0	359,763
0	20,000
0	14,831
66,651	87,980
0	2,210,000
0	97,612
4,431,970	5,293,225
16,908,887	22,772,698
27,903,921	37,758,774
0	803,917
21,930,803	57,968,289
717,996	718,833
0	137,445
0	586,456
0	634,139
0	824,750
23,656	23,656
35,505,868	45,851,811
<u>\$58,178,323</u>	<u>\$106,745,379</u>

City of Circleville
Statement of Activities
For the Year Ended December 31, 2012

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
<u>Governmental Activities:</u>				
Security of Persons and Property:				
Police	\$2,579,478	\$34,776	\$17,744	\$0
Fire	1,832,832	14,082	8,298	0
Other	183,720	482,829	0	0
Public Health Services	182,914	0	0	0
Leisure Time Activities:				
Parks and Recreation	152,550	11,870	0	0
Swimming Pool	29,660	0	0	0
Other	25,341	0	0	0
Community Development:				
City Funded	10,787	58,101	277,302	0
Grant Funded	183,865	0	498,000	0
Transportation	2,024,595	31,942	610,721	166,699
General Government	2,919,138	1,389,427	55,465	0
Interest and Fiscal Charges	186,414	0	0	0
Total Governmental Activities	10,311,294	2,023,027	1,467,530	166,699
<u>Business-Type Activities:</u>				
Waterworks Operating	1,724,909	1,639,568	2,136	0
Sewer Operating	2,277,895	2,083,746	2,136	0
Total Business-Type Activities	4,002,804	3,723,314	4,272	0
Total - Primary Government	\$14,314,098	\$5,746,341	\$1,471,802	\$166,699
Component Unit				
Berger Health System	\$81,312,144	\$76,917,129	\$0	\$0

General Revenues:

Property Taxes Levied for:

 General Purposes

 Other Purposes

Income Taxes Levied for:

 General Purposes

 Safety Forces

 Debt Service

 Capital Projects

Other Local Taxes

Grants and Entitlements not Restricted to Specific Programs

Unrestricted Investment Earnings

Unrestricted Contributions and Donations

Gain on Sale of Capital Assets

Miscellaneous

Total General Revenues

Change in Net Position

Net Position at Beginning of Year - (Restated - See Note 21)

Net Position at End of Year

See Accompanying Notes to the Basic Financial Statements

<i>Net (Expense) Revenue and Changes in Net Position</i>				
<i>Primary Government</i>			<i>Component Unit</i>	<i>Total Reporting Entity</i>
<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>	<i>Berger Health System</i>	
(\$2,526,958)	\$0	(\$2,526,958)	\$0	(\$2,526,958)
(1,810,452)	0	(1,810,452)	0	(1,810,452)
299,109	0	299,109	0	299,109
(182,914)	0	(182,914)	0	(182,914)
(140,680)	0	(140,680)	0	(140,680)
(29,660)	0	(29,660)	0	(29,660)
(25,341)	0	(25,341)	0	(25,341)
324,616	0	324,616	0	324,616
314,135	0	314,135	0	314,135
(1,215,233)	0	(1,215,233)	0	(1,215,233)
(1,474,246)	0	(1,474,246)	0	(1,474,246)
(186,414)	0	(186,414)	0	(186,414)
(6,654,038)	0	(6,654,038)	0	(6,654,038)
0	(83,205)	(83,205)	0	(83,205)
0	(192,013)	(192,013)	0	(192,013)
0	(275,218)	(275,218)	0	(275,218)
(6,654,038)	(275,218)	(6,929,256)	0	(6,929,256)
0	0	0	(4,395,015)	(4,395,015)
708,887	0	708,887	0	708,887
103,870	0	103,870	0	103,870
1,923,411	0	1,923,411	0	1,923,411
1,684,408	0	1,684,408	0	1,684,408
324,958	0	324,958	0	324,958
843,284	0	843,284	0	843,284
247,220	0	247,220	0	247,220
669,536	0	669,536	0	669,536
129,489	0	129,489	76,275	205,764
16,875	0	16,875	0	16,875
14,200	9,550	23,750	0	23,750
60,160	87,529	147,689	4,650,016	4,797,705
6,726,298	97,079	6,823,377	4,726,291	11,549,668
72,260	(178,139)	(105,879)	331,276	225,397
25,859,544	22,813,391	48,672,935	57,847,047	106,519,982
\$25,931,804	\$22,635,252	\$48,567,056	\$58,178,323	\$106,745,379

City of Circleville
Balance Sheet
Governmental Funds
December 31, 2012

	<u>General Fund</u>	<u>Income Tax Fund</u>	<u>Safety Forces Tax Fund</u>
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$977,680	\$16,460	\$531,977
Cash and Cash Equivalents with Fiscal Agents	0	0	0
Receivables:			
Accrued Interest	21,319	0	0
Accounts	18,433	0	0
Intergovernmental	464,368	0	0
Income Taxes	479,601	59,966	499,994
Property Taxes	714,072	0	0
Other Local Taxes	25,197	0	0
Loans	0	0	0
Materials and Supplies Inventory	35,163	0	0
Prepaid Items	10,455	0	12,781
Total Assets	\$2,746,288	\$76,426	\$1,044,752
<u>Liabilities:</u>			
Accounts Payable	\$32,748	\$1,859	\$76,648
Accrued Wages Payable	64,882	439	12,060
Intergovernmental Payable	123,768	914	169,396
Accrued Interest Payable	0	0	0
Matured Bonds Payable	0	0	0
Matured Interest Payable	0	0	0
Notes Payable	0	0	0
Total Liabilities	221,398	3,212	258,104
<u>Deferred Inflows of Resources:</u>			
Property Taxes not Levied to Finance Current Year	694,379	0	0
Unavailable Revenue	833,699	45,252	377,309
Total Deferred Inflows of Resources	1,528,078	45,252	377,309
<u>Fund Balances:</u>			
Nonspendable	45,618	0	12,781
Restricted	0	0	0
Committed	1,745	27,962	396,558
Assigned	934,166	0	0
Unassigned	15,283	0	0
Total Fund Balances	996,812	27,962	409,339
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$2,746,288	\$76,426	\$1,044,752

See Accompanying Notes to the Basic Financial Statements

<i>General Obligation Bond Retirement Fund</i>	<i>Capital Improvement Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
\$16,375	\$2,662,608	\$1,388,594	\$5,593,694
34,831	0	0	34,831
0	0	308	21,627
0	0	0	18,433
0	0	908,401	1,372,769
163,038	316,441	0	1,519,040
0	0	113,016	827,088
0	0	19,128	44,325
689,583	0	5,483	695,066
0	0	97,879	133,042
0	17,019	62	40,317
<u>\$903,827</u>	<u>\$2,996,068</u>	<u>\$2,532,871</u>	<u>\$10,300,232</u>
\$5,054	\$35,489	\$37,576	\$189,374
0	0	8,920	86,301
0	0	15,900	309,978
0	4,144	0	4,144
20,000	0	0	20,000
14,831	0	0	14,831
0	2,210,000	0	2,210,000
<u>39,885</u>	<u>2,249,633</u>	<u>62,396</u>	<u>2,834,628</u>
0	0	109,538	803,917
<u>123,033</u>	<u>238,795</u>	<u>857,688</u>	<u>2,475,776</u>
<u>123,033</u>	<u>238,795</u>	<u>967,226</u>	<u>3,279,693</u>
0	17,019	97,941	173,359
689,583	0	1,260,748	1,950,331
51,326	490,621	144,560	1,112,772
0	0	0	934,166
0	0	0	15,283
<u>740,909</u>	<u>507,640</u>	<u>1,503,249</u>	<u>4,185,911</u>
<u>\$903,827</u>	<u>\$2,996,068</u>	<u>\$2,532,871</u>	<u>\$10,300,232</u>

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

Total Governmental Fund Balances	\$4,185,911
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	1,156,910
Infrastructure	34,855,668
Other Capital Assets	13,869,026
Accumulated Depreciation	<u>(26,926,312)</u>

Total	22,955,292
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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	1,146,309
Property Taxes	23,171
Other Local Taxes	44,254
Intergovernmental	1,229,269
Charges for Services	18,433
Investment Earnings	<u>14,340</u>

Total	2,475,776
-------	-----------

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

(8,261)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds:

Premium on General Obligation Bonds	(57,797)
Deferred Charge on Refunding of General Obligation Bonds	31,033
General Obligation Bonds	(3,035,000)
Capital Leases	(197,238)
Compensated Absences	<u>(417,912)</u>

Total	<u>(3,676,914)</u>
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Net Position of Governmental Activities	<u><u>\$25,931,804</u></u>
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See Accompanying Notes to the Basic Financial Statements

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City of Circleville
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

