



Dave Yost • Auditor of State

**CITY OF WATERVILLE
LUCAS COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	14
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund	18
Statement of Fund Net Position – Enterprise Funds	19
Statement of Revenues, Expenses and Change in Fund Net Assets – Enterprise Funds	20
Statement of Cash Flows – Enterprise Funds	21
Notes to the Basic Financial Statements	23
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	57
Schedule of Prior Audit Findings	59

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Waterville
Lucas County
25 North Second Street
Waterville, Ohio 43566-1491

To the Members of Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waterville, Lucas 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 audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City'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 the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waterville, Lucas County, Ohio, as of

December 31, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended December 31, 2012, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. 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*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 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.



Dave Yost
Auditor of State

Columbus, Ohio

September 25, 2013

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

The discussion and analysis of the City of Waterville's financial performance provides an overview 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.

HIGHLIGHTS

Highlights for 2012 are as follows:

In total, the City's net position increased 6 percent from the prior year; governmental activities increased almost 9 percent and business-type activities increased almost 3 percent.

Both of the City's enterprise funds had an operating income and increase in net position for 2012.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the City of Waterville's financial position.

The statement of net position and the statement of activities provide information about the activities of the City as a whole, presenting both an aggregate and a longer-term view of the City.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. Fund financial statements report the City's most significant funds individually and the City's non-major funds in a single column. The City's major funds are the General, Various Improvements, Water and Sewer funds.

REPORTING THE CITY AS A WHOLE

The statement of net position and the statement of activities reflect how the City did financially during 2012. These statements include all assets and liabilities using the accrual basis of accounting similar to that used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These statements report the City's net position and changes in net position. This change in net position is important because it tells the reader whether the financial position of the City as a whole has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors can include changes in the City's property tax base and the condition of the City's capital assets (buildings; streets; water, sewer, storm sewer lines, etc.). These factors must be considered when assessing the overall health of the City.

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

In the statement of net position and the statement of activities, the City is divided into two types of activities:

- Governmental Activities - Most of the City's programs and services are reported here, including security of persons and property, leisure time activities, community environment, basic utility services, transportation, and general government. These services are primarily funded by property taxes and income taxes and from intergovernmental revenues, including federal and state grants and other shared revenues.
- Business-Type Activities - These services are provided on a charge for services basis and are intended to recover all or most of the costs of the services provided. The City's water and sewer services are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the City's major funds, the General, Various Improvements, Water and Sewer funds. While the City uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - The City's governmental funds are used to account for essentially the same programs reported as governmental activities on the government-wide financial statements. Most of the City's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at year end. These funds are reported on the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services being provided.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Enterprise Funds - The City's enterprise funds use the accrual basis of accounting, the same as that used for the business-type activities on the government-wide financial statements.

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net position for 2012 and 2011.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<u>Assets</u>						
Current and Other Assets	\$4,134,821	\$3,287,268	\$2,731,083	\$1,417,998	\$6,865,904	\$4,705,266
Capital Assets, Net	15,679,118	15,539,093	11,521,189	11,949,535	27,200,307	27,488,628
Total Assets	19,813,939	18,826,361	14,252,272	13,367,533	34,066,211	32,193,894
<u>Liabilities</u>						
Current and Other Liabilities	654,712	356,217	1,926,054	997,864	2,580,766	1,354,081
Long-Term Liabilities	3,887,748	4,327,994	2,974,550	3,287,301	6,862,298	7,615,295
Total Liabilities	4,542,460	4,684,211	4,900,604	4,285,165	9,443,064	8,969,376
<u>Deferred Outflows of Resources</u>	351,775	400,479	0	0	351,775	400,479
<u>Net Position</u>						
Net Investment in Capital Assets	11,894,317	11,388,564	9,946,749	10,205,627	21,841,066	21,594,191
Restricted	1,353,896	861,629	0	0	1,353,896	861,629
Unrestricted (Deficit)	1,671,491	1,491,478	(595,081)	(1,123,259)	1,076,410	368,219
Total Net Position	\$14,919,704	\$13,741,671	\$9,351,668	\$9,082,368	\$24,271,372	\$22,824,039

For governmental activities, there was a 26 percent increase in current and other assets primarily due to an increase in cash and cash equivalents. There was an increase in municipal income tax revenues in 2012 due to modest improvements in the economy and the City received a cash contribution from a developer who benefitted from the State Route 64 improvements. These increases are reflected in the increases in both restricted and unrestricted net position. The increase in current and other liabilities is generally due to outstanding contractual obligations related to the State Route 64 improvements.

There was also a significant increase in current and other assets for business-type activities, and again, due to an increase in cash and cash equivalents. During 2012, the City issued bond anticipation notes for water and sewer line improvements. A portion of these proceeds were not spent as of year end. Current and other liabilities increased due to the increase in bond anticipation notes outstanding.

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Table 2 reflects the change in net position for 2012.

Table 2
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$416,875	\$412,181	\$2,027,037	\$1,941,629	\$2,443,912	\$2,353,810
Operating Grants, Contributions, and Interest	285,486	415,034	0	0	285,486	415,034
Capital Grants and Contributions	296,118	488,786	0	0	296,118	488,786
Total Program Revenues	<u>998,479</u>	<u>1,316,001</u>	<u>2,027,037</u>	<u>1,941,629</u>	<u>3,025,516</u>	<u>3,257,630</u>
General Revenues						
Property Taxes Levied for General Purposes	356,196	362,358	0	0	356,196	362,358
Property Taxes Levied for Police Pension	33,392	33,966	0	0	33,392	33,966
Municipal Income Taxes	2,810,432	2,608,771	0	0	2,810,432	2,608,771
Payment in Lieu of Taxes	65,912	0	0	0	65,912	0
Grants and Entitlements not Restricted to Specific Programs	417,286	447,161	0	0	417,286	447,161
Franchise Taxes	83,397	79,403	0	0	83,397	79,403
Interest	31,162	57,734	0	0	31,162	57,734
Other	642,060	80,948	7,918	247	649,978	81,195
Total General Revenues	<u>4,439,837</u>	<u>3,670,341</u>	<u>7,918</u>	<u>247</u>	<u>4,447,755</u>	<u>3,670,588</u>
Total Revenues	<u>5,438,316</u>	<u>4,986,342</u>	<u>2,034,955</u>	<u>1,941,876</u>	<u>7,473,271</u>	<u>6,928,218</u>
<u>Program Expenses</u>						
Security of Persons and Property						
Police	1,111,625	1,092,715	0	0	1,111,625	1,092,715
Fire	431,585	413,011	0	0	431,585	413,011
Other	69,844	77,819	0	0	69,844	77,819
Leisure Time Activities	67,182	67,938	0	0	67,182	67,938
Community Environment	85,375	146,211	0	0	85,375	146,211
Basic Utility Services	257,572	265,851	0	0	257,572	265,851
Transportation	865,892	970,734	0	0	865,892	970,734
General Government	1,109,712	1,014,451	0	0	1,109,712	1,014,451
Interest and Fiscal Charges	261,496	181,854	0	0	261,496	181,854
Water	0	0	911,834	841,465	911,834	841,465
Sewer	0	0	853,821	867,155	853,821	867,155
Total Expenses	<u>4,260,283</u>	<u>4,230,584</u>	<u>1,765,655</u>	<u>1,708,620</u>	<u>6,025,938</u>	<u>5,939,204</u>
Increase in Net Position	1,178,033	755,758	269,300	233,256	1,447,333	989,014
Net Position Beginning of Year	13,741,671	12,985,913	9,082,368	8,849,112	22,824,039	21,835,025
Net Position End of Year	<u>\$14,919,704</u>	<u>\$13,741,671</u>	<u>\$9,351,668</u>	<u>\$9,082,368</u>	<u>\$24,271,372</u>	<u>\$22,824,039</u>

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

There was a sizable decrease in program revenues for governmental activities from the prior year. In 2012, the City received less in CDBG funding (operating grants and contributions) and had received grant funding in the prior year for road construction (capital grants and contributions). The 21 percent increase in general revenues was primarily due to improved income tax collections (modest economic improvement) and received a cash contribution from a developer who benefitted from the State Route 64 improvements. Program expenses changed very little from the prior year. Police and fire operations are the City's largest expense, over 36 percent of the City's total expenses. The operations of City government are the next largest expense (offices of the mayor, administrator, finance director, council, and general administrative functions) accounting for 26 percent of the City's expenses. Lastly, the other significant governmental function is that of street maintenance and repair making up 20 percent of total expenses.

