

**CITY OF NORWALK**

Huron County, Ohio

Regular Audit

January 1, 2004 through December 31, 2004

Fiscal Year Audited Under GAGAS: 2004

**BALESTRA, HARR & SCHERER, CPAS, INC.**  
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**Auditor of State  
Betty Montgomery**

City Council  
City of Norwalk  
38 Whittlesey Avenue  
Norwalk, Ohio 44857

We have reviewed the *Independent Auditor's Report* of the City of Norwalk, Huron County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

January 5, 2006

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**City of Norwalk**  
*Table of Contents*  
For the Year Ended December 31, 2004

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor’s Report .....	1
Management’s Discussion and Analysis .....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	14
Reconciliation of Total Governmental Fund Balances To Net Assets of Governmental Activities .....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	16
Reconciliation of the 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 (Non-GAAP Basis) and Actual – General Fund.....	18
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – Streets Fund.....	19
Statement of Net Assets – Enterprise Funds .....	20
Statement of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Funds .....	21
Statement of Cash Flows – Enterprise Funds .....	22
Statement of Fiduciary Net Assets – Fiduciary Funds .....	23
Statement of Changes in Fiduciary Net Assets .....	24
Notes to the Basic Financial Statements.....	25
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	60

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

## Independent Auditor's Report

City of Norwalk  
38 Whittlesey Avenue  
Norwalk, Ohio 44857

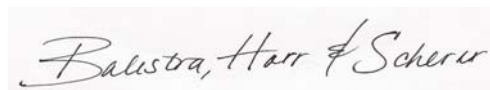
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Norwalk, Huron County, (the City), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the general fund and streets fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Balestra, Harr & Scherer, CPAs, Inc.  
September 30, 2005

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**City of Norwalk, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2004*  
*Unaudited*

The discussion and analysis of the City of Norwalk's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; along with the review of the basic financial statements for the reader to enhance their understanding of the City's financial performance.

**Financial Highlights**

The City's key financial highlights for 2004 are as follows:

- The assets of the City exceeded its liabilities at the close of the year ended December 31, 2004, by \$36.3 million (net assets). Unrestricted net assets in the amount of \$6.0 million are available to meet the City's ongoing obligations to citizens and creditors. The City's net assets related to governmental activities amounted to \$20.0 million, while net assets related to business-type activities amounted to \$16.3 million.
- Total net assets for the year increased by \$1.6 million or slightly more than 3.9%. Net assets for business-type activities increased 4.8% while those related to governmental activities increased 4.7%.
- The City's total revenues, including transfers, amounted to \$18.6 million in 2004, of which \$12.6 million related to governmental activities and \$6.0 million to business-type activities. Program specific revenues in the form of charges for services, grants and contributions accounted for \$7.1 million or 38.1% of total revenues.
- The City had \$17.0 million in expenses, including transfers, in 2004, \$11.4 million of which were for governmental activities and \$5.6 million for business-type activities.
- Among major funds, the General Fund had \$7.1 million in revenues and \$5.7 million in expenditures in 2004. Approximately \$1.1 million was transferred to other funds.
- The General Fund's balance increased to \$3.5 million, an increase of \$283,898 from the beginning 2004 balance. The General Fund balance was 49.5% of total General Fund revenues, which is an increase of 3.5% of the percentage in 2003.
- During 2004, the City's total long-term obligations decreased from \$10.7 million to \$10.3 million. This decrease of \$0.4 million was due to retirement of principal on notes and bonds.

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City as a financial whole.



The Statement of New Assets and Statement of Activities (referred collectively as the government-wide statements) provide information about the activities of the entire City and present a longer-term view of the City's finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column. The proprietary funds statements are prepared on the same basis as the government-wide statements. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

## **Reporting the City as a Whole**

### *Statement of Net Assets and Statement of Activities*

These government-wide statements answer the question, "How did the City as a whole do financially during 2004"? They are prepared on the accrual basis of accounting, including all assets and liabilities, much the same way as for a private enterprise. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and the changes in those assets. This change in net assets is important as it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, nonfinancial information such as changes in the tax base and the condition of the City's needs will also need to be evaluated.

- *The Statement of Net Assets.* This Statement (page 12) reports all assets and liabilities of the City as of December 31, 2004. The difference between total assets and total liabilities is reported as net assets. Increases in net assets generally indicate an improvement in financial position while decreases may indicate a deterioration of financial position.
- *The Statement of Activities.* This Statement (page 13) serves the purpose of the traditional income statement. It provides consolidated reporting of the results of all activities of the City for the year ended December 31, 2004. Changes in net assets are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the City's various programs net of related revenues, as well as the separate presentation of revenues available for general purposes.

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

**Governmental Activities** – Most of the City's programs and services are reported here including police, fire and rescue, street maintenance, capital improvements, and general administration. These services are funded primarily by property and income taxes and intergovernmental revenue including Federal and state grants and other shared revenues. The reporting of services including public safety, administration and all departments, with the exception of the Water Fund, Sewer Fund and Sanitation Fund, which are reported as Business-Type Activity.

**Business-Type Activity** – The City reports the activity of services (Water, Sewer and Sanitation) where the City charges the user fees to recover the cost of providing the service as well as all capital expenses associated with the facilities.

## **Reporting the City of Norwalk's Most Significant Funds**

### ***Fund Financial Statements***

These statements provide financial position and results of the City's major funds. The City's major governmental funds are: the General Fund, the Streets Fund and the Capital Investment Trust Fund. A fund is an accounting entity created to account for a specific activity or purpose. The creation of some funds is mandated by law and other are created by management to demonstrate financial compliance with budgetary or legal requirements. Funds are classified into three broad categories: governmental funds, proprietary funds, and fiduciary funds.

- ***Governmental Funds.*** Governmental funds are used to account for "Government-Type" activities. However, unlike the government-wide financial statements, governmental fund statements use a "flow of financial resources" measurement focus. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Increases in spendable resources are reported in the operating statement as "revenues" or "other financing sources". Decreases in spendable resources are reported as expenditures or other financing uses. Income taxes, property taxes, charges for services and state and federal grants finance most of those activities.

The Basic Governmental Fund Financial Statements can be found on pages 14 through 19 of this report.

- ***Proprietary Funds.*** There are two types of Proprietary funds: enterprise funds and internal service funds.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner to private business enterprises for which either 1) the intent is that the costs (expenses, including depreciation) be recovered primarily through user charges, or 2) determination of net income is appropriate for management control, accountability or other purposes.

The City of Norwalk's Water Fund, Sewer Fund and Sanitation Fund are all considered to be major funds and are displayed separately in the proprietary fund statements on pages 20 through 22.

Internal Service Funds. - Often, governments wish to allocate the cost of providing certain centralized services (e.g., motor pools, garages, data processing) to the other departments of the government entity that use the services. An internal service fund is the appropriate accounting mechanism when it is the intent of the government to recover the full cost of providing the service through user charges to other departments.

The City of Norwalk's Health Care Insurance Fund is currently the only internal service fund.

- **Fiduciary Funds.** Fiduciary Funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary fund are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. A private purpose trust and agency funds are the City's fiduciary fund types.

A Fiduciary fund statement is on page 23 of this report.

### **Other Information**

#### ***Notes to the Basic Financial Statements.***

The notes provide additional and explanatory data. They are an integral part of the basic financial statements. These notes to the basic financial statements can be found on pages 25 through 58 of this report.

### **The City as a Whole**

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Norwalk, assets exceed liabilities by \$19,956,113 in governmental activities and \$16,330,472 in business-type activities as of December 31, 2004. The largest portion of the City's net assets reflects its investment in capital assets (ie.; land, buildings, equipment and machinery, infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens, consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

During 2004, the City's overall financial position improved by \$1.6 million as governmental activities net assets increased by \$1.1 million and those for business-type activities improved by \$0.5 million. Net assets are presented in the following table:

**Table 1 – City of Norwalk, Ohio - Net Assets**

	Governmental Activities 2004	Governmental Activities 2003	Business-Type Activities 2004	Business-Type Activities 2003	Total 2004	Total 2003
<b>Assets</b>						
Current Assets	\$16,229,721	\$16,501,371	\$3,739,081	\$3,441,584	\$19,968,802	\$19,942,955
Capital Assets, Net	10,410,949	10,056,325	19,508,167	19,898,348	29,919,116	29,954,673
<b>Total Assets</b>	<b>26,640,670</b>	<b>26,557,696</b>	<b>23,247,248</b>	<b>23,339,932</b>	<b>49,887,918</b>	<b>49,897,628</b>
<b>Liabilities</b>						
Current and Other Liabilities	2,549,646	3,170,525	792,748	333,440	3,342,394	3,503,965
Long-Term Liabilities, Due Within One Year	552,605	509,162	536,875	1,338,347	1,089,480	1,847,509
Long-Term Liabilities, Due in More Than One Year	3,582,306	3,773,868	5,587,153	5,844,283	9,169,459	9,618,151
<b>Total Liabilities</b>	<b>6,684,557</b>	<b>7,453,555</b>	<b>6,916,776</b>	<b>7,516,070</b>	<b>13,601,333</b>	<b>14,969,625</b>

	Governmental Activities 2004	Governmental Activities 2003	Business-Type Activities 2004	Business-Type Activities 2003	Total 2004	Total 2003
<b>Net Assets</b>						
Invested in Capital						
Assets, Net of Debt	7,476,414	5,686,423	12,874,652	13,489,729	20,351,066	19,176,152
Restricted	9,903,436	9,881,533	0	0	9,903,436	9,881,533
Unrestricted	2,576,263	3,536,185	3,455,820	2,334,133	6,032,083	5,870,318
Total Net Assets	\$19,956,113	\$19,104,141	\$16,330,472	\$15,823,862	\$36,286,585	\$34,928,003

Table 2 below, indicates the changes in net assets for the year ended December 31, 2004.

