



**Auditor of State
Betty Montgomery**

**CITY OF WAVERLY
PIKE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Waverly
Pike County
201 West North Street
Waverly, Ohio 45690

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waverly, Pike County, Ohio (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.

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

We were unable to obtain the necessary assurances regarding the accuracy, completeness, existence and valuation of the Capital Assets reported in Governmental Activities, Business Type Activities and the Water Fund and Sewer Fund for the year ended December 31, 2004.

In our opinion, except for such adjustments, if any, that would have been necessary had sufficient, competent, evidential matter been available to assure the accuracy, completeness, existence and valuation of the City's recorded Capital Assets, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waverly, Pike County, Ohio, as of December 31, 2004, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund, Bridge and Street Fund, Fire Fund and Police Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 18, during the year ended December 31, 2004, the City implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 17, 2006

City of Waverly
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

The discussion and analysis of the City of Waverly's 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; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets increased \$202,224. Net assets of governmental activities increased \$338,216. Net assets of business-type activities decreased \$135,992.
- Governmental Activities general revenues accounted for \$2,801,249 in revenue or 82 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$598,599 or 18 percent of total revenues of \$3,399,848. Business-type activities general revenues accounted for \$8,708 in revenue or .5 percent of all revenues. Program specific revenues accounted for \$1,585,770 or 99.5 percent of total revenues of \$1,594,478.
- The City had \$3,061,632 in expenses related to governmental activities; \$598,599 of these expenses was offset by program specific charges for services, grants or contributions. The City had \$1,730,470 in expenses related to business-type activities; \$1,585,770 was offset by program specific charges for services, grants or contributions.

Using the Annual Financial Report

This annual report consists of a series of financial statements and notes to the financial statements. These statements are organized so the reader can understand the City of Waverly as a financial whole or as an entire operating entity. The statements then proceed to provide a detailed look at specific financial conditions.

The statement of net assets and statement of activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major 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 monies remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in a single column.

City of Waverly
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

Reporting the City as a Whole

Statement of Net Assets and Statement of Activities

While this report contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting system used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net assets and the changes in those net assets. The change in net assets is important because it identifies whether the financial position of the City has improved or diminished for the City as a whole. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

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

- **Governmental Activities** - Most of the City's services are reported as governmental activities including police, fire, administration, and all departments with the exception of business-type activities (wastewater treatment and water services).
- **Business-Type Activities** - These services have a charge based upon usage. The City charges fees to recoup the cost of the entire operation of the Water Plant and Wastewater Treatment Plant as well as all capital expenses associated with these facilities.

Reporting the City's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds which account for the multitude of services provided to our residents; however, fund financial statements focus on the City's most significant funds. The City of Waverly's major funds are the General Fund, the Bridge & Street, Fire, and Police Special Revenue Funds, the Second Street Improvement Capital Projects Fund, and the Water and Sewer Enterprise Funds.

Governmental Funds - Most of the City's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the year-end balances available for spending in the future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services provided. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future on services provided to residents. The relationships between governmental activities reported in the statement of net assets and the statement of activities and the governmental fund statements are reconciled in the financial statements.

Enterprise Funds - When the City charges customers for the services it provides, these services are generally reported in enterprise funds. Enterprise funds use the same basis of accounting as business-type activities; therefore, these statements are essentially the same.

City of Waverly
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

The City as a Whole

The statement of net assets reviews the City as a whole. The following table is a summary of the City's net assets for 2004. Since this is the first year the City of Waverly has prepared financial statements following GASB Statement 34, comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 1
Net Assets

| | Governmental Activities | Business- Type Activities | Total |
|----------------------------|----------------------------|---------------------------------|--------------------|
| | 2004 | 2004 | 2004 |
| Assets | | | |
| Current and Other Assets | \$2,514,010 | \$1,224,480 | \$3,738,490 |
| Capital Assets, Net | 2,533,731 | 8,450,509 | 10,984,240 |
| Total Assets | <u>5,047,741</u> | <u>9,674,989</u> | <u>14,722,730</u> |
| Liabilities | | | |
| Other Liabilities | 1,473,191 | 244,919 | 1,718,110 |
| Long-Term Liabilities | 1,306,324 | 5,034,480 | 6,340,804 |
| Total Liabilities | <u>2,779,515</u> | <u>5,279,399</u> | <u>8,058,914</u> |
| Net Assets | | | |
| Invested in Capital Assets | | | |
| Net of Debt | 1,269,805 | 3,437,414 | 4,707,219 |
| Restricted | 574,521 | 0 | 574,521 |
| Unrestricted | 423,900 | 958,176 | 1,382,076 |
| Total Net Assets | <u>\$2,268,226</u> | <u>\$4,395,590</u> | <u>\$6,663,816</u> |

Total governmental activities net assets increased \$338,216 while business-type activities decreased \$135,992.

City of Waverly
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

Table 2 shows the changes in net assets for the year ended December 31, 2004. Since this is the first year the City of Waverly has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2

| | Governmental Activities 2004 | Business Type Activities 2004 | Total 2004 |
|------------------------------------|------------------------------------|--|--------------------|
| Revenue | | | |
| Program Revenues: | | | |
| Charges for Services and Sales | \$251,664 | \$1,413,368 | \$1,665,032 |
| Operating Grants and Contributions | 271,922 | 172,402 | 444,324 |
| Capital Grants | 75,013 | 0 | 75,013 |
| Total Program Revenues | <u>598,599</u> | <u>1,585,770</u> | <u>2,184,369</u> |
| General Revenue: | | | |
| Property & Income Taxes | 2,523,384 | 0 | 2,523,384 |
| Grants and Entitlements | 122,200 | 0 | 122,200 |
| Unrestricted Investment Earnings | 28,851 | 477 | 29,328 |
| Other | 126,814 | 8,231 | 135,045 |
| Total General Revenues | <u>2,801,249</u> | <u>8,708</u> | <u>2,809,957</u> |
| Total Revenues | <u>3,399,848</u> | <u>1,594,478</u> | <u>4,994,326</u> |
| Program Expenses | | | |
| General Government - | | | |
| Legislative and Executive | 895,217 | 0 | 895,217 |
| Security of Persons and Property | 1,607,850 | 0 | 1,607,850 |
| Public Health | 1,470 | 0 | 1,470 |
| Leisure Time Activities | 122 | 0 | 122 |
| Community Environment | 808 | 0 | 808 |
| Transportation | 517,080 | 0 | 517,080 |
| Interest and Fiscal Charges | 39,085 | 0 | 39,085 |
| Water Fund | 0 | 739,004 | 739,004 |
| Sewer Fund | 0 | 991,466 | 991,466 |
| Total Expenses | <u>3,061,632</u> | <u>1,730,470</u> | <u>4,792,102</u> |
| Change in Net Assets | <u>338,216</u> | <u>(135,992)</u> | <u>202,224</u> |
| Beginning Net Assets | <u>1,930,010</u> | <u>4,531,582</u> | <u>6,461,592</u> |
| Ending Net Assets | <u>\$2,268,226</u> | <u>\$4,395,590</u> | <u>\$6,663,816</u> |

City of Waverly
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

Governmental Activities

Several revenue sources fund governmental activities, with income taxes generally being the biggest contributor. General revenues from property taxes are also a large revenue generator. With the combination of property tax, income tax and intergovernmental receipts comprising approximately 94% of all general revenues in the governmental activities, the City monitors each of these revenue sources very closely for fluctuations.

General government and security of persons and property are the major activities of the City, generating approximately 82% of the total expenses.

Business-Type Activities

The City's business-type activities are its water and sewer departments. The water and wastewater treatment plants provide services to the City's residents. The wastewater treatment plant generated program revenues of \$940,097 and had expenses of \$991,466. The water plant generated program revenues of \$645,673 and had expenses of \$739,004. The City's goal is to cover the costs of operations as well as build a cash balance in these funds. The City is also generating funds for additional capital expansion to ensure continued capacity and capacity improvements for future growth and development.

The City's Funds

The City's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds on the modified accrual basis of accounting had total revenues of \$3,568,433 and expenditures of \$4,603,947. The net change in fund balance for the year was most significant in the General Fund, where the fund balance went from \$284,690 in 2003 to \$432,103 in 2004. The primary reason for this increase was due to an increase in property taxes which was partially offset by the increases in expenditures and transfers out. The Second Street Improvement Major Capital Projects Fund had total revenues and other financing sources of \$416,464 and expenditures and other financing uses of \$560,752. The decrease in fund balance was due to capital outlay expenditures during 2004.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of 2004, the City amended its General Fund budget. With the General Fund supporting many of the major activities such as the City's police and fire departments, as well as most general government activities, the General Fund is monitored closely to prevent possible revenue shortfalls or over spending by individual departments.

For the General Fund, original budgeted revenues were \$1,418,700 and final budgeted revenues were \$2,018,700. Actual revenues were close to final budgeted revenues with a variance of only \$35,966. Original budgeted expenditures were \$2,270,199 and final budgeted expenditures were \$2,135,045. Actual budgetary basis expenditures were \$195,038 less than the final budgeted expenditures due to actual capital outlay expenditures being less than anticipated. Actual ending fund balance was \$159,072 over final budget amounts.

City of Waverly
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of the 2004 the City had \$10,984,240 invested in land, land improvements, construction in progress, buildings, and Improvements, furniture and equipment, vehicles, water and sewer lines, and infrastructure. Table 4 shows 2004 balances.

| | Governmental Activities | Business- Type Activities | Total |
|----------------------------|----------------------------|---------------------------------|---------------------|
| | 2004 | 2004 | 2004 |
| Land | \$275,428 | \$153,792 | \$429,220 |
| Land Improvements | 82,217 | 59,930 | 142,147 |
| Buildings and Improvements | 784,032 | 833,295 | 1,617,327 |
| Furniture and Equipment | 474,841 | 6,145,722 | 6,620,563 |
| Vehicles | 155,870 | 206,927 | 362,797 |
| Infrastructure | 503,121 | 36,187 | 539,308 |
| Water and Sewer Lines | 0 | 769,518 | 769,518 |
| Construction in Progress | 258,222 | 245,138 | 503,360 |
| Totals | \$2,533,731 | \$8,450,509 | \$10,984,240 |

The increase noted in governmental funds was due primarily to current year additions of infrastructure. The increase to the business-type activities is due to construction projects tied to a sewer plant.

See Note 8 for additional information on the City's capital assets.

Debt

At December 31, 2004, the City of Waverly had \$6,340,804 in notes, loans, and compensated absences outstanding, \$1,624,041 due within one year.