The City's business-type activities are almost entirely funded through charges for services. There was a modest increase in both revenues and expenses from the prior year.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Security of Persons and Property				
Police	\$1,111,625	\$1,092,715	\$1,093,109	\$1,068,919
Fire	431,585	413,011	334,654	320,144
Other	69,844	77,819	69,844	77,819
Leisure Time Activities	67,182	67,938	66,348	37,732
Community Environment	85,375	146,211	85,375	(16,207)
Basic Utility	257,572	265,851	36,862	44,847
Transportation	865,892	970,734	260,667	195,547
General Government	1,109,712	1,014,451	1,053,449	1,003,928
Interest and Fiscal Charges	261,496	181,854	261,496	181,854
Total Expenses	<u>\$4,260,283</u>	<u>\$4,230,584</u>	<u>\$3,261,804</u>	<u>\$2,914,583</u>

General revenues provided for 77 percent of the costs of providing governmental services in 2012 (69 percent in 2011). The City's most significant revenue source is municipal income taxes. Dependence on municipal income taxes and, to a lesser degree, property taxes is critical to the City's operations; there are few programs which are well supported through program revenues. The basic utility program charges for services include the fees for trash collection. The transportation program receives charges for services in the form of permissive motor vehicle license monies. The transportation program also receives operating grants in the form of State levied motor vehicle license fees and gas taxes.

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund and the Various Improvements capital projects fund. The General Fund experienced a 23 percent decrease in fund balance. Although revenues were down slightly and expenditures increased slightly, the decrease in fund balance is generally due to transfers to subsidize activities in other funds.

The Various Improvements Fund has a 57 percent increase in fund balance due, in large part, to resources received from the General Fund.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water and Sewer funds.

The Water Fund had an operating income and a 2 percent increase in net position in 2012. The Sewer Fund also had an operating income and a 4 percent increase in net position. These were not significant changes.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January.

The City's most significant budgeted fund is the General Fund. Changes from the original budget to the final budget were not significant for both revenues and expenditures. Changes from the final budget to actual revenues and expenditures were primarily due to conservative budgeting.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's net investment in capital assets for governmental and business-type activities as of December 31, 2012, was \$11,894,317 and \$9,946,749, respectively (net of accumulated depreciation and related debt). This net investment in capital assets includes land and land improvements, buildings, equipment, vehicles, and infrastructure (streets and water, sewer, and storm sewer lines). For governmental activities, the additions for 2012 primarily consisted of street improvements (both currently under construction as well as completed improvements). There were minimal additions for business-type activities. For further information regarding the City's capital assets, refer to Note 9 to the basic financial statements.

Debt - At December 31, 2012, the City had \$2,920,833 in outstanding bond anticipation notes, \$2,480,000 in general obligation bonds, \$830,439 in Ohio Public Works Commission loans, \$123,518 in Ohio Water Development Authority loans, and \$2,213,540 in a long-term loan with Lucas County. Of this total outstanding debt, \$4,787,980 will be paid from business-type activities.

In addition to the debt outlined above, the City's long-term obligations also include capital leases and compensated absences. For further information regarding the City's debt, refer to Notes 16, 17, and 18 to the basic financial statements.

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

CURRENT ISSUES

The City continues with some challenges in 2013. The State in the past several years, in order to balance its budget, reduced local government funds, phased out tangible personal property taxes, and eliminated inheritance taxes. These cuts, coupled with the sluggish economy, extremely low interest rates, and a decrease in income tax revenues in the past few years had put the City in a tight financial position during 2010 and 2011. While income tax revenues dropped in 2009 and 2010, there was an increase in 2011 as well as 2012. The 2013 collections are anticipated to increase another 2 percent by current budget estimates. The City expects a loss of revenue of approximately \$25,000 for 2013 and beyond due to the expiration of the estate tax and another 25 percent cut in local government funding from the State for 2013. The 2009 property revaluations effectively cut the City's property tax collections in 2010, 2011, and 2012 on average \$36,600 (over 9 percent).

In order to strengthen the General Fund, the City Council adopted ordinances during 2009, 2010, 2011, and 2012 that temporarily reallocated several sources of revenue. The allocation of income tax was increased over the customary distribution of 75 percent of annual receipts to the General Fund diminishing the allocation for capital improvements, and franchise fees were receipted into the General Fund rather than the Parks and Green Space Improvement Fund. With the increased income tax revenues, revenue enhancements of recently enacted EMS fees for all patients serviced, and a refuse/recycling collection fee for all residential customers, resources for capital improvements and parks and green space were made "whole" with a transfer from the General Fund for the loss of revenues from temporarily strengthening the General Fund.

The 2010 census resulted in the "Village of Waterville" being certified as a "City" on April 29, 2011. The 2010 census put the population count at 5,523, an increase of 695 individuals from the 2000 census of 4,828. With the City status, Waterville now falls under civil service regulations along with several other minor changes; most will not be noticeable to the residents in the daily operations of providing services to the City and its' residents. During 2012, the City held contract negotiations with the Ohio Patrolmen's Benevolent Association for two units, one for the Police Command Officers and one for the Patrol Officers, and with the Teamsters Union representing the public works technicians. These three union contracts, the first ever for the City of Waterville, became effective January 1, 2013, for a two-year period.

Other current issues and events in the City include the following:

- The U.S. 24 by-pass roadway project opened in September 2012. This state and federal funded by-pass around the City's western limits has already brought new commercial development with a new Kroger store with a gas station; a Farmers & Merchants Bank branch and a Speedway gas station area in the planning stages. There will undoubtedly be additional commercial and other development within and outside the City's borders at the by-pass intersection at State Route 64.
- In 2012, the City issued general obligation bonds, in the amount of \$2,545,000, to retire bond anticipation notes previously issued and to refund the 2002 various purpose bonds. This refinancing resulted in a cash flow savings of approximately \$324,000 and an economic gain of \$278,000.

CITY OF WATERVILLE
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

- A portion of the issuance of bond anticipation notes will finance the engineering and construction of an extension of water and sewer lines west on State Route 64 from the corporation line to the limit of the City's water and sewer district boundary to prepare for future development at the U.S. 24 by-pass intersection at State Route 64. This project was awarded in May 2013 with construction to begin shortly thereafter.
- The City contracted with the Regional Income Tax Agency (R.I.T.A.) in October 2012 to administer the functions of the City's municipal income tax ordinances and procedures effective January 1, 2013. The initial conversion of the City's income tax historical and current data and accounts was completed between November 2012 and February 2013, and the first "tax day" of April 15th went relatively smoothly without any major problems. The City's income tax collections on a month-to-month comparative basis lag about a month behind due to R.I.T.A.'s processing and procedures. It is expected that over the course of the year, the yearly collections will even out as R.I.T.A. processes the April 15th returns and quarterly withholdings and other tax returns/documents.
- In 2012, the Waterville Economic Development Corporation (WEDC) has come to fruition, its membership consisting of the City of Waterville, business and business owners located in and around the City, interested private citizens, and local organizations. The WEDC continues developing strategies for economic development in Waterville and working with other regional economic development organizations.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those interested in our City's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Dale Knepper, Finance Director, City of Waterville, 25 North Second Street, Waterville, Ohio 43566.

City of Waterville
Statement of Net Position
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$2,363,498	\$2,497,425	\$4,860,923
Accounts Receivable	89,305	196,096	285,401
Accrued Interest Receivable	16,464	0	16,464
Due from Other Governments	480,122	0	480,122
Municipal Income Taxes Receivable	707,987	0	707,987
Other Local Taxes Receivable	3,761	0	3,761
Prepaid Items	24,339	4,745	29,084
Materials and Supplies Inventory	41,413	33,507	74,920
Internal Balances	6,000	(6,000)	0
Property Taxes Receivable	359,156	0	359,156
Special Assessments Receivable	42,776	5,310	48,086
Nondepreciable Capital Assets	2,541,404	33,643	2,575,047
Depreciable Capital Assets, Net	13,137,714	11,487,546	24,625,260
Total Assets	19,813,939	14,252,272	34,066,211
<u>Liabilities</u>			
Accrued Wages Payable	27,607	4,581	32,188
Accounts Payable	16,337	1,268	17,605
Contracts Payable	375,203	3,226	378,429
Matured Compensated Absences Payable	59,150	0	59,150
Due to Other Governments	102,617	27,303	129,920
Retainage Payable	60,603	0	60,603
Accrued Interest Payable	13,195	13,582	26,777
Notes Payable	0	1,876,094	1,876,094
Long-Term Liabilities			
Due Within One Year	1,271,393	282,047	1,553,440
Due in More Than One Year	2,616,355	2,692,503	5,308,858
Total Liabilities	4,542,460	4,900,604	9,443,064
<u>Deferred Inflows of Resources</u>			
Property Taxes	351,775	0	351,775
<u>Net Position</u>			
Net Investment in Capital Assets	11,894,317	9,946,749	21,841,066
Restricted for			
Capital Projects	1,024,713	0	1,024,713
Other Purposes	138,589	0	138,589
Street Construction, Maintenance, and Repair	190,594	0	190,594
Unrestricted (Deficit)	1,671,491	(595,081)	1,076,410
Total Net Position	\$14,919,704	\$9,351,668	\$24,271,372