	<i>General Fund</i>	<i>Income Tax Fund</i>	<i>Safety Forces Tax Fund</i>
<u>Revenues:</u>			
Income Taxes	\$1,726,265	\$181,447	\$1,724,504
Property Taxes	739,047	0	0
Other Local Taxes	147,849	0	0
Special Assessments	0	0	0
Intergovernmental	969,589	0	9,236
Charges for Services	414,586	0	500,571
Licenses and Permits	59,001	0	0
Fines and Forfeitures	590,721	0	0
Investment Earnings	120,427	0	0
Contributions and Donations	8,580	0	0
Miscellaneous	5,899	11	4,236
<i>Total Revenues</i>	<u>4,781,964</u>	<u>181,458</u>	<u>2,238,547</u>
<u>Expenditures:</u>			
Current Operations and Maintenance:			
Security of Persons and Property:			
Police	1,261,128	0	1,156,370
Fire	700,562	0	980,663
Other	93,225	0	70,382
Public Health Services	182,914	0	0
Leisure Time Activities:			
Parks and Recreation	76,723	0	0
Swimming Pool	23,150	0	0
Other	25,341	0	0
Community Development:			
City Funded	8,625	0	0
Grant Funded	0	0	0
Transportation	315,594	0	0
General Government	2,146,132	182,111	0
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	7,374	0	4,124
Interest and Fiscal Charges	1,138	0	153
<i>Total Expenditures</i>	<u>4,841,906</u>	<u>182,111</u>	<u>2,211,692</u>
Excess of Revenues Over (Under) Expenditures	<u>(59,942)</u>	<u>(653)</u>	<u>26,855</u>
<u>Other Financing Sources (Uses):</u>			
Proceeds From Sale Of Capital Assets	0	0	0
Inception of Capital Lease	0	0	0
Transfers In	0	0	0
Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(59,942)	(653)	26,855
<i>Fund Balances at Beginning of Year - (Restated - See Note 21)</i>	<u>1,056,754</u>	<u>28,615</u>	<u>382,484</u>
<i>Fund Balances at End of Year</i>	<u>\$996,812</u>	<u>\$27,962</u>	<u>\$409,339</u>

See Accompanying Notes to the Basic Financial Statements

<i>General Obligation Bond Retirement Fund</i>	<i>Capital Improvement Fund</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
\$323,681	\$835,886	\$0	\$4,791,783
0	0	109,190	848,237
0	0	58,313	206,162
0	523	0	523
0	0	941,834	1,920,659
0	0	30,531	945,688
0	0	0	59,001
0	0	407,343	998,064
342	0	2,910	123,679
0	0	8,295	16,875
40,204	5,169	17,531	73,050
<hr/>	<hr/>	<hr/>	<hr/>
364,227	841,578	1,575,947	9,983,721
<hr/>	<hr/>	<hr/>	<hr/>
0	0	65,740	2,483,238
0	3,031	73,277	1,757,533
0	441	3,463	167,511
0	0	0	182,914
0	0	0	76,723
0	0	0	23,150
0	0	0	25,341
0	0	0	8,625
0	0	183,865	183,865
0	73,073	719,205	1,107,872
0	80,047	390,694	2,798,984
0	1,050,463	252,702	1,303,165
370,000	36,146	3,948	421,592
111,203	7,145	1,287	120,926
<hr/>	<hr/>	<hr/>	<hr/>
481,203	1,250,346	1,694,181	10,661,439
<hr/>	<hr/>	<hr/>	<hr/>
(116,976)	(408,768)	(118,234)	(677,718)
<hr/>	<hr/>	<hr/>	<hr/>
0	14,200	0	14,200
0	170,000	0	170,000
0	0	58,570	58,570
0	(58,570)	0	(58,570)
<hr/>	<hr/>	<hr/>	<hr/>
0	125,630	58,570	184,200
<hr/>	<hr/>	<hr/>	<hr/>
(116,976)	(283,138)	(59,664)	(493,518)
<hr/>	<hr/>	<hr/>	<hr/>
857,885	790,778	1,562,913	4,679,429
<hr/>	<hr/>	<hr/>	<hr/>
\$740,909	\$507,640	\$1,503,249	\$4,185,911
<hr/>	<hr/>	<hr/>	<hr/>

City of Circleville
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended December 31, 2012

Net Change in Fund Balances - Total Governmental Funds		(\$493,518)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital Assets Additions	1,231,130	
Depreciation	<u>(1,273,493)</u>	
Excess of Depreciation over Capital Outlay		(42,363)
The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of capital assets is removed from the capital assets account in the Statement of Net Position and offset against the proceeds from the sale of capital assets resulting in a gain on the sale of capital assets in the Statement of Activities.		
Gain on Disposal of Assets	14,200	
Proceeds From the Sale of Capital Assets	<u>(14,200)</u>	
		0
Some revenues that will not be collected for several months after the City's year-end are not considered "available" revenues and are deferred in the governmental funds. Unavailable revenues changed by these amounts this year:		
Income Taxes	(15,722)	
Property Taxes	(35,480)	
Other Local Taxes	41,058	
Special Assessments	(523)	
Intergovernmental	388,521	
Charges for Services	14,859	
Investment Earnings	5,810	
Miscellaneous	<u>(12,890)</u>	
		385,633
Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Position, the lease obligation is reported as a liability.		
		(170,000)
Repayment of long-term obligations is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. In the current year, these amounts consist of:		
General Obligation Bond Principal Payments	370,000	
Capital Lease Payments	<u>51,592</u>	
		421,592
Amortization of bond premiums, deferred charges on refunding, and accrued interest payable on the bonds are not reported in the funds, but are allocated as an expense over the life of the debt in the Statement of Activities.		
Amortization of Deferred Charge on Refunding	(3,879)	
Amortization of Premium on General Obligation Bonds	6,390	
Accrued Interest	<u>(67,999)</u>	
		(65,488)
Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These activities consist of:		
Decrease in Compensated Absences		<u>36,404</u>
Change in Net Position of Governmental Activities		<u><u>\$72,260</u></u>

See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2012

	<i>Original Budget</i>	<i>Revised Budget</i>	<i>Budgetary Actual</i>	<i>Variance Positive (Negative)</i>
<u>Revenues:</u>				
Income Taxes	\$1,648,707	\$1,648,707	\$1,700,005	\$51,298
Property Taxes	792,700	792,700	739,047	(53,653)
Other Local Taxes	159,000	159,000	178,700	19,700
Intergovernmental	807,100	1,046,939	981,159	(65,780)
Charges for Services	391,095	391,095	414,586	23,491
Licenses and Permits	18,000	43,000	59,001	16,001
Fines and Forfeitures	550,000	550,000	597,112	47,112
Investment Earnings	140,760	140,760	84,289	(56,471)
Contributions and Donations	10,000	18,500	8,580	(9,920)
Miscellaneous	3,000	3,000	5,899	2,899
<i>Total Revenues</i>	<u>4,520,362</u>	<u>4,793,701</u>	<u>4,768,378</u>	<u>(25,323)</u>
<u>Expenditures:</u>				
Current Operations and Maintenance:				
Security of Persons and Property:				
Police	1,376,403	1,377,238	1,257,702	119,536
Fire	739,953	739,953	689,054	50,899
Other	105,546	107,146	104,596	2,550
Public Health Services	183,509	183,509	182,914	595
Leisure Time Activities:				
Parks and Recreation	73,738	78,738	77,525	1,213
Swimming Pool	23,230	23,230	23,205	25
Other	30,000	30,000	25,341	4,659
Community Development:				
City Funded	10,002	10,002	8,625	1,377
Transportation	386,370	405,672	333,598	72,074
General Government	2,280,996	2,527,598	2,246,078	281,520
<i>Total Expenditures</i>	<u>5,209,747</u>	<u>5,483,086</u>	<u>4,948,638</u>	<u>534,448</u>
Excess of Revenues Over (Under) Expenditures	(689,385)	(689,385)	(180,260)	509,125
<u>Other Financing Sources (Uses):</u>				
Transfer In	10,000	10,000	0	(10,000)
Transfers Out	(10,000)	(10,000)	0	10,000
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(689,385)</u>	<u>(689,385)</u>	<u>(180,260)</u>	<u>509,125</u>
<i>Fund Balance at Beginning of Year</i>	868,346	868,346	868,346	0
<i>Prior Year Encumbrances</i>	<u>153,367</u>	<u>153,367</u>	<u>153,367</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$332,328</u>	<u>\$332,328</u>	<u>\$841,453</u>	<u>\$509,125</u>

See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
Income Tax Fund
For the Year Ended December 31, 2012

	<i>Original Budget</i>	<i>Revised Budget</i>	<i>Budgetary Actual</i>	<i>Variance Positive (Negative)</i>
<i>Revenues:</i>				
Income Taxes	\$185,879	\$185,879	\$176,653	(\$9,226)
Miscellaneous	<u>0</u>	<u>0</u>	<u>11</u>	<u>11</u>
<i>Total Revenues</i>	185,879	185,879	176,664	(9,215)
<i>Expenditures:</i>				
Current Operations and Maintenance:				
General Government	<u>186,763</u>	<u>192,763</u>	<u>182,327</u>	<u>10,436</u>
<i>Net Change in Fund Balance</i>	<u>(884)</u>	<u>(6,884)</u>	<u>(5,663)</u>	<u>1,221</u>
<i>Fund Balance at Beginning of Year</i>	21,049	21,049	21,049	0
<i>Prior Year Encumbrances</i>	<u>884</u>	<u>884</u>	<u>884</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$21,049</u></u>	<u><u>\$15,049</u></u>	<u><u>\$16,270</u></u>	<u><u>\$1,221</u></u>

See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
Safety Forces Tax Fund
For the Year Ended December 31, 2012

	<i>Original Budget</i>	<i>Revised Budget</i>	<i>Budgetary Actual</i>	<i>Variance Positive (Negative)</i>
<i>Revenues:</i>				
Income Taxes	\$1,655,471	\$1,664,707	\$1,709,873	\$45,166
Intergovernmental	9,236	9,236	9,236	0
Charges for Services	412,000	412,000	500,571	88,571
Miscellaneous	1,000	1,000	4,236	3,236
<i>Total Revenues</i>	<u>2,077,707</u>	<u>2,086,943</u>	<u>2,223,916</u>	<u>136,973</u>
<i>Expenditures:</i>				
Current Operations and Maintenance:				
Security of Persons and Property:				
Police	1,266,014	1,271,750	1,196,283	75,467
Fire	1,085,082	1,084,529	1,029,068	55,461
Other	106,214	110,267	81,453	28,814
<i>Total Expenditures</i>	<u>2,457,310</u>	<u>2,466,546</u>	<u>2,306,804</u>	<u>159,742</u>
<i>Net Change in Fund Balance</i>	<u>(379,603)</u>	<u>(379,603)</u>	<u>(82,888)</u>	<u>296,715</u>
<i>Fund Balance at Beginning of Year</i>	411,438	411,438	411,438	0
<i>Prior Year Encumbrances</i>	<u>105,767</u>	<u>105,767</u>	<u>105,767</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$137,602</u></u>	<u><u>\$137,602</u></u>	<u><u>\$434,317</u></u>	<u><u>\$296,715</u></u>