Table 5
 Outstanding Debt, at Year End

| | Governmental Activities | Business- Type Activities | Total |
|----------------------|----------------------------|---------------------------------|--------------------|
| | 2004 | 2004 | 2004 |
| Compensated Absences | \$32,042 | \$21,385 | \$53,427 |
| O.W.D.A. Loan | 0 | 4,419,469 | 4,419,469 |
| Synagro Loan | 0 | 246,684 | 246,684 |
| Long Term Notes | 1,147,547 | 227,030 | 1,374,577 |
| OPWC Loans | 126,735 | 119,912 | 246,647 |
| Total | \$1,306,324 | \$5,034,480 | \$6,340,804 |

The City's overall legal debt margin was \$6,624,630 at December 31, 2004.

See Note 13 for additional information about the City's debt.

City of Waverly
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

The Future

The City of Waverly continues to work diligently to increase revenues and decrease costs to put the City on more stable footing. The City has continued to grow with new homes constructed annually, and several new commercial facilities opened with more planned for the future.

The City of Waverly has committed itself to financial excellence in the coming years. Our commitment to the residents of the City of Waverly should always be full disclosure of the financial position of the City.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to reflect the City's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to Harvey Whaley, City Auditor, 201 W. North Street, Waverly, Ohio 45690, (740) 947-9555.

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City of Waverly
Statement of Net Assets
December 31, 2004

| | Governmental Activities | Business-Type Activities | Totals |
|---|----------------------------|-----------------------------|-------------------------|
| <u>ASSETS</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$719,958 | \$578,973 | \$1,298,931 |
| Receivables: | | | |
| Taxes | 1,380,066 | 0 | 1,380,066 |
| Accounts | 137,375 | 299,068 | 436,443 |
| Special Assessments | 15,150 | 0 | 15,150 |
| Due From Other Funds | 13,345 | 0 | 13,345 |
| Due From Other Governments | 232,846 | 172,402 | 405,248 |
| Loans Receivable | 2,407 | 0 | 2,407 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | 12,863 | 174,037 | 186,900 |
| Non-Depreciable Capital Assets | 533,650 | 398,930 | 932,580 |
| Depreciable Capital Assets | 2,000,081 | 8,051,579 | 10,051,660 |
| Total Assets | <u>\$5,047,741</u> | <u>\$9,674,989</u> | <u>\$14,722,730</u> |
| <u>Liabilities</u> | | | |
| Accounts Payable | \$20,985 | \$19,424 | \$40,409 |
| Contracts Payable | 0 | 10,000 | 10,000 |
| Accrued Wages and Benefits | 37,999 | 13,818 | 51,817 |
| Due to Other Governments | 91,427 | 27,640 | 119,067 |
| Deferred Revenue | 1,309,917 | 0 | 1,309,917 |
| Retainage Payable | 12,863 | 174,037 | 186,900 |
| Long-Term Liabilities | | | |
| Due Within One Year | 1,172,137 | 451,904 | 1,624,041 |
| Due in More than One Year | 134,187 | 4,582,576 | 4,716,763 |
| Total Liabilities | <u>2,779,515</u> | <u>5,279,399</u> | <u>8,058,914</u> |
| <u>Net Assets</u> | | | |
| Invested in Capital Assets, Net of Related Debt | 1,269,805 | 3,437,414 | 4,707,219 |
| Restricted for: | | | |
| Capital Projects | 121,452 | 0 | 121,452 |
| Other Purposes | 453,069 | 0 | 453,069 |
| Unrestricted | 423,900 | 958,176 | 1,382,076 |
| Total Net Assets | <u>\$2,268,226</u> | <u>\$4,395,590</u> | <u>\$6,663,816</u> |

See accompanying notes to the basic financial statements

City of Waverly
Statement of Activities
For the Year Ended December 31, 2004

| Functions/Programs | 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 | Totals |
| Governmental Activities: | | | | | | | |
| General Government: | | | | | | | |
| Legislative and Executive | \$895,217 | \$21,969 | \$3,807 | \$0 | (\$869,441) | \$0 | (\$869,441) |
| Security of Persons and Property | 1,607,850 | 222,196 | 201,222 | 0 | (1,184,432) | 0 | (1,184,432) |
| Public Health | 1,470 | 50 | 0 | 0 | (1,420) | 0 | (1,420) |
| Leisure Time Activities | 122 | 0 | 0 | 0 | (122) | 0 | (122) |
| Community Environment | 808 | 0 | 0 | 0 | (808) | 0 | (808) |
| Transportation | 517,080 | 7,125 | 63,358 | 0 | (446,597) | 0 | (446,597) |
| Construction | 0 | 0 | 0 | 73,663 | 73,663 | 0 | 73,663 |
| Interest and Fiscal Charges | 39,085 | 324 | 3,535 | 1,350 | (33,876) | 0 | (33,876) |
| Total Governmental Activities | <u>3,061,632</u> | <u>251,664</u> | <u>271,922</u> | <u>75,013</u> | <u>(2,463,033)</u> | <u>0</u> | <u>(2,463,033)</u> |
| Business-Type activities: | | | | | | | |
| Sewer | 991,466 | 767,695 | 172,402 | 0 | 0 | (51,369) | (51,369) |
| Water | 739,004 | 645,673 | 0 | 0 | 0 | (93,331) | (93,331) |
| Total Business-Type Activities | <u>1,730,470</u> | <u>1,413,368</u> | <u>172,402</u> | <u>0</u> | <u>0</u> | <u>(144,700)</u> | <u>(144,700)</u> |
| Total Government | <u>\$4,792,102</u> | <u>\$1,665,032</u> | <u>\$444,324</u> | <u>\$75,013</u> | <u>(\$2,463,033)</u> | <u>(\$144,700)</u> | <u>(\$2,607,733)</u> |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for: | | | | | | | |
| General Purposes | | | | | 216,624 | 0 | 216,624 |
| Other Purposes | | | | | 818,354 | 0 | 818,354 |
| Income taxes | | | | | 1,488,406 | 0 | 1,488,406 |
| Grants and Contributions Not Restricted to Specific Programs | | | | | 122,200 | 0 | 122,200 |
| Unrestricted Investment Earnings | | | | | 28,851 | 477 | 29,328 |
| Miscellaneous | | | | | 126,814 | 8,231 | 135,045 |
| Total general revenues | | | | | <u>2,801,249</u> | <u>8,708</u> | <u>2,809,957</u> |
| Changes in net assets | | | | | 338,216 | (135,992) | 202,224 |
| Net assets - January 1, 2004 (Restated - See Note 18) | | | | | <u>1,930,010</u> | <u>4,531,582</u> | <u>6,461,592</u> |
| Net assets - December 31, 2004 | | | | | <u>\$2,268,226</u> | <u>\$4,395,590</u> | <u>\$6,663,816</u> |

See accompanying notes to the basic financial statements

City of Waverly
Balance Sheet
Governmental Funds
December 31, 2004

| | General | Bridge & Street | Fire | Police | Second Street Improvement | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------|------------------|------------------|---------------------------------|--------------------------------|--------------------------------|
| Assets | | | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$179,476 | \$46,360 | \$23,706 | \$139,327 | \$0 | \$331,089 | \$719,958 |
| Receivables: | | | | | | | |
| Taxes | 721,447 | 86,713 | 145,452 | 426,454 | 0 | 0 | 1,380,066 |
| Accounts | 61,172 | 4,155 | 7,334 | 4,425 | 60,000 | 289 | 137,375 |
| Due from Other Governments | 91,306 | 97,854 | 5,833 | 18,412 | 0 | 19,441 | 232,846 |
| Due from Other Funds | 13,345 | 0 | 0 | 0 | 0 | 0 | 13,345 |
| Special Assessments Receivable | 0 | 0 | 0 | 0 | 0 | 15,150 | 15,150 |
| Loans Receivable | 0 | 0 | 0 | 0 | 0 | 2,407 | 2,407 |
| Restricted cash and cash equivalents | 0 | 0 | 0 | 0 | 0 | 12,863 | 12,863 |
| <i>Total Assets</i> | <u>\$1,066,746</u> | <u>\$235,082</u> | <u>\$182,325</u> | <u>\$588,618</u> | <u>\$60,000</u> | <u>\$381,239</u> | <u>\$2,514,010</u> |
| Liabilities and Fund Balances | | | | | | | |
| Liabilities | | | | | | | |
| Accounts Payable | \$10,721 | \$4,225 | \$1,159 | \$4,880 | \$0 | \$0 | \$20,985 |
| Accrued Wages and Benefits | 8,045 | 8,849 | 2,244 | 18,121 | 0 | 740 | 37,999 |
| Retainage Payable | 0 | 0 | 0 | 0 | 0 | 835 | 835 |
| Due to Other Governments | 9,354 | 8,646 | 448 | 7,618 | 0 | 12,863 | 38,929 |
| Deferred Revenue | 606,523 | 168,551 | 148,970 | 438,055 | 60,000 | 21,225 | 1,443,324 |
| <i>Total Liabilities</i> | <u>634,643</u> | <u>190,271</u> | <u>152,821</u> | <u>468,674</u> | <u>60,000</u> | <u>35,663</u> | <u>1,542,072</u> |
| Fund Balances | | | | | | | |
| Reserved for Encumbrances | 3,953 | 0 | 500 | 0 | 0 | 23,436 | 27,889 |
| Reserved for Loans | 0 | 0 | 0 | 0 | 0 | 2,407 | 2,407 |
| Unreserved, Undesignated, Reported in: | | | | | | | |
| General Fund | 428,150 | 0 | 0 | 0 | 0 | 0 | 428,150 |
| Special Revenue Funds | 0 | 44,811 | 29,004 | 119,944 | 0 | 296,510 | 490,269 |
| Capital Projects Funds | 0 | 0 | 0 | 0 | 0 | 23,223 | 23,223 |
| <i>Total Fund Balances</i> | <u>432,103</u> | <u>44,811</u> | <u>29,504</u> | <u>119,944</u> | <u>0</u> | <u>345,576</u> | <u>971,938</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$1,066,746</u> | <u>\$235,082</u> | <u>\$182,325</u> | <u>\$588,618</u> | <u>\$60,000</u> | <u>\$381,239</u> | <u>\$2,514,010</u> |

See accompanying notes to the basic financial statements

City of Waverly
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2004*

Total Governmental Fund Balances \$ 971,938

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 2,533,731

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

| | |
|---------------------|--------|
| Taxes | 58,614 |
| Accounts | 60,000 |
| Special Assessments | 14,793 |

Total 133,407

Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds. (64,526)

Long-Term Liabilities, including notes, loans, and long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.

| | |
|--|-------------|
| Compensated Absences Payable | (32,042) |
| General Obligation Notes and Loans Payable | (1,274,282) |

Total (1,306,324)