See Accompanying Notes to the Basic Financial Statements

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

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,111,625	\$13,595	\$4,921	\$0
Fire	431,585	96,931	0	0
Other	69,844	0	0	0
Leisure Time Activities	67,182	834	0	0
Community Environment	85,375	0	0	0
Basic Utility Services	257,572	220,710	0	0
Transportation	865,892	28,542	280,565	296,118
General Government	1,109,712	56,263	0	0
Interest and Fiscal Charges	261,496	0	0	0
Total Governmental Activities	4,260,283	416,875	285,486	296,118
<u>Business-Type Activities</u>				
Water	911,834	1,014,597	0	0
Sewer	853,821	1,012,440	0	0
Total Business-Type Activities	1,765,655	2,027,037	0	0
Total	\$6,025,938	\$2,443,912	\$285,486	\$296,118

General Revenues

Property Taxes Levied for General Purposes
Property Taxes Levied Police Pension
Municipal Income Taxes
Payment in Lieu of Taxes
Grants and Entitlements not Restricted to Specific Programs
Franchise Taxes
Interest
Other

Total General Revenues

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Position

Governmental Activities	Business-Type Activities	Total
(\$1,093,109)	\$0	(\$1,093,109)
(334,654)	0	(334,654)
(69,844)	0	(69,844)
(66,348)	0	(66,348)
(85,375)	0	(85,375)
(36,862)	0	(36,862)
(260,667)	0	(260,667)
(1,053,449)	0	(1,053,449)
(261,496)	0	(261,496)
(3,261,804)	0	(3,261,804)
0	102,763	102,763
0	158,619	158,619
0	261,382	261,382
(3,261,804)	261,382	(3,000,422)
356,196	0	356,196
33,392	0	33,392
2,810,432	0	2,810,432
65,912	0	65,912
417,286	0	417,286
83,397	0	83,397
31,162	0	31,162
642,060	7,918	649,978
4,439,837	7,918	4,447,755
1,178,033	269,300	1,447,333
13,741,671	9,082,368	22,824,039
\$14,919,704	\$9,351,668	\$24,271,372

City of Waterville
Balance Sheet
Governmental Funds
December 31, 2012

	General	Various Improvements	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$887,071	\$1,064,401	\$412,026	\$2,363,498
Accounts Receivable	68,698	0	20,607	89,305
Accrued Interest Receivable	6,384	9,882	198	16,464
Due from Other Governments	183,204	169,318	127,600	480,122
Municipal Income Taxes Receivable	530,990	176,997	0	707,987
Other Local Taxes Receivable	0	0	3,761	3,761
Prepaid Items	19,472	0	4,867	24,339
Materials and Supplies Inventory	4,564	0	36,849	41,413
Interfund Receivable	6,000	0	0	6,000
Property Taxes Receivable	328,520	0	30,636	359,156
Special Assessments Receivable	0	42,776	0	42,776
Total Assets	\$2,034,903	\$1,463,374	\$636,544	\$4,134,821
<u>Liabilities</u>				
Accrued Wages Payable	\$24,948	\$0	\$2,659	\$27,607
Accounts Payable	12,833	0	3,504	16,337
Contracts Payable	4,186	370,495	522	375,203
Matured Compensated Absences Payable	47,572	0	11,578	59,150
Due to Other Governments	45,601	0	57,016	102,617
Retainage Payable	0	60,603	0	60,603
Total Liabilities	135,140	431,098	75,279	641,517
<u>Deferred Inflows of Resources</u>				
Property Taxes	321,772	0	30,003	351,775
Unavailable Revenue	690,542	380,206	129,105	1,199,853
Total Deferred Inflows of Resources	1,012,314	380,206	159,108	1,551,628
<u>Fund Balance</u>				
Nonspendable	24,036	0	41,716	65,752
Restricted	0	652,070	191,046	843,116
Committed	50,555	0	169,395	219,950
Unassigned	812,858	0	0	812,858
Total Fund Balance	887,449	652,070	402,157	1,941,676
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$2,034,903	\$1,463,374	\$636,544	\$4,134,821

See Accompanying Notes to the Basic Financial Statements

City of Waterville
 Reconciliation of Total Governmental Fund Balance
 to Net Position of Governmental Activities
 December 31, 2012

Total Governmental Fund Balance		\$1,941,676
<p>Amounts reported for governmental activities on the statement of net position are different because of the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		15,679,118
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds:</p>		
Accounts Receivable	61,856	
Accrued Interest Receivable	5,115	
Due from Other Governments	439,923	
Municipal Income Taxes Receivable	632,920	
Delinquent Property Taxes Receivable	7,381	
Special Assessments Receivable	52,658	
		1,199,853
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:</p>		
Accrued Interest Payable	(13,195)	
Bond Anticipation Notes Payable	(1,044,739)	
General Obligations Bonds Payable	(2,480,000)	
OPWC Loans Payable	(255,611)	
Capital Leases Payable	(4,451)	
Compensated Absences Payable	(102,947)	
		(3,900,943)
Net Position of Governmental Activities		\$14,919,704

See Accompanying Notes to the Basic Financial Statements

City of Waterville
Statement of Revenues, Expenditures,
and Change in Fund Balance
Governmental Funds
For the Year Ended December 31, 2012

	General	Various Improvements	Other Governmental	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$356,201	\$0	\$33,392	\$389,593
Municipal Income Taxes	1,872,651	624,217	0	2,496,868
Other Local Taxes	0	0	28,542	28,542
Payment in Lieu of Taxes	0	0	65,912	65,912
Special Assessments	0	8,812	0	8,812
Charges for Services	314,494	0	0	314,494
Fees, Licenses, and Permits	49,493	0	74,167	123,660
Fines and Forfeitures	12,594	0	1,443	14,037
Intergovernmental	411,186	159,434	311,280	881,900
Interest	27,579	2,979	1,041	31,599
Other	124,428	511,123	107	635,658
Total Revenues	3,168,626	1,306,565	515,884	4,991,075
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,084,768	0	39,675	1,124,443
Fire	354,332	4,380	0	358,712
Other	69,844	0	0	69,844
Leisure Time Activities	17,700	0	38,865	56,565
Community Environment	39,311	46,064	0	85,375
Basic Utility Services	257,572	0	0	257,572
Transportation	0	852,052	284,224	1,136,276
General Government	1,024,985	33,441	66,117	1,124,543
Debt Service:				
Principal Retirement	3,997	98,649	0	102,646
Current Refunding	0	2,352,821	0	2,352,821
Interest and Fiscal Charges	215	317,806	0	318,021
Total Expenditures	2,852,724	3,705,213	428,881	6,986,818
Excess of Revenues Over (Under) Expenditures	315,902	(2,398,648)	87,003	(1,995,743)
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	6,402	0	6,402
General Obligation Bonds Issued	0	2,545,000	0	2,545,000
Bond Anticipation Notes Issued	0	1,044,739	0	1,044,739
Payment to Refunded Bond Escrow Agent	0	(1,460,545)	0	(1,460,545)
Transfers In	0	500,000	74,908	574,908
Transfers Out	(574,908)	0	0	(574,908)
Total Other Financing Sources (Uses)	(574,908)	2,635,596	74,908	2,135,596
Change in Fund Balance	(259,006)	236,948	161,911	139,853
Fund Balance Beginning of Year	1,146,455	415,122	240,246	1,801,823
Fund Balance End of Year	<u>\$887,449</u>	<u>\$652,070</u>	<u>\$402,157</u>	<u>\$1,941,676</u>

See Accompanying Notes to the Basic Financial Statements

City of Waterville
 Reconciliation of Statement of Revenues, Expenditures,
 and Change in Fund Balance
 of Governmental Funds to Statement of Activities
 For the Year Ended December 31, 2012

Change in Fund Balance - Total Governmental Funds \$139,853

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year.