See Accompanying Notes to the Basic Financial Statements

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City of Circleville
Statement of Fund Net Position
Enterprise Funds
December 31, 2012

	<i>Waterworks Operating Fund</i>	<i>Sewer Operating Fund</i>	<i>Total</i>
<u>Assets:</u>			
<u>Current Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$3,765,583	\$2,792,893	\$6,558,476
Receivables:			
Accounts	264,469	365,461	629,930
Materials and Supplies Inventory	27,172	60,184	87,356
Prepaid Items	15,745	5,528	21,273
<i>Total Current Assets</i>	<u>4,072,969</u>	<u>3,224,066</u>	<u>7,297,035</u>
<u>Non-Current Assets:</u>			
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	48,806	48,806	97,612
Nondepreciable Capital Assets	474,067	92,055	566,122
Depreciable Capital Assets, Net	6,577,612	11,400,888	17,978,500
<i>Total Non-Current Assets</i>	<u>7,100,485</u>	<u>11,541,749</u>	<u>18,642,234</u>
<i>Total Assets</i>	<u>11,173,454</u>	<u>14,765,815</u>	<u>25,939,269</u>
<u>Liabilities:</u>			
<u>Current Liabilities:</u>			
Accounts Payable	16,784	23,435	40,219
Contracts Payable	51,107	0	51,107
Retainage Payable	10,424	0	10,424
Accrued Wages Payable	12,613	16,214	28,827
Intergovernmental Payable	19,371	30,414	49,785
Compensated Absences Payable	30,250	41,950	72,200
Accrued Interest Payable	3,815	5,109	8,924
General Obligation Bonds Payable	50,000	60,000	110,000
<i>Total Current Liabilities</i>	<u>194,364</u>	<u>177,122</u>	<u>371,486</u>
<u>Long-Term Liabilities (Net of Current Portion):</u>			
Refundable Deposits	48,806	48,806	97,612
OWDA Loans Payable	295,249	0	295,249
Compensated Absences Payable	38,507	51,163	89,670
General Obligation Bonds Payable	1,045,000	1,405,000	2,450,000
<i>Total Long-Term Liabilities (Net of Current Portion)</i>	<u>1,427,562</u>	<u>1,504,969</u>	<u>2,932,531</u>
<i>Total Liabilities</i>	<u>1,621,926</u>	<u>1,682,091</u>	<u>3,304,017</u>
<u>Net Position:</u>			
Net Investment in Capital Assets	5,599,899	10,027,943	15,627,842
Unrestricted	3,951,629	3,055,781	7,007,410
<i>Total Net Position</i>	<u>\$9,551,528</u>	<u>\$13,083,724</u>	<u>\$22,635,252</u>

See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Revenues, Expenses and Changes in Fund Net Position
Enterprise Funds
For the Year Ended December 31, 2012

	<i>Waterworks Operating Fund</i>	<i>Sewer Operating Fund</i>	<i>Total</i>
<i><u>Operating Revenues:</u></i>			
Charges for Services	\$1,639,746	\$2,083,568	\$3,723,314
<i><u>Operating Expenses:</u></i>			
Personal Services	472,568	565,115	1,037,683
Fringe Benefits	251,957	397,327	649,284
Materials and Supplies	406,672	353,183	759,855
Contractual Services	277,402	446,428	723,830
Depreciation	221,894	404,570	626,464
Miscellaneous	736	231	967
<i>Total Operating Expenses</i>	<u>1,631,229</u>	<u>2,166,854</u>	<u>3,798,083</u>
Operating Income (Loss)	<u>8,517</u>	<u>(83,286)</u>	<u>(74,769)</u>
<i><u>Non-Operating Revenues (Expenses):</u></i>			
Operating Grants	2,136	2,136	4,272
Gain on Sale of Capital Assets	1,950	7,600	9,550
Other	46,631	40,898	87,529
Interest and Fiscal Charges	<u>(93,680)</u>	<u>(111,041)</u>	<u>(204,721)</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(42,963)</u>	<u>(60,407)</u>	<u>(103,370)</u>
<i>Change in Net Position</i>	(34,446)	(143,693)	(178,139)
<i>Net Position at Beginning of Year</i>	<u>9,585,974</u>	<u>13,227,417</u>	<u>22,813,391</u>
<i>Net Position at End of Year</i>	<u><u>\$9,551,528</u></u>	<u><u>\$13,083,724</u></u>	<u><u>\$22,635,252</u></u>

See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2012

	<u>Waterworks Operating Fund</u>	<u>Sewer Operating Fund</u>	<u>Total</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>			
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Charges for Services	\$1,664,671	\$2,090,788	\$3,755,459
Cash Payments for Employee Services	(477,494)	(576,032)	(1,053,526)
Cash Payments for Employee Benefits	(248,332)	(383,662)	(631,994)
Cash Payments to Suppliers for Goods and Services	(661,862)	(812,157)	(1,474,019)
Cash Payments for Other Operating Expenses	(736)	(231)	(967)
Other Non-Operating Revenues	48,581	48,498	97,079
<i>Net Cash Provided by Operating Activities</i>	<u>324,828</u>	<u>367,204</u>	<u>692,032</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition of Capital Assets	(775,116)	(42,739)	(817,855)
Capital Grants Received	2,136	2,136	4,272
Principal Paid on General Obligation Bonds	(50,000)	(60,000)	(110,000)
Interest and Fiscal Charges Paid on General Obligation Bonds	(41,235)	(63,258)	(104,493)
Principal Paid on OWDA Loan	(61,805)	0	(61,805)
Interest and Fiscal Charges Paid on OWDA Loan	(17,007)	0	(17,007)
Proceeds of OWDA Loans	357,054	0	357,054
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(585,973)</u>	<u>(163,861)</u>	<u>(749,834)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(261,145)	203,343	(57,802)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>4,075,534</u>	<u>2,638,356</u>	<u>6,713,890</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$3,814,389</u></u>	<u><u>\$2,841,699</u></u>	<u><u>\$6,656,088</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>			
Operating Income (Loss)	\$8,517	(\$83,286)	(\$74,769)
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>			
Depreciation	221,894	404,570	626,464
Other Non-Operating Revenues	48,581	48,498	97,079
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(23,881)	(44,320)	(68,201)
Decrease in Special Assessments Receivable	0	2,734	2,734
(Increase) Decrease in Materials and Supplies Inventory	(3,116)	5,752	2,636
(Increase) Decrease in Prepaid Items	(1,771)	1,958	187
Decrease in Accounts Payable	(32,972)	(26,078)	(59,050)
Increase in Contracts Payable	51,107	0	51,107
Increase in Accrued Wages Payable	3,522	4,265	7,787
Decrease in Intergovernmental Payable	(8,448)	(9,982)	(18,430)
Increase in Retainage Payable	8,412	0	8,412
Increase in Refundable Deposits	48,806	48,806	97,612
Increase in Compensated Absences Payable	4,177	14,287	18,464
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$324,828</u></u>	<u><u>\$367,204</u></u>	<u><u>\$692,032</u></u>

See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2012

	<u><i>Private Purpose Trust Fund William Renick Trust</i></u>	<u><i>Agency Fund</i></u>
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$1,867	\$10,921
Cash and Cash Equivalents In Segregated Accounts	<u>10,000</u>	<u>94,222</u>
<i>Total Assets</i>	<u>11,867</u>	<u>\$105,143</u>
<u>Liabilities:</u>		
Intergovernmental Payable	0	\$4,339
Undistributed Assets	<u>0</u>	<u>100,804</u>
<i>Total Liabilities</i>	<u>0</u>	<u>\$105,143</u>
<u>Net Position:</u>		
Held in Trust for Private Purposes	<u>\$11,867</u>	

See Accompanying Notes to the Basic Financial Statements

City of Circleville
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Year Ended December 31, 2012

	<i>William Renick Trust</i>
<i><u>Additions:</u></i>	
Interest	\$138
<i>Change in Net Position</i>	138
<i>Net Position at Beginning of Year</i>	11,729
<i>Net Position at End of Year</i>	\$11,867

See Accompanying Notes to the Basic Financial Statements

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City of Circleville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Circleville (the “City”) is a non-chartered municipal corporation operating under the laws of the State of Ohio. The community was established in 1810 as part of Circleville Township; it became a Village in 1811 before becoming a City in 1814. The municipal government is known as a Council/Mayor form of government. Legislative power is vested in an eight-member Council: four members elected by wards, three elected at large, and an elected President, who only votes in the case of a tie. The Mayor is the chief executive officer and the head of the administrative agencies of the City. He/she appoints all department heads and employees, with the exception of the following: the elected City Auditor, who appoints the Income Tax Commissioner, the elected Director of Law who appoints the Assistant Law Director, and the elected Treasurer.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading.

The primary government of the City consists of all funds, departments and activities which are not legally separate from the City. They comprise the City’s legal entity which provides various services including public safety, planning, zoning, street maintenance and repair, parks and recreation, community development, public health and welfare, and water and sewer treatment. Administrative staff provides support (i.e., payroll processing, accounts payable, revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures.