Net Assets of Governmental Activities **\$ 2,268,226**

See accompanying notes to the basic financial statements

City of Waverly
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

| | General | Bridge & Street | Fire | Police | Second Street Improvement | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|--------------------|------------------|------------------|---------------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | | | |
| Taxes | \$1,700,933 | \$94,729 | \$174,766 | \$485,650 | \$0 | \$30,978 | \$2,487,056 |
| Intergovernmental | 122,200 | 171,061 | 46,413 | 46,343 | 0 | 242,824 | 628,841 |
| Interest | 26,274 | 210 | 0 | 0 | 0 | 2,367 | 28,851 |
| Payments in Lieu of Taxes | 0 | 0 | 0 | 0 | 60,000 | 0 | 60,000 |
| Charges for Services | 19,012 | 0 | 24,790 | 0 | 0 | 0 | 43,802 |
| Fees, License and Permits | 5,782 | 0 | 0 | 150 | 0 | 0 | 5,932 |
| Fines and Forfeitures | 176,333 | 0 | 0 | 0 | 0 | 25,597 | 201,930 |
| Other | 37,011 | 446 | 12,253 | 13,775 | 0 | 48,536 | 112,021 |
| <i>Total Revenues</i> | <u>2,087,545</u> | <u>266,446</u> | <u>258,222</u> | <u>545,918</u> | <u>60,000</u> | <u>350,302</u> | <u>3,568,433</u> |
| Expenditures | | | | | | | |
| Current: | | | | | | | |
| General Government: | | | | | | | |
| Legislative and Executive | 794,181 | 0 | 0 | 0 | 0 | 24,999 | 819,180 |
| Security of Persons and Property | 67,149 | 0 | 206,668 | 1,007,801 | 0 | 27,015 | 1,308,633 |
| Public Health | 1,470 | 0 | 0 | 0 | 0 | 0 | 1,470 |
| Leisure Time Activities | 122 | 0 | 0 | 0 | 0 | 0 | 122 |
| Community Environment | 0 | 0 | 0 | 0 | 0 | 808 | 808 |
| Transportation | 48,803 | 408,519 | 0 | 0 | 0 | 450 | 457,772 |
| Capital Outlay | 10,007 | 22,967 | 68,694 | 20,706 | 153,817 | 714,622 | 990,813 |
| Debt Service: | | | | | | | |
| Principal | 0 | 43,779 | 408,523 | 130,849 | 391,269 | 11,644 | 986,064 |
| Interest and Fiscal Charges | 0 | 2,147 | 16,153 | 5,119 | 15,666 | 0 | 39,085 |
| <i>Total Expenditures</i> | <u>921,732</u> | <u>477,412</u> | <u>700,038</u> | <u>1,164,475</u> | <u>560,752</u> | <u>779,538</u> | <u>4,603,947</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>1,165,813</u> | <u>(210,966)</u> | <u>(441,816)</u> | <u>(618,557)</u> | <u>(500,752)</u> | <u>(429,236)</u> | <u>(1,035,514)</u> |
| Other Financing Sources (Uses) | | | | | | | |
| Proceeds from Notes | 0 | 30,437 | 374,176 | 110,984 | 346,950 | 285,000 | 1,147,547 |
| Transfers In | 0 | 220,000 | 20,000 | 588,000 | 9,514 | 180,886 | 1,018,400 |
| Transfers Out | (1,018,400) | 0 | 0 | 0 | 0 | 0 | (1,018,400) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(1,018,400)</u> | <u>250,437</u> | <u>394,176</u> | <u>698,984</u> | <u>356,464</u> | <u>465,886</u> | <u>1,147,547</u> |
| <i>Net Change in Fund Balances</i> | <u>147,413</u> | <u>39,471</u> | <u>(47,640)</u> | <u>80,427</u> | <u>(144,288)</u> | <u>36,650</u> | <u>112,033</u> |
| <i>Fund Balances Beginning of Year - Restated (See Note 18)</i> | <u>284,690</u> | <u>5,340</u> | <u>77,144</u> | <u>39,517</u> | <u>144,288</u> | <u>308,926</u> | <u>859,905</u> |
| <i>Fund Balances End of Year</i> | <u>\$432,103</u> | <u>\$44,811</u> | <u>\$29,504</u> | <u>\$119,944</u> | <u>\$0</u> | <u>\$345,576</u> | <u>\$971,938</u> |

See accompanying notes to the basic financial statements

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

Net Change in Fund Balances - Total Governmental Funds \$ 112,033

**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 depreciation exceeded capital outlays in the current period.

| | | |
|---------------------------|-----------|---------|
| Capital Asset Additions | 897,567 | |
| Current Year Depreciation | (278,318) | |
| | | |
| Total | | 619,249 |

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

| | | |
|---------------------------|-----------|-----------|
| Intergovernmental | (159,706) | |
| Special Assessments | 14,793 | |
| Taxes | 36,328 | |
| Payments in Lieu of Taxes | (60,000) | |
| | | |
| Total | | (168,585) |

Repayments of note and loan principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

123,517

Proceeds from the sale of notes in the statement of revenues, expenditures, and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities.

(285,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | | |
|---------------------------------------|----------|----------|
| Decrease in Compensated Absences | 1,527 | |
| Increase in Intergovernmental Payable | (64,525) | |
| | | |
| Total | | (62,998) |

Net Change in Net Assets of Governmental Activities \$ 338,216

See accompanying notes to the basic financial statements

City of Waverly
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual

General Fund
For the Year Ended December 31, 2004

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance With Final Budget Positive (Negative) |
|-----------------------------------|-------------------------|----------------|------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Total Revenues and Other | \$1,418,700 | \$2,018,700 | \$1,982,734 | (\$35,966) |
| Total Expenditures and Other | 2,270,199 | 2,135,045 | 1,940,007 | 195,038 |
| Net Change in Fund Balance | (851,499) | (116,345) | 42,727 | 159,072 |
| Fund Balance at Beginning of Year | <u>117,609</u> | <u>117,609</u> | <u>117,609</u> | <u>0</u> |
| Fund Balance at End of Year | <u>(\$733,890)</u> | <u>\$1,264</u> | <u>\$160,336</u> | <u>\$159,072</u> |

See accompanying notes to the basic financial statements.

City of Waverly
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual

Bridge & Street Fund
For the Year Ended December 31, 2004

| | Budgeted Amounts | | Actual | Variance With Final Budget Positive (Negative) |
|-----------------------------------|------------------|-----------|-----------|---|
| | Original | Final | | |
| Total Revenues and Other | \$447,850 | \$447,850 | \$507,952 | \$60,102 |
| Total Expenditures and Other | 479,760 | 459,458 | 477,091 | (17,633) |
| Net Change in Fund Balance | (31,910) | (11,608) | 30,861 | 42,469 |
| Fund Balance at Beginning of Year | 9,190 | 9,190 | 9,190 | 0 |
| Fund Balance at End of Year | (\$22,720) | (\$2,418) | \$40,051 | \$42,469 |

See accompanying notes to the basic financial statements.

City of Waverly
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual

Fire Fund
For the Year Ended December 31, 2004

| | Budgeted Amounts | | Actual | Variance With Final Budget Positive (Negative) |
|-----------------------------------|------------------|-----------|-----------|---|
| | Original | Final | | |
| Total Revenues and Other | \$249,325 | \$249,325 | \$644,349 | \$395,024 |
| Total Expenditures and Other | 268,650 | 336,160 | 707,978 | (371,818) |
| Net Change in Fund Balance | (19,325) | (86,835) | (63,629) | 23,206 |
| Fund Balance at Beginning of Year | 84,265 | 84,265 | 84,265 | 0 |
| Fund Balance at End of Year | \$64,940 | (\$2,570) | \$20,636 | \$23,206 |

See accompanying notes to the basic financial statements.

City of Waverly
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual

Police Fund
For the Year Ended December 31, 2004

| | Budgeted Amounts | | Actual | Variance With Final Budget Positive (Negative) |
|-----------------------------------|------------------|-----------------|------------------|---|
| | Original | Final | | |
| Total Revenues and Other | \$930,400 | \$1,065,400 | \$1,233,665 | \$168,265 |
| Total Expenditures and Other | 996,510 | 1,116,822 | 1,161,733 | (44,911) |
| Net Change in Fund Balance | (66,110) | (51,422) | 71,932 | 123,354 |
| Fund Balance at Beginning of Year | 66,747 | 66,747 | 66,747 | 0 |
| Fund Balance at End of Year | <u>\$637</u> | <u>\$15,325</u> | <u>\$138,679</u> | <u>\$123,354</u> |

See accompanying notes to the basic financial statements.

City of Waverly
Statement of Net Assets
Proprietary Funds

December 31, 2004

| | Water | Sewer | Total |
|---|---------------------------|---------------------------|---------------------------|
| ASSETS: | | | |
| <i>Current Assets</i> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$190,018 | \$388,955 | \$578,973 |
| Intergovernmental Receivable | 0 | 172,402 | 172,402 |
| Accounts Receivable | 142,623 | 156,445 | 299,068 |
| Total Current Assets | <u>332,641</u> | <u>717,802</u> | <u>1,050,443</u> |
| <i>Noncurrent Assets</i> | | | |
| Restricted Cash and Cash Equivalents | 0 | 174,037 | 174,037 |
| Non-Depreciable Capital Assets | 133,893 | 265,037 | 398,930 |
| Depreciable Capital Assets, net | 3,111,298 | 4,940,281 | 8,051,579 |
| Total Noncurrent Assets | <u>3,245,191</u> | <u>5,379,355</u> | <u>8,624,546</u> |
| Total Assets | <u><u>3,577,832</u></u> | <u><u>6,097,157</u></u> | <u><u>9,674,989</u></u> |
| LIABILITIES: | | | |
| <i>Current Liabilities</i> | | | |
| Accounts Payable | 6,578 | 12,846 | 19,424 |
| Accrued Wages and Benefits | 7,317 | 6,501 | 13,818 |
| Contracts Payable | 0 | 10,000 | 10,000 |
| Intergovernmental Payable | 11,998 | 15,642 | 27,640 |
| Retainage Payable | 0 | 174,037 | 174,037 |
| Compensated Absences Payable | 329 | 0 | 329 |
| Loans Payable | 40,000 | 217,428 | 257,428 |
| OPWC Loans Payable | 5,477 | 1,925 | 7,402 |
| OWDA Loans Payable | 24,736 | 162,009 | 186,745 |
| Total Current Liabilities | <u>96,435</u> | <u>600,388</u> | <u>696,823</u> |
| <i>Noncurrent Liabilities</i> | | | |
| Long Term Liabilities: | | | |
| OWDA Loans Payable | 436,675 | 3,796,049 | 4,232,724 |
| Compensated Absences Payable | 7,347 | 13,709 | 21,056 |
| OPWC Loans Payable | 90,373 | 22,137 | 112,510 |
| Unamortized Charge - Refunding Bonds | 0 | 216,286 | 216,286 |
| Total Noncurrent Liabilities | <u>534,395</u> | <u>4,048,181</u> | <u>4,582,576</u> |
| Total Liabilities | <u><u>630,830</u></u> | <u><u>4,648,569</u></u> | <u><u>5,279,399</u></u> |
| NET ASSETS: | | | |
| Invested in capital assets, net of related debt | 2,647,930 | 789,484 | 3,437,414 |
| Unrestricted | 299,072 | 659,104 | 958,176 |
| Total Net Assets | <u><u>\$2,947,002</u></u> | <u><u>\$1,448,588</u></u> | <u><u>\$4,395,590</u></u> |