Capital Outlay- Nondepreciable Capital Assets	855,022	
Capital Outlay- Depreciable Capital Assets	60,981	
Depreciation	<u>(775,978)</u>	140,025

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the book value of the capital assets is removed from the capital asset accounts on the statement of net position and is offset against the proceeds from the sale of capital assets resulting in a gain on disposal of capital assets on the statement of activities.

Proceeds from the Sale of Capital Assets	(6,402)	
Gain on Disposal of Capital Assets	<u>6,402</u>	0

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.

Delinquent Property Taxes	(5)	
Municipal Income Taxes	313,564	
Special Assessments	(8,812)	
Charges for Services	10,309	
Fees, Licenses, and Permits	9,230	
Intergovernmental	115,885	
Interest	<u>668</u>	440,839

Repayment of principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities on the statement of net position.

Bond Anticipation Notes Payable	2,352,821	
General Obligation Bonds Payable	65,000	
OPWC Loans Payable	33,649	
Capital Leases Payable	3,997	
Payment to Refunded Bond Escrow Agent	<u>1,460,545</u>	3,916,012

Debt proceeds are other financing sources in governmental funds but the issuance increases long-term liabilities on the statement of net position.

Bond Anticipation Notes	(1,044,739)	
General Obligation Bonds	<u>(2,545,000)</u>	(3,589,739)

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net position. 56,525

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 74,518

Change in Net Position of Governmental Activities \$1,178,033

See Accompanying Notes to the Basic Financial Statements

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

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$416,400	\$356,820	\$356,201	(\$619)
Municipal Income Taxes	1,930,304	1,987,013	2,068,161	81,148
Charges for Services	308,123	310,559	316,024	5,465
Fees, Licenses, and Permits	6,217	6,400	49,493	43,093
Fines and Forfeitures	6,217	6,400	13,423	7,023
Intergovernmental	376,449	387,403	423,939	36,536
Interest	24,287	25,000	30,817	5,817
Other	52,337	60,490	124,911	64,421
Total Revenues	3,120,334	3,140,085	3,382,969	242,884
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,293,522	1,262,577	1,075,460	187,117
Fire	406,600	399,457	353,612	45,845
Other	72,482	116,487	74,754	41,733
Leisure Time Activities	1,950	21,450	17,700	3,750
Community Environment	8,308	50,184	39,311	10,873
Basic Utility Services	251,804	271,409	257,572	13,837
General Government	1,051,800	1,097,979	991,516	106,463
Total Expenditures	3,086,466	3,219,543	2,809,925	409,618
Excess of Revenues Over (Under) Expenditures	33,868	(79,458)	573,044	652,502
<u>Other Financing Uses</u>				
Advances Out	(6,000)	(6,000)	(6,000)	0
Transfers Out	(150,000)	(574,908)	(574,908)	0
Total Other Financing Uses	(156,000)	(580,908)	(580,908)	0
Change in Fund Balance	(122,132)	(660,366)	(7,864)	652,502
Fund Balance Beginning of Year	893,938	893,938	893,938	0
Fund Balance End of Year	\$771,806	\$233,572	\$886,074	\$652,502

See Accompanying Notes to the Basic Financial Statements

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

	Water	Sewer	Total Enterprise Funds
<u>Assets</u>			
<u>Current Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,027,074	\$1,470,351	\$2,497,425
Accounts Receivable	98,527	97,569	196,096
Prepaid Items	1,961	2,784	4,745
Materials and Supplies Inventory	28,907	4,600	33,507
Special Assessments Receivable	0	1,140	1,140
Total Current Assets	<u>1,156,469</u>	<u>1,576,444</u>	<u>2,732,913</u>
<u>Non-Current Assets</u>			
Special Assessments Receivable	0	4,170	4,170
Nondepreciable Capital Assets	14,200	19,443	33,643
Depreciable Capital Assets, Net	4,869,740	6,617,806	11,487,546
Total Non-Current Assets	<u>4,883,940</u>	<u>6,641,419</u>	<u>11,525,359</u>
Total Assets	<u>6,040,409</u>	<u>8,217,863</u>	<u>14,258,272</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accrued Wages Payable	1,913	2,668	4,581
Accounts Payable	340	928	1,268
Contracts Payable	440	2,786	3,226
Due to Other Governments	23,735	3,568	27,303
Interfund Payable	0	6,000	6,000
Accrued Interest Payable	6,761	6,821	13,582
Notes Payable	933,895	942,199	1,876,094
OPWC Loans Payable	27,706	23,128	50,834
OWDA Loans Payable	39,050	1,881	40,931
Due to Lucas County	0	127,838	127,838
Compensated Absences Payable	17,157	45,287	62,444
Total Current Liabilities	<u>1,050,997</u>	<u>1,163,104</u>	<u>2,214,101</u>
<u>Non-Current Liabilities</u>			
OPWC Loans Payable	237,315	286,679	523,994
OWDA Loans Payable	41,332	41,255	82,587
Due to Lucas County	311,082	1,774,620	2,085,702
Compensated Absences Payable	110	110	220
Total Non-Current Liabilities	<u>589,839</u>	<u>2,102,664</u>	<u>2,692,503</u>
Total Liabilities	<u>1,640,836</u>	<u>3,265,768</u>	<u>4,906,604</u>
<u>Net Position</u>			
Net Investment in Capital Assets	4,154,642	5,792,107	9,946,749
Unrestricted (Deficit)	244,931	(840,012)	(595,081)
Total Net Position	<u>\$4,399,573</u>	<u>\$4,952,095</u>	<u>\$9,351,668</u>

See Accompanying Notes to the Basic Financial Statements

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

	Water	Sewer	Total Enterprise Funds
<u>Operating Revenues</u>			
Charges for Services	\$1,014,597	\$1,012,440	\$2,027,037
Other	6,020	1,898	7,918
Total Operating Revenues	<u>1,020,617</u>	<u>1,014,338</u>	<u>2,034,955</u>
<u>Operating Expenses</u>			
Personal Services	155,981	213,989	369,970
Contractual Services	499,778	232,455	732,233
Materials and Supplies	35,063	46,040	81,103
Depreciation	195,980	239,991	435,971
Other	5,341	0	5,341
Total Operating Expenses	<u>892,143</u>	<u>732,475</u>	<u>1,624,618</u>
Operating Income	128,474	281,863	410,337
<u>Non-Operating Expenses</u>			
Interest Expense	(19,691)	(121,346)	(141,037)
Income Before Transfers	108,783	160,517	269,300
Transfers In	0	13,557	13,557
Transfers Out	(13,557)	0	(13,557)
Change in Net Position	95,226	174,074	269,300
Net Position Beginning of Year	<u>4,304,347</u>	<u>4,778,021</u>	<u>9,082,368</u>
Net Position End of Year	<u>\$4,399,573</u>	<u>\$4,952,095</u>	<u>\$9,351,668</u>

See Accompanying Notes to the Basic Financial Statements

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

	Water	Sewer	Total Enterprise Funds
Increases (Decreases) in Cash and Cash Equivalents			
<u>Cash Flows from Operating Activities</u>			
Cash Received from Customers	\$1,017,664	\$1,036,393	\$2,054,057
Cash Received from Other Revenues	6,020	1,898	7,918
Cash Payments for Personal Services	(185,556)	(213,805)	(399,361)
Cash Payments for Contractual Services	(495,684)	(233,981)	(729,665)
Cash Payments to Vendors	(51,949)	(44,985)	(96,934)
Cash Payments for Other Expenses	(5,341)	0	(5,341)
Net Cash Provided by Operating Activities	<u>285,154</u>	<u>545,520</u>	<u>830,674</u>
<u>Cash Flows from Noncapital Financing Activities</u>			
Cash Received for Advances In	<u>0</u>	<u>6,000</u>	<u>6,000</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Principal Paid on Bond Anticipation Notes	(410,212)	(534,866)	(945,078)
Principal Paid on OPWC Loans	(24,570)	(37,767)	(62,337)
Principal Paid on OWDA Loans	(36,892)	(1,255)	(38,147)
Principal Paid to Lucas County	(61,827)	(122,383)	(184,210)
Interest Paid on Bond Anticipation Notes	(10,256)	(13,372)	(23,628)
Interest Paid on OPWC Loans	0	(1,008)	(1,008)
Interest Paid on OWDA Loans	(6,860)	(813)	(7,673)
Interest Paid to Lucas County	0	(104,791)	(104,791)
Bond Anticipation Notes Issued	933,895	942,199	1,876,094
Acquisition of Capital Assets	(7,625)	0	(7,625)
Net Cash Provided by Capital and Related Financing Activities	<u>375,653</u>	<u>125,944</u>	<u>501,597</u>
Net Increase in Cash and Cash Equivalents	660,807	677,464	1,332,271
Cash and Cash Equivalents Beginning of Year	<u>366,267</u>	<u>792,887</u>	<u>1,159,154</u>
Cash and Cash Equivalents End of Year	<u>\$1,027,074</u>	<u>\$1,470,351</u>	<u>\$2,497,425</u>