The City is associated with one organization which is defined as a jointly governed organization. This organization is the Pickaway Progress Partnership and is presented in Note 18 to the Basic Financial Statements.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the organization’s budget, the issuance of its debt or the levying of its taxes.

The component unit column in the government-wide financial statements identifies the financial data of the City’s discretely presented component unit, Berger Health System. Berger Health System is reported separately to emphasize that it is legally separate from the City.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY *(continued)*

Berger Health System

Berger Health System (the “System”) is operated by a Board of Governors pursuant to an agreement between the City of Circleville and Pickaway County. Four members of the Board of Governors are appointed by the Board of County Commissioners of Pickaway County and four members are appointed by the Mayor with the consent of City Council. The Mayor is the ninth and final member of the Board of Governors and serves as Chairman.

The City is obligated for the bonded debt of the System. The City issued the bonds on behalf of the System, who is repaying the City for the bonds through a loan agreement. The bond agreement is between the City and the original purchasers. The System is presented as a component unit of the City based on the extension of the City’s full faith and credit. The System operates on a fiscal year ending December 31. Separately issued financial statements can be obtained from Berger Health System, 600 North Pickaway Street, Circleville, Ohio 43113.

The information in Notes 2 through 21 relate to the primary government. Information related to the discretely presented component unit is presented in Note 22.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

Basis of Presentation

The City’s basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities.

The Statement of Net Position presents the financial condition of the governmental and business-type activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business segment 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. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by 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 utilized by the City: governmental, proprietary, and fiduciary.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

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

Governmental Funds

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose 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 – This fund accounts for and reports 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.

Income Tax Fund – This fund accounts for and reports the direct administration of the one and one-half percent income tax levied and collected by the City. The unvoted tax is committed to provide for the municipal operations, maintenance of equipment, extension, enlargement and improvement of municipal services and facilities, debt service, and capital improvements of the City. The voted tax is restricted for safety purposes.

Safety Forces Tax Fund – This fund accounts for and reports the portion of the unvoted income tax which is committed for safety purposes such as a portion of police and fire salaries and the emergency medical team salaries, as well as the one-half percent voted income tax restricted for safety purposes.

General Obligation Bond Retirement Fund – This fund accounts for and reports the resources that are committed for payment of principal and interest and fiscal charges on general obligation debt.

Capital Improvement Fund – This fund accounts for and reports the portion of the unvoted income tax which is committed for capital projects as approved by Council. This fund also accounts for any monies such as bond issuance proceeds restricted for capital projects.

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

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

Proprietary Funds

Proprietary funds focus on the determination of operating income, changes in net position, and cash flows. The City's proprietary funds are enterprise funds.

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:

Waterworks Operating Fund – This fund is used to account for the provision of water service to the residents and businesses of the City.

Sewer Operating Fund – This fund is used to account for the provision of sanitary sewer service to the residents and businesses of the City.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The three types of trust funds are used to report resources held and administered by the City when it is acting in a fiduciary capacity for individuals, private organizations, or other governments. These funds are distinguished by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held. The City has one private purpose trust fund which is used to account for the money set aside to be donated to charities as authorized in the will of Josie Renick. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has five agency funds which are used to account for monies held for individuals and organizations for fines and forfeitures, deposits held to ensure compliance with building codes, and inspection fees received from contractors who perform work with individuals or private organizations which requires them to open pavement surfaces. Once the work is completed and the street has been properly restored, the fees are returned to the contractors.

Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all enterprise funds are accounted for using 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 Fund Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its enterprise 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 and the financial statements of the enterprise and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows of resources, 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 year in which the resources are measurable and become available. “Measurable” means that the amount of the transaction can be determined and “available” means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within 31 days of year-end.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income tax is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 6.) Revenue from grants, entitlements and donations is recognized in the 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 or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income taxes, interest on investments, intergovernmental revenues (including motor vehicle license tax, gasoline tax, and local government assistance), and grants.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance 2013 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Budgets and Budgetary Accounting

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as final budgeted amounts represent estimates from the amended certificate in effect at the time final appropriations were passed by Council.

The appropriation ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year, including all supplemental appropriations.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

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

Cash and Cash Equivalents

Cash balances of the City’s funds, except cash in segregated accounts and cash with fiscal agents are pooled and invested in short-term investments in order to provide improved cash management. Each share of the pool is presented on the financial statements in the account “Equity in Pooled Cash and Cash Equivalents.” Cash and cash equivalents that are held separately within departments of the City and not held with the City Treasurer are recorded as “Cash and Cash Equivalents in Segregated Accounts”. The City utilizes a financial institution to service bonded debt as principal and interest payments come due. This balance is presented as “Cash and Cash Equivalents with Fiscal Agents”.

During the year, investments were limited to Federal Farm Credit Bank Consolidation System Bonds, Federal National Mortgage Association Notes, and negotiable certificates of deposit. Investments are reported at fair value which is based on quoted market prices.

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue credited to the General Fund during 2012 amounted to \$120,427, which includes \$108,554 assigned from other funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are reported as cash equivalents on the financial statements.

Materials and Supplies Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

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

Capital Assets

General capital assets are capital assets that are associated with and generally rise from governmental activities. These assets generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide Statement of Net Position and in the respective funds.

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values on the date donated. The City maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

All reported capital assets, except land and construction in progress, are depreciated. 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 replacements. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Estimated Life</u>
Land Improvements	10-25 years
Buildings and Building Improvements	20-50 years
Machinery and Equipment	7-20 years
Vehicles	5-20 years
Infrastructure	10-75 years

The City's infrastructure consists of streets, curbs and gutters, sidewalks, street lighting, storm sewers, and water and sewer lines. In the initial capitalization of general infrastructure assets, the City chose to include all such items regardless of their acquisition date.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees after one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise funds are reported on the enterprise funds' 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, compensated absences that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Bonds and capital leases are recognized as liabilities on the governmental fund financial statements when due.

Unamortized Bond Premiums

Bond premiums are presented as an increase to the face amount of the bonds payable. On the governmental fund financial statements, premiums are recorded when received/paid.

Deferred Charge on Refunding

On the government-wide financial statements, an advance refunding resulting in the defeasance of debt generates an accounting loss calculated by comparing the reacquisition price and the net carrying amount of the old debt. This accounting loss is amortized as interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a reduction of the face amount of the new debt.

Fund Balance

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

Nonspendable

The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. The nonspendable fund balances for the City include prepaid items and inventory.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

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

Restricted

The restricted fund balance category includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

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

Unassigned

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

Internal Activities

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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 non-operating revenues/expenses in enterprise funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Net position is 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. Net position restricted for other purposes include funds for the operation of recreational activities and the improvement of the living environment of the City. The government-wide Statement of Net Position reports \$2,183,627 of restricted net position, \$49,724 of which is restricted by enabling legislation.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

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

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the City, these revenues are charges for services for water and sewer utility services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses that do not meet these definitions are reported as non-operating.

Estimates

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

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual is presented for the General Fund, Income Tax Fund, and Safety Forces Tax 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) Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed, or assigned balance (GAAP basis).
- (d) Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING *(continued)*

- (e) Investments are reported at fair value (GAAP basis) rather than at cost (budget basis).

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis for the General Fund, Income Tax Fund, and Safety Forces Tax Fund are as follows:

Net Change in Fund Balance			
	General Fund	Income Tax Fund	Safety Forces Tax Fund
GAAP Basis	(\$59,942)	(\$653)	\$26,855
Increases (Decreases) Due To:			
Revenue Accruals	27,271	(4,794)	(14,631)
Expenditure Accruals	(25,892)	(26)	2,548
Encumbrances	(80,840)	(190)	(97,660)
Unrecorded Cash - 2012	(39,231)	0	0
Unrecorded Cash - 2011	46,300	0	0
Change in Fair Value of Investments - 2012	(16,156)	0	0
Change in Fair Value of Investments - 2011	(31,770)	0	0
Budget Basis	(\$180,260)	(\$5,663)	(\$82,888)

NOTE 4 – DEPOSITS AND INVESTMENTS

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

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

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 4 – DEPOSITS AND INVESTMENTS *(continued)*

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

Interim monies 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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, 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;
4. Commercial paper and bankers acceptances if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) and (2); and,
7. The State Treasurer's investment pool (STAROhio).

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 no default of principal, interest or coupons; and

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 4 – DEPOSITS AND INVESTMENTS (continued)

3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are prohibited. Investments may only be made through specified dealers and institutions.

Investments: As of December 31, 2012, the City had the following investments:

	Fair Value	Investment Maturities (in Years)		S&P Rating	Percent of Total Investments	Call Date
		Less than 1	1 - 4			
Federal Farm Credit Bank Consolidation System Bonds	\$305,751	\$305,751	\$0	AA+	9.17%	N/A
Federal National Mortgage Association Notes	1,001,440	0	1,001,440	AA+	30.04%	2/21/2013
Negotiable Certificates of Deposits	2,026,709	502,153	1,524,556	N/A	60.79%	N/A
Totals	\$3,333,900	\$807,904	\$2,525,996		100.00%	

Interest Rate Risk: As a means of limiting its exposure to fair value losses caused by rising interest rates, the City’s investment policy requires that, to the extent possible, investments will match anticipated cash flow requirements. The investment portfolio should be diversified in order to avoid incurring potential losses regarding individual securities, which may not be held to maturity, whether by erosion of market value or change in market conditions. Unless matched to a specific obligation or debt of the City, the City will not directly invest in securities maturing more than five years from the date of investment.