**Table 2 - City of Norwalk, Ohio - Changes in Net Assets**

	Governmental Activities 2004	Governmental Activities 2003	Business-Type Activities 2004	Business-Type Activities 2003	Total 2004	Total 2003
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$1,864,501	\$1,738,604	\$4,243,366	\$4,145,030	\$6,107,867	\$5,883,634
Operating Grants and Contributions	108,326	790,529	0	0	108,326	790,529
Capital Grants and Contributions	278,168	214,474	597,667	147,665	875,835	362,139
General Revenues:						
Property Taxes	1,806,529	1,460,628	0	0	1,806,529	1,460,628
Income Taxes	5,583,601	5,272,602	1,123,322	1,040,269	6,706,923	6,312,871
Grants and Entitlements Not Restricted to Specific Programs	2,628,092	1,595,733	0	0	2,628,092	1,595,733
Investment Income	246,495	288,272	0	0	246,495	288,272
Miscellaneous	55,789	70,247	85,857	98,446	141,646	168,693
Total Revenues	12,571,501	11,431,089	6,050,212	5,431,410	18,621,713	16,862,499
<b>Expenses</b>						
Program Expenses:						
General Government	2,176,594	3,243,754	0	0	2,176,594	3,243,754
Security of Persons and Property	4,851,881	4,787,682	0	0	4,851,881	4,787,682
Public Health	140,436	120,945	0	0	140,436	120,945
Leisure Time Services	1,736,385	1,600,633	0	0	1,736,385	1,600,633
Community and Economic Development	836,294	129,330	0	0	836,294	129,330
Transportation	1,516,778	995,612	0	0	1,516,778	995,612
Interest and Fiscal Charges	156,213	179,290	0	0	156,213	179,290
Sanitation	0	0	969,938	942,142	969,938	942,142
Sewer	0	0	2,255,604	2,258,359	2,255,604	2,258,359
Water	0	0	2,327,826	2,138,062	2,327,826	2,138,062
Total Expenses	11,414,581	11,057,246	5,553,368	5,338,563	16,967,949	16,395,809

	Governmental Activities 2004	Governmental Activities 2003	Business-Type Activities 2004	Business-Type Activities 2003	Total 2004	Total 2003
Increase in Net Assets						
Before Transfers	1,156,920	373,843	496,844	92,847	1,653,764	466,690
Transfers	(9,766)	0	9,766	0	0	0
Increase in Net Assets After Transfers	1,147,154	373,843	506,610	92,847	1,653,764	466,690
Net Assets - Beginning (Restated)	18,808,959	35,220,039	15,823,862	16,798,260	34,632,821	52,018,299
Net Assets - Ending	\$19,956,113	\$35,593,882	\$16,330,472	\$16,891,107	\$36,286,585	\$52,484,989

### ***Governmental Activities***

The City income tax is the largest contributor of revenues sources in government activities accounting for 44.4% of total revenues. Property and other local taxes generate 14.4% and grants and entitlements generate 20.9% of total revenues.

The City's direct charges to users of governmental services represent 14.8% of total revenue. These charges are from fees for recreational activities, fines and forfeitures related to judicial activity and licenses and permits.

Security of Persons and Property account for 42.5% of governmental expenses, general government accounts for 19.1% of governmental expenses while transportation costs and leisure time activities represent 13.3% and 15.2% of governmental expenses respectively.

### ***Business-Type Activities***

The City's business-type activities are the water and sewer departments and the sanitation services. The City provides curbside trash pick-up as well as yard waste pick-up. Income to provide sanitation services is derived from a specific one quarter of one percent income tax passed by voters in 1991.

Charges for services generated 70.0% of all revenues in the business-type activities.

The City's water and sewer departments continued to operate with moderately low rates. The minimum water rate was \$1.60 for the first 1,000 gallons of water. The minimum sewer rate was \$1.95 for the first 1,000 gallons of water.

### **Individual Funds Summary And Analysis**

As noted earlier, the City uses fund accounting to demonstrate and ensure compliance with finance related legal requirements.

Governmental Funds – The focus of the City's governmental funds is to provide information on near term outflows, inflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$12,757,242, an increase of \$306,493 in comparison with the prior year. Approximately 53.1% of this total amount of \$12,757,242 is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not readily available for new spending since it has already been committed to liquidate contracts and purchase commitments, to pay debt service or for a variety of other restricted purposes.

The General Fund is the primary operating fund of the City of Norwalk. At the end of the current year, the General Funds' unreserved balance was \$3,332,415, while the total fund balance was \$3,526,701. As a measure of the general funds liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 58.3% of total General Fund expenditures, while total fund balance represents 61.7% of that same amount.

The General Fund balance increased by \$283,898 or 8.8% over the prior year.

The other major governmental funds of the City are the Streets Fund and the Capital Investment Trust Fund.

The fund balance of the Streets Fund decreased by \$207,506. The decrease is due to increased operating costs and a reduction in General Fund subsidy.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide business-type activity financial statements, but in more detail. Net assets in the Water, Sewer and Sanitation Fund increased/(decreased) \$(19,472), (0.3%), \$401,729 (4.7%) and \$196,675 (12.9%), respectively.

### ***Budgetary Highlights***

As required by State statute, City Council adopts an annual appropriation (budget) resolution for all City funds.

There was no significant change from the original budget to the final budget in the General Fund. Approximately \$186,775 was collected over the budget and of that amount, \$178,321 was attributed to income tax receipts. Interest earnings increased \$65,000 over 2003 as rates improved slightly.

Actual General Fund expenditures compared to the budget reflected approximately \$325,000 remaining in unencumbered funds as of December 31, 2004. Security of persons and property which is largely the Police and Fire Department activity, accounted for \$117,000 of those unencumbered funds and general government accounted for \$199,000. Budgets remained tight in 2004. Management was committed to maintaining the level of services expected by the citizens of the community. With the exception of two police officers on military leave intermittently throughout 2004, all City personnel were retained.

Health care costs increased by 12% largely due to the cost of claims. Overall, salaries, wages and fringe benefits increased 3% over 2003.

Actual revenue collected in the City's Streets Fund was approximately \$7,800 more than the budgeted amount. The General Fund subsidizes the Street Fund, providing \$464,000 of the \$1,135,386 received in 2004. Approximately \$312,000 remained in unencumbered funds at year end. The unencumbered balance in the Street Fund increased by \$139,000 in 2004.

## Capital Assets and Debt Administration

### Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2004, amounts to \$29,919,116 (net of accumulated depreciation). This investment in capital assets includes land; building structures and improvements; furniture, fixtures and equipment; and infrastructure. The total decrease in the City's investment in capital assets for the current year was 0.1% (3.5% increase for governmental activity and a 2.0% decrease for business-type activity).

Over \$680,000 of storm sewer improvements were completed in 2004.

**Table 3 – City of Norwalk, Ohio – Capital Assets  
(Net of Depreciation)**

	Governmental Activities 2004	Governmental Activities 2003	Business-Type Activities 2004	Business-Type Activities 2003	Total 2004	Total 2003
Land	\$2,001,247	\$2,001,247	\$26,497	\$26,497	\$2,027,744	\$2,027,744
Construction in Progress	104,910	87,786	86,264	14,150	191,174	101,936
Land Improvements	535,021	552,094	188,372	224,172	723,393	776,266
Buildings	4,985,693	5,133,669	4,934,586	5,105,331	9,920,279	10,239,000
Equipment	1,567,719	1,687,876	3,117,442	3,460,245	4,685,161	5,148,121
Infrastructure	1,216,359	593,653	11,155,006	11,067,953	12,371,365	11,661,606
Total Capital Assets, Net	\$10,410,949	\$10,056,325	\$19,508,167	\$19,898,348	\$29,919,116	\$29,954,673

Additional detailed information relating to the City's capital assets is contained in Note 12 of the Notes to the Basic Financial Statements.

### Debt

The gross indebtedness of the City at the end of 2004 was \$9,861,019. The City issued notes in the amount of \$540,000 in 2004 for improvements to the Water Treatment Plant Chemical System.

As of December 31, 2004, the City had \$654,250 and \$3,961,245 in outstanding OPWC and OWDA loans, respectively.

The general obligation indebtedness of the City is subject to two statutory debt limitations referred to as the direct debt limitation: (Section 133.05 ORC). Certain debt with a repayment source other than general tax revenues, is excluded from the definition of net indebtedness. Under that definition, the City has approximately \$546,755 of net indebtedness as of December 31, 2004. The aggregate principal amount of unvoted net indebtedness may not exceed 5.5% of the assessed valuation for property tax purposes of all real and personal property located within the City. The legal unvoted debt margin was \$14,439,540 as of December 31, 2004. The total principal amount of voted and unvoted nonexempt net indebtedness of the City may not exceed 10.5% of its assessed value of real and personal property. Total net indebtedness for both voted and unvoted issues was \$1,126,140 leaving the City’s overall legal debt margin at \$27,484,057 as of December 31, 2004.

**Table 4 - City of Norwalk, Ohio - Long-Term Debt  
(As of end of each year)**

	Governmental		Business-Type		Total	Total
	Activities	Activities	Activities	Activities		
	2004	2003	2004	2003		
General Obligation Bonds	\$1,461,447	\$1,722,140	\$2,770,000	\$2,950,000	\$4,231,447	\$4,672,140
General Obligation Notes	0	0	540,000	740,000	540,000	740,000
OWDA Loans	389,037	323,057	265,213	302,338	654,250	625,395
OPWC Loans	1,071,771	1,103,219	2,889,474	3,015,603	3,961,245	4,118,822
Police and Fire Past Service Cost	474,077	481,486	0	0	474,077	481,486
<b>Total Long-Term Debt</b>	<b>\$3,396,332</b>	<b>\$3,629,902</b>	<b>\$6,464,687</b>	<b>\$7,007,941</b>	<b>\$9,861,019</b>	<b>\$10,637,843</b>

Additional information regarding the City’s Long-Term Obligations can be found in Note 15 of this report.

**Contacting the City Finance Department**

This financial report is designed to provide our citizens, taxpayers, creditors and investors with an overview of the City’s finances and to show the City’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Diane Eschen, Director of Finance, 38 Whittlesey Avenue, Norwalk, Ohio 44857, 419-663-6710.



**City of Norwalk, Ohio**  
**Huron County**  
**Statement of Net Assets**  
**December 31, 2004**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$11,252,839	\$2,943,693	\$14,196,532
Cash and Cash Equivalents in Segregated Accounts	5,784	0	5,784
Investment in Norwalk Securities	211,447	0	211,447
Taxes Receivable	3,270,760	300,320	3,571,080
Accounts Receivable	66,980	551,102	618,082
Accrued Interest Receivable	52,537	0	52,537
Internal Receivable/Payable	136,082	(136,082)	0
Intergovernmental Receivable	789,836	0	789,836
Special Assessments Receivable	43,434	5,635	49,069
Notes Receivable	381,296	0	381,296
Materials and Supplies Inventory	18,726	32,474	51,200
Noncurrent Assets:			
Unamortized Bond Issue Costs	0	41,939	41,939
Non-Depreciable Capital Assets	2,106,157	112,761	2,218,918
Depreciable Capital Assets, Net	8,304,792	19,395,406	27,700,198
<i>Total Assets</i>	<u>26,640,670</u>	<u>23,247,248</u>	<u>49,887,918</u>
<b>Liabilities</b>			
Current Liabilities:			
Accounts Payable	376,141	145,519	521,660
Accrued Wages and Benefits	131,023	53,651	184,674
Intergovernmental Payable	262,493	47,943	310,436
Claims Payable	322,614	0	322,614
Deferred Revenue	1,451,311	5,635	1,456,946
Unearned Revenue	6,064	0	6,064
Notes Payable	0	540,000	540,000
Noncurrent Liabilities:			
Due Within One Year	552,605	536,875	1,089,480
Due In More Than One Year	3,582,306	5,587,153	9,169,459
<i>Total Liabilities</i>	<u>6,684,557</u>	<u>6,916,776</u>	<u>13,601,333</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	7,476,414	12,874,652	20,351,066
Restricted for Debt Service	288,949	0	288,949
Restricted for Capital Projects	5,470,115	0	5,470,115
Restricted for Other Purposes	4,139,540	0	4,139,540
Restricted - Nonexpendable	4,832	0	4,832
Unrestricted	2,576,263	3,455,820	6,032,083
<i>Total Net Assets</i>	<u>\$19,956,113</u>	<u>\$16,330,472</u>	<u>\$36,286,585</u>

See accompanying notes to the basic financial statements.