(continued)

City of Waterville
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2012
(continued)

	Water	Sewer	Total Enterprise Funds
<u>Reconciliation of Operating Income to Net</u>			
<u>Cash Provided by Operating Activities</u>			
Operating Income	\$128,474	\$281,863	\$410,337
<u>Adjustments to Reconcile Operating Income to Net</u>			
<u>Cash Provided by Operating Activities</u>			
Depreciation	195,980	239,991	435,971
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	3,067	22,775	25,842
Increase in Prepaid Items	(113)	(109)	(222)
Increase in Materials and Supplies Inventory	(6,825)	(787)	(7,612)
Decrease in Special Assessments Receivable	0	1,178	1,178
Increase (Decrease) in Accrued Wages Payable	(694)	57	(637)
Decrease in Accounts Payable	(1,863)	(1,902)	(3,765)
Increase (Decrease) in Contracts Payable	(9,576)	2,327	(7,249)
Increase (Decrease) in Due to Other Governments	5,676	(788)	4,888
Increase (Decrease) in Compensated Absences Payable	(28,972)	915	(28,057)
Net Cash Provided by Operating Activities	\$285,154	\$545,520	\$830,674

Non-Cash Capital Transactions

The Sewer enterprise fund received capital assets from the Water enterprise fund, in the amount of \$42,389 with depreciation of \$28,832.

See Accompanying Notes to the Basic Financial Statements

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

NOTE 1 - DESCRIPTION OF THE CITY OF WATERVILLE AND THE REPORTING ENTITY

A. The City

The City of Waterville (City) is a charter municipal corporation with the charter adopted by the electors on May 3, 1966. Waterville became a village in 1831 and was incorporated as a city on April 29, 2011. The City may exercise all powers of home rule granted under Article XVIII, Section 3, of the Ohio Constitution not in conflict with applicable general laws in Ohio.

The City operates under a council-administrator form of government. Legislative power is vested in a six member council and a Mayor, each elected to a four-year term. The Council is responsible for appointing a full-time Municipal Administrator.

The City of Waterville is divided into various departments and financial management and control systems. Services provided include police protection, a volunteer fire department, parks and recreation, street maintenance and repair, and water, sewer, and storm sewer services as well as a staff to provide support (i.e., payroll processing, accounts payable, and 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 Municipal Administrator through administrative and managerial requirements and procedures.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City of Waterville consists of all funds, departments, boards, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Waterville in 2012.

The City participates in an insurance pool, the Ohio Government Risk Management Plan, which is presented in Note 21 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. 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 business-type activities. 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 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 activity 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.

B. Fund Accounting

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds

Governmental funds are those through which most governmental functions of the City 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 and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds.

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

Various Improvements - The Various Improvements capital projects fund accounts for income tax receipts, note proceeds, and grant monies used for construction projects or to acquire capital assets.

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, change in net position, financial position, and cash flows.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water Fund - The Water Fund accounts for the provision of water treatment and distribution to residential and commercial users within the City.

Sewer Fund - The Sewer Fund accounts for the provision of sanitary and storm sewer service to residential and commercial users within the City.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all 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 Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

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 are generally included on the balance sheet. The statement of revenues, expenditures, and change in fund balance reflects 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 financial statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the 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 change in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

Revenues 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 the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means 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 thirty-one days after year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from income taxes is recognized in the year in which the income is earned. 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: income taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle registration fees), grants, and interest.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report 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. The City did not report any deferred outflows of resources for 2012.

In addition to liabilities, the statement of financial position may report 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 consists of property taxes and unavailable revenue. Property taxes represent amounts for which there was an enforceable legal claim as of December 31, 2012, but which were levied to finance 2013 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes accrued interest, intergovernmental revenue including grants, municipal income taxes, delinquent property taxes, special assessments, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available.

Expenses/Expenditures

On the accrual basis, 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.

E. Budgetary Process

All funds are required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources and the appropriations ordinance, both of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount City Council may appropriate. The appropriations ordinance is City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by City Council. The legal level of control has been established by City Council at the fund, department, and object level for all funds.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. 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 the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources requested by the City prior to year end.

The appropriations 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 appropriations 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 City Council during the year.

F. Cash and Investments

To improve cash management, cash received by the City is pooled and invested. Individual fund integrity is maintained through City records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents”.

During 2012, the City’s investments included nonnegotiable certificates of deposit, federal agency securities, and STAR Ohio. Nonnegotiable certificates of deposit are reported at cost. Investments are reported at fair value, which is based on quoted market price. STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s net asset value per share, which is the price the investment could be sold for on December 31, 2012.

Interest earnings are allocated to City funds according to State statutes or grant requirements. Interest revenue credited to the General Fund during 2012 was \$27,579, which includes \$16,187 assigned from other City funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. 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 by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Inventory

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column on the government-wide statement of net position but are not reported on the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column on the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The City maintains a capitalization threshold of five thousand dollars. 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 not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. The City reports all infrastructure, including that acquired prior to 1980.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20-40 years
Buildings and Improvements	35-100 years
Furniture, Fixtures, and Equipment	5-50 years
Vehicles	5-30 years
Streets	15-40 years
Water, Sewer, and Storm Sewer Lines	50-65 years

J. Interfund Receivables/Payables

On fund financial statements, receivables and payables resulting from interfund loans are reported as "Interfund Receivables/Payables". Interfund balances are eliminated on the statement of net position, except for any net residual amounts due between governmental and business-type activities. These amounts are presented as "Internal Balances".

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. 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 the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in City policies. The City records a liability for accumulated unused sick leave for all employees with ten or more years of service.

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are 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. Long-term notes, general obligation bonds, long-term loans, and capital leases are recognized as liabilities on the fund financial statements when due.

M. Net Position

Net position represents the difference between all other elements in the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through constitutional provisions or 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 includes activities for maintenance and repair of State highways and various police department grants and programs. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. 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 governmental funds. The classifications are as follows:

Nonspendable - The nonspendable classification 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” includes items that are not expected to be converted to cash.

Restricted - The restricted classification includes amounts restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinance).

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 purposes specified by the legislation.

Committed - The committed classification includes amounts that can be used only for the specific purposes determined by a formal action (ordinance) of City Council. The 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) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance 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 is 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 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. Assigned amounts represent intended uses established by City Council. City Council has authorized the Finance Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City first applies restricted resources when an expenditure is 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 can be used.

O. 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, sewer, and storm sewer services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating.

P. Interfund Transactions

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

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 nonoperating revenues/expenses in the 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.

Q. Estimates

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For 2012, the City has implemented Governmental Accounting Standards 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".

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES (continued)

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements which are a type of public-public or public-private partnership. The implementation of this statement did not result in any change to 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 to 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 the statement of financial position and related note disclosures. These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position and/or fund balance.

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 to the City's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets or liabilities as inflows of resources (revenues) or outflows of resources (expenses or expenditures). These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position and/or fund balance.

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 to the City's financial statements.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Change in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual - for the General Fund is presented 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:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

3. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than restricted, committed, or assigned fund balance (GAAP basis).

Adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis are as follows:

Change in Fund Balance	
GAAP Basis	(\$259,006)
<u>Increases (Decreases) Due To</u>	
Revenue Accruals:	
Accrued 2011, Received in Cash 2012	317,923
Accrued 2012, Not Yet Received in Cash	(105,482)
Expenditure Accruals:	
Accrued 2011, Paid in Cash 2012	(91,645)
Accrued 2012, Not Yet Paid in Cash	135,140
Cash Adjustments:	
Unrecorded Activity 2011	2,899
Unrecorded Activity 2012	(997)
Prepaid Items	(425)
Materials and Supplies Inventory	(271)
Advances Out	(6,000)
Budget Basis	(\$7,864)

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits the City 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 Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 5 - 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.

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$3,511,366 of the City's bank balance of \$4,426,401 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

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

	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Mortgage Corporation Notes	\$100,150	3/28/13
Federal Home Loan Mortgage Corporation Notes	100,692	2/24/16
Federal National Mortgage Association Notes	100,549	2/24/16
Federal National Mortgage Association Notes	100,534	2/7/17
Federal National Mortgage Association Notes	100,144	2/21/17
Star Ohio	6,438	55 days
Total Investments	<u>\$508,507</u>	

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the City.