Credit Risk: The City’s investment policy limits investments to those authorized by State statute which restricts investments to those that are highly rated or backed by the enterprises of the United States Government. The Standard and Poor’s (S&P) rating of each investment is listed in the table above.

Concentration of Credit Risk: The City’s investment policy limits the City’s investments to the following: no more than 50 percent of the investment portfolio, excluding working cash, shall be deposited in any one financial institution; 100 percent of the investment portfolio may be invested in securities guaranteed by the United States, or those securities for which the full faith of the United States is pledged for the payment of principal and interest; 100 percent of the investment portfolio may be invested in Time Certificates of Deposits, Savings, or Deposit Accounts which have been fully collateralized; no more than 50 percent of the total investment portfolio may be invested in bonds and other obligations of this State; no more than 50 percent of the total investment portfolio may be invested in securities issued by any federal government agency or instrumentality; and no more than 25 percent of the total investment portfolio may be invested in no-load money market mutual funds consisting exclusively of government securities or repurchase agreements secured by government securities. The percentage that each investment represents of the total investments is listed in the table above.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 5 – MUNICIPAL INCOME TAX

The City levies and collects a one percent unvoted income tax and a one-half percent voted income tax on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 50 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. The City utilized the Regional Income Tax Agency (RITA) for the collection of income taxes.

Income tax proceeds are to be used to pay the cost of administering the tax, General Fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council. In 2012, the proceeds were allocated to the General Fund, the Income Tax Special Revenue Fund, the Safety Forces Tax Special Revenue Fund, the General Obligation Bond Retirement Debt Service Fund, and the Capital Improvement Capital Projects Fund.

NOTE 6 – PROPERTY TAX

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

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

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

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

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 6 – PROPERTY TAX *(continued)*

The full tax rate for all City operations for the year ended December 31, 2012, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Property:	
Agricultural/Residential	\$157,480,000
Commercial/Industrial/Mineral	53,592,270
Public Utility Real	69,990
Tangible Personal Property -	
Public Utility	9,474,490
Total Assessed Value	<u><u>\$220,616,750</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Circleville. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represents real, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2012, and for which there is an enforceable legal claim. In the governmental funds, the portion of the receivable not levied to finance 2012 operations is offset to deferred inflows of resources – property taxes. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable has been reported as deferred inflows – unavailable revenue.

NOTE 7 – RECEIVABLES

Receivables at December 31, 2012, consisted of interest, accounts for weed and litter assessments, intergovernmental receivables arising from grants, entitlements or shared revenues, taxes, and loans. All receivables are considered fully collectible, including water and sewer charges receivable which, if delinquent, may be certified and collected as a special assessment, subject to foreclosure for nonpayment. Property taxes and income taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 7 – RECEIVABLES (continued)

The City entered into a loan agreement with Berger Health System, in which Berger Health System is repaying the City for the bonds issued by the City on behalf of Berger Health System. The loan agreement is for the \$2,000,000 principal amount of bonds and the related interest. The loans receivable balance relating to this agreement at December 31, 2012, is \$689,583, of which \$125,833 is considered to be due within one year. The City also had loans receivable related to program housing. At December 31, 2012, the balance of these loans was \$5,483, all of which is considered to be due within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities</u>	
Ohio HOME Investment Partnerships Grant	\$202,000
EPA Petroleum Assessment Grant	65,258
EPA Hazardous Substance Grant	26,144
Community Development Block Grants	300,030
Clean Ohio Assistance Fund Grant	12,353
Moving Ohio Forward Grant	102,992
Estate Taxes	31,147
Homestead and Rollback	55,121
Electric Deregulation	101
Permissive Motor Vehicle License Tax	44,060
Gasoline Tax	206,465
Motor Vehicle License Tax	56,109
Local Government	243,981
Undivided State Local Government	27,008
Total Intergovernmental Receivable	<u>\$1,372,769</u>

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 8 – CAPITAL ASSETS

Capital assets activity of the governmental activities for the year ended December 31, 2012, was as follows:

	Balance At 12/31/2011	Additions	Deletions	Balance At 12/31/2012
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$1,150,990	\$5,920	\$0	\$1,156,910
Depreciable Capital Assets:				
Land Improvements	1,476,420	33,794	0	1,510,214
Buildings and Building Improvements	8,356,928	6,476	0	8,363,404
Machinery and Equipment	1,927,225	85,808	(41,100)	1,971,933
Vehicles	1,961,014	210,532	(148,071)	2,023,475
Infrastructure	34,034,288	888,600	(67,220)	34,855,668
Total Depreciable Capital Assets	<u>47,755,875</u>	<u>1,225,210</u>	<u>(256,391)</u>	<u>48,724,694</u>
Less Accumulated Depreciation:				
Land Improvements	(1,252,397)	(23,592)	0	(1,275,989)
Buildings and Building Improvements	(3,185,672)	(191,669)	0	(3,377,341)
Machinery and Equipment	(1,083,857)	(118,925)	41,100	(1,161,682)
Vehicles	(1,591,044)	(112,191)	148,071	(1,555,164)
Infrastructure	<u>(18,796,240)</u>	<u>(827,116)</u>	<u>67,220</u>	<u>(19,556,136)</u>
Total Accumulated Depreciation	<u>(25,909,210)</u>	<u>(1,273,493)</u>	<u>256,391</u>	<u>(26,926,312)</u>
Depreciable Capital Assets, Net	<u>21,846,665</u>	<u>(48,283)</u>	<u>0</u>	<u>21,798,382</u>
Governmental Activities Capital Assets, Net	<u>\$22,997,655</u>	<u>(\$42,363)</u>	<u>\$0</u>	<u>\$22,955,292</u>

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 8 – CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental programs as follows:

Security of Persons and Property - Police	\$84,743
Security of Persons and Property - Fire	109,344
Security of Persons and Property - Other	19,190
Leisure Time Activities - Parks and Recreation	75,827
Leisure Time Activities - Swimming Pool	6,510
Community Development - City Funded	2,162
Transportation	857,874
General Government	117,843
Total Depreciation Expense	<u><u>\$1,273,493</u></u>

Capital assets activity of the business-type activities for the year ended December 31, 2012, was as follows:

	Balance At 12/31/2011	Additions	Deletions	Balance At 12/31/2012
<u>Business-Type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$149,180	\$0	\$0	\$149,180
Construction in Progress	0	416,942	0	416,942
Total Capital Assets, Not Being Depreciated	<u>149,180</u>	<u>416,942</u>	<u>0</u>	<u>566,122</u>
Depreciable Capital Assets:				
Land Improvements	322,752	0	0	322,752
Buildings and Building Improvements	12,814,348	28,799	0	12,843,147
Machinery and Equipment	520,688	16,958	0	537,646
Vehicles	236,649	0	(50,071)	186,578
Infrastructure	19,755,210	355,156	0	20,110,366
Total Depreciable Capital Assets	<u>33,649,647</u>	<u>400,913</u>	<u>(50,071)</u>	<u>34,000,489</u>
Less Accumulated Depreciation:				
Land Improvements	(312,759)	(9,990)	0	(322,749)
Buildings and Building Improvements	(8,374,356)	(313,565)	0	(8,687,921)
Machinery and Equipment	(476,117)	(15,260)	0	(491,377)
Vehicles	(207,088)	(9,082)	50,071	(166,099)
Infrastructure	(6,075,276)	(278,567)	0	(6,353,843)
Total Accumulated Depreciation	<u>(15,445,596)</u>	<u>(626,464)</u>	<u>50,071</u>	<u>(16,021,989)</u>
Depreciable Capital Assets, Net	<u>18,204,051</u>	<u>(225,551)</u>	<u>0</u>	<u>17,978,500</u>
Business-Type Activities Capital Assets, Net	<u><u>\$18,353,231</u></u>	<u><u>\$191,391</u></u>	<u><u>\$0</u></u>	<u><u>\$18,544,622</u></u>

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 9 – DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for State and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2012, members in State and local divisions contributed 10 percent of covered payroll. For 2012, member and employer contribution rates were consistent across all three plans.

The City's 2012 contribution rate was 14.0 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.00 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 9 – DEFINED BENEFIT PENSION PLANS *(continued)*

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$258,423, \$306,956, and \$273,890, respectively. For 2012, 97.28 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Contributions to the Member-Directed Plan for 2012 were \$3,505 made by the City and \$2,504 made by plan members.

Ohio Police and Fire Pension Fund

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

Funding Policy – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters were \$139,432 and \$152,563 for the year ended December 31, 2012, \$157,894 and \$146,488 for the year ended December 31, 2011, and \$164,415 and \$151,407 for the year ended December 31, 2010. For 2012, 64.99 percent for police and 68.19 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

NOTE 10 – POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 10 – POSTEMPLOYMENT BENEFITS *(continued)*

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

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers fund post-retirement health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.0 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 10 – POSTEMPLOYMENT BENEFITS *(continued)*

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$103,369, \$122,782, and \$152,161, respectively. For 2012, 97.28 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

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

Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.opf.org.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 10 – POSTEMPLOYMENT BENEFITS *(continued)*

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$73,817 and \$59,698 for the year ended December 31, 2012, \$83,591 and \$57,321 and for the year ended December 31, 2011, and \$87,043 and \$59,246 for the year ended December 31, 2010. For 2012, 64.99 percent has been contributed for police and 68.19 percent has been contributed for firefighters with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

NOTE 11 – EMPLOYEE BENEFITS

Compensated Absences

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Current policy credits vacation leave on the employee's anniversary date; thereafter, vacation leave accrues on a pro-rated basis each pay period depending upon length of service. A maximum of three years' accrual may be carried into the next calendar year. City employees are paid for earned, unused vacation leave at the time of termination of employment.