City of Norwalk, Ohio  
Huron County  
Statement of Activities  
For the Fiscal Year Ended December 31, 2004

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General Government	\$2,176,594	\$376,376	\$1,856	\$278,168	(\$1,520,194)	\$0	(\$1,520,194)
Security of Persons and Property	4,851,881	573,082	95,302	0	(4,183,497)	0	(4,183,497)
Public Health	140,436	31,983	113	0	(108,340)	0	(108,340)
Leisure Time Services	1,736,385	857,852	0	0	(878,533)	0	(878,533)
Community and Economic Development	836,294	8,626	11,055	0	(816,613)	0	(816,613)
Transportation	1,516,778	16,582	0	0	(1,500,196)	0	(1,500,196)
Interest and Fiscal Charges	156,213	0	0	0	(156,213)	0	(156,213)
<i>Total Governmental Activities</i>	<u>11,414,581</u>	<u>1,864,501</u>	<u>108,326</u>	<u>278,168</u>	<u>(9,163,586)</u>	<u>0</u>	<u>(9,163,586)</u>
<b>Business-Type Activities</b>							
Sanitation	969,938	8,934	0	0	0	(961,004)	(961,004)
Sewer	2,255,604	2,051,445	0	513,308	0	309,149	309,149
Water	2,327,826	2,182,987	0	84,359	0	(60,480)	(60,480)
<i>Total Business-Type Activities</i>	<u>5,553,368</u>	<u>4,243,366</u>	<u>0</u>	<u>597,667</u>	<u>0</u>	<u>(712,335)</u>	<u>(712,335)</u>
<b>Totals</b>	<u>\$16,967,949</u>	<u>\$6,107,867</u>	<u>\$108,326</u>	<u>\$875,835</u>	<u>(9,163,586)</u>	<u>(712,335)</u>	<u>(9,875,921)</u>
<b>General Revenues:</b>							
Property Taxes Levied for:							
General Purposes					853,307	0	853,307
Debt Service					280,255	0	280,255
Special Revenue					672,967	0	672,967
Income Taxes					5,583,601	1,123,322	6,706,923
Grants and Entitlements not Restricted to Specific Programs					2,628,092	0	2,628,092
Investment Earnings					246,495	0	246,495
Miscellaneous					55,789	85,857	141,646
Transfers					(9,766)	9,766	0
<i>Total General Revenues</i>					<u>10,310,740</u>	<u>1,218,945</u>	<u>11,529,685</u>
Change in Net Assets					1,147,154	506,610	1,653,764
<i>Net Assets Beginning of Year (Restated)</i>					<u>18,808,959</u>	<u>15,823,862</u>	<u>34,632,821</u>
<i>Net Assets End of Year</i>					<u>\$19,956,113</u>	<u>\$16,330,472</u>	<u>\$36,286,585</u>

See accompanying notes to the basic financial statements.

**City of Norwalk, Ohio**  
**Huron County**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2004**

	General	Streets	Capital Investment Trust Fund	All Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Current Assets:					
Equity in Pooled Cash and Cash Equivalents	\$2,381,493	\$389,818	\$4,172,714	\$4,190,938	\$11,134,963
Cash and Cash Equivalents in Segregated Accc	5,784	0	0	0	5,784
Investment in Norwalk Securities	0	0	0	211,447	211,447
Taxes Receivable	2,008,847	0	0	1,261,913	3,270,760
Accounts Receivable	57,974	390	0	7,799	66,163
Accrued Interest Receivable	52,537	0	0	0	52,537
Intergovernmental Receivable	434,140	287,315	0	68,381	789,836
Special Assessments Receivable	31,043	0	0	12,391	43,434
Notes Receivable	0	0	0	381,296	381,296
Materials and Supplies Inventory	0	18,726	0	0	18,726
<i>Total Assets</i>	<u>\$4,971,818</u>	<u>\$696,249</u>	<u>\$4,172,714</u>	<u>\$6,134,165</u>	<u>\$15,974,946</u>
<b>Liabilities</b>					
Current Liabilities:					
Accounts Payable	\$105,076	\$47,101	\$0	\$223,964	\$376,141
Accrued Wages and Benefits	81,486	28,798	0	20,739	131,023
Intergovernmental Payable	92,716	18,213	0	151,564	262,493
Deferred Revenue	1,165,839	193,362	0	1,082,782	2,441,983
Unearned Revenue	0	0	0	6,064	6,064
<i>Total Liabilities</i>	<u>1,445,117</u>	<u>287,474</u>	<u>0</u>	<u>1,485,113</u>	<u>3,217,704</u>
<b>Fund Balances</b>					
Reserved for:					
Encumbrances	194,286	31,372	0	957,363	1,183,021
Notes Receivable	0	0	0	381,296	381,296
Endowments	0	0	0	4,832	4,832
Capital Improvements	0	0	4,172,714	0	4,172,714
Debt Service	0	0	0	243,881	243,881
Unreserved, Undesignated, Reported in:					
General Fund	3,332,415	0	0	0	3,332,415
Special Revenue Funds	0	377,403	0	2,238,429	2,615,832
Capital Projects Funds	0	0	0	823,234	823,234
Permanent Funds	0	0	0	17	17
<i>Total Fund Balances</i>	<u>3,526,701</u>	<u>408,775</u>	<u>4,172,714</u>	<u>4,649,052</u>	<u>12,757,242</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,971,818</u>	<u>\$696,249</u>	<u>\$4,172,714</u>	<u>\$6,134,165</u>	<u>\$15,974,946</u>

See accompanying notes to the basic financial statements.

**City of Norwalk, Ohio**  
**Huron County**  
**Reconciliation of Total Governmental Fund Balances to Net Assets**  
**of Governmental Activities**  
**For the Fiscal Year Ended December 31, 2004**

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**Total Governmental Fund Balances** \$12,757,242

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.

Land	2,001,247	
Construction in Progress	104,910	
Land Improvements (Net of Depreciation)	535,021	
Buildings (Net of Depreciation)	4,985,693	
Equipment (Net of Depreciation)	1,567,719	
Infrastructure (Net of Depreciation)	<u>1,216,359</u>	
 Total		 10,410,949

Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds.

Property Taxes	220,951	
Income Taxes	251,716	
Local Taxes	505,614	
Special Assessments	<u>12,391</u>	
		990,672

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets. (67,839)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

General Obligation Bonds	(1,461,447)	
OWDA Loan	(389,037)	
OPWC Loan	(1,071,771)	
Police and Fire Past Service Costs	(474,077)	
Capital Leases	(12,280)	
Compensated Absences	<u>(726,299)</u>	
		<u>(4,134,911)</u>

*Net Assets of Governmental Activities* \$19,956,113

See accompanying notes to the basic financial statements.

**City of Norwalk, Ohio**  
**Huron County**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended December 31, 2004**

	General	Streets	Capital Investment Trust Fund	All Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property and Other Local Taxes	\$791,606	\$0	\$0	\$837,155	\$1,628,761
Income Taxes	4,258,664	0	0	1,073,221	5,331,885
Special Assessments	0	0	0	110,659	110,659
Charges for Services	122,463	792	0	852,498	975,753
Licenses and Permits	5,894	30	0	32,823	38,747
Fines and Forfeitures	740,965	0	0	109,036	850,001
Intergovernmental	989,956	663,637	0	720,402	2,373,995
Interest	198,288	0	0	48,207	246,495
Other	17,583	10,168	0	28,038	55,789
<i>Total Revenues</i>	<u>7,125,419</u>	<u>674,627</u>	<u>0</u>	<u>3,812,039</u>	<u>11,612,085</u>
<b>Expenditures:</b>					
Current:					
General Government	1,919,796	0	0	112,065	2,031,861
Security of Persons and Property	3,569,645	0	0	795,951	4,365,596
Public Health	117,475	0	0	19,152	136,627
Leisure Time Services	0	0	0	1,446,459	1,446,459
Community and Economic Development	56,817	0	0	328,547	385,364
Transportation	0	1,208,038	0	69,297	1,277,335
Capital Outlay	28,600	138,095	0	1,108,941	1,275,636
Debt Service:					
Principal Retirement	10,693	0	0	317,943	328,636
Interest and Fiscal Charges	12,967	0	0	143,246	156,213
<i>Total Expenditures</i>	<u>5,715,993</u>	<u>1,346,133</u>	<u>0</u>	<u>4,341,601</u>	<u>11,403,727</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>1,409,426</u>	<u>(671,506)</u>	<u>0</u>	<u>(529,562)</u>	<u>208,358</u>
<b>Other Financing Sources (Uses):</b>					
Transfers In	0	464,000	0	661,528	1,125,528
Notes Issued	0	0	0	95,621	95,621
Inception of Capital Lease	0	0	0	12,280	12,280
Transfers Out	(1,125,528)	0	0	(9,766)	(1,135,294)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,125,528)</u>	<u>464,000</u>	<u>0</u>	<u>759,663</u>	<u>98,135</u>
<i>Net Change in Fund Balances</i>	283,898	(207,506)	0	230,101	306,493
<i>Fund Balance Beginning of Year (Restated)</i>	<u>3,242,803</u>	<u>616,281</u>	<u>4,172,714</u>	<u>4,418,951</u>	<u>12,450,749</u>
<i>Fund Balance End of Year</i>	<u>\$3,526,701</u>	<u>\$408,775</u>	<u>\$4,172,714</u>	<u>\$4,649,052</u>	<u>\$12,757,242</u>

See accompanying notes to the basic financial statements.

**City of Norwalk, Ohio**  
**Huron County**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended December 31, 2004**

**Net Change in Fund Balances - Total Governmental Funds** \$306,493

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlay	1,006,328	
Depreciation Expense	(636,410)	
Total	369,918	369,918

Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal.

Loss on Disposal of Capital Assets	(15,294)	
Total	(15,294)	(15,294)

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

Property Taxes	177,768	
Income Taxes	251,716	
Special Assessments	(135)	
Local Taxes	646,431	
Grants	(554,066)	
Total	521,714	521,714

Long-term note proceeds provide current financial resources to governmental funds, but, issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments.

OPWC Note Issued	(95,621)	
Inception of Capital Lease	(12,280)	
Total	(107,901)	(107,901)

Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

General Obligation Payments	253,839	
OWDA Loan Payable	38,302	
OPWC Loan Payments	29,641	
Police and Fire Past Service Costs Payments	7,409	
Total	329,191	329,191

Some expenses reported in the Statement of Activities, such as compensated absences which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(92,910)	
	(92,910)	(92,910)

The internal service funds used by management to charge the costs of insurance to individual funds are not reported in the entity-wide Statement of Activities. Governmental fund expenditures and related internal service fund revenues are eliminated.

(164,057)

*Change in Net Assets of Governmental Activities*

\$1,147,154

See accompanying notes to the basic financial statements.