See accompanying notes to the basic financial statements

City of Waverly
*Statement of Revenues, Expenses and
 Changes in Net Assets
 Proprietary Funds*

For the Year Ended December 31, 2004

| | Water | Sewer | Total |
|---|--------------------|--------------------|--------------------|
| Operating Revenues | | | |
| Charges for Services | \$645,673 | \$767,695 | \$1,413,368 |
| Other | 5,081 | 3,150 | 8,231 |
| Total Operating Revenues | 650,754 | 770,845 | 1,421,599 |
| Operating Expenses | | | |
| Salaries and Wages | 189,238 | 232,704 | 421,942 |
| Fringe Benefits | 69,220 | 111,473 | 180,693 |
| Contractual Services | 150,180 | 203,575 | 353,755 |
| Materials & Supplies | 67,735 | 36,664 | 104,399 |
| Other | 22,965 | 23 | 22,988 |
| Depreciation Expense | 230,074 | 264,614 | 494,688 |
| Total Operating Expenses | 729,412 | 849,053 | 1,578,465 |
| Operating Income | (78,658) | (78,208) | (156,866) |
| Nonoperating Revenues (Expenses) | | | |
| Interest | 477 | 0 | 477 |
| Operating Grants | 0 | 172,402 | 172,402 |
| Other Expenses | 0 | (17,900) | (17,900) |
| Interest & Fiscal Charges | (9,592) | (124,513) | (134,105) |
| Total Nonoperating Revenues (Expenses) | (9,115) | 29,989 | 20,874 |
| Changes in Net Assets | (87,773) | (48,219) | (135,992) |
| Net Assets | | | |
| at Beginning of Year (Restated - See Note 18) | 3,034,775 | 1,496,807 | 4,531,582 |
| Net Assets | | | |
| at End of Year | <u>\$2,947,002</u> | <u>\$1,448,588</u> | <u>\$4,395,590</u> |

See accompanying notes to the basic financial statements

City of Waverly
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

| | Water | Sewer | Total |
|--|-------------------------|-------------------------|-------------------------|
| Increase (Decrease) in Cash and Cash Equivalents: | | | |
| Cash Flows from Operating Activities: | | | |
| Cash Received from Customers | \$642,291 | \$786,298 | \$1,428,589 |
| Cash Received from other sources | 5,081 | 3,180 | 8,261 |
| Cash Payments to Suppliers for Goods and Services | (240,545) | (220,439) | (460,984) |
| Cash Payments to Employees for Services and Benefits | (256,509) | (327,401) | (583,910) |
| <i>Net Cash Provided by (Used for) Operating Activities</i> | <u>150,318</u> | <u>241,638</u> | <u>391,956</u> |
| Cash Flows from Noncapital Financing Activities: | | | |
| Other non-operating expenses | 0 | (17,900) | (17,900) |
| <i>Net Cash Provided by (Used for) Noncapital Financing Activities</i> | <u>0</u> | <u>(17,900)</u> | <u>(17,900)</u> |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Proceeds from Debt Issuance | 40,000 | 187,030 | 227,030 |
| Proceeds from OWDA Loan | 0 | 245,138 | 245,138 |
| Payments for Capital Acquisitions | (94,084) | (491,506) | (585,590) |
| Principal Payments | (29,725) | (198,638) | (228,363) |
| Interest Payments | (9,592) | (124,513) | (134,105) |
| <i>Net Cash Used for Capital and Related Financing Activities</i> | <u>(93,401)</u> | <u>(382,489)</u> | <u>(475,890)</u> |
| Cash Flows from Investing Activities: | | | |
| Interest on Investments | 477 | 0 | 477 |
| <i>Net Cash Provided by (Used for) Investing Activities</i> | <u>477</u> | <u>0</u> | <u>477</u> |
| Net Increase/(Decrease) in Cash and Cash Equivalents | 57,394 | (158,751) | (101,357) |
| Cash and Cash Equivalents at Beginning of Year | <u>132,624</u> | <u>721,743</u> | <u>854,367</u> |
| Cash and Cash Equivalents at End of Year | <u><u>\$190,018</u></u> | <u><u>\$562,992</u></u> | <u><u>\$753,010</u></u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities: | | | |
| Operating Loss | (\$78,658) | (\$78,208) | (\$156,866) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities: | | | |
| Depreciation | 230,074 | 264,614 | 494,688 |
| Changes in Assets and Liabilities: | | | |
| (Increase)/Decrease in Accounts Receivable | (3,382) | 18,603 | 15,221 |
| (Increase)/Decrease in Prepaid Items | 6,875 | 5,478 | 12,353 |
| Increase/(Decrease) in Accounts Payable | (6,540) | (5,228) | (11,768) |
| Increase/(Decrease) in Contracts Payable | 0 | 10,000 | 10,000 |
| Increase/(Decrease) in Accrued Wages and Benefits | 7,317 | 6,480 | 13,797 |
| Increase/(Decrease) in Compensated Absences Payable | (3,363) | 6,653 | 3,290 |
| Increase/(Decrease) in Retainage Payable | 0 | 9,603 | 9,603 |
| Increase/(Decrease) in Due to Other Governments | (2,005) | 3,643 | 1,638 |
| Total Adjustments | <u>228,976</u> | <u>319,846</u> | <u>548,822</u> |
| Net Cash Provided by (Used for) Operating Activities | <u><u>\$150,318</u></u> | <u><u>\$241,638</u></u> | <u><u>\$391,956</u></u> |

See accompanying notes to the basic financial statements

City of Waverly
Statement of Fiduciary Assets and Liabilities
Agency Funds
As of December 30, 2004

| | <u>Agency</u> |
|--|------------------------|
| ASSETS | |
| Equity in Pooled Cash and Cash Equivalents | \$103 |
| Cash and Cash Equivalents in Segregated Accounts | <u>17,979</u> |
| Total Assets | <u><u>18,082</u></u> |
| LIABILITIES | |
| Due to Other Governments | 4,634 |
| Undistributed Monies | 103 |
| Due to Other Funds | <u>13,345</u> |
| Total Liabilities | <u><u>\$18,082</u></u> |

See accompanying notes to the basic financial statements

CITY OF WAVERLY, OHIO
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 Waverly (“The City”) is a charter municipal corporation operating under the laws of the State of Ohio. The current Charter, which provides for a Mayor-Council form of government, was adopted on May 5, 1970. Legislative power is vested in a seven-member council and a council president, each elected to four year terms. The Mayor is elected to a four year term and is the chief executive officer for the City. The City Auditor is elected to a four year term and is the chief fiscal officer for the City. All department heads are appointed by the Mayor and Council.

REPORTING ENTITY

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments and activities which are not legally separate from the City. They comprise the City’s legal entity which provides various services such as police and fire protection, emergency medical, street maintenance and repairs, parks and recreation, and water and sewer. A staff provides support to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures.

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

The Waverly Mayor’s Court has been included in the City’s financial statements as an agency fund. The Mayor is an elected City official who has a fiduciary responsibility for the collection and distribution of court fees and fines.

The Waverly Evergreen Union Cemetery board of trustees consists of two members appointed by the City and Pee Pee Township, respectively, and one member appointed jointly. The board possesses its own contracting and budgetary authority and hires and fires personnel. The Waverly Evergreen Union Cemetery is a jointly governed organization of the City (See Note 16).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 that provide a more detailed level of financial information.

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

The statement of net assets presents the financial condition of the governmental and business-type activities of the City. Interfund receivables and payables within governmental activities have been eliminated to minimize the duplicating effect on assets and liabilities within the governmental and business-type activities total columns.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and 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 that are not classified as program revenues are presented as general revenues of the City. 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 present financial information at a more detailed level. The governmental and enterprise fund financial statements focus on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Agency funds, which are a type of fiduciary fund, are used to account for assets held by the government as an agent for individuals, private organizations and other governments.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's major governmental funds:

GENERAL FUND

The General Fund is the operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the Charter of the City of Waverly and/or the general laws of Ohio.

BRIDGE & STREET SPECIAL REVENUE FUND

The Bridge & Street Fund is used to account for that portion of state gasoline tax and motor vehicle registration fees designated for maintenance and repair of certain streets within the City.

FIRE FUND

The Fire Fund is used to account for property taxes levied for the payment of salaries and expenses of the fire department.

POLICE FUND

The Police Fund is used to account for voted tax millage to finance the police department operation.

SECOND STREET IMPROVEMENT FUND

The Second Street Improvement Capital Projects Fund is used to account for a portion of the payments in lieu of taxes replacing and/or improving city bridges and streets.

The other governmental funds of the City account for grants and other resources that are generally restricted to use for a particular purpose.

PROPRIETARY FUNDS

Proprietary funds focus on the changes in net assets, financial position, and cash flows. The City's proprietary funds are enterprise funds.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

Sewer Fund – The Sewer Fund accounts for the provision of wastewater collection and treatment service to residents and commercial users within the City.

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

FIDUCIARY FUNDS

Fiduciary funds focus on net assets and changes in net assets. There are four categories of fiduciary funds: 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 not available to support the City's own programs. The City's only fiduciary funds are agency funds. The City's fiduciary fund consists only of an agency fund which is used to account for the activities of the Mayor's Court and restitution.

Basis of Accounting and Measurement Focus: Basis of Accounting determines when transactions are captured in the financial records and reported on the financial statements. Measurement focus refers to what is expressed in reporting an entity's financial performance and position. A particular measurement focus is accomplished by considering which resources are measured.

Differences in the accrual and the modified accrual basis of accounting arise in the timing of recognition of revenue and the recording of deferred revenue, and in the presentation of expenses versus expenditures. Under the non-GAAP budgetary basis, transactions are recorded when cash is received or disbursed.

Government Wide Financial Statements The Government-wide Financial Statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the Statement of Net Assets.

Fund Financial Statements All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary fund types 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 net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its enterprise activities.

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 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.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 thirty one days of fiscal year end.

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

On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. Under this basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance and grants.

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 fiscal year 2005 operations, have been recorded as deferred revenue. 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. On the modified accrual basis, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, provided current financial resources are to be used. As a result, compensated absences are not recorded as expenditures or liabilities until current financial resources are required. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

Budgetary Process: An annual appropriated budget is legally required to be prepared for all funds of the City, other than agency funds. City Council passes appropriations at the fund level. City Council must approve any budget revisions that alter the appropriations at the legal level of budgetary control. The following procedures are used by the City in establishing the budgetary data reported in the basic financial statements.