Sick leave is earned at the rate of four and six-tenths hours for every 80 hours worked and can be accumulated without limit. Upon retirement from the City, accumulated, unused sick leave is paid up to a maximum number of hours, depending on length of service, union contract guidelines, and/or City ordinance specifications.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 11 – EMPLOYEE BENEFITS *(continued)*

Insurance Benefits

For the year, the City's health insurance was provided by United Healthcare; vision insurance was provided by Vision Service Plan; dental insurance was provided by Principal Financial Services; and life and accident insurance was provided by Principal Life and Colonial Life and Accident Insurance Company.

Deferred Compensation

City employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 12 – CAPITAL LEASES – LESSEE DISCLOSURE

In 2012 and in prior years, the City has entered into capitalized leases for copiers, radios, a durapatching machine, and rescue equipment. The leases meet the criteria of a capital lease and have been recorded as capital assets on the government-wide statements. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reported as General Government and Security of Persons and Property for the General and Safety Forces Tax Fund expenditures on the budgetary statements.

Capital assets acquired by lease were initially capitalized in the amount of \$249,207 for governmental activities, which is equal to the present value of the minimum lease payments at the time of acquisition. Corresponding liabilities were recorded on the Statement of Net Position for governmental activities. Principal payments in 2012 totaled \$51,592 in the governmental funds.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 12 – CAPITAL LEASES – LESSEE DISCLOSURE *(continued)*

The assets acquired through capital leases for governmental activities as of December 31, 2012, are as follows:

	<u>Asset Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Copier Equipment	\$56,502	\$40,874	\$15,628
Truck	114,000	22,800	91,200
Police Cruisers	56,000	11,200	44,800
Rescue Equipment	22,705	3,784	18,921
Totals	<u>\$249,207</u>	<u>\$78,658</u>	<u>\$170,549</u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2012, for governmental activities:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	\$78,367
2014	72,196
2015	53,241
2016	4,185
Total	<u>207,989</u>
Less: Amount representing Interest	<u>(10,751)</u>
Present Value of Minimum Lease Payment	<u>\$197,238</u>

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

Bonded Debt and Other Long-Term Obligations

The change in the City’s long-term obligations during the year consisted of the following:

Types / Issues	Balance 12/31/2011	Issued	Retired	Balance 12/31/2012	Due Within One Year
<u>Business-Type Activities</u>					
<u>General Obligation Bonds</u>					
2008 - Various Purpose Bonds \$3,005,000					
Term Bonds 4.125% - 4.50%	\$1,800,000	\$0	\$0	\$1,800,000	\$0
Serial Bonds 3.00% - 4.25%	870,000	0	110,000	760,000	110,000
Total General Obligation Bonds	<u>2,670,000</u>	<u>0</u>	<u>110,000</u>	<u>2,560,000</u>	<u>110,000</u>
<u>Other Long-Term Obligations</u>					
OWDA Water Treatment Plant Loan - 2.80%	0	357,054	61,805	295,249	0
Compensated Absences	143,406	50,599	32,135	161,870	72,200
Total Other Long-Term Obligations	<u>143,406</u>	<u>407,653</u>	<u>93,940</u>	<u>457,119</u>	<u>72,200</u>
Total Business-Type Activities	<u>\$2,813,406</u>	<u>\$407,653</u>	<u>\$203,940</u>	<u>\$3,017,119</u>	<u>\$182,200</u>
<u>Governmental Activities</u>					
<u>General Obligation Bonds</u>					
1997 - Berger Health System					
Bonds \$2,000,000					
Term Bonds 4.80% - 5.40%	\$820,000	\$0	\$120,000	\$700,000	\$125,000
2008 - Various Purpose Bonds \$355,000					
Term Bonds 4.125% - 4.50%	210,000	0	0	210,000	0
Serial Bonds 3.00% - 4.25%	105,000	0	15,000	90,000	15,000
Premium on Bonds Issued	14,189	0	835	13,354	0
2011 - Various Purpose Refunding					
Bonds \$2,475,000					
Serial Bonds 2.00% - 3.00%	2,270,000	0	235,000	2,035,000	235,000
Premium on Bonds Issued	49,998	0	5,555	44,443	0
Total General Obligation Bonds	<u>3,469,187</u>	<u>0</u>	<u>376,390</u>	<u>3,092,797</u>	<u>375,000</u>
<u>Other Long-Term Obligations</u>					
Capital Leases	78,830	170,000	51,592	197,238	72,297
Compensated Absences	454,316	113,351	149,755	417,912	231,758
Total Other Long-Term Obligations	<u>533,146</u>	<u>283,351</u>	<u>201,347</u>	<u>615,150</u>	<u>304,055</u>
Total Governmental Activities	<u>\$4,002,333</u>	<u>\$283,351</u>	<u>\$577,737</u>	<u>\$3,707,947</u>	<u>\$679,055</u>

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

(continued)

The City's overall legal debt margin was \$20,870,668 with an unvoted debt margin of \$9,839,830 at December 31, 2012.

Annual debt service requirements to maturity for general obligation bonds for business-type activities are:

Year	Business-Type Activities					
	Waterworks Operating General Obligation Bonds		Sewer Operating General Obligation Bonds		Total Principal	Total Interest
	Total	Total	Total	Total		
	Principal	Interest	Principal	Interest		
2013	\$50,000	\$45,774	\$60,000	\$61,307	\$110,000	\$107,081
2014	50,000	44,024	60,000	59,208	110,000	103,232
2015	55,000	42,149	80,000	56,957	135,000	99,106
2016	55,000	40,086	80,000	53,958	135,000	94,044
2017	60,000	37,886	75,000	50,757	135,000	88,643
2018-2022	330,000	150,885	435,000	204,314	765,000	355,199
2023-2027	405,000	75,438	550,000	102,862	955,000	178,300
2028	90,000	4,050	125,000	5,625	215,000	9,675
Totals	<u>\$1,095,000</u>	<u>\$440,292</u>	<u>\$1,465,000</u>	<u>\$594,988</u>	<u>\$2,560,000</u>	<u>\$1,035,280</u>

Annual debt service requirements to maturity for general long-term obligations are:

Year	Governmental Activities					
	General Obligation Bonds		General Obligation Bonds		General Obligation Bonds	
	Serial Bonds Principal	Serial Bonds Interest	Term Bonds Principal	Term Bonds Interest	Total Principal	Total Interest
2013	\$250,000	\$61,330	\$125,000	\$37,800	\$375,000	\$99,130
2014	255,000	56,105	135,000	31,050	390,000	87,155
2015	260,000	50,743	140,000	23,760	400,000	74,503
2016	265,000	45,280	145,000	16,200	410,000	61,480
2017	270,000	39,680	155,000	8,370	425,000	48,050
2018-2022	825,000	58,580	75,000	31,824	900,000	90,404
2023-2027	0	0	110,000	20,801	110,000	20,801
2028	0	0	25,000	1,125	25,000	1,125
Totals	<u>\$2,125,000</u>	<u>\$311,718</u>	<u>\$910,000</u>	<u>\$170,930</u>	<u>\$3,035,000</u>	<u>\$482,648</u>

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

(continued)

General Obligation Bonds

Berger Health System Bonds

On July 15, 1997, the City of Circleville issued \$2,000,000 in general obligation bonds for the purpose of constructing and equipping a building addition to provide maternity services at Berger Health System. The bonds were issued for a 20 year period with final maturity on December 1, 2017.

The term bonds, issued at \$1,235,000, maturing on December 1, 2017, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2013	\$125,000
2014	135,000
2015	140,000
2016	145,000
2017	155,000
Totals	<u><u>\$700,000</u></u>

Capital Facilities Improvement Safety Services Building Bonds

On June 1, 2000, the City of Circleville issued \$3,285,000 in general obligation bonds for the purpose of constructing a new safety facility to house a fire station, an EMS facility, and fire department offices. The bonds were issued for a 20 year period with final maturity on December 1, 2020. During 2011, the City refunded the remaining balance of these bonds.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

(continued)

Capital Facilities Improvement City Services Building Bonds

On June 1, 2000, the City of Circleville issued \$500,000 in general obligation bonds for the purpose of purchasing and renovating a service building. The bonds were issued for a 20 year period with final maturity on December 1, 2020. During 2011, the City refunded the remaining balance of these bonds.

2008 Various Purpose Bonds

On June 30, 2008, the City of Circleville issued \$3,360,000 in general obligation bonds for various purposes including the retirement of bond anticipation notes issued to pay the costs of restoring, updating and otherwise improving City Hall, improving and extending the municipal water system by constructing and installing water lines, and improving and extending the municipal sewer system by constructing and installing sanitary sewers. The bonds were issued for a 20 year period with final maturity on December 1, 2028. \$355,000 was issued as governmental activities general obligation bonds and \$3,005,000 was issued as business-type activities general obligation bonds. All are direct obligations and pledge the full faith and credit of the City for repayment. Bond payments relating to the governmental activities general obligation bonds are paid with income taxes from the Debt Service Fund. Bond payments relating to the business-type activities general obligation bonds are paid from revenues from the operations of the water and sewer systems.

The term bonds, issued at \$2,010,000 maturing on December 1, 2028, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amounts as follows:

Year	Amount
2019	\$165,000
2020	175,000
2021	180,000
2022	185,000
2023	195,000
2024	200,000
2025	210,000
2026	225,000
2027	235,000
2028	240,000
Totals	\$2,010,000

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

(continued)

The serial bonds, issued at \$1,350,000 with a maturity date of December 1, 2018, are subject to optional redemption, in whole or in part, on any date at the option of the issuer on or after December 1, 2019, at the redemption price of 100 percent.