**City of Norwalk, Ohio**  
**Huron County**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual (Non-GAAP Basis)**  
**General Fund**  
**For the Fiscal Year Ended December 31, 2004**

	<u>Budgeted Amounts</u>			Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
Property and Other Local Taxes	\$789,356	\$771,755	\$694,706	(\$77,049)
Income Taxes	3,449,448	4,050,000	4,228,321	178,321
Charges for Services	24,529	28,800	122,532	93,732
Licenses and Permits	6,132	7,200	5,894	(1,306)
Fines and Forfeitures	637,935	749,000	749,716	716
Intergovernmental	1,426,344	957,496	987,713	30,217
Interest	178,860	210,000	166,167	(43,833)
Other	2,982	3,000	8,977	5,977
<b>Total Revenues</b>	<b>6,515,586</b>	<b>6,777,251</b>	<b>6,964,026</b>	<b>186,775</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General Government	2,164,450	2,319,148	2,119,934	199,214
Security of Persons and Property	3,712,577	3,706,095	3,589,431	116,664
Public Health	125,178	126,482	125,373	1,109
Community and Economic Development	57,672	57,912	57,370	542
Capital Outlay	27,500	79,420	71,500	7,920
<b>Debt Service:</b>				
Principal Retirements	10,695	10,695	10,693	2
Interest and Fiscal Charges	12,975	12,975	12,967	8
<b>Total Expenditures</b>	<b>6,111,047</b>	<b>6,312,727</b>	<b>5,987,268</b>	<b>325,459</b>
<b>Excess of Revenues Over Expenditures</b>	<b>404,539</b>	<b>464,524</b>	<b>976,758</b>	<b>512,234</b>
<b>Other Financing Sources (Uses):</b>				
Other Financing Sources	0	500	8,892	8,392
Transfers Out	(1,118,400)	(1,125,790)	(1,125,528)	262
<b>Total Other Financing Sources (Uses)</b>	<b>(1,118,400)</b>	<b>(1,125,290)</b>	<b>(1,116,636)</b>	<b>8,654</b>
<b>Net Change in Fund Balance</b>	<b>(713,861)</b>	<b>(660,766)</b>	<b>(139,878)</b>	<b>520,888</b>
<b>Fund Balance at Beginning of Fiscal Year</b>	<b>1,970,474</b>	<b>1,970,474</b>	<b>1,970,474</b>	<b>0</b>
<b>Prior Fiscal Year Encumbrances Appropriated</b>	<b>219,552</b>	<b>219,552</b>	<b>219,552</b>	<b>0</b>
<b>Fund Balance at End of Fiscal Year</b>	<b>\$1,476,165</b>	<b>\$1,529,260</b>	<b>\$2,050,148</b>	<b>\$520,888</b>

See accompanying notes to the basic financial statements.

**City of Norwalk, Ohio**  
**Huron County**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual (Non-GAAP Basis)**  
**Streets**  
**For the Fiscal Year Ended December 31, 2004**

	<u>Budgeted Amounts</u>			Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b><u>Revenues:</u></b>				
Charges for Services	\$0	\$0	\$402	\$402
Licenses and Permits	0	0	30	30
Intergovernmental	741,142	637,000	640,691	3,691
Other	0	0	3,631	3,631
<b>Total Revenues</b>	<b>741,142</b>	<b>637,000</b>	<b>644,754</b>	<b>7,754</b>
<b><u>Expenditures:</u></b>				
<b>Current:</b>				
Transportation	1,375,638	1,375,946	1,276,122	99,824
Capital Outlay	158,221	197,913	185,194	12,719
<b>Total Expenditures</b>	<b>1,533,859</b>	<b>1,573,859</b>	<b>1,461,316</b>	<b>112,543</b>
<b>Excess of Revenues (Under) Expenditures</b>	<b>(792,717)</b>	<b>(936,859)</b>	<b>(816,562)</b>	<b>120,297</b>
<b><u>Other Financing Sources (Uses):</u></b>				
Transfers In	539,858	464,000	464,000	0
Other Financing Sources	0	0	6,632	6,632
<b>Total Other Financing Sources (Uses)</b>	<b>539,858</b>	<b>464,000</b>	<b>470,632</b>	<b>6,632</b>
<b>Net Change in Fund Balance</b>	<b>(252,859)</b>	<b>(472,859)</b>	<b>(345,930)</b>	<b>126,929</b>
<b>Fund Balance at Beginning of Fiscal Year</b>	<b>445,354</b>	<b>445,354</b>	<b>445,354</b>	<b>0</b>
<b>Prior Fiscal Year Encumbrances Appropriated</b>	<b>212,174</b>	<b>212,174</b>	<b>212,174</b>	<b>0</b>
<b>Fund Balance at End of Fiscal Year</b>	<b>\$404,669</b>	<b>\$184,669</b>	<b>\$311,598</b>	<b>\$126,929</b>

See accompanying notes to the basic financial statements.



**City of Norwalk, Ohio**  
**Huron County**  
**Statement of Fund Net Assets**  
**Proprietary Funds**  
**December 31, 2004**

	Business-Type Activities Enterprise Funds			Totals	Governmental Activities - Internal Service Funds
	Water	Sewer	Sanitation		
<b>Assets</b>					
Current Assets:					
Equity in Pooled Cash and Cash Equivalents	\$734,944	\$1,320,888	\$887,861	\$2,943,693	\$117,876
Taxes Receivable	0	0	300,320	300,320	0
Accounts Receivable	286,171	264,931	0	551,102	817
Materials and Supplies Inventory	21,442	11,032	0	32,474	0
Special Assessments Receivable	2,987	2,648	0	5,635	0
<b>Total Current Assets</b>	<b>1,045,544</b>	<b>1,599,499</b>	<b>1,188,181</b>	<b>3,833,224</b>	<b>118,693</b>
Noncurrent Assets:					
Unamortized Bond Issue Costs	41,939	0	0	41,939	0
Non-Depreciable Capital Assets	13,581	72,683	26,497	112,761	0
Depreciable Capital Assets, Net	8,054,651	10,742,133	598,622	19,395,406	0
<b>Total Noncurrent Assets</b>	<b>8,110,171</b>	<b>10,814,816</b>	<b>625,119</b>	<b>19,550,106</b>	<b>0</b>
<b>Total Assets</b>	<b>9,155,715</b>	<b>12,414,315</b>	<b>1,813,300</b>	<b>23,383,330</b>	<b>118,693</b>
<b>Liabilities</b>					
Current Liabilities:					
Accounts Payable	51,047	59,829	34,643	145,519	0
Accrued Wages and Benefits	18,940	18,486	16,225	53,651	0
Intergovernmental Payable	18,206	18,840	10,897	47,943	0
Claims Payable	0	0	0	0	322,614
Deferred Revenue	2,987	2,648	0	5,635	0
Notes Payable	540,000	0	0	540,000	0
Compensated Absences Payable	40,242	37,184	11,939	89,365	0
General Obligation Bonds Payable	190,000	0	0	190,000	0
Capital Leases Payable	0	70,285	0	70,285	0
OPWC Loans Payable	22,675	14,450	0	37,125	0
OWDA Loans Payable	0	150,100	0	150,100	0
<b>Total Current Liabilities</b>	<b>884,097</b>	<b>371,822</b>	<b>73,704</b>	<b>1,329,623</b>	<b>322,614</b>
Noncurrent Liabilities:					
Compensated Absences Payable - Net of Current Portion	104,813	107,883	20,976	233,672	0
General Obligation Bonds Payable - Net of Current Portion	2,580,000	0	0	2,580,000	0
Capital Leases Payable - Net of Current Portion	0	98,543	0	98,543	0
OPWC Loans Payable - Net of Current Portion	11,337	216,751	0	228,088	0
OWDA Loans Payable - Net of Current Portion	0	2,739,374	0	2,739,374	0
Unamortized Discount on Bonds	(12,040)	0	0	(12,040)	0
Unamortized Charge - Refunding Bonds	(280,484)	0	0	(280,484)	0
<b>Total Noncurrent Liabilities</b>	<b>2,403,626</b>	<b>3,162,551</b>	<b>20,976</b>	<b>5,587,153</b>	<b>0</b>
<b>Total Liabilities</b>	<b>3,287,723</b>	<b>3,534,373</b>	<b>94,680</b>	<b>6,916,776</b>	<b>322,614</b>
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	4,724,220	7,525,313	625,119	12,874,652	0
Unrestricted	1,143,772	1,354,629	1,093,501	3,591,902	(203,921)
<b>Total Net Assets</b>	<b>\$5,867,992</b>	<b>\$8,879,942</b>	<b>\$1,718,620</b>	<b>16,466,554</b>	<b>(\$203,921)</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(136,082)	
Net assets of business-type activities.				<u>\$16,330,472</u>	

See accompanying notes to the basic financial statements.

**City of Norwalk, Ohio**  
**Huron County**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Fiscal Year Ended December 31, 2004**

	Business-Type Activities- Enterprise Funds			Totals	Governmental Activities - Internal Service Funds
	Water	Sewer	Sanitation		
<b>Operating Revenues:</b>					
Charges for Services	\$2,182,987	\$2,051,445	\$8,934	\$4,243,366	\$1,002,196
<i>Total Operating Revenues</i>	<u>2,182,987</u>	<u>2,051,445</u>	<u>8,934</u>	<u>4,243,366</u>	<u>1,002,196</u>
<b>Operating Expenses:</b>					
Personal Services	1,015,440	1,022,132	535,135	2,572,707	0
Contractual Services	257,879	327,994	300,532	886,405	201,228
Materials and Supplies	344,521	177,789	53,624	575,934	0
Claims	0	0	0	0	1,042,930
Depreciation	499,658	566,922	66,864	1,133,444	0
<i>Total Operating Expenses</i>	<u>2,117,498</u>	<u>2,094,837</u>	<u>956,155</u>	<u>5,168,490</u>	<u>1,244,158</u>
<i>Operating Income (Loss)</i>	<u>65,489</u>	<u>(43,392)</u>	<u>(947,221)</u>	<u>(925,124)</u>	<u>(241,962)</u>
<b>Non-Operating Revenues (Expenses):</b>					
Municipal Income Tax	0	0	1,123,322	1,123,322	0
Other Non-Operating Revenues	1,644	63,639	20,574	85,857	5,583
Interest and Fiscal Charges	(173,895)	(125,317)	0	(299,212)	0
Loss on Sale of Capital Assets	(6,509)	(6,509)	0	(13,018)	0
Other Non-Operating Expenses	(326)	0	0	(326)	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(179,086)</u>	<u>(68,187)</u>	<u>1,143,896</u>	<u>896,623</u>	<u>5,583</u>
<i>Income (Loss) Before Contributions and Transfers</i>	<u>(113,597)</u>	<u>(111,579)</u>	<u>196,675</u>	<u>(28,501)</u>	<u>(236,379)</u>
Capital Contributions	84,359	513,308	0	597,667	0
Transfer In	9,766	0	0	9,766	0
<i>Change in Net Assets</i>	<u>(19,472)</u>	<u>401,729</u>	<u>196,675</u>	<u>578,932</u>	<u>(236,379)</u>
<i>Net Assets at Beginning of Year</i>	<u>5,887,464</u>	<u>8,478,213</u>	<u>1,521,945</u>		<u>32,458</u>
<i>Net Assets at End of Year</i>	<u>\$5,867,992</u>	<u>\$8,879,942</u>	<u>\$1,718,620</u>		<u>(\$203,921)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterpr Net assets of business-type activities.				(72,322)	
				<u>\$506,610</u>	

See accompanying notes to the basic financial statements.