The federal agency securities carry a rating of AAA by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The City has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

The City places no limit on the amount of its interim monies it may invest in a particular security. The following table indicates the percentage of investments to the City's total portfolio:

	Fair Value	Percentage of Portfolio
Federal Home Loan Mortgage Corporation Notes	\$200,842	39.5%
Federal National Mortgage Association Notes	301,227	59.2

NOTE 6 - RECEIVABLES

Receivables at December 31, 2012, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; property taxes; and special assessments. All receivables are expected to be collected within one year, except as noted. Municipal income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Special assessments receivable, in the amount of \$46,998, will not be received within one year. At December 31, 2012, the amount of delinquent special assessments was \$1,166.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$25,309
Local Government	156,986
City of Maumee	909
Total General Fund	183,204
Various Improvements	
Ohio Department of Transportation	169,318
Total Major Funds	352,522
Nonmajor Funds	
Street Maintenance	
Gasoline Tax	92,674
Motor Vehicle License Tax	18,889
Total Street Maintenance	111,563

(continued)

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 6 - RECEIVABLES (continued)

	Amount
Governmental Activities	
Nonmajor Funds (continued)	
State Highway	
Gasoline Tax	\$7,514
Motor Vehicle License Tax	1,532
Total State Highway	9,046
Permissive Tax	
Permissive Tax	4,618
Police Pension	
Homestead and Rollback	2,373
Total Nonmajor Funds	127,600
Total Governmental Activities	\$480,122

NOTE 7 - MUNICIPAL INCOME TAXES

The City levies and collects an income tax of 2 percent based 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 75 percent (up to 1.5 percent of the 2 percent income tax total) of the tax paid to another municipality. 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. Income tax revenue was credited to the General Fund (1.5 percent) and to the Various Improvements capital projects fund (.5 percent) for 2012.

NOTE 8 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Real property tax revenues received in 2012 represent the collection of 2011 taxes. Real property taxes received in 2012 were levied after October 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 8 - PROPERTY TAXES (continued)

Public utility property tax revenues received in 2012 represent the collection of 2011 taxes. Public utility real and tangible personal property taxes received in 2012 became a lien on December 31, 2010, were levied after October 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City Waterville. The County Auditor periodically remits to the City its portion of the taxes collected.

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of December 31, 2012, and for which there was 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 the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while on the modified accrual basis, the revenue has been reported as deferred inflows of resources - unavailable revenue.

The full tax rate for all City operations for the year ended December 31, 2012, was \$3.50 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2012 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Agricultural/Residential	\$113,941,330
Commercial/Industrial	14,938,740
Public Utility Real	17,490
Public Utility Personal	2,218,140
Total	\$131,115,700

NOTE 9 - CAPITAL ASSETS

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

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$1,813,362	\$0	\$0	\$1,813,362
Construction in Progress	836,620	855,022	(963,600)	728,042
Total Nondepreciable Capital Assets	2,649,982	855,022	(963,600)	2,541,404

(continued)

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 9 - CAPITAL ASSETS (continued)

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012
Governmental Activities: (continued)				
Depreciable Capital Assets				
Land Improvements	\$126,834	\$0	\$40	\$126,834
Buildings and Improvements	1,286,294	0	0	1,286,294
Furniture, Fixtures, and Equipment	728,928	5,000	0	733,928
Vehicles	2,263,152	0	(82,254)	2,180,898
Streets	24,853,867	1,019,581	0	25,873,448
Total Depreciable Capital Assets	29,259,075	1,024,581	(82,254)	30,201,402
Less Accumulated Depreciation for				
Land Improvements	(79,712)	(4,538)	0	(84,250)
Buildings and Improvements	(149,763)	(14,079)	0	(163,842)
Furniture, Fixtures, and Equipment	(474,335)	(33,608)	0	(507,943)
Vehicles	(1,070,388)	(102,400)	82,254	(1,090,534)
Streets	(14,595,766)	(621,353)	0	(15,217,119)
Total Accumulated Depreciation	(16,369,964)	(775,978)	82,254	(17,063,688)
Total Depreciable Capital Assets, Net	12,889,111	248,603	0	13,137,714
Governmental Activities Capital Assets, Net	\$15,539,093	\$1,103,625	(\$963,600)	\$15,679,118
	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$33,643	\$0	\$0	\$33,643
Depreciable Capital Assets				
Buildings and Improvements	140,768	50,014	(42,389)	148,393
Furniture, Fixtures, and Equipment	1,680,334	0	0	1,680,334
Vehicles	225,689	0	0	225,689
Water, Sewer, and Storm Sewer Lines	17,736,669	0	0	17,736,669
Total Depreciable Capital Assets	19,783,460	50,014	(42,389)	19,791,085
Less Accumulated Depreciation for				
Buildings and Improvements	(57,250)	(30,854)	28,832	(59,272)
Furniture, Fixtures, and Equipment	(893,104)	(64,159)	0	(957,263)
Vehicles	(152,948)	(15,045)	0	(167,993)
Water, Sewer, and Storm Sewer Lines	(6,764,266)	(354,745)	0	(7,119,011)
Total Accumulated Depreciation	(7,867,568)	(464,803)	28,832	(8,303,539)
Total Depreciable Capital Assets, Net	11,915,892	(414,789)	(13,557)	11,487,546
Business-Type Activities Capital Assets, Net	\$11,949,535	(\$414,789)	(\$13,557)	\$11,521,189

The sewer enterprise fund received capital assets from the Water enterprise fund, in the amount of \$42,389 with depreciation of \$28,832.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 9 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Governmental Activities		
Security of Persons and Property - Police	\$21,226	
Security of Persons and Property - Fire	73,072	
Leisure Time Activities	10,617	
Transportation	655,987	
General Government	15,076	
Total Depreciation Expense - Governmental Activities	\$775,978	

NOTE 10 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2012, the General Fund had an interfund receivable, in the amount of \$6,000, from the Sewer enterprise fund for a short-term loan made to the fund.

NOTE 11 - 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. During 2012, the City contracted with the Ohio Government Risk Management Plan, an insurance purchasing pool, for the following coverage:

Type of Coverage	Coverage	Deductible
Blanket Building and Personal Property	\$9,394,278	\$1,000
Special Property	1,125,947	1,000
General Liability		
Occurrence	5,000,000	0
Aggregate	7,000,000	0
Employer's Liability		
Occurrence	5,000,000	0
Aggregate	5,000,000	0
Employee Benefits		
Occurrence	5,000,000	0
Aggregate	7,000,000	0
Public Officials Liability		
Occurrence	5,000,000	2,500
Aggregate	7,000,000	2,500

(continued)

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 11 - RISK MANAGEMENT (continued)

Type of Coverage	Coverage	Deductible
Law Enforcement Liability		
Occurrence	\$5,000,000	\$2,500
Aggregate	7,000,000	2,500
Auto Liability	5,000,000	0
Builders Risk	500,000	0

There has been no significant reduction in insurance coverage from 2011, and no insurance settlement has exceeded insurance coverage during the last three years.

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

NOTE 12 - CONTRACTUAL COMMITMENTS

At December 31, 2012, the City had contractual commitments as follows:

Company	Project	Amount Remaining on Contract
Geddis Paving & Excavation, Inc.	State Route 64 Intersection Improvement	\$416,508
Proudfoot Associates	State Route 64 Intersection Improvement	14,590
Proudfoot Associates	Various Updates	5,683
Spengler Nathanson PLL	Union Negotiations	2,250

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. 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 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 plan benefit. Member contributions, the investment of which is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 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 classifications 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 percent. The portion of the City's contribution used to fund pension benefits is net of postemployment health care benefits. The portion of the City's contribution allocated to health care for members in the traditional plan was 4 percent for 2012. The portion of the employer contribution allocated to health care for members in the combined plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2012, 2011, and 2010 was \$80,334, \$88,490, and \$88,749, respectively. For 2012, 98 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 \$1,439 made by the City and \$1,028 made by the plan members.

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan. OPF provides retirement and disability pension 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. OPF issues a publicly available financial that includes financial information and required supplementary information for the plan. The report that may be obtained by visiting www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code requires plan members to contribute 10 percent of their annual covered salary while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters. The OPF pension fund is authorized by the Ohio Revised Code to allocate a portion of the employer contribution to retiree health care benefits. For 2012, the portion of the City's contribution 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 contribution to OPF for police and firefighters pension was \$82,377 and \$10,514 for the year ended December 31, 2012, \$86,462 and \$10,535 for the year ended December 31, 2011, and \$82,325 and \$10,235, for the year ended December 31, 2010. For 2012, 97 percent has been contributed for both police and firefighters with the balance for each being reported as intergovernmental payable. The full amount has been contributed for 2011 and 2010.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional 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.

OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health care plan for qualifying members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan includes a medical plan, a prescription drug program, and Medicare Part B premium reimbursement.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional and combined plans must have ten 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>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed 14 percent of covered payroll. This is the maximum employer contribution rate 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 postemployment health care benefits. The portion of the employer contribution allocated to health care for members in the traditional plan was 4 percent for 2012. The portion of the employer contribution allocated to health care for members in the combined plan was 6.05 for 2012. Effective January 1, 2013, the portion of the employer contribution allocated to health care 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 the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment health care plan.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 14 - POSTEMPLOYMENT BENEFITS (continued)

The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2012, 2011, and 2010 was \$32,709, \$35,956, and \$51,386, respectively. For 2012, 98 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 9, 2012, with a transition plan commencing on 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 contribution toward the health care fund after the end of the transition period.

B. Police and Fire Pension Fund

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

OPF provides access to postretirement healthcare 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 healthcare coverage provided by OPF meets the definition of an Other Postemployment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

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

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required by the Ohio Revised Code to contribute to the pension plan at rates expressed as a percentage of payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively. Active members do not make contributions to the OPEB Plan.

OPF 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 premium reimbursements administered 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 OPF Board of Trustees.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 14 - POSTEMPLOYMENT BENEFITS (continued)

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2012, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contribution allocated to the healthcare 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 OPF Board of Trustees is also authorized to establish requirements for contributions to the healthcare 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 contribution to OPF which was allocated to fund postemployment health care benefits for police and firefighters was \$43,611 and \$4,114 for the year ended December 31, 2012, \$45,774 and \$4,122 for the year ended December 31, 2011, \$43,584 and \$4,005 for the year ended December 31, 2010. For 2012, 97 percent has been contributed for both police and firefighters with the balance for each being reported as intergovernmental payable. The full amount has been contributed for 2011 and 2010.

NOTE 15 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws.

City employees earn vacation at varying rates depending on length of service. Current policy credits vacation leave each biweekly pay period. Employees are paid for 100 percent of accumulated unused vacation leave upon termination.

Upon retirement, full-time employees with ten or more years of service, who were hired before August 8, 1983, are entitled to receive all of their accrued but unused sick leave up to a maximum of nine hundred sixty hours. Full-time employees with ten or more years of service, who were hired after August 8, 1983 are entitled to receive one-fourth of the value of their unused sick leave up to a maximum of two hundred forty hours.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 16 - NOTES PAYABLE

The City's note transactions for the year ended December 31, 2012, were as follows:

	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012
<u>Business-Type Activities</u>					
General Obligation Bond					
Anticipation Notes					
Enterprise Funds					
2011 Water Improvements	2.5%	\$410,212	\$0	\$410,212	\$0
2012 Water Improvements	1.75	0	933,895	0	933,895
2011 Wastewater Improvements	2.5	534,866	0	534,866	0
2012 Wastewater Improvements	1.75	0	942,199	0	942,199
Total Bond Anticipation Notes		<u>945,078</u>	<u>1,876,094</u>	<u>945,078</u>	<u>1,876,094</u>

According to Ohio law, notes can be issued in anticipation of bond proceeds and levies or for up to 50 percent of anticipated revenue collections. The liability for all notes is presented in the fund receiving the proceeds. All of the City's bond anticipation notes are backed by the full faith and credit of the City of Waterville.

The bond anticipation notes in the Water enterprise fund, in the amount of \$933,895, were issued on August 2, 2012, to partially retire notes previously issued to improve water lines and water towers. The notes mature on August 1, 2013. As of December 31, 2012, the City had unspent proceeds of \$550,000.

The bond anticipation notes in the Sewer enterprise fund, in the amount of \$942,199, were issued on August 2, 2012, to partially retire notes previously issued to improve sanitary sewer lines and storm sewer lines. The notes mature on August 1, 2013. As of December 31, 2012, the City had unspent proceeds of \$450,000.

NOTE 17 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2012, was as follows:

	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
<u>Governmental Activities</u>						
Bond Anticipation Notes						
2011 Various Purpose	2.5%	\$2,352,821	\$0	\$2,352,821	\$0	\$0
2012 Various Purpose	1.75	0	1,044,739	0	1,044,739	1,044,739
Total Bond Anticipation Notes		<u>2,352,821</u>	<u>1,044,739</u>	<u>2,352,821</u>	<u>1,044,739</u>	<u>1,044,739</u>

(continued)

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
General Obligation Bonds						
2002 Various Purpose (Original Amount \$2,100,000)	4%	\$1,500,000	\$0	\$1,500,000	\$0	\$0
2012 Various Purpose Refunding (Original Amount \$2,545,000)	2	0	2,545,000	65,000	2,480,000	135,000
Total General Obligation Bonds		1,500,000	2,545,000	1,565,000	2,480,000	135,000
OPWC Loans						
1999 OPWC Loans Payable (Original Amount \$157,946)	0	59,230	0	7,897	51,333	7,897
2003 OPWC Loans Payable (Original Amount \$134,399)	0	26,880	0	13,440	13,440	13,440
2008 OPWC Loans Payable (Original Amount \$246,242)	0	203,150	0	12,312	190,838	12,313
Total OPWC Loans		289,260	0	33,649	255,611	33,650
Other Long-Term Obligations						
Capital Leases Payable		8,448	0	3,997	4,451	3,485
Compensated Absences Payable		177,465	0	74,518	102,947	54,519
Total Other Long-Term Obligations		185,913	0	78,515	107,398	58,004
Total Governmental Activities		\$4,327,994	\$3,589,739	\$4,029,985	\$3,887,748	\$1,271,393

	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
Business-Type Activities						
OPWC Loans						
1992 OPWC Loans Payable (Original Amount \$294,000)	0%	\$14,700	\$0	\$14,700	\$0	\$0
1999 OPWC Loans Payable (Original Amount \$128,489)	0	48,184	0	6,424	41,760	6,424
2004 OPWC Loans Payable (Original Amount \$57,585)	0	37,431	0	2,879	34,552	2,879
2005 OPWC Loans Payable (Original Amount \$150,689)	0	52,741	0	15,069	37,672	15,069
2006 OPWC Loans Payable (Original Amount \$129,202)	.01	102,337	0	6,136	96,201	6,197
2009 OPWC Loans Payable (Original Amount \$127,307)	0	111,394	0	6,365	105,029	6,365
2010 OPWC Loans Payable (Original Amount \$152,550)	0	144,922	0	7,628	137,294	7,628
2011 OPWC Loans Payable (Original Amount \$125,456)	0	125,456	0	3,136	122,320	6,272
Total OPWC Loans		637,165	0	62,337	574,828	50,834

(continued)

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
OWDA Loans						
1995 OWDA Loans Payable (Original Amount \$508,000)	5.85%	\$117,274	\$0	\$36,892	\$80,382	\$39,050
2010 OWDA Loans Payable (Original Amount \$172,380)	2.75	44,391	0	1,255	43,136	1,881
Total OWDA Loans		161,665	0	38,147	123,518	40,931
Other Long-Term Obligations						
Due to Lucas County		2,397,750	0	184,210	2,213,540	127,838
Compensated Absences Payable		90,721	5,591	33,648	62,664	62,444
Total Other Long-Term Obligations		2,488,471	5,591	217,858	2,276,204	190,282
Total Business-Type Activities		\$3,287,301	\$5,591	\$318,342	\$2,974,550	\$282,047

Bond Anticipation Notes

On August 2, 2012, the City issued bond anticipation notes, in the amount of \$1,044,739 to partially retire notes previously issued in 2011 for various purposes. The notes have an interest rate of 1.75 percent and mature on August 1, 2013. The notes will be paid from the Various Improvements capital projects fund.

General Obligation Bonds

On March 1, 2002, the City issued \$2,100,000 in unvoted general obligation bonds to retire bond anticipation notes previously issued for various purposes and to remodel the City's old fire station to serve as a community center. The bonds were issued for a twenty-five year period, with final maturity in 2026. During 2012, these bonds were refunded.

On August 2, 2012, the City issued unvoted general obligation bonds, in the amount of \$2,545,000; \$1,040,000 to retire bond anticipation notes previously issued and \$1,505,000 to advance refund the 2002 various purpose bonds. The refunding bond issue includes serial and term bonds. The bonds were issued for a twenty-three year period, with final maturity in 2035. The bonds are being retired through the Various Improvements capital projects fund.