Tax Budget: Unless specifically waived by the County Budget Commission, a budget of estimated revenues and expenditures for all funds, other than agency funds, is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. If the requirement to file this tax budget is waived by the County Budget Commission, other financial documentation may be requested for review of the City's financial status.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated Resources: The County Budget Commission reviews estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The County Budget Commission certifies its actions to the City by October 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate of estimated resources may be further amended during the year if the Auditor's Office Manager determines, and the County Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported in the budgetary statements as "original" represent the amounts in the amended official certificate of estimated resources in place at the time original appropriations were adopted. The amounts reported in the budgetary statements as "final" reflect the amounts in the final amended official certificate of estimated resources issued during 2004.

Appropriations: A temporary appropriations ordinance to control expenditures may be passed on or about January 1 of each year, for the period January 1 to March 31. An annual appropriations ordinance must be passed by April 1 of each year, for the period January 1 to December 31. The appropriations ordinance may be supplemented during the year, by City Council action, as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. During the year, numerous supplemental appropriations ordinances were passed by City council. The amounts reported as the original budgeted amounts in the statement of budgetary comparisons reflect the first appropriated budget that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts in the statement of budgetary comparisons represent the final appropriation amounts passed during the year, including all amendments and modifications.

Lapsing of Appropriations: At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding year and are not re-appropriated.

Encumbrances: As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the fund financial statements, encumbrances outstanding at year-end are reported as a reservation of fund balance for subsequent-year expenditures of governmental funds. A reserve for encumbrances is not reported on the government-wide financial statements.

Cash and Cash Equivalents: Cash balances of the City's funds, except cash held by a trustee or fiscal agent and in segregated accounts, are pooled in order to provide improved cash management. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

Cash and cash equivalents that are held separately within departments of the City and not included with the City Treasury are recorded on the balance sheet as "Cash and Cash Equivalents in Segregated Accounts."

For reporting purposes, "Equity in Pooled Cash and Cash Equivalents" is defined as cash on hand, and demand deposits held in the City treasury.

For cash flow reporting purposes, the City's proprietary funds consider cash and cash equivalents to be cash on hand and demand deposits. "Equity in Pooled Cash and Cash Equivalents" is considered to be cash and equivalents since these assets are available on demand.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2004, investments were limited to certificates of deposit.

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

Restricted Assets: Restricted assets should be reported when restrictions on asset use change the nature or normal understanding of the availability of the asset. Restricted assets represent certain resources segregated from other resources of the City to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of the city or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000 dollars for all assets. 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 fund capital assets is also capitalized.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful live 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>Estimated Lives</u> |
|--|------------------------|
| Land Improvements | 5 years |
| Buildings | 40 years |
| Machinery, Equipment, Furniture and Fixtures | 5-7 years |
| Sewer and Water Lines | 20 years |
| Vehicles | 5 years |
| Infrastructure | 10-40 years |

Compensated Absences: In 1996, the City implemented 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 attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. The liability includes the employees who are currently eligible to receive termination benefits and by those employees for whom it is probable will become eligible to receive payment in the future. The amount is based on accumulated sick leave and employee's wage rates at year end taking into consideration any limits specified in the City's termination policy. The liability is an estimate based on the City's past experience of making termination payments.

Compensated absences are accrued when incurred in the government-wide financial statements and in proprietary funds. A liability for these amounts is recorded in governmental funds only if they have matured, for example as a result of employee resignations and retirements.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Liabilities and Long-Term Obligations: All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise funds are reported on the enterprise fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Notes and loans are recognized as liabilities on the fund financial statements when due.

Fund Balance Reserves: The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation of expenditure. Encumbrances and Loans Receivable are recorded as a reservation of fund balance.

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

Restricted for other purposes represents balances of state and federal grants in Special Revenue funds.

Operating Revenues and Expenses: Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the City, these revenues are charges for sewer and water services. Operating expenses are necessary costs incurred to provide the services, that are the primary activities of the fund. Revenues and expenses not matching this definition are reported as non-operating revenues and expenses.

Interfund Activity: Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. All transfers between Governmental Activities have been eliminated in the Government-Wide Financial Statements.

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

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

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund balance – Budget (Non-GAAP Budgetary Basis) and Actual for the General Fund, the Bridge & Street, Fire, and Police Major Special Revenue Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)

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

The adjustments necessary to convert the results of operations for 2004 on the GAAP basis to the budget basis for the General, Bridge & Street, and Police major funds are as follows:

| Net Change in Fund Balance | | | | |
|-------------------------------|-----------------|--------------------|-------------------|-----------------|
| | General | Bridge & Street | Fire | Police |
| GAAP Basis | \$147,413 | \$39,471 | (\$47,640) | \$80,427 |
| Increases (Decreases) Due To: | | | | |
| Revenue Accruals | (104,814) | (8,931) | (8,049) | (11,236) |
| Expenditure Accruals | 4,081 | 3,932 | (7,440) | 2,741 |
| Encumbrances | (3,953) | (3,611) | (500) | 0 |
| Budget Basis | <u>\$42,727</u> | <u>\$30,861</u> | <u>(\$63,629)</u> | <u>\$71,932</u> |

NOTE 4 – DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the 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.

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 accounts including passbook accounts.

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

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

1. United States treasury notes, bills, bonds, or other obligations of or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or 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. Bond and other obligations of the State of Ohio, its political subdivision, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAROhio).

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 City Auditor or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year-end, the City had \$247 in undeposited cash on hand which is included on the statement of net assets as part of "Equity in Pooled Cash and Cash Equivalents".

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".

At year-end, the carrying amount of the City's deposits was \$1,503,666 and the bank balance was \$1,583,499. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining amounts were collateralized in the amount of \$1,483,499. Although the balance was collateralized by securities held by the financial institutions' trust departments in the City's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC. The City had no investments at year-end.

NOTE 5 – MUNICIPAL INCOME TAX

The City levies and collects an income tax of one percent 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 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. During 2004, proceeds of the income tax amounted to \$1,488,406. All proceeds go to the general fund.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 6 – PROPERTY TAX

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 2003. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2005 taxes.

2003 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 percent of appraised market value. 2004 real property taxes were 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 percent 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 percent of true value for capital assets and 24 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2004, was \$16.30 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:

| <u>Category</u> | <u>Assessed Value</u> |
|-------------------------|----------------------------|
| Real Estate | \$61,598,090 |
| Public Utility Property | 3,648,770 |
| Tangible Personal | <u>22,281,222</u> |
| Total Property Taxes | <u><u>\$87,528,082</u></u> |

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

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 at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Waverly. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represent 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. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2004 operations. The receivable is offset by deferred revenue.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 7 – RECEIVABLES

Receivables at December 31, 2004, consisted of taxes, accounts, special assessments, loans, due from other funds, and intergovernmental receivables arising from grants, entitlements or shared revenues. All receivables are considered fully collectible.

The loans receivable on the balance sheet represent loans given to eligible residents of Pike County from the Department of Community Development to rehabilitate their residences.

A summary of the principal items of intergovernmental receivables follows:

| Fund Type / Fund | Amount |
|---|------------------|
| General Fund | |
| Local Government | \$86,469 |
| Homestead, Rollback, and Exemption | 4,837 |
| Total General Fund | 91,306 |
| Bridge and Street Major Special Revenue Fund | |
| Gasoline Excise Tax | 37,127 |
| Cents Per Gallon Tax | 35,121 |
| Motor Vehicle License Tax | 21,560 |
| Homestead, Rollback, and Exemption | 4,046 |
| Total Bridge and Street Major Special Revenue Fund | 97,854 |
| Fire Major Special Revenue Fund | |
| Homestead, Rollback, and Exemption | 5,833 |
| Total Fire Major Special Revenue Fund | 5,833 |
| Police Major Special Revenue Fund | |
| Homestead, Rollback, and Exemption | 18,412 |
| Total Police Major Special Revenue Fund | 18,412 |
| Inter-City Highway Fund | |
| Gasoline Excise Tax | 3,010 |
| Cents Per Gallon Tax | 2,848 |
| Motor Vehicle License Tax | 1,748 |
| Total Inter-City Highway Fund | 7,606 |
| City Permissive Fund | |
| Permissive Motor Vehicle License Taxes | 10,385 |
| Permissive Reimbursement | 1,450 |
| Total Permissive Fund | 11,835 |
| Total Nonmajor Special Revenue Funds | 19,441 |
| Total Governmental Activities | \$232,846 |

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 8 - CAPITAL ASSETS

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

| | Restated Beginning Balance 12/31/2003 | Additions | Deletions | Ending Balance 12/31/2004 |
|---|--|--------------------|------------------|---------------------------------|
| <u>Governmental Activities</u> | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | 275,428 | - | - | 275,428 |
| Construction in Progress | 425,332 | 958 | (168,068) | 258,222 |
| Total Capital Assets, Not Being Depreciated | <u>700,760</u> | <u>958</u> | <u>(168,068)</u> | <u>533,650</u> |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | - | 101,959 | - | 101,959 |
| Buildings and Improvements | 1,027,164 | 150,000 | - | 1,177,164 |
| Furniture and Equipment | 740,900 | 275,944 | - | 1,016,844 |
| Vehicles | 1,371,549 | 9,350 | - | 1,380,899 |
| Infrastructure | - | 527,424 | - | 527,424 |
| Total Capital Assets Being Depreciated | <u>3,139,613</u> | <u>1,064,677</u> | <u>-</u> | <u>4,204,290</u> |
| Less Accumulated Depreciation | | | | |
| Land Improvements | - | (19,742) | - | (19,742) |
| Buildings and Improvements | (369,971) | (23,161) | - | (393,132) |
| Furniture and Equipment | (454,334) | (87,669) | - | (542,003) |
| Vehicles | (1,101,586) | (123,443) | - | (1,225,029) |
| Infrastructure | - | (24,303) | - | (24,303) |
| Total Accumulated Depreciation | <u>(1,925,891)</u> | <u>(278,318) *</u> | <u>-</u> | <u>(2,204,209)</u> |
| Total Capital Assets Being Depreciated, Net | <u>1,213,722</u> | <u>786,359</u> | <u>-</u> | <u>2,000,081</u> |
| Governmental Activities Capital Assets, Net | <u>1,914,482</u> | <u>787,317</u> | <u>(168,068)</u> | <u>2,533,731</u> |

*Depreciation expense was charged to governmental functions as follows:

General Government:

| | |
|--------------------------------|-------------------|
| Legislative and Executive | \$ 65,366 |
| Security of Persons & Property | 163,640 |
| Transportation | <u>49,312</u> |
| Total Depreciation Expense | <u>\$ 278,318</u> |