2011 Various Purpose Refunding Bonds

On August 30, 2011, the City issued \$2,475,000 in general obligation bonds for the purpose of financing a current refunding of the remaining balances on the Capital Facilities Improvement Safety Services Building Bonds and the Capital Facilities Improvement City Services Building Bonds. The difference between the amount of the refunding bond issue and the total of the outstanding principal on the debt issue refunded was used to pay for issuance costs, interest due at the time of refunding, and the amount paid to the escrow agent above the principal outstanding. The refunding resulted in a difference of \$38,791 between the net carrying amount of the old bonded debt and the acquisition price. This difference, reported in the accompanying financial statements as Deferred Outflows of Resources – Deferred Charges on Refunding, is being amortized to interest expense over the life of the bonds using the straight-line method. The unamortized deferred outflow amount at December 31, 2012, was \$31,033.

The term bonds of the 2011 Various Purpose Refunding Bonds, issued at \$2,475,000, will mature on December 1, 2020, and are subject to mandatory sinking fund redemption on the mandatory redemption dates and in the principal amounts as follows (with the balance of \$300,000 to be paid at stated maturity on December 1, 2020):

<u>Year</u>	<u>Amount</u>
2013	\$235,000
2014	240,000
2015	245,000
2016	250,000
2017	255,000
2018	265,000
2019	270,000
2020	275,000
Totals	<u><u>\$2,035,000</u></u>

The 2011 Various Purpose Refunding Bonds will be retired from the Debt Service Fund.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS
(continued)

2012 Ohio Water Development Authority Loan

During 2012, the City issued a loan from OWDA in the amount of \$357,054 for the purpose of financing improvements at the water treatment plant. The loan was not finalized at year-end so there was no amortization schedule available. The loan was issued at a rate of 2.80 percent and will mature on January 1, 2019.

Conduit Debt

During 2003, the City issued revenue bonds in the aggregate principal amount of \$26,000,000 for Berger Health System. The proceeds are to be used by Berger Health System for future capital expenditures and to retire \$9,000,000 of old debt. On November 1, 2007, the City issued revenue bonds in the aggregate principal amount of \$13,275,000 for Berger Health System. The proceeds are to be used by Berger Health System to fund operations and to retire \$8,000,000 of old debt. During 2008, the City issued revenue bonds in the aggregate principal amount of \$1,375,000 for Berger Health System. The proceeds are to be used by Berger Health System to fund operations. During 2011, the City issued revenue bonds in the aggregate principal amount of \$24,783,000 for Berger Health System. The proceeds are to be used by Berger Health System for future capital expenditures and to retire \$16,667,000 of old debt. The bonds are to be repaid by the recipient of the proceeds and do not represent an obligation of the City. There has not been, and currently is not any condition of default under the bonds or the related financing documents. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely from the City's debt presentation. Neither is the full faith and credit or taxing power of the City pledged to make repayment. The balance outstanding as of December 31, 2012, is \$19,117,000.

Compensated Absences/Capital Leases

Compensated absences will be paid from the General Fund, Income Tax Fund, Street Construction and Maintenance Fund, City Permissive Motor Vehicle Fund, Safety Forces Tax Fund, Municipal Probation Fund, Waterworks Operating Fund and Sewer Operating Fund. Capital leases will be paid from the General Fund, Street Construction Fund, Legal Research and Computer Maintenance Fund, Safety Forces Tax Fund, and Capital Improvement Fund.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 14 – SHORT-TERM OBLIGATIONS

The City has the following short-term obligations outstanding at December 31, 2012:

	Balance 12/31/2011	Issued	Retired	Balance 12/31/2012
<u>Bond Anticipation Notes:</u>				
2012 - Capital Facilities Bond Anticipation Notes \$2,210,000, 1.125%	\$0	\$2,210,000	\$0	\$2,210,000

Bond anticipation notes are generally issues in anticipation of long-term bonding financing and will be refinanced annually until such bonds are issued. They are backed by the full faith and credit of the City and mature within one year.

On November 1, 2012, the City issued a Capital Facilities Bond Anticipation Note in the amount of \$2,210,000. The note has an interest rate of 1.125% and is due to mature October 31, 2013. The note was issued for the purpose of paying the costs of roadway improvements for the City.

NOTE 15 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains comprehensive insurance coverage with private carriers for real property, building contents, vehicles, general liability insurance, crime and police professional liability insurance. The City also carries public officials and employment practices liability insurance. Settlements have not exceeded coverage in any of the last three years. The City has taken steps to counter the increase in the number of lawsuits filed in the areas of Law Enforcement. The City's deductible is between \$5,000 and \$25,000 for each claim filed under affected liability coverage. The City has instituted policies and procedures as recommended by the City's liability insurance carrier to prevent further lawsuits. In addition, advanced risk management training has been incorporated into the training cycle for the City's personnel.

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

NOTE 16 – INTERFUND ACTIVITY

During the year ended December 31, 2012, the City made a transfer from the Capital Improvement Fund to the Ohio Public Works Commission Mill and Fill Fund in the amount of \$58,570. The transfer was made to fund capital related expenditures of the City.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 17 – SIGNIFICANT COMMITMENTS

Contractual Commitments

The City has entered into various contracts for the construction and acquisition of capital assets. At December 31, 2012, the City had two outstanding contractual commitments. The City contracted with Darby Creek Excavating, Inc. for street improvements in the amount of \$110,728 and for storm sewer improvements in the amount of \$219,501. As of year-end, no work had been completed on these projects.

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year-end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

<u>Governmental Funds</u>	
General	\$ 77,185
Income Tax	190
Safety Forces	97,660
Capital Improvement Fund	526,348
Other Governmental Funds	<u>7,722</u>
Total Governmental Funds	<u>709,105</u>
<u>Enterprise Funds</u>	
Waterworks Operating	273,902
Sewer Operating	<u>46,199</u>
Total Enterprise Funds	<u>320,101</u>
Total	<u>\$ 1,029,206</u>

NOTE 18 – JOINTLY GOVERNED ORGANIZATION

The Pickaway Progress Partnership (P³), formerly known as the Circleville-Pickaway County Community Improvement Corporation, was created as a not-for-profit corporation under Section 1724.01 et. seq., Ohio Revised Code. P³ is governed by a 15 member Board of Trustees, three of which are elected or appointed officials of the City, three are appointed by Pickaway County, one is a representative of the North Gate Alliance Cooperative Economic Development Agreement, and eight are volunteer citizens. P³ is the economic development agent for Pickaway County and its municipalities. P³ has three main objectives: promote and market the advantages of locating business in the County; promote a stronger business environment by facilitating retention and expansion efforts of local employers; and deliver a seamless network of economic development services and value-added programs to existing businesses, local government, and prospective companies throughout Pickaway County. Because P³ is subject to joint control and the participants have no equity interest in P³, P³ is a jointly governed organization of the City. The City contributed \$42,525 to P³ during the year.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 19 – FUND BALANCES

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

Fund Balances	General Fund	Income Tax Fund	Safety Forces Tax Fund	General Obligation Bond Retirement Fund	Capital Improvement Fund	Other Governmental Funds	Total
<u>Nonspendable:</u>							
Inventory	\$35,163	\$0	\$0	\$0	\$0	\$97,879	\$133,042
Prepays	10,455	0	12,781	0	17,019	62	40,317
<i>Total Nonspendable</i>	<u>45,618</u>	<u>0</u>	<u>12,781</u>	<u>0</u>	<u>17,019</u>	<u>97,941</u>	<u>173,359</u>
<u>Restricted for:</u>							
Road Improvements	0	0	0	0	0	236,283	236,283
Safety Forces	0	0	0	0	0	125,632	125,632
Legal Computer Maintenance	0	0	0	0	0	733,835	733,835
Municipal Court	0	0	0	0	0	80,275	80,275
Leisure Time Services	0	0	0	0	0	18,187	18,187
Community Development	0	0	0	0	0	65,699	65,699
Debt Service	0	0	0	689,583	0	0	689,583
Capital Improvements	0	0	0	0	0	837	837
<i>Total Restricted</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>689,583</u>	<u>0</u>	<u>1,260,748</u>	<u>1,950,331</u>
<u>Committed to:</u>							
Future Severance Payments	1,745	0	0	0	0	0	1,745
Income Tax Administration	0	27,962	0	0	0	0	27,962
Safety Forces	0	0	396,558	0	0	0	396,558
Debt Service Payments	0	0	0	51,326	0	0	51,326
Capital Improvements	0	0	0	0	490,621	22,262	512,883
Cable Franchise Operations	0	0	0	0	0	122,298	122,298
<i>Total Committed</i>	<u>1,745</u>	<u>27,962</u>	<u>396,558</u>	<u>51,326</u>	<u>490,621</u>	<u>144,560</u>	<u>1,112,772</u>
<u>Assigned to:</u>							
Purchases on Order	77,185	0	0	0	0	0	77,185
Subsequent Future Budgets	856,981	0	0	0	0	0	856,981
<i>Total Assigned</i>	<u>934,166</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>934,166</u>
<u>Unassigned:</u>							
	15,283	0	0	0	0	0	15,283
Total Fund Balances	<u><u>\$996,812</u></u>	<u><u>\$27,962</u></u>	<u><u>\$409,339</u></u>	<u><u>\$740,909</u></u>	<u><u>\$507,640</u></u>	<u><u>\$1,503,249</u></u>	<u><u>\$4,185,911</u></u>

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 20 – CONTINGENT LIABILITIES

Litigation

The City of Circleville is party to various legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Federal and State Grants

For the period January 1, 2012, to December 31, 2012, the City received federal and State grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE 21 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCE AND NET POSITION

Changes in Accounting Principles

For 2012, the City has implemented Governmental Accounting Standard Board (GASB) *Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements,"* *Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements,"* *Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,"* *Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53"* *Statement No. 65, "Items Previously Reported as Assets and Liabilities,"* and *Statement No. 66, "Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62"*

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the City's 2012 financial statements of which management believes has significantly changed the financial statements.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 21 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCE AND NET POSITION *(continued)*

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the City's 2012 financial statements of which management believes has significantly changed the financial statements.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the City's financial statements.