**City of Norwalk, Ohio**  
**Huron County**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2004**

	Business-Type Activities- Enterprise Funds			Totals	Governmental Activity
	Water	Sewer	Sanitation		Internal Service Funds
<b>Cash Flows from Operating Activities</b>					
Cash Received from Customers	\$2,163,584	\$2,043,700	\$10,340	\$4,217,624	\$1,002,033
Cash Payments to Employees for Services	(1,009,602)	(1,022,380)	(532,011)	(2,563,993)	0
Cash Payments for Goods and Services	(594,921)	(596,011)	(343,868)	(1,534,800)	(201,228)
Cash Payments for Claims	0	0	0	0	(978,920)
Net Cash Provided by (Used in) Operating Activities	559,061	425,309	(865,539)	118,831	(178,115)
<b>Cash Flows from Noncapital Financing Activities</b>					
Municipal Income Tax	0	0	1,056,677	1,056,677	0
Other Non-Operating Revenue	1,624	63,660	20,574	85,858	5,583
Other Non-Operating Expenses	(326)	(208)	0	(534)	0
Net Cash Provided by (Used in) Noncapital Financing Activities	1,298	63,452	1,077,251	1,142,001	5,583
<b>Cash Flows from Capital and Related Financing Activities</b>					
<b>Financing Activities</b>					
Acquisition of Capital Assets	0	(87,288)	(23,852)	(111,140)	0
Payments for Capital Assets	(47,474)	0	0	(47,474)	0
Principal Payments	(392,827)	(150,757)	0	(543,584)	0
Interest Payments	(176,183)	(114,554)	0	(290,737)	0
Net Cash (Used in) Capital and Related Financing Activities	(616,484)	(352,599)	(23,852)	(992,935)	0
Net Increase (Decrease) in Cash and Cash Equivalents	(56,125)	136,162	187,860	267,897	(172,532)
Cash and Cash Equivalents Beginning of Year	791,069	1,184,726	700,001	2,675,796	290,408
Cash and Cash Equivalents End of Year	\$734,944	\$1,320,888	\$887,861	\$2,943,693	\$117,876
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>					
Operating Gain (Loss)	\$65,489	(\$43,392)	(\$947,221)	(\$925,124)	(\$241,962)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>					
Depreciation	499,658	566,922	66,864	1,133,444	0
<b>(Increase) Decrease in Operating Assets:</b>					
Accounts Receivable	(19,403)	(7,745)	1,406	(25,742)	(163)
Materials and Supplies Inventory	(6,214)	(5,134)	0	(11,348)	0
<b>Increase (Decrease) in Operating Liabilities:</b>					
Accounts Payable	5,482	(21,998)	6,312	(10,204)	0
Accrued Wages and Benefits	6,617	6,918	5,069	18,604	0
Compensated Absences Payable	23,765	24,175	6,338	54,278	0
Intergovernmental Payable	(16,333)	(16,746)	(4,307)	(37,386)	0
Claims Payable	0	0	0	0	64,010
Capital Lease	0	(77,691)	0	(77,691)	0
Total Adjustments	493,572	468,701	81,682	1,043,955	63,847
Net Cash Provided by (Used in) Operating Activities	\$559,061	\$425,309	(\$865,539)	\$118,831	(\$178,115)
<b>Noncash Capital Activities</b>					
Contributions of Capital Assets from Developers	\$84,359	\$513,308	\$0	\$597,667	

See accompanying notes to the basic financial statements

**City of Norwalk, Ohio**  
**Huron County**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**December 31, 2004**

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	Private Purpose Trust	Agency
	<u>          </u>	<u>          </u>
<b>Assets</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$16,505	\$23,288
Cash and Cash Equivalents in Segregated Accounts	<u>          0</u>	<u>          29,395</u>
<i>Total Assets</i>	<u>          16,505</u>	<u>          52,683</u>
<b>Liabilities</b>		
Current Liabilities:		
Undistributed Monies	<u>          0</u>	<u>          52,683</u>
<i>Total Liabilities</i>	<u>          0</u>	<u>          \$52,683</u>
<b>Net Assets</b>		
Unrestricted	<u>          16,505</u>	
<i>Total Net Assets</i>	<u>          \$16,505</u>	

See accompanying notes to the basic financial statements.

**City of Norwalk, Ohio**  
**Huron County**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Fund**  
**For the Year Ended December 31, 2004**

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	<u>Private Purpose Trust</u>
Additions:	
Miscellaneous	<u>\$2,325</u>
Total Additions	<u>2,325</u>
Deductions:	
Miscellaneous	<u>11,575</u>
Total Deductions	<u>11,575</u>
Change in Net Assets	(9,250)
Net Assets at Beginning of Year	<u>25,755</u>
Net Assets at End of Year	<u><u>\$16,505</u></u>

See accompanying notes to the basic financial statements.

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY**

The City of Norwalk, Ohio (the “City”) was incorporated in 1887 and chartered in 1972 under the laws of the State of Ohio. The City operates under the Mayor-Council form of government.

For financial reporting purposes, the City’s basic financial statements include all funds, account groups, agencies, boards, commissions and departments for which the City is financially accountable. Financial accountability, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, “The Reporting Entity”, exists if the City appoints a voting majority of an organization’s governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s basic financial statements to be misleading or incomplete.

The City provides various services and consists of many different activities and smaller accounting entities. These include police and firefighting forces, sewage and water treatment plants, a street maintenance department, a parks and recreation system, a trash collection service, planning and zoning, and a staff to provide the necessary support to these service providers. The City also includes a municipal court with jurisdiction extending beyond the boundaries of the City. These service departments and the Norwalk Municipal Court are included as part of the primary reporting entity.

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

The significant accounting policies followed in the preparation of these basic financial statements are summarized below. These policies conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The City applies Financial Accounting Standards Board Statements (FASB) and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds provided they do not conflict with Governmental Accounting Standards Board pronouncements.

**A. *Basis Of Presentation***

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

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

Fund Financial Statements

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal ongoing operation. The principal operating revenues of the city's proprietary funds are charges for services, operating expenses for the enterprise fund including personnel and other expenses related to sewer, water and sanitation operations and operating expenses for the internal service fund including claims and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

**B. *Fund Accounting***

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

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

Governmental Funds

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

General Fund - The general fund 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 charter of the City and/or the general laws of Ohio.

Street Fund - The street fund is a special revenue fund that accounts for all transactions relating to street maintenance and construction.

Capital Investment Trust Fund - This fund is used to account for the proceeds from the sale of public utilities or real estate that the City owns or has an interest in. The monies may be used to construct or acquire permanent improvements upon the approval of the majority of electors of the City.

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

Proprietary Funds

Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

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 Enterprise Fund - The water enterprise fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Sewer Enterprise Fund - The sewer enterprise fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Sanitation Enterprise Fund - The sanitation enterprise fund accounts for the provision of trash and recyclables to the residents and commercial users located within the City.



**CITY OF NORWALK, OHIO**  
**HURON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

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

Internal Service Funds - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports on a self-insurance program for employee medical benefits.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's only trust fund is a private purpose trust fund established to account for deposits made to this account for street openings and boulevard openings. The agency funds account for municipal court collections that are distributed to various local governments, uncashed City issued checks and security against the total cost of removing, repairing or security for property damaged by fire. The City's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**C. *Measurement Focus***

Government-wide Financial Statements

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

Fund Financial Statements

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

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

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

The private purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**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. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 9). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**CITY OF NORWALK, OHIO**  
**HURON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, interest, grants, fees, rentals and special assessments.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

***E. Budgetary Process***

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

**CITY OF NORWALK, OHIO**  
**HURON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**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 City 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 in effect at the time the final appropriations were passed by Council.

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

**F. *Cash, Cash Equivalents and Investments***

To improve cash management, cash received by the City is pooled. Monies for all funds, including the proprietary funds, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

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

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2004.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the year 2004 amounted to \$198,288, which includes \$156,694 assigned from other City funds.

The City has segregated bank accounts and investments for monies held separate from the City's central bank accounts. These accounts and investments are presented as "Cash and Cash Equivalents in Segregated Accounts" and "Investments in Segregated Accounts" since they are not required to be deposited into the City treasury.

The City has monies held by a fiscal and escrow agent, which are held separate from the City's cash management pool. The City utilizes this fiscal and escrow agent to service bonded debt as principal and interest payments come due. This account is presented as "Cash with Fiscal and Escrow Agent".

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

For purposes of the statement of cash flows and for presentation on the statement of net assets/balance sheet, investments with original maturities of three months or less at the time they are purchased by the City and investments of the cash management pool are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**G. *Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables/Payables" and long-term interfund loans are classified as "advances to/from other funds" on the balance sheet and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**H. *Inventory***

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of the proprietary funds are expensed when used.

**I. *Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2004, 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 it was consumed.

**J. *Capital Assets***

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

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. The City’s infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems and water and sewer lines. 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. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City’s historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land Improvements	20 years	20 years
Buildings	6 to 45 years	6 to 45 years
Equipment	5 to 45 years	5 to 45 years
Underground Piping	20 to 50 years	20 to 50 years
Street Improvements	10 years	10 years

The City’s current infrastructure consists of street projects and water and sewer lines. The City plans to phase in the prior year amounts for streets and bridges in future years.

**K. *Compensated Absences***

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”. Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributed to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all eligible employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City’s past experience of making termination payments. In proprietary funds, the entire amount of compensated absences is reported as fund liability.

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

***L. Accrued Liabilities and Long-Term Obligations***

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

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

***M. Fund Balance Reserves***

The City records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Fund balances are reserved for encumbrances, notes receivable, debt service principal payments, endowments and capital improvements.