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 8 – CAPITAL ASSETS (Continued)

| | Restated Ending Balance 12/31/2003 | Additions | Deletions | Ending Balance 12/31/2004 |
|---|---|------------------|-----------|---------------------------------|
| <u>Business Type Activities</u> | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$153,792 | | | \$153,792 |
| Construction in Progress | - | 245,138 | - | 245,138 |
| Total Capital Assets, Not Being Depreciated | 153,792 | 245,138 | - | 398,930 |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | - | 61,783 | - | 61,783 |
| Buildings and Improvements | 1,514,485 | - | - | 1,514,485 |
| Mechanical Equipment | 8,822,053 | 65,796 | - | 8,887,849 |
| Vehicles | 69,000 | 200,000 | - | 269,000 |
| Infrastructure | 36,800 | - | - | 36,800 |
| Water/Sewer Lines | 4,372,628 | - | - | 4,372,628 |
| Total Capital Assets Being Depreciated | 14,814,966 | 327,579 | - | 15,142,545 |
| Less Accumulated Depreciation | | | | |
| Land Improvements | - | (1,853) | - | (1,853) |
| Buildings and Equipment | (638,455) | (42,735) | - | (681,190) |
| Mechanical Equipment | (2,375,251) | (366,876) | - | (2,742,127) |
| Vehicles | (40,556) | (21,517) | - | (62,073) |
| Infrastructure | - | (613) | - | (613) |
| Water/Sewer Lines | (3,542,016) | (61,094) | - | (3,603,110) |
| Total Accumulated Depreciation | (6,596,278) | (494,688) | - | (7,090,966) |
| Total Capital Assets Being Depreciated, Net | 8,218,688 | (167,109) | - | 8,051,579 |
| Business Type Activities Capital Assets, Net | 8,372,480 | 78,029 | - | 8,450,509 |

NOTE 9 – DEFINED BENEFIT PENSION PLANS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

All employees of the City participate in the Ohio Public Employees Retirement System (OPERS). OPERS 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.
- 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 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 employee and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

The 2004 member contribution rates were 8.5% for members in classifications other than law enforcement and public safety.

The 2004 employer contribution rate for state employers was 13.31% of covered payroll. For local government employer units, the rate was 13.55% of covered payroll.

The City's contributions to OPERS for the years ended December 31, 2004, 2003, and 2002, were \$160,058, \$143,309, and \$93,149 respectively. 74% has been contributed for fiscal year 2994 and 100% for fiscal years 2003 and 2002. \$42,267 representing the unpaid contribution for fiscal year 2004 is recorded as a liability within the respective funds.

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

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5% and 24%, respectively for police officers and firefighters. The City's contributions to the OP&F for the years ended December 31, 2004, 2003, and 2002 were \$116,788, \$109,873, and \$56,574, respectively, equal to the required contributions for each year.

C. SOCIAL SECURITY SYSTEM

Effective July 1, 1991, all employees not otherwise covered by the Ohio Public Employees Retirement System of Ohio (OPERS) or the Ohio Police and Fire Pension Fund (OP&F) have an option to choose Social Security. As of December 31, 2004, sixteen members of the fire department, four members of the City Council, and the City Auditor have elected Social Security. The Council's liability is 6.2 percent of wages paid.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 10 – POSTEMPLOYMENT BENEFITS

A. OHIO 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, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, the rate was 13.55% of covered payroll for both fiscal years 2004 and 2003; 4.0% was used to fund health care for the year 2004 and 5.0% was used to fund health care for the year 2003.

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

Summary of Assumptions:

Actuarial Review - The assumptions and calculations below were based on OPERS' latest Actuarial Reviews performed as of December 31, 2003.

Funding Method – 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 unfunded actuarial accrued liability.

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

Investment Return – The investment assumption rate for 2003 was 8.00%.

Active Employee Total Payroll – An annual increase of 4.0%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from .50% to 6.30%.

Health Care – Health care cost were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEBs are advance-funded on an actuarially determined basis. The following disclosures are required:

1. The number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,885 for 2004.
2. The employer contributions that were used to fund postemployment benefits were \$47,249 for 2004, and \$46,427 for 2003.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 10 – POSTEMPLOYMENT BENEFITS (Continued)

3. \$10.5 billion represents the actuarial value of OPERS' net assets available for OPEBs at December 31, 2003.
4. 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 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.

B. OHIO POLICE AND FIRE PENSION FUND

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen whether or not the child is attending school or under the age of twenty two if attending school full-time or on a two thirds 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 OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll.

The Ohio Revised Code provides the statutory authority allowing OP&F's Board of Trustees to offer 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 2001, all retirees and survivors had monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2003, (the latest information available) was 13,662 for Police and 10,474 for Firefighters. The City's actual contributions for 2004 that were used to fund postemployment benefits was \$27,394 for Police and \$15,435 for Firefighters. The Fund's total health care expenses for the year ended December 31, 2003 were \$150,853,148, which was net of member contributions \$17,207,506.

NOTE 11 – EMPLOYEE BENEFITS

A. DEFERRED COMPENSATION PLAN

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

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 11 – EMPLOYEE BENEFITS (Continued)

B. COMPENSATED ABSENCES

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Current policy credits vacation leave on the employee's anniversary date and allows the unused balance to be accrued at levels which depend upon years of service. City employees are paid for earned, unused vacation leave at the time of termination of employment.

Sick leave is earned at the rate of one and one-fourth days for every completed month worked and can be accumulated up to 150 days or 1,200 hours. Each employee with the City is paid at one-fourth of the portion that does not exceed 150 days of the employee's earned unused sick leave upon retirement from the City, or the full balance may be transferred to another governmental agency. In the event that an employee dies, his or her estate will be paid the total allowable amount of all earned unused sick leave.

C. INSURANCE BENEFITS

The City provides life insurance through Anthem Blue Shield and health insurance through United Health Care. Dental insurance is provided through Guardian and vision insurance through Vision Service Plan of Ohio.

NOTE 12 – INTERFUND TRANSACTIONS

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; to move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payment become due, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers made during the year ended December 31, 2004, were as follows:

| <u>Fund Type / Fund</u> | <u>Transfers Out</u> | <u>Transfers In</u> |
|----------------------------------|----------------------|---------------------|
| Major Funds: | | |
| General | \$1,018,400 | \$0 |
| Bridge and Street | 0 | 220,000 |
| Fire | 0 | 20,000 |
| Police | 0 | 588,000 |
| Second Street Improvement | 0 | 9,514 |
| Nonmajor Capital Projects Funds: | | |
| Depot Str. Improvement | 0 | 3,300 |
| Recreational Complex | 0 | 32,000 |
| Ford Avenue | 0 | 38,586 |
| School District Access | 0 | 95,000 |
| Green Acres | 0 | 9,000 |
| Total Nonmajor Capital Projects | 0 | 177,886 |
| Nonmajor Special Revenue Funds: | | |
| Emergency Siren | 0 | 3,000 |
| Total Nonmajor Special Revenue | 0 | 3,000 |
| Total All Funds | \$1,018,400 | \$1,018,400 |

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2004, was as follows:

| Issue | Restated Balance 12/31/03 | Issued | Retired | Balance 12/31/04 | Due in One Year |
|--|------------------------------|------------------|------------------|---------------------|--------------------|
| Compensated Absences | 18,095 | 21,385 | 18,095 | 21,385 | 329 |
| 2001 - 2% OWDA Wastewater Treatment Plant Bonds | 3,882,495 | 245,138 | 169,575 | 3,958,058 | 162,009 |
| 1999 - 12% Synagro Loan Dewatering Facility | 273,825 | 0 | 27,141 | 246,684 | 30,398 |
| 2004 - 3% Sewer Flush Truck | 0 | 187,030 | 0 | 187,030 | 187,030 |
| 1997 - 0% OPWC Wastewater Treatment Plant Bonds | 25,987 | 0 | 1,925 | 24,062 | 1,925 |
| 2001 - 2% OWDA Elevated Tank & Line Treatment Plant Bonds | 485,660 | 0 | 24,249 | 461,411 | 24,736 |
| 2001 - 0% OPWC Elevated Tank & Line Treatment Plant Bonds | 101,327 | 0 | 5,477 | 95,850 | 5,477 |
| 2004 - 2.75% Water Sludge Lagoon Cleaning | 0 | 40,000 | 0 | 40,000 | 40,000 |
| Total Enterprise | 4,787,389 | 493,553 | 246,462 | 5,034,480 | 451,904 |
| Compensated Absences | 33,569 | 32,042 | 33,569 | 32,042 | 12,946 |
| 2002 - 0% OPWC Green Acres Paving & Drainage Project | 85,497 | | 9,000 | 76,497 | 9,000 |
| 2003 - 0% OPWC Depot Street Reconstruction | 52,882 | | 2,644 | 50,238 | 2,644 |
| 2003 - 4.352% - Purchase Mower/Tractor (2002) | 15,363 | 11,028 | 15,363 | 11,028 | 11,028 |
| 2003 - 4.004% - Pride Road (2002) | 391,268 | 346,950 | 391,268 | 346,950 | 346,950 |
| 2003 - 4.054% Fire Truck (1998) | 408,523 | 374,176 | 408,523 | 374,176 | 374,176 |
| 2003 - 3.912% Backhoe (2001) | 28,415 | 19,408 | 28,415 | 19,408 | 19,408 |
| 2003 - 3.912% Police Dept. Renovations (2002) | 130,850 | 110,985 | 130,850 | 110,985 | 110,985 |
| 2004 - 3.5% Completion of Bristol Park | 0 | 285,000 | 0 | 285,000 | 285,000 |
| Total Governmental Activities Long Term | 1,146,367 | 1,179,589 | 1,019,632 | 1,306,324 | 1,172,137 |

The City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$6,624,630 with an unvoted debt margin of \$87,528 at December 31, 2004.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

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

Annual debt service requirements to maturity for Business-type obligations are:

| | OPWC Loans | 2001 - OWDA Elevated Tank | | 1999 Synagro | | 2004 Loans | |
|-----------|------------------|------------------------------|-----------------|------------------|------------------|------------------|----------------|
| | Principal | Principal | Interest | Principal | Interest | Principal | Interest |
| 2005 | \$7,402 | \$24,736 | \$9,105 | \$30,398 | \$29,602 | \$227,030 | \$6,741 |
| 2006 | 7,402 | 25,233 | 8,608 | 34,046 | 25,954 | | |
| 2007 | 7,402 | 25,741 | 8,101 | 38,131 | 21,869 | | |
| 2008 | 7,402 | 26,258 | 7,584 | 42,707 | 17,293 | | |
| 2009 | 7,402 | 26,786 | 7,056 | 47,832 | 12,168 | | |
| 2010-2014 | 37,010 | 142,224 | 26,982 | 53,570 | 6,429 | | |
| 2015-2019 | 32,197 | 157,104 | 12,103 | | | | |
| 2020-2024 | 13,695 | 33,329 | 511 | | | | |
| | <u>\$119,912</u> | <u>\$461,411</u> | <u>\$80,050</u> | <u>\$246,684</u> | <u>\$113,315</u> | <u>\$227,030</u> | <u>\$6,741</u> |

Annual debt service requirements to maturity for Governmental Activities are:

| | OPWC Loans | 2004 Loans | |
|-----------|------------------|--------------------|-----------------|
| | Principal | Principal | Interest |
| 2005 | \$11,644 | \$1,147,547 | \$46,079 |
| 2006 | 11,644 | | |
| 2007 | 11,644 | | |
| 2008 | 11,644 | | |
| 2009 | 11,644 | | |
| 2010-2014 | 44,717 | | |
| 2015-2019 | 13,220 | | |
| 2020-2024 | 10,578 | | |
| | <u>\$126,735</u> | <u>\$1,147,547</u> | <u>\$46,079</u> |

The OWDA Elevated Water Storage Tank Loan was issued in 2001 in the amount of \$555,576 for the purpose of constructing a new water tower. This loan will be repaid from the Water Fund by January 1, 2021.