Restatement of Prior Year Fund Balance and Net Position

The City restated the General Fund balance and net position of governmental activities to properly account for estate taxes expected to be received at December 31, 2011. The restatement had the following impact on fund balance and net position at December 2011:

	<u>General Fund</u>
Fund Balance, December 31, 2011, as Previously Reported	\$1,688,451
Intergovernmental Receivable	(631,697)
Fund Balance, December 31, 2011, as Restated	<u>\$1,056,754</u>
	<u>Governmental Activities</u>
Net Position, December 31, 2011 as Previously Reported	\$26,701,806
Restatement of Intergovernmental Receivable	(842,262)
Net Position, December 31, 2011, as Restated	<u>\$25,859,544</u>

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 22 – BERGER HEALTH SYSTEM

As indicated in Note 1 to the Basic Financial Statements, the following disclosures are made on behalf of Berger Health System (the System).

Basis of Accounting

The System uses the government model of *GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments,”*. The System follows the “business-type” activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the System’s financial activities.

Budgetary Basis of Accounting

Budgetary information for the System is not presented because it is not included in the entity for which the “appropriated budget” is adopted and does not maintain separate budgetary financial records.

Deposits and Investments

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the System’s deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year-end, the System had approximately \$12,672,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured but are collateralized with securities held by the pledging financial institution. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 22 – BERGER HEALTH SYSTEM *(continued)*

Investments

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System does not have a policy for custodial credit risk. At year-end, the following approximates the investment securities that were collateralized, with securities held by the counterparty or by its trust department or agent:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>How Held</u>
US Agency Bonds	\$22,629,000	Counterparty
STAROhio	258,000	System's Name
Totals	<u>\$22,887,000</u>	

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System does not have an investment policy that addresses interest rate risk. At year-end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
US Agency Bonds	\$22,629,000	0.74 years
STAROhio	258,000	-----
Totals	<u>\$22,887,000</u>	

Credit Risk

The System does not have an investment policy that addresses credit risk. At the end of the year, the credit quality ratings of debt securities (other than the U.S. Government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating on</u>
US Agency Bonds	\$22,629,000	AA+	Standard & Poor's
STAROhio	258,000	AAA	Standard & Poor's
Totals	<u>\$22,887,000</u>		

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 22 – BERGER HEALTH SYSTEM *(continued)*

Capital Assets

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

	Balance At 12/31/2011	Additions	Deletions	Balance At 12/31/2012
Capital Assets, Not Being Depreciated:				
Land	\$3,238,880	\$21,078	\$0	\$3,259,958
Construction in Progress	359,521	1,650,367	(122,574)	1,887,314
Total Capital Assets, Not Being Depreciated	<u>3,598,401</u>	<u>1,671,445</u>	<u>(122,574)</u>	<u>5,147,272</u>
Depreciable Capital Assets:				
Land Improvements	1,604,282	16,441	0	1,620,723
Buildings	35,864,707	0	(21,078)	35,843,629
Building Improvements	22,036,228	50,840	0	22,087,068
Equipment	50,621,969	971,462	(166,765)	51,426,666
Total Depreciable Capital Assets	<u>110,127,186</u>	<u>1,038,743</u>	<u>(187,843)</u>	<u>110,978,086</u>
Less Accumulated Depreciation:				
Land Improvements	(1,654,212)	(70,995)	0	(1,725,207)
Buildings	(17,833,835)	(1,384,812)	0	(19,218,647)
Building Improvements	(13,505,600)	(1,160,739)	0	(14,666,339)
Equipment	(41,391,232)	(2,162,471)	88,342	(43,465,361)
Total Accumulated Depreciation	<u>(74,384,879)</u>	<u>(4,779,017)</u>	<u>88,342</u>	<u>(79,075,554)</u>
Depreciable Capital Assets, Net	<u>35,742,307</u>	<u>(3,740,274)</u>	<u>(99,501)</u>	<u>31,902,532</u>
Capital Assets, Net	<u>\$39,340,708</u>	<u>(\$2,068,829)</u>	<u>(\$222,075)</u>	<u>\$37,049,804</u>

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 22 – BERGER HEALTH SYSTEM *(continued)*

Long-Term Obligations

The change in the System’s long-term obligations during the year consisted of the following:

Types / Issues	Balance 12/31/2011	Issued	Retired	Balance 12/31/2012	Due Within One Year
1997 - 5.036% - 5.400% City of Circleville Loan \$2,000,000	\$810,000	\$0	\$120,417	\$689,583	\$125,833
<u>Revenue Bonds</u>					
2007 - City of Circleville Hospital Facilities Revenue Bonds Series 2007B \$3,325,000 5.95%	503,000	0	503,000	0	0
2010 - City of Circleville Hospital Facilities Revenue Bonds Series 2010A \$12,391,500 3.87%	11,009,000	0	1,450,500	9,558,500	1,769,500
2010 - City of Circleville Hospital Facilities Revenue Bonds Series 2010B \$12,391,500 3.87%	11,009,000	0	1,450,500	9,558,500	1,769,500
Total Revenue Bonds	<u>22,521,000</u>	<u>0</u>	<u>3,404,000</u>	<u>19,117,000</u>	<u>3,539,000</u>
<u>Other Long-Term Obligations</u>					
Compensated Absences	1,478,083	2,812,536	2,756,345	1,534,274	767,137
Total Long-Term Obligations	<u>\$24,809,083</u>	<u>\$2,812,536</u>	<u>\$6,280,762</u>	<u>\$21,340,857</u>	<u>\$4,431,970</u>

Scheduled principal payments of long-term obligations are as follows:

Year	Long-Term Debt	
	Principal	Interest
2013	\$3,664,833	\$726,127
2014	3,812,417	580,359
2015	3,953,417	428,803
2016	4,107,833	280,118
2017	4,268,083	111,472
Total	<u>\$19,806,583</u>	<u>\$2,126,879</u>

City of Circleville
Notes To The Basic Financial Statements
For The Year Ended December 31, 2012

NOTE 22 – BERGER HEALTH SYSTEM *(continued)*

On July 15, 1997, the System entered into a loan agreement with the City of Circleville in which the City issued \$2,000,000 in general obligation bonds for the purpose of constructing and equipping a building addition to provide maternity services at the System. The loan agreement is for a 20 year period with final maturity on December 1, 2017, with a variable interest rate. The System makes monthly payments to the City in order to retire this loan.

On November 1, 2007, the System entered into a financing agreement with the City of Circleville in which the City issued \$3,325,000 of Hospital Facilities Revenue Bonds (Series 2007B Bonds). The proceeds were used to retire prior obligations and to fund operations. The Series 2007B Bonds mature in quarterly principal installments ranging from \$166,000 in December 2007 to \$171,000 in September 2012, at a rate of 5.95 percent.

On November 1, 2010, the System entered into a financing agreement with the City of Circleville in which the City issued \$12,391,500 of Hospital Facilities Revenue Bonds (Series 2010A Bonds). The proceeds were used to retire prior obligations and to fund future capital purchases. The Series 2010A Bonds mature in quarterly principal installments ranging from \$296,000 in March 2011 to \$527,000 in December 2017 at a rate of 3.87 percent from years 2011 through 2015 and an option to either a variable or fixed rate during 2016 and 2017.

On November 1, 2010, the System entered into a financing agreement with the City of Circleville in which the City issued \$12,391,500 of Hospital Facilities Revenue Bonds (Series 2010B Bonds). The proceeds were used to retire prior obligations and to fund future capital purchases. The Series 2010B Bonds mature in quarterly principal installments ranging from \$296,000 in March 2011 to \$527,000 in December 2017 at a rate of 3.87 percent from years 2011 through 2015 and an option to either a variable or fixed rate during 2016 and 2017.

In conjunction with the Series 2007B, Series 2010A, and Series 2010B Bonds, the System is required to maintain certain financial covenants as defined in the debt agreements. Management believes it is in compliance with all such financial covenants.

The Series 2007B, Series 2010A, and Series 2010B Bonds are collateralized by System revenues and receipts, capital assets, and unexpended bond proceeds and income from bond fund related investments of which there is \$4,687,582 outstanding as of December 31, 2012.

Self-Insured Benefits

The System is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$125,000 per employee. Claims, charged to operations when incurred, were approximately \$4,600,000 for the year ended December 31, 2012.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

City of Circleville
Pickaway County
133 South Court Street
Circleville, Ohio 43113

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Circleville, Pickaway County, (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 22, 2013 wherein we noted as disclosed in Note 21, the City adopted Governmental Accounting Standards Board Statement No.'s 63 and 65 further noting the City restated general fund balance and governmental activities net position. Our report refers to other auditors who audited the financial statements of Berger Health System, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that those auditors separately reported.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

Ten West Locust Street
Newark, Ohio 43055
(740) 345-6611
1-800-523-6611
FAX (740) 345-5635

Compliance and Other Matters

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

However, we noted other matters coming to our attention that we have reported to management in a separate letter dated June 22, 2013.

Purpose of this Report

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

Wilson, Shuman & Snow, Inc.

June 22, 2013



Dave Yost • Auditor of State

CITY OF CIRCLEVILLE

PICKAWAY 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
SEPTEMBER 26, 2013**