***N. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

***O. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for sanitation, sewer, water services and self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

***P. Contributions of Capital***

Contributions of capital arise from outside contributions of fixed assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

***Q. Interfund Activity***

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

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

***R. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

***S. 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 -- RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

- A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets



**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 3 -- RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets”. The details of this \$(67,839) difference are as follows:

Net assets of the internal service funds	(\$203,921)
Plus: Internal receivable representing cost in excess of charges to business-type activities - prior years	63,760
Plus: Internal receivable representing cost in excess of charges to business-type activities - current year	<u>72,322</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>(\$67,839)</u></u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statements of activities**

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “internal service funds are used by management to charge the costs of insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities”. The details of this \$(164,057) difference are as follows:

Change in net assets of the internal service funds	(\$236,379)
Less: Loss from charges to business-type activities	<u>72,322</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>(\$164,057)</u></u>

**C. Explanation of certain differences between the proprietary fund statement of net assets and the government-wide statement of net assets**

The proprietary fund statement of net assets includes a reconciliation between *net assets – total enterprise funds* and *net assets of business-type activities* as reported in the government-wide statement of net assets. The description of the sole element of that reconciliation is “adjustment to reflect the consolidation of internal service fund activities related to enterprise funds”. The details of this \$136,082 difference are as follows:

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 3 -- RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)**

Internal receivable representing charges in excess of cost to business-type activities	
- prior years	\$63,760
Internal receivable representing charges in excess of cost to business-type activities	
- current year	<u>72,322</u>
Net adjustment to increase net assets - total enterprise funds to arrive at net assets	
- business-type activities	<u><u>\$136,082</u></u>

**NOTE 4 – RESTATEMENT OF PRIOR YEAR FUND BALANCE/NET ASSETS**

The City has restated beginning balance due to prior year Notes Receivable considered uncollectible.

The restatement on a fund balance is as follows:

	Restatement of Net Change in Fund Balance All Other Governmental Funds
	<hr/>
<u>GAAP Basis</u>	
Net Change in Fund Balance, December 31, 2003	\$1,477
Uncollectible Notes Receivable	<u>(295,182)</u>
Net Change in Fund Balance, December 31, 2003 (Restated)	<u><u>(\$293,705)</u></u>
	Restatement of Fund Balance General Fund
	<hr/>
Fund Balance, December 31, 2003	\$4,714,133
Uncollectible Notes Receivable	<u>(295,182)</u>
Net Change in Fund Balance, December 31, 2003 (Restated)	<u><u>\$4,418,951</u></u>

The restatement on an entity-wide basis is as follows:

	Restatement of Change in Net Assets Governmental Activities
	<hr/>
<u>GAAP Basis</u>	
Net Change in Net Assets, December 31, 2003	\$373,843
Uncollectible Notes Receivable	<u>(295,182)</u>
Change in Net Assets, December 31, 2003 (Restated)	<u><u>\$78,661</u></u>

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 4 – RESTATEMENT OF PRIOR YEAR FUND BALANCE/NET ASSETS (continued)**

	Restatement of Fund Balance General Fund
Fund Balance, December 31, 2003	\$19,104,141
Uncollectible Notes Receivable	(295,182)
Net Assets, December 31, 2003 (Restated)	<u>\$18,808,959</u>

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

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

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Basis), presented for the General Fund and Streets Fund are presented on the budgetary basis to provide a relevant comparison of actual results with the budget and to demonstrate compliance with State statute. 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).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year-end encumbrances are treated as expenditures/expenses (budget) rather than as a reservation of fund balance for governmental types (GAAP).
4. Advances-in and advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements.

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)**

Net Changes in Fund Balance

	General Fund	Streets
GAAP Basis	\$283,898	(\$207,506)
Net Adjustment for Revenue Accruals	(152,501)	(23,241)
Net Adjustment for Expenditure Accruals	(570,636)	(193,405)
Encumbrances	299,361	78,222
Budget Basis	<u>(\$139,878)</u>	<u>(\$345,930)</u>

**NOTE 6 – ACCOUNTABILITY AND COMPLIANCE**

Deficit Fund Balances

The following fund had a deficit in fund balance at December 31, 2004:

Fund	Deficit
Special Revenue Funds:	
Fiscal Year 2005 Intensive Super Probation	(\$906)
Fiscal Year 2003 CDBG CHIP	(44,877)
Fiscal Year 2003 Home Investment Partnership	(22,155)
Fiscal Year 2003 CDBG Formula Grant	<u>(71,000)</u>
Total Special Revenue Funds	<u>(\$138,938)</u>

These funds complied with Ohio State law, which does not permit cash basis deficits. The General Fund transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. These deficits should be eliminated by future intergovernmental revenues not recognized under GAAP at December 31.

**NOTE 7 - DEPOSITS AND INVESTMENTS**

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

- Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.
- Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must 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 NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 7 - DEPOSITS AND INVESTMENTS (continued)**

3. 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 treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

Interim monies are permitted to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
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 and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 7 - DEPOSITS AND INVESTMENTS (continued)**

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Cash on Hand** - At year end, the City had \$6,884 in undeposited cash on hand, of which \$1,100 is included on the balance sheet as part of "Equity in Pooled Cash, Cash Equivalents and Investments" and \$5,784 is included on the balance sheet as "Cash in Segregated Accounts".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements".

**Deposits** - At year end, the carrying amount of the City's deposits was \$3,400,345 and the bank balance was \$3,752,177. Of the bank balance:

1. \$500,000 was covered by federal depository insurance; and
2. \$3,252,177 was held in collateral pools with no specifications for whom such funds are held which is considered to be uninsured and uncollateralized as defined by GASB Statement No. 3.

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.

**Investments** - The City's investments are required to be categorized to give an indication of the level of custodial credit risk assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form.

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 7 - DEPOSITS AND INVESTMENTS (continued)**

At year end, the City’s investment balances were as follows:

	Category		Fair Value
	1	3	
Overnight Repurchase Agreements	\$0	\$48,434	\$48,434
City of Norwalk Bonds	211,447	0	211,447
FHLMC	3,989,613	0	3,989,613
FNMA	4,563,435	0	4,563,435
Total	<u>\$8,764,495</u>	<u>\$48,434</u>	8,812,929
STAR Ohio			<u>2,268,577</u>
Total Investments			<u>\$11,081,506</u>

The classifications of cash, cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting”.

A reconciliation between the classifications of cash, cash equivalents and investments on the financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash	
	<u>Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$14,482,951	\$0
Investments of Cash Management Pool:		
Overnight Repurchase Agreements	(48,434)	48,434
STAR Ohio	(2,268,577)	2,268,577
City of Norwalk Bonds	(211,447)	211,447
Cash on Hand	(1,100)	0
FHLMC	(3,989,613)	3,989,613
FNMA	(4,563,435)	4,563,435
GASB Statement No. 3	<u>\$3,400,345</u>	<u>\$11,081,506</u>

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2004, consisted of taxes, accounts (billings for user charged services, rents and royalties), interfund, special assessments and intergovernmental receivables arising from grants, entitlements, shared revenues, accrued interest and notes receivable.

No allowance for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 8 – RECEIVABLES** (continued)

Notes Receivable

The City of Norwalk has an active Revolving Loan Fund program receiving grants from the Ohio Department of Development funded by the Community Development Block Grant Program and the Federal Economic Development Administration. Grants are invested in loans to economic development projects that are approved by the local Revolving Loan Fund Board and Norwalk City Council. Projects will create and retain jobs in the community with the majority available to persons from low and moderate income households. Loans for machinery and equipment are normally five to seven years and real estate is 10 to 20 years.

The Community Development Block Grant Program and a federally funded Housing Preservation Grant have also provided loans for persons in low and moderate income households for eligible housing rehabilitation projects. Most of these loans are deferred and only become payable at the time the property is sold or title is transferred from the property owner that obtained the loan.

**NOTE 9 - PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utility property taxes represents collections of the 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) is for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35% of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25% of true value.

The full tax rate for all City operations for the year ended December 31, 2004, was \$7.60 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:



**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 9 - PROPERTY TAXES (continued)**

	<u>Total Assessed Value</u>	<u>%</u>
Real Property Valuation:		
Residential/Agriculture	\$176,301,850	63.37%
Commercial/Industrial/Mineral	60,121,580	21.61%
Public Utilities	30,900	0.01%
Tangible Personal Property Valuation:		
General	35,012,410	12.58%
Public Utilities	6,747,740	2.43%
Total Valuation	<u>\$278,214,480</u>	<u>100.00%</u>

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Norwalk. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004 and for which there is an enforceable legal claim. In the governmental fund financial statements, the entire receivable is offset by deferred revenue since the current taxes were not levied to finance 2004 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

**NOTE 10 - INCOME TAX**

The City levies and collects an income tax on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% for the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated taxes at least quarterly and to file a final return annually.

The income tax collected in 2004 was distributed to the general fund (66.66%), sanitation enterprise fund (16.67%) and general capital improvements fund (16.67%).

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 11 - SPECIAL ASSESSMENTS**

Special assessments include annually assessed service assessments. Service-type special assessments are levied against all property owners which benefit from the provided service. Special assessments are payable by the time and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

The City's special assessments include sidewalk construction/repair which are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year.

**NOTE 12 – RISK MANAGEMENT**

**A. Liability Insurance**

The City is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters. The City has a comprehensive property and casualty policy with a deductible of \$1,000 per incident. The City's vehicle liability insurance policy limit is \$3,000,000 with a \$1,000 collision deductible. All Council members, administrators and employees are covered under a City liability policy. The limits of this coverage are \$3,000,000 per occurrence and \$5,000,000 in the aggregate. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction of coverage from the prior year.

**B. Fidelity Bonds**

The Mayor, Director of Finance, Municipal Court Judge and Clerk of Courts have a \$100,000 position bond. The Director of Law has a \$5,000 position bond. All other City employees are covered by a \$50,000 blanket bond.

**C. Workers' Compensation**

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

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 12 - RISK MANAGEMENT (continued)**

**D. Employee Health Insurance**

The City has elected to provide employee medical and prescription benefits through a self-insurance program. The City maintains a self-insurance internal service fund to account for and finance its uninsured risk of loss in this program. This plan provides a medical plan with a \$200.00 family and \$100.00 single deductible. Employees were given an option with the plan year beginning April 1, 2004 to choose a higher family deductible of \$400 which would result in their bi-weekly share remaining at the previous plan year level of \$17.91 per pay. A third party administrator, Klais and Company, located in Akron, Ohio, reviews all claims which are then funded by the City. The City purchased stop-loss coverage of \$50,000 per individual and \$1,000,000 in the aggregate. The City paid into the self-insurance internal service fund \$593.80 per month for each full-time employee with family coverage and \$280.54 per month for each full-time employee with single coverage for the period January 1, 2004 through March 31, 2004. The premium for family coverage was \$17.91 per pay and the premium for single coverage was \$0.00 per pay for full-time employees for the period January 1, 2004 through March 31, 2004. The City paid into the self-insurance internal service fund \$690.84 per month for each full-time employee with family coverage opting for a \$200 deductible, \$638.80 per month for each full-time employee with family coverage opting for a \$400 deductible and \$328.43 per month for each full time employee with single coverage for the period April 1, 2004 through December 31, 2004. The premiums for family coverage was \$41.93 per pay (\$200 family deductible) or \$17.91 per pay (\$400 family deductible) and \$0.00 per pay for each full-time employee with single coverage for the period April 1, 2004 through December 31, 2004. The premium is paid by the fund that pays the salary for the employee.