The OWDA Wastewater Treatment Plant Loan was issued for the purpose of constructing a new sewage treatment facility. The work has not been fully completed, therefore, the loan amount has not been issued in full and a final payment schedule is not available. The loan will be repaid from the Sewer Fund.

The OPWC Wastewater Treatment Plant Loans were issued in 1997 in the amount of \$38,500 for the purpose of improving the wastewater treatment plant digester. These loans will be repaid from the Sewer Fund by July 1, 2017.

The OPWC Elevated Water Storage Tank Loan was issued in 2001 in the amount of \$109,543 for the purpose of constructing a new water tower. This loan will be repaid from the Water Fund by July 1, 2022.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

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

The OPWC Green Acres Paving and Drainage Loan was issued in the amount of \$89,997 for the improvement of storm drains and to repair curbs and gutters. The loan will be repaid from the Green Acres Capital Projects Fund.

The Synagro Dewatering Facility Loan was issued in the amount of \$339,013 for the construction of a Dewatering Facility. The loan will be paid from the Sewer Fund.

The OPWC Depot Street Reconstruction Loan was issued in 2003 in the amount of \$52,882 for the purpose of reconstruction and improvements to Depot Street. The loan will be repaid from the Depot Street Reconstruction Capital Projects Fund.

The Flush Truck note was issued on June 29, 2004 and was for the purpose of purchasing a Pump Truck. This note matured on June 29, 2005 and was paid from the Sewer Fund.

The Sludge Lagoon Cleaning note was issued on April 28, 2004 and was for the purpose of sludge removal. This note matured on April 28, 2005 and was paid from the Sewer Fund.

The Bristol park note was issued on April 30, 2004 and was to complete the Bristol Park project. This note matured on April 30, 2005 and was paid from the Bristol Park Capital Project Fund.

The Fire Truck note was issued on November 9, 2004 and was issued for the purpose of purchasing a new fire truck and refinancing the note from a previously purchased fire truck. This note will mature on November 9, 2005 and will be paid from the Fire Special Revenue Fund.

The Backhoe note was issued on February 23, 2004 for the purpose of purchasing a backhoe. This note matured on February 22, 2005 and will be paid from the Bridge & Street Major Special Revenue Fund. This note is secured by the backhoe purchased with the proceeds of the note.

The Second Street Improvements Note was issued on November 9, 2004 and was used to construct Pride Drive. The note will mature on November 9, 2005 and will be paid from the Second Street Improvements Fund.

The Bridge & Street Mower note was issued on August 23, 2004 and was issued to purchase a mower for the Bridge 7 Street Department. The note will mature on August 23, 2005 and will be paid from the Bridge & Street Major Special Revenue Fund.

The Police Department renovations note was issued on January 2, 2004 and is being used to renovate the police department building. The note matured on January 1, 2005 and will be paid from the Police Major Special Revenue Fund.

The compensated absences additions and deletions of accrued vacation and sick leave are shown net since it is impractical for the City to determine these amounts separately. Compensated absences and the pension obligation will be paid from the funds from which the employees' salaries are paid.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 14 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the City contracted with The Public Entities Pool of Ohio for all property and fleet insurance, liability insurance, and inland marine coverage as follows:

| | |
|--|--------------|
| Building and Contents-replacement cost (\$1,000 deductible) | \$20,885,700 |
| Miscellaneous Property and Inland Marine Coverage (\$1,000 deductible) | 496,922 |
| Electronic Data Processing Equip Coverage (\$1,000 deductible) | 3,471 |
| Automobile Vehicle Liability (\$0 deductible) | 2,206,021 |
| Bodily Injury per occurrence | 1,000,000 |
| Uninsured/Under Insured Motorists Per Occurrence | 100,000 |
| Medical Expenses | 1,000 |
| Total per year | 1,000,000 |
| Wrongful Acts Coverage (\$2,500 deductible) | 1,000,000 |
| General Liability | |
| Per occurrence | 1,000,000 |
| Employee Benefits (\$1,000 deductible) | 100,000 |
| Medical Expense (other than auto) | 5,000 |
| Total per year | 1,000,000 |
| Law Enforcement Liability (\$2,000 deductible) | |
| Per occurrence | 1,000,000 |

Settled claims have not exceeded this commercial coverage in any of the past three years. The City changed insurance provider's from various companies to the Public Entities Pool of Ohio in 2003.

There have been no significant reductions in insurance coverage from the previous year.

Workers' Compensation coverage is provided by the State of Ohio and is based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

NOTE 15 – CONTRACTUAL COMMITMENTS

Outstanding contractual commitments at December 31, 2004, consist of the following:

| Vendor | Project | Contract Amount | Amount Expended | Balance at 12/31/2004 |
|-----------------------|--|--------------------|--------------------|--------------------------|
| BBS Corporation | Second Street Connector | \$140,600 | \$139,526 | \$1,074 |
| BBS Corporation | Wastewater Treatment Plant Improvements | 351,800 | 334,823 | 16,977 |
| George Igel & Company | Second Street Connector | 141,952 | 125,072 | 16,880 |
| PAE & Associates | Wastewater Treatment Plant Improvements | 3,244,395 | 3,240,977 | 3,418 |
| Total | | <u>\$3,878,747</u> | <u>\$3,840,398</u> | <u>\$38,349</u> |

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 16 – JOINTLY GOVERNED ORGANIZATION

WAVERLY EVERGREEN UNION CEMETERY

The Waverly Evergreen Union Cemetery, a jointly governed organization, provides services within the County. The board of trustees oversees the operation of the Cemetery. The City does not have any financial interest in or responsibility for the Cemetery.

NOTE 17 – CONTINGENT LIABILITIES

A. LITIGATION

The City of Waverly is not a party to any legal proceedings.

B. FEDERAL AND STATE GRANTS

For the period January 1, 2004 to December 31, 2004, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE 18 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF PRIOR YEAR FUND BALANCE/NET ASSETS

For 2004, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, “Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB Statement 38, “Certain Financial Statement Note Disclosures”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements.” GASB Statement No. 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The implementation of these Statements requires certain adjustments be recorded to the December 31, 2003 fund balances of major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balances to net assets of the governmental activities is also presented.

For the fiscal year 2004, the City has implemented Governmental Accounting Standards Board (GASB) Statement No.39, “Determining Whether Certain Organizations are Component Units” and GASB Statement No. 41, “Budgetary Comparison Schedules – Perspective Differences.”

GASB Statement No. 39 is an amendment to GASB Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationships with the primary government. This statement had no effect on the City for fiscal year 2004.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the county not being able to present budgetary comparisons for the general and each major special revenue fund. This statement had no effect on the City for fiscal year 2004.

Restatements were made to Capital Assets in the enterprise funds due to the City doing an updated account of assets. Also an accounting error in contracts payable was noted in the prior year causing the prior year balances to be restated. For the non-major funds, loans receivable and contracts payable were restated.

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 18 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF PRIOR YEAR FUND BALANCE/NET ASSETS (Continued)

| | General | Bridge & Street | Fire | Police | Second Street Improvement | Non-Major | Governmental Activities |
|--|------------------|--------------------|-----------------|-----------------|------------------------------|------------------|----------------------------|
| Fund Balances, December 31, 2003 | \$283,238 | \$4,041 | \$76,787 | \$37,825 | \$144,288 | \$301,109 | \$847,288 |
| Restatement | 0 | 0 | 0 | 0 | 0 | 7,817 | 7,817 |
| Interpretation 6 Adjustments | 1,452 | 1,299 | 357 | 1,692 | 0 | 0 | 4,800 |
| Restated Fund Balances, December 31, 2003 | <u>\$284,690</u> | <u>\$5,340</u> | <u>\$77,144</u> | <u>\$39,517</u> | <u>\$144,288</u> | <u>\$308,926</u> | 859,905 |
| Adjustments to comply with Gasb 34: | | | | | | | |
| Compensated Absences | | | | | | | (33,569) |
| Capital Assets | | | | | | | 1,914,482 |
| Deferred Revenue | | | | | | | 301,992 |
| Debt | | | | | | | <u>(1,112,800)</u> |
| Restated Net Assets, December 31, 2003 | | | | | | | <u>\$1,930,010</u> |

| | Water | Sewer | Business-Type Activities |
|--|--------------------|--------------------|-----------------------------|
| Net Assets, December 31, 2003 | \$1,836,145 | \$1,556,373 | \$3,392,518 |
| Restatement | 1,198,630 | (59,566) | 1,139,064 |
| Restated Net Assets, December 31, 2003 | <u>\$3,034,775</u> | <u>\$1,496,807</u> | <u>\$4,531,582</u> |

NOTE 19 – SUBSEQUENT EVENT

The City is in the planning phase of a TRAC Project. The estimated cost of the project is \$8,853,699 with \$212,466 being the City's share. The project has a 2006 projected start date.

NOTE 20 - COMPLIANCE

Ohio Rev. Code Section 5705.39

At December 31, 2004, appropriations exceeded total estimated resources in the following funds:

| | <u>Amount</u> |
|-------------------------------|---------------|
| <u>Special Revenue Funds:</u> | |
| Permissive Tax Fund | \$5,540 |
| <u>Capital Project Funds:</u> | |
| Depot Road Improvement Fund | 3,300 |
| US 23 Embankment Fund | 15,000 |
| Green Acres Subdivision Fund | 9,000 |
| Ford Avenue Fund | 207,567 |

CITY OF WAVERLY, OHIO
Notes to The Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 20 – COMPLIANCE (Continued)

Ohio Rev. Code Section 5705.41(B)

At December 31, 2004, total disbursements plus encumbrances exceeded total appropriations in the following funds:

| | <u>Amount</u> |
|--------------------------------------|---------------|
| <u>Special Revenue Funds:</u> | |
| Bridge and Street Fund | (17,633) |
| Fire Fund | (371,818) |
| Police Fund | (44,912) |
| Law Drug Enforcement Fund | (8,756) |
| <u>Capital Project Funds:</u> | |
| Second Street Fund | (356,407) |
| Nature Works/Walnut Street Park Fund | (200) |
| Recreational Complex Fund | (49,408) |



**Auditor of State
Betty Montgomery**

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

City of Waverly
Pike County
201 West North Street
Waverly, Ohio 45690

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waverly, Pike County, Ohio (the City), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 17, 2006, wherein we noted the City implemented a new financial reporting model as required by Governmental Accounting Standards Board Statement No. 34. We also noted that there was a lack of sufficient competent evidential matter to gain the necessary assurances regarding the accuracy, completeness, existence and valuation of the Capital Assets reported in Governmental Activities, Business Type Activities and the Water Fund and Sewer Fund for the year ended December 31, 2004. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2004-001 through 2004-004.