The net proceeds of the refunding bond issue, in the amount of \$1,460,545, were used to purchase U.S. government securities. The securities were deposited in an irrevocable trust with an escrow agent to provide for the future debt service payments of the refunded bonds. As a result, \$1,500,000 of the refunded bonds has been removed from the City's financial statements. At December 31, 2012, \$1,495,000 of this debt was still outstanding.

The refunding resulted in decreasing the aggregated debt service payments by \$323,997 over the next fifteen years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$278,098.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

The bonds maturing on December 1, 2020, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2019	\$140,000

The remaining principal, in the amount of \$145,000, will be paid at stated maturity on December 1, 2020.

The bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2021	\$145,000

The remaining principal, in the amount of \$160,000, will be paid at stated maturity on December 1, 2022.

The bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2023	\$165,000

The remaining principal, in the amount of \$170,000, will be paid at stated maturity on December 1, 2024.

The bonds maturing on December 1, 2026, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2025	\$170,000

The remaining principal, in the amount of \$180,000, will be paid at stated maturity on December 1, 2026.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

The bonds maturing on December 1, 2031, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2027	\$55,000
2028	55,000
2029	55,000
2030	60,000

The remaining principal, in the amount of \$60,000, will be paid at stated maturity on December 1, 2031.

The bonds maturing on December 1, 2035, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2032	\$15,000
2033	15,000
2034	15,000

The remaining principal, in the amount of \$15,000, will be paid at stated maturity on December 1, 2035.

The serial bonds maturing on or after December 1, 2022, are subject to optional redemption prior to maturity, either in whole or in part, in inverse order of maturity, in integral multiples of \$5,000, on any date on or after December 31, 2012, at 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

Capital Leases Payable

Capital lease obligations will be paid from the fund that maintains custody of the related asset.

Compensated Absences

The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, the Street Maintenance special revenue fund, and the Water and Sewer enterprise funds.

OPWC Loans Payable

The City has entered into loan agreements with the Ohio Public Works Commission for various street related and water and sewer related projects. With the exception of Dutch Road lift station, the loans are interest free. The loans will be paid from resources of the Various Improvements capital projects fund and the Water and Sewer enterprise funds.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

OWDA Loans Payable

The City has entered into loan agreements with the Ohio Water Development Authority for construction of a water line and a sanitary sewer project. The loans will be paid from resources of the Water and Sewer enterprise funds.

The OPWC and OWDA loans for water and sewer projects are to be paid from the gross revenues of the Water and Sewer enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the loans are expected to require less than 100 percent of these net revenues in future years. The total principal and interest remaining to be paid on the OPWC and OWDA loans are \$582,216 and \$142,782, respectively. Principal and interest paid for the current year and net revenues were \$68,322 and \$324,454 for the Water enterprise fund and \$40,843 and \$521,854 for the Sewer enterprise fund.

Due to Lucas County

In 1973, the City entered into an agreement with the Lucas County Commissioners to provide for the use of the Maumee River Wastewater Treatment Plant with the City paying a portion of the construction cost to Lucas County over a 40 year period. In 1996, the plant was expanded and the City agreed to pay a portion of expansion costs based on the City's quarterly consumption rate. In 2007, the plant again expanded. The City agreed to pay 13.33 percent of these improvement costs to Lucas County over a 20 year period. In 2010, the plant was once again expanded and the City agreed to pay a portion of the expansion costs based on the City's quarterly consumption rate. As of December 31, 2012, the expansion is still ongoing.

In 2011, the City entered into an agreement with Lucas County to pay for their portion of the North River Road water line. As of December 31, 2012, this project is still ongoing.

The City's legal debt margin was \$9,986,799 at December 31, 2012.

The North River Road water line funded by Lucas County has not been completed. An amortization schedule for the repayment of this loan will not be available until the project is completed and, therefore, is not included in the following schedule.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2012, were as follows:

Year	General Obligation Bonds		OPWC Loans
	Principal	Interest	Principal
2013	\$135,000	\$67,588	\$33,650
2014	135,000	64,887	20,210
2015	135,000	62,188	20,209
2016	140,000	59,487	20,209
2017	140,000	56,688	20,210
2018-2022	735,000	235,737	73,406
2023-2027	740,000	121,823	61,561
2028-2032	275,000	37,912	6,156
2033-2035	45,000	3,600	0
Total	<u>\$2,480,000</u>	<u>\$709,910</u>	<u>\$255,611</u>

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2012, from the business-type activities were as follows:

Year	OPWC Loans		OWDA Loans		Due to Lucas County
	Principal	Interest	Principal	Interest	Principal
2013	\$50,834	\$948	\$40,931	\$5,875	\$127,838
2014	50,896	885	43,265	3,841	133,567
2015	43,424	822	1,987	1,068	139,583
2016	35,953	759	2,042	1,013	100,737
2017	36,018	694	2,098	956	95,259
2018-2022	158,590	2,490	11,395	3,876	477,883
2023-2027	138,445	790	13,063	2,210	569,763
2028-2032	60,668	0	8,737	425	257,828
Total	<u>\$574,828</u>	<u>\$7,388</u>	<u>\$123,518</u>	<u>\$19,264</u>	<u>\$1,902,458</u>

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 18 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for equipment. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for the governmental funds. Principal payments in 2012 were \$3,997 for governmental funds.

	Governmental Activities
Equipment	\$18,032
Less Accumulated Depreciation	(10,818)
Total	\$7,214

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.

Year	Governmental Activities	
	Principal	Interest
2013	\$3,485	\$79
2014	966	5
Total	\$4,451	\$84

NOTE 19 - FUND BALANCE

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 governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General	Various Improvements	Other Governmental	Total Governmental Funds
Nonspendable for:				
Prepaid Items	\$19,472	\$0	\$4,867	\$24,339
Materials and Supplies Inventory	4,564	0	36,849	41,413
Total Nonspendable	24,036	0	41,716	65,752

(continued)

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 19 - FUND BALANCE (continued)

Fund Balance	General	Various Improvements	Other Governmental	Total Governmental Funds
Restricted for:				
Community Television	\$0	\$0	\$2,973	\$2,973
Permanent Improvements	0	652,070	0	652,070
Police Department Operations	0	0	14,683	14,683
Street Construction and Maintenance	0	0	173,390	173,390
Total Restricted	<u>0</u>	<u>652,070</u>	<u>191,046</u>	<u>843,116</u>
Committed for:				
Parks and Green Space Improvement	0	0	169,395	169,395
Future Severance Payments	50,555	0	0	50,555
Total Committed	<u>50,555</u>	<u>0</u>	<u>169,395</u>	<u>219,950</u>
Unassigned	<u>812,858</u>	<u>0</u>	<u>0</u>	<u>812,858</u>
Total Fund Balance	<u>\$887,449</u>	<u>\$652,070</u>	<u>\$402,157</u>	<u>\$1,941,676</u>

NOTE 20 - INTERFUND TRANSFERS

During 2012, the General Fund made transfers to the Various Improvements capital projects fund and other governmental funds, in the amount of \$500,000 and \$74,908, respectively, as debt payments became due.

NOTE 21 - INSURANCE POOL

The City participates in the Ohio Government Risk Management Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The plan's business and affairs are conducted by an eleven member board consisting of public officials selected from the membership. Financial information can be obtained from Ohio Government Risk Management Plan, 420 Madison Avenue, Toledo, Ohio 43204.

City of Waterville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(continued)

NOTE 22 - CONTINGENT LIABILITIES

A. Litigation

There are currently no matters of litigation with the City as defendant.

B. 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 disallowances, if any, would be immaterial.

NOTE 23 - SUBSEQUENT EVENT

On August 1, 2013, the City issued bond anticipation notes, in the amount of \$2,637,761, to retire notes previously issued. The notes have an interest rate of 1.75 percent and mature on August 1, 2014.



Dave Yost • Auditor of State

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

City of Waterville
Lucas County
25 North Second Street
Waterville, Ohio 43566-1491

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waterville, Lucas 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 and have issued our report thereon dated September 25, 2013, wherein we noted the City implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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.

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*.

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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

Columbus, Ohio

September 25, 2013

**CITY OF WATERVILLE
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	OMB Circular A-133 § .320 for failure to complete A-133 audit within nine months of fiscal year end.	Yes	

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Dave Yost • Auditor of State

CITY OF WATERVILLE

LUCAS 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
OCTOBER 8, 2013**