The claims liability of \$322,614 reported in the self-insurance internal service fund at December 31, 2004 is based on the requirements of GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The claims liability is based on an estimate supplied by the City's third party administrator. A summary of the fund's claims liability during the past two years are as follows:

	Balance at <u>Beginning of Year</u>	Current Year <u>Claims</u>	Claims <u>Payments</u>	Balance at <u>End of Year</u>
2003	\$132,166	\$911,191	(\$784,753)	\$258,604
2004	\$258,604	\$1,042,930	(\$978,920)	\$322,614

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 13 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance 01/01/2004	Additions	Deletions	Balance 12/31/2004
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated:				
Land	\$2,001,247	\$0	\$0	\$2,001,247
Construction in Progress	87,786	23,259	(6,135)	104,910
Total Capital Assets, Not Being Depreciated	<u>2,089,033</u>	<u>23,259</u>	<u>(6,135)</u>	<u>2,106,157</u>
Capital Assets, Being Depreciated:				
Land Improvements	1,109,825	25,362	0	1,135,187
Buildings	6,910,752	0	0	6,910,752
Equipment	5,180,605	299,644	(225,287)	5,254,962
Infrastructure	638,034	716,405	0	1,354,439
Total Capital Assets, Being Depreciated	<u>13,839,216</u>	<u>1,041,411</u>	<u>(225,287)</u>	<u>14,655,340</u>
Less Accumulated Depreciation:				
Land Improvements	(557,731)	(42,435)	0	(600,166)
Buildings	(1,777,083)	(147,976)	0	(1,925,059)
Equipment	(3,492,729)	(352,300)	157,786	(3,687,243)
Infrastructure	(44,381)	(93,699)	0	(138,080)
Total Accumulated Depreciation	<u>(5,871,924)</u>	<u>(636,410)</u>	<u>157,786</u>	<u>(6,350,548)</u>
Total Capital Assets, Being Depreciated, Net	<u>7,967,292</u>	<u>405,001</u>	<u>(67,501)</u>	<u>8,304,792</u>
Governmental Activities Capital Assets, Net	<u>\$10,056,325</u>	<u>\$428,260</u>	<u>(\$73,636)</u>	<u>\$10,410,949</u>
	Beginning Balance 01/01/2004	Additions	Deletions	Balance 12/31/2004
<b>Business-Type Activities</b>				
Capital Assets, Not Being Depreciated:				
Land	\$26,497	\$0	\$0	\$26,497
Construction in Progress	14,150	72,114	0	86,264
Total Capital Assets, Not Being Depreciated	<u>40,647</u>	<u>72,114</u>	<u>0</u>	<u>112,761</u>

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 13 - CAPITAL ASSETS (continued)**

	Beginning Balance 01/01/2004	Additions	Deletions	Balance 12/31/2004
Capital Assets, Being Depreciated:				
Land Improvements	746,904	0	0	746,904
Buildings	7,762,776	33,700	(18,647)	7,777,829
Equipment	8,874,679	105,148	(107,805)	8,872,022
Infrastructure	21,046,227	597,667	(4,627)	21,639,267
Total Capital Assets, Being Depreciated	<u>38,430,586</u>	<u>736,515</u>	<u>(131,079)</u>	<u>39,036,022</u>
Less Accumulated Depreciation:				
Land Improvements	(522,732)	(35,800)	0	(558,532)
Buildings	(2,657,445)	(186,005)	207	(2,843,243)
Equipment	(5,414,434)	(422,295)	82,149	(5,754,580)
Infrastructure	(9,978,274)	(510,614)	4,627	(10,484,261)
Total Accumulated Depreciation	<u>(18,572,885)</u>	<u>(1,154,714)</u>	<u>86,983</u>	<u>(19,640,616)</u>
Total Capital Assets, Being Depreciated, Net	<u>19,857,701</u>	<u>(418,199)</u>	<u>(44,096)</u>	<u>19,395,406</u>
Business-Type Activities Capital Assets, Net	<u>\$19,898,348</u>	<u>(\$346,085)</u>	<u>(\$44,096)</u>	<u>\$19,508,167</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$47,458
Security of Persons and Property	225,489
Transportation	158,130
Community Environment	2,483
Leisure Time Activities	202,850
Total	<u>\$636,410</u>

**NOTE 14 – CAPITAL LEASES**

The City has entered into lease agreements for a sewer jet cleaner, a sewer camera truck and a toolbox. These leases met the criteria of a capital lease as defined by Statement of Financial Accounting Standards Board No. 13, "Accounting for Leases". Accordingly, these leases have been recorded at the present value of their future minimum lease payments, as of the inception date. The sewer jet cleaner and sewer camera truck have been recorded in the sewer enterprise fund. The toolbox has been recorded in the governmental funds, Parks and Recreation and Aquatic fund.

The following is a schedule of the future minimum lease payments and the present value of the minimum lease payments as of December 31, 2004:

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 14 – CAPITAL LEASES (continued)**

Year Ending December 31,	Governmental Activities Lease Payments	Business-Type Activities Lease Payments
2005	\$4,598	\$77,690
2006	4,598	52,188
2007	4,598	52,188
Total minimum lease payments	13,794	182,066
Less: Amount representing interest	(1,514)	(13,238)
Present value of net minimum lease payments	<u>\$12,280</u>	<u>\$168,828</u>

**NOTE 15 – NOTES PAYABLE**

	Outstanding 12/31/2003	Issued	Retired	Outstanding 12/31/2004
<b>Enterprise Funds:</b>				
4.5% Water Treatment Plant Improvement Note	\$740,000	\$0	(\$740,000)	\$0
4.5% Water Treatment Plant Improvement Note	0	540,000	0	540,000
<b>Total</b>	<u>\$740,000</u>	<u>\$540,000</u>	<u>(\$740,000)</u>	<u>\$540,000</u>

In 2004, the City issued \$540,000 in notes to refinance the cost of improving the City’s water treatment plant.

All of the notes are bond anticipation notes, are backed by the full faith and credit of the City and mature on July 3, 2005. The note liability is reflected in the fund which received the proceeds and will repay the debt.

**NOTE 16 – LONG-TERM OBLIGATIONS**

	Interest Rate	Original Issue Amount	Date of Maturity
<b>Governmental Activities:</b>			
Sewer System Improvement Bonds	5.25%	\$4,000,000	January 1, 2007
Parking Improvement Bonds	5.50%	90,000	December 1, 2017
Parking Improvement Bonds	6.00%	185,000	December 1, 2017
Street Improvement Bonds	3.85% -5.30%	875,000	December 1, 2014
OPWC Memorial Reservoir Spillway	0%	276,578	January 1, 2019
OPWC East/West Parkway Construction	0%	125,000	July 1, 2022
OPWC West Monroe/Case Street Improvements	0%	95,621	January 1, 2014
Police and Fire Past Service Cost	4.25%	541,508	November 1, 2035
OWDA Milan/Chatham Sewers Project	3.90%	1,198,098	January 1, 2022

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 16 - LONG-TERM OBLIGATIONS (continued)**

	Interest Rate	Original Issue Amount	Date of Maturity
<b>Business-Type Activities:</b>			
Waterworks Refunding Bonds, Series 1996	3.80%-5.90%	3,910,000	April 1, 2015
OPWC Christie Avenue Waterline	0%	137,200	July 1, 2006
OPWC Pleasant Street Pumping Station	0%	289,001	January 1, 2021
OPWC St. Mary's/Ontario/East Main Waterline	0%	89,551	July 1, 2006
OWDA Southside Sewer Separation	3.85%	1,189,805	July 1, 2016
OWDA Ward/Parsons Sewer Construction	3.75%	562,594	July 1, 2019
OWDA Milan/Chatham Sewers Project	3.90%	1,797,148	January 1, 2022

Changes in the long-term obligations of the City during 2004 were as follows:

	Balance 01/01/2004	Additions	Deletions	Balance 12/31/2004	Amount Due In One Year
<b>Governmental Activity:</b>					
Sewer System Improvement Bonds	\$800,000	\$0	(\$200,000)	\$600,000	\$200,000
Parking Improvement Bonds	72,220	0	(3,559)	68,661	3,755
Parking Improvement Bonds	149,920	0	(7,134)	142,786	7,562
Street Improvement Bonds	700,000	0	(50,000)	650,000	50,000
Total General Obligation Bonds	1,722,140	0	(260,693)	1,461,447	261,317
OPWC Memorial Reservoir Spillway	207,432	0	(13,829)	193,603	13,829
OPWC East/West Parkway Construction	115,625	0	(6,250)	109,375	6,250
OPWC West Monroe Case Street Improvement	0	95,621	(9,562)	86,059	9,562
Total OPWC Loans	323,057	95,621	(29,641)	389,037	29,641
Police and Fire Past Service Cost	481,486	0	(7,409)	474,077	7,832
Total Police and Fire Liability	481,486	0	(7,409)	474,077	7,832
OWDA Milan/Chatham Sewer Project	1,103,219	0	(31,448)	1,071,771	45,468
Total OWDA Loans	1,103,219	0	(31,448)	1,071,771	45,468
Capital Leases	0	12,280	0	12,280	3,856
Compensated Absences	653,128	369,081	(295,910)	726,299	204,491
Total Governmental Activity	\$4,283,030	\$476,982	(\$625,101)	\$4,134,911	\$552,605

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 16 - LONG-TERM OBLIGATIONS (continued)**

	Balance 01/01/2004	Additions	Deletions	Balance 12/31/2004	Amount Due In One Year
<b>Business-Type Activity:</b>					
Waterworks Refunding Bonds, Series 1996	\$2,950,000	\$0	(\$180,000)	\$2,770,000	\$190,000
Unamortized Discount on Bonds	(13,215)	0	1,175	(12,040)	0
Unamortized Charge-Refunding Bonds	(316,511)	0	36,027	(280,484)	0
Total General Obligation Bonds	2,620,274	0	(142,798)	2,477,476	190,000
OPWC Christie Avenue Waterline	34,300	0	(13,720)	20,580	13,720
OPWC Pleasant Street Pumping Station	245,651	0	(14,450)	231,201	14,450
OPWC St. Mary's/Ontario/ East Main Waterline	22,387	0	(8,955)	13,432	8,955
Total OPWC Loans	302,338	0	(37,125)	265,213	37,125
OWDA Southside Sewer Separation	845,463	0	(53,812)	791,651	55,904
OWDA Ward/Parsons Sewer Construction	515,212	0	(25,045)	490,167	25,993
OWDA Milan/Chatham Sewer Project	1,654,828	0	(47,172)	1,607,656	68,203
Total OWDA Loans	3,015,503	0	(126,029)	2,889,474	150,100
Capital Leases	235,756	0	(66,928)	168,828	70,285
Compensated Absences	268,759	166,033	(111,755)	323,037	89,365
Total Business-Type Activity	\$6,442,630	\$166,033	(\$484,635)	\$6,124,028	\$536,875
Total Long-Term Obligations	\$10,725,660	\$643,015	(\$1,109,736)	\$10,258,939	\$1,089,480

The Ohio Public Works Commission (OPWC) loans and the Ohio Water Development Authority (OWDA) loans in the enterprise funds have been received for improvement to the City's water and sewer system. Water and sewer revenues are expected to be used to repay the loans. The liability for police and fire past service cost relates to the City's liability to certain employees incurred prior to the establishment of the Ohio Police and Fire Pension Fund. The City is required to make payments of approximately \$27,900, including interest, annually through the year 2035. The liability for police and fire past service cost will be repaid with taxes on all taxable property in the City. An OPWC loan was received for improvements to the Memorial Reservoir Spillway. Repayment of this loan will be made with income tax monies. Another OPWC loan will be paid from the general capital improvements fund was received for construction to the East/West Parkway. Repayment of this loan will be made with income tax monies and special assessments. The governmental portion of the OWDA Milan/Chatham Sewers Project Loan will be paid from the general capital improvements fund with income tax monies.