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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2004-004 listed above to be a material weakness. In a separate letter to the City's management dated March 17, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the City's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2004-001 through 2004-003. In a separate letter to the City's management dated March 17, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and City Council. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 17, 2006

CITY OF WAVERLY
PIKE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004

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

FINDING NUMBER 2004-001

Noncompliance Citation and Reportable Condition

Ohio Rev. Code Section 5705.39 provides, in part, that the total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure shall become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

At December 31, 2004, appropriations exceeded total estimated resources in the following funds:

| | <u>Total Appropriations</u> | <u>Total Estimated Resources</u> | <u>\$ Variance</u> |
|--------------------------------|---------------------------------|--|--------------------|
| <u>Special Revenue Funds:</u> | | | |
| Permissive Tax Fund | \$94,000 | \$88,460 | \$5,540 |
| <u>Capital Projects Funds:</u> | | | |
| Depot Road Improvement Fund | 3,300 | 0 | 3,300 |
| US 23 Embankment Fund | 15,000 | 0 | 15,000 |
| Green Acres Subdivision Fund | 9,000 | 0 | 9,000 |
| Ford Avenue Fund | 262,760 | 55,193 | 207,567 |

Failure to limit appropriations to the amount certified by the budget commission could result in overspending and negative cash balances.

We recommend the City more closely monitor estimated resources versus appropriations to ensure that appropriations do not exceed estimated resources as submitted to the County Auditor and County Budget Commission.

**CITY OF WAVERLY
PIKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2004-002

Noncompliance Citation and Reportable Condition

Ohio Rev. Code Section 5705.41(B) provides that no subdivision or taxing unit is to expend money unless it has been appropriated.

At December 31, 2004 total disbursements plus encumbrances exceeded total appropriations in the following funds:

| | <u>Total Appropriations</u> | <u>Total Disbursements</u> | <u>\$ Variance</u> |
|---|---------------------------------|--------------------------------|--------------------|
| <u>Special Revenue Funds:</u> | | | |
| Bridge and Street Fund | \$459,458 | \$477,091 | (\$17,633) |
| Fire Fund | 336,160 | 707,978 | (371,818) |
| Police Fund | 1,116,822 | 1,161,734 | (44,912) |
| Law Drug Enforcement Fund | 4,400 | 13,156 | (8,756) |
| <u>Capital Projects Funds:</u> | | | |
| Second Street Fund | 204,345 | 560,752 | (356,407) |
| Nature Works/Walnut Street Park Fund | 23,600 | 23,800 | (200) |
| Recreational Complex Fund | 335,000 | 384,408 | (49,408) |

The City Auditor should not certify the availability of funds and should deny payment requests exceeding appropriations. The City Auditor may request City Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2004-003

Noncompliance Citation and Reportable Condition

Ohio Rev. Code Section 5705.41(D)(1) states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purposes and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This section also provides exceptions to the above requirements, one of which is provided for in Ohio Rev. Code Section 5705.41(D)(1):

- A. Then and Now Certificate – If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that, both at the time that the contract or order was made and at the time he is completing his certification, a sufficient sum was available or in the process of collection, to the credit of a proper fund, properly appropriated and free of any previous encumbrance, the City Council may authorize the issuance of a warrant in payment o the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditures is otherwise valid.

**CITY OF WAVERLY
PIKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
|--|

FINDING NUMBER 2004-003 – (Continued)

**Noncompliance Citation and Reportable Condition – Ohio Rev. Code Section 5705.41(D)(1)
(Continued)**

- B. If the amount involved is less than \$3,000, the fiscal officer may authorize it to be paid without the affirmation of the taxing authority, upon completion of the then and now certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditure by the City.

For 21 percent of the purchases tested, funds were not certified as available to meet commitments until after the commitment was made and “then and now” certificates were not utilized.. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

We recommend the City Auditor certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The City Auditor should sign the certification at the time the City incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

FINDING NUMBER 2004-004

Material Weakness – Capital Assets

When designing the public office's system of internal control and the specific control activities, management should consider ensuring adequate security of assets and records as well as verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records. Prior to 2004, the City of Waverly did not have a comprehensive inventory listing of all of its fixed assets. As a result, no comprehensive detail of individual assets purchased, the cost of the assets, location, date of acquisition, etc. existed prior to 2004. During the preparation of the 2004 financial statements, the City obtained a Capital Assets Inventory System and developed a listing of the City's Capital Assets. Audit testing revealed that this listing was developed by the department heads each listing the assets their department had, along with estimates of the values and acquisition dates. There was no supporting documentation for the estimated values and acquisition dates. Testing further revealed that the amounts reported for 2004 Capital Assets additions were estimates of values.

Further audit testing revealed significant variances between the audited amounts at December 31, 2003 and the amounts reported as the beginning amounts at January 1, 2004 per the restated amounts in the notes to the financial statements. For example, the beginning balance of the Capital Assets in the Governmental Activities was reduced nearly twelve percent with no supporting documentation other than the difference between the audited amount during the prior audit and the beginning balance based on the City's estimates for the 2004 financial statements. Testing also revealed the beginning balance of the Water Fund Capital Assets was restated with an increase of nearly 3.3 million dollars which amounted to an increase of approximately 105 percent of the Capital Assets in the Water Fund as reported at December 31, 2003. The only basis for these restatements was the difference between the estimates developed in the preparation of the 2004 financial statements and the amounts reported in the 2003 financial statements and related notes.

**CITY OF WAVERLY
PIKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
|--|

FINDING NUMBER 2004-004 (Continued)

Material Weakness – Capital Assets (Continued)

Additionally, comparisons of 2004 Capital Assets Information from the system to the partial listings that existed during 2003 revealed significant discrepancies. For instance, a comparison of the value of a water tank revealed that the value in the 2003 Book Asset Detail Report was \$895,965 while the value in the 2004 Book Asset Detail Report was \$1,200,000 based on the City's estimates. This one asset showed a variance of more than \$300,000 due to the estimate of the value by the City. Additionally, the acquisition date/date placed in service varied by one year which resulted in variance depreciation calculations. Further testing revealed that the 2004 additions information included on the Book Asset Detail Report was based on department head estimates rather than the actual amounts, dates, etc. from the vouchers, invoices, etc.

The tag number from an asset tag attached to a conference table was compared to the asset description on the 2004 Book Asset Detail Report. The comparison revealed that the Book Asset Detail Report reported that the Asset tag was for a "Toshiba 1870 Copier/Fax" machine rather than a conference table, providing indication that the asset tag numbers listed on the Book Asset Detail Report did not correspond to the asset tag numbers affixed to the actual assets.

In an effort to test the completeness of the recorded assets, the list of real estate parcels included on the Book Asset Detail Report and supporting schedules in the compilation were compared to the listing of real estate parcels owned by the City as included on the County Auditor's real estate system. The compilation only included one half of the number of parcels actually owned by the City. There were only 22 parcels recorded out of 44 listed on the County Auditor's system. As a result, the value of the land as recorded in the financial statements and notes is understated by approximately \$175,000.

Additionally, the City does not have an official capital asset policy describing the estimated useful lives for each asset class and assigned asset lives to the various assets which were not always consistent from department to department. For example, for Governmental Activities, a dump truck was assigned a useful life of five years. For Business-Type Activities, a dump truck was assigned a useful life of 25 years. Additionally, some of the asset lives assigned were not reasonable based on the actual lives of the types of assets. For example, the estimated useful lives for all vehicles in the Governmental Activities, including fire trucks and the aforementioned dump trucks, were five years. These should reasonably be expected to remain useful for more than five years and many of them have been in use by the City for more than five years. Also, the City assigned useful lives of seven years to furniture, fixtures and equipment of the Governmental Activities capital assets. Such assets should be useful for a significantly longer period of time than seven years and many of them have been in use by the City for more than seven years. As a result of these useful life estimates, accumulated depreciation and depreciation expense do not reflect the proper amounts.

The lack of an adequate fixed asset accounting system is a weakness in the City's accounting system that could result in material errors to the financial statements. Based on the numerous issues described above, we could not effectively gain the necessary assurances regarding the accuracy, completeness, existence and valuation of the City's capital assets.

**CITY OF WAVERLY
PIKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
|--|

FINDING NUMBER 2004-004 (Continued)

Material Weakness – Capital Assets (Continued)

We recommend the City contract with a qualified appraisal firm for a complete physical inventory and valuation of all of its capital assets. We further recommend the City enter the updated information in the central fixed assets tracking system. All of the assets of the City should be given a unique ID number. Further, ID tags containing the asset's ID number should be placed on each asset. The system should include a description of the asset, the date purchased, cost, and should calculate and keep track of accumulated depreciation for each of the assets. Further, the system should include the fund(s) from which the asset was purchased and function(s) or program(s) for which the asset is used. This could enhance the City's ability to track assets purchased with federal grant monies and would enable the City to obtain the information necessary for reporting in accordance with the reporting model under GASB Statement 34. Such a system would enhance the City's ability to properly report the capital assets and would also enhance physical security and control over the assets. The City should update the Capital Assets system each year with information from the purchase of new assets as well as the disposal of existing assets.

Many federal grants require the performance of a physical inventory at least once every two years. Accordingly, we further recommend the City adopt a policy to perform and maintain documentation of a complete physical inventory at least once every two years. The results of the physical inventory should be reconciled to the information contained in the Capital Assets tracking system.

Additionally, the City should review the useful lives assigned to assets to ensure that they are reasonable for the various assets. The City should develop a policy to ensure that the useful lives assigned are consistent for all of the departments of the City.

**CITY OF WAVERLY
PIKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|--|
| 2003-001 | Ohio Rev. Code Section 2949.091 - Finding for Recovery – Court Costs not properly collected and remitted to the state. | Yes | Repaid under audit during the 2003 Audit. |
| 2003-002 | Ohio Rev. Code Section 5705.39 – Appropriations exceeded Estimated Resources | No | Reissued as Finding Number 2004-001 |
| 2003-003 | Ohio Rev. Code Section 5705.41(B) | No | Reissued as Finding Number 2004-002 |
| 2003-004 | No comprehensive Capital Assets listing. | No | See Finding Number 2004-004 for comment as modified for the situation in 2004. |



**Auditor of State
Betty Montgomery**

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CITY OF WAVERLY

PIKE 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
APRIL 13, 2006**