**CITY OF NORWALK, OHIO**  
**HURON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 16 - LONG-TERM OBLIGATIONS** (continued)

Compensated absences will be paid from the fund from which the employee is paid.

Outstanding general obligation bonds consist of sewer system construction and improvement, waterworks improvement, street improvement and parking improvement issues. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged. The general obligation bonds consisting of sewer system construction and improvement issues will be repaid with taxes levied on all taxable property in the City. The general obligation bonds consisting of the waterworks improvement will be repaid with revenues of the water utility.

The general obligation bonds consisting of parking improvement issues will be repaid with proceeds from parking meters, parking permit sales and fines from parking violations. The general obligation bonds consisting of the street improvement issue will be repaid with income tax monies and special assessments.

During 1997, the City approved an ordinance providing for the issuance and sale of \$185,000 in bonds for the purpose of paying the cost of acquiring real property in the downtown area to be used as a parking lot. Also, during 1997, the City approved an ordinance providing for the issuance and sale of \$90,000 in bonds for the purpose of paying a portion of the cost of constructing a public parking lot in the downtown area. These bonds were subsequently purchased by the capital projects funds, with the proceeds being received into the special revenue funds. As of December 31, 2004, these debt issues are recorded as "Investments in City of Norwalk Securities" in the capital projects funds in the amount of \$211,447. All interest income arising from these transactions is credited to the capital projects funds.

The annual requirements to amortize all debt outstanding as of December 31, 2004, including interest payments of \$392,594 for the general long-term obligations bonds, \$970,622 for the waterworks general obligation bonds, and \$1,356,150 for the OWDA loans are as follows:

	Governmental Activities General Obligation Bonds					
	OPWC Loans				OWDA Loans	
	Principal	Interest			Principal	Interest
2005	\$29,641	\$0	\$261,317	\$94,301	\$45,468	\$41,360
2006	29,641	0	266,977	74,941	47,259	39,569
2007	29,641	0	267,676	55,257	49,120	37,708
2008	29,641	0	73,415	35,477	51,054	35,774
2009	29,641	0	79,199	31,754	53,065	33,763
2010 - 2014	138,642	0	449,432	93,315	298,366	135,777
2015 - 2019	86,565	0	63,431	7,549	361,928	72,215
2020 - 2022	15,625	0	0	0	165,511	8,147
Total	<u>\$389,037</u>	<u>\$0</u>	<u>\$1,461,447</u>	<u>\$392,594</u>	<u>\$1,071,771</u>	<u>\$404,313</u>

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 16 - LONG-TERM OBLIGATIONS (continued)**

	<u>Business-Type Activities</u>					
	<u>OPWC Loans</u>		<u>OWDA Loans</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$37,125	\$0	\$150,099	\$110,125	\$190,000	\$151,947
2006	25,788	0	155,942	104,283	200,000	141,903
2007	14,450	0	162,012	98,213	210,000	131,085
2008	14,450	0	168,318	91,906	220,000	119,473
2009	14,450	0	174,870	85,354	235,000	106,956
2010 - 2014	72,250	0	981,916	319,204	1,385,000	309,523
2015 - 2019	72,250	0	848,051	130,532	330,000	9,735
2020 - 2022	14,450	0	248,266	12,220	0	0
Total	<u>\$265,213</u>	<u>\$0</u>	<u>\$2,889,474</u>	<u>\$951,837</u>	<u>\$2,770,000</u>	<u>\$970,622</u>

**NOTE 17 - DEBT DEFEASANCE**

In 1996, the City defeased the 1990 series revenue bonds by purchasing U.S. government securities with the proceeds of new bonds and placing these securities in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1990 series revenue bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City’s basic financial statements.

On December 31, 2004, \$2,481,570 of bonds outstanding are considered defeased.

**NOTE 18 - DEFINED BENEFIT PENSION PLANS**

**A. *Public Employees Retirement System***

All employees of the City, with the exclusion of City police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), which administers three separate pension plans as described below:

1. The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 18 - DEFINED BENEFIT PENSION PLANS (continued)**

3. The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The OPERS issues a stand-alone financial report that may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan.

Plan members are required to contribute 8.50% of their annual covered salary to fund pension benefit obligations. The City is required to contribute 13.55%. Contributions are authorized by state statute. The contribution rates are determined actuarially. The City's contributions for pension obligations to the OPERS for the years ending December 31, 2004, 2003 and 2002 were \$472,381, \$600,823 and \$517,927, respectively, equal to the required contributions for each year. The full amount has been contributed for 2003 and 2002. 89.27% has been contributed for 2004.

***B. Ohio Police and Fire Pension Fund***

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

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 18 - DEFINED BENEFIT PENSION PLANS (continued)**

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 11.75% for police officers and 16.25% for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for police and firefighters was \$151,241 and \$167,749 for the year ended December 31, 2004, \$139,939 and \$148,751 for the year ended December 31, 2003 and \$65,864 and \$70,007 for the year ended December 31, 2002, equal to the required contributions for each year. The full amount has been contributed for 2003 and 2002. 66.73% and 65.80%, respectively, have been contributed for 2004 with the remainder being reported as a liability.

**C. *Social Security System***

All volunteer firefighters and Council members, not otherwise covered by another retirement system, are covered by Social Security. The City's liability is 6.2% of wages paid.

**NOTE 19 – POSTEMPLOYMENT BENEFITS**

**A. *Public Employees Retirement System***

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

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

OPERS provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Post-Employment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 employer contribution rate was 13.55% of covered payroll; 4.0% was the portion that was used to fund health care for the year 2004. The City's actual contributions for 2004 which were used to fund post-employment benefits were \$139,448.

The Ohio Revised Code provides the statutory authority requiring employers to fund postretirement health care through their contributions to OPERS.

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 19 – POSTEMPLOYMENT BENEFITS (continued)**

The assumptions and calculations below were based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.0%, an annual increase in active employee total payroll of 4.0% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll over and above the 4.0% base increase of between .50% and 6.3% based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next eight years. In subsequent years (nine and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability.

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

OPEB's are advance-funded on an actuarially determined basis.

At year end 2004, the number of active contributing participants was 369,885. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 19 – POSTEMPLOYMENT BENEFITS** (continued)

**B. *Ohio Police and Fire Pension Fund***

The Ohio Police and Fire Pension Fund (OP&F) provides post-retirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of the OP&F Ohio shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll. The City's actual contributions for 2004 which were used to fund post-employment benefits were \$99,755 for police and \$80,003 for firefighters.

The Ohio Revised Code provides the statutory authority allowing the OP&F Ohio's Board of Trustees to provide health care coverage to all eligible individuals.

Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2003 and 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2002, all retirees and survivors have monthly health care contributions. The number of participants eligible statewide to receive health care benefits as of December 31, 2003, the date of the last actuarial valuation available, are 13,662 for police officers and 10,474 for firefighters. The OP&F Ohio's total health care expense for the year ending December 31, 2003, the date of the last actuarial valuation available, was \$150,853,148, which was net of member contributions of \$17,207,506.

**NOTE 20 - COMPENSATED ABSENCES**

Full-time City employees who have completed at least one full year of continuous full-time service with the City shall be entitled to vacation with pay. Vacation hours and maximums are based upon hours scheduled and worked based upon the length of service. Employees earn vacation at rates varying from two weeks to five weeks per year. Part-time, seasonal, temporary, intermittent employees and interim employees of six months or less are not eligible for paid vacation leave. An employee who has completed one year of continuous full-time service with the City is entitled to compensation at his or her current rate of pay for the pro-rated portion of any earned, but unused, vacation leave for the current year at the time of separation, retirement or death.

Full-time City employees earn sick leave at the rate of .05769 hours for every paid service hour completed for the City. Sick leave to be paid for time away from work due to illness may be accumulated without limit. An employee, at the time of retirement from active service with the City, or a legal representative of the employee upon death of the employee, may elect to be paid in cash or have paid to his or her estate 50% of the value of his or her earned but unused sick leave credit up to a maximum of 1,500 hours. The maximum of such payment shall not exceed 750 hours.

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 20 - COMPENSATED ABSENCES (continued)**

Full-time police officers and firefighters are entitled to three days compensatory time in lieu of any other compensation for working regular schedules on the designated holidays.

As of December 31, 2004, the liability for compensated absences was \$1,049,336 for the entire City.

**NOTE 21 - CONTINGENT LIABILITIES**

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These 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, City management believes such disallowances, if any, will be immaterial.

**NOTE 22 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ending December 31, 2004 consisted of the following:

	Transfers In:			
	Streets	All Other Governmental Funds	Water	Total
Transfers Out:				
General Fund	\$464,000	\$661,528	\$0	\$1,125,528
All Other Governmental Funds	0	0	9,766	9,766
<b>Total Transfers</b>	<b>\$464,000</b>	<b>\$661,528</b>	<b>\$9,766</b>	<b>\$1,135,294</b>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

**CITY OF NORWALK, OHIO  
HURON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 23 – CONSTRUCTION COMMITMENTS**

As of December 31, 2004, the City had contractual commitments as follows:

Project	Spent to Date	Remaining Commitment
Street Lighting	5,400	2,630
Whittlesey Avenue Improvement - Phase III	26,268	431,754
Phase II Reservoir Improvement	3,372	28,600
Hdwk/Prime/Sludge Improvements	44,963	195,037
East Main Street Sewer Replacement	4,550	86,880
Restroom Project-South Drive Veterans' Park	36,776	12,000
Woodlawn Ave Storm Sewer	149,343	111,851
Hester Street Improvements	196,790	2,900
Grove Avenue Storm Sewer Improvements	187,376	83,491
Willard Avenue Improvements	8,201	15,799
West Monroe/Case Improvements	265,828	6,922
Fair Road Waterline Improvements	10,300	18,700
Manahan Improvements	82,127	1,600
Patrician Drive Improvements	145,475	8,007
Benedict Avenue Waterline-Phase II	82,559	3,469
Benedict Avenue Widening Project	22,917	1,291
Cline Street Extension	2,265	20,385



# BALESTRA, HARR & SCHERER CPAs, INC.

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Ohio Society of Certified Public Accountants

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

City of Norwalk  
38 Whittlesey Avenue  
Norwalk, Ohio 44857

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 Norwalk, Huron County, (the City), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated September 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the City in a separate letter dated September 30, 2005.

City of Norwalk

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

Page 2

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

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

Balestra, Harr & Scherer, CPAs, Inc.

September 30, 2005



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

**CITY OF NORWALK**

**HURON 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  
JANUARY 19, 2006**