

CITY OF WADSWORTH, OHIO

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005



Mary Taylor, CPA
Auditor of State

Honorable Mayor, City Auditor,
and Members of City Council
City of Wadsworth
120 Maple Street
Wadsworth, Ohio 44281

We have reviewed the *Independent Auditor's Report* of the City of Wadsworth, Medina County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 25, 2007

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**CITY OF WADSWORTH, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, City Auditor,
and Members of City Council
City of Wadsworth, Ohio

The Honorable Betty Montgomery
Auditor of State
State of Ohio

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

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

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

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

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

James G. Zupka, CPA, Inc.
Certified Public Accountants

November 22, 2006

City of Wadsworth, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The discussion and analysis of the City of Wadsworth financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; along with the review of the basic financial statements for the reader to enhance their understanding of the City's financial performance.

Financial Highlights

The City's key financial highlights for 2005 are as follows:

- The assets of the City exceeded its liabilities at the close of the year ended December 31, 2005, by \$78.3 million (net assets). Unrestricted net assets in the amount of \$10.8 million are available to meet the City's ongoing obligations to citizens and creditors. The City's net assets related to governmental activities amounted to \$40.6 million, while net assets related to business-type activities amounted to \$37.7 million.
- Total net assets for the year decreased by \$1.1 million or slightly more than 1.0%. Net assets for business-type activities decreased 2.2% while those related to governmental activities decreased .5%.
- The City's total revenues, amounted to \$51.8 million in 2005, of which \$16.2 million related to governmental activities and \$35.6 million to business-type activities. Program specific revenues in the form of charges for services, grants and contributions accounted for \$39.2 million or 75.7% of total revenues.
- The City had \$52.8 million in expenses, in 2005, \$16.3 million of which were for governmental activities and \$36.5 million for business-type activities.
- Among major funds, the General Fund had \$4.6 million in revenues (excluding transfers-in) and \$7.8 million in expenditures in 2005.
- The General Fund's balance increased to \$3.5 million, an increase of \$75,640 from the beginning 2005 balance due to a transfer in of \$3.4 million from the Income Tax Fund. The General Fund balance was 77.8% of General Fund revenues.
- During 2005, the City's total long-term obligations increased from \$15.5 million to \$21.5 million. This increase of \$6.0 million was due to the OWDA loan for improvements to the waste water treatment plant.

Using this Annual Financial Report

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

The Statement of Net Assets and Statement of Activities (referred collectively as the government-wide statements) provide information about the activities of the entire City and present a longer-term view of the City's finances. 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 dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column. The Proprietary Funds' statements are prepared on the same basis as the government-wide statements. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City of Wadsworth as a Whole

Statement of Net Assets and Statement of Activities

These government-wide statements answer the question, "How did the City as a whole do financially during 2005"? They are prepared on the accrual basis of accounting, including all assets and liabilities, much the same way as for a private enterprise. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

- *The Statement of Net Assets.* This Statement (page 12) reports all assets and liabilities of the City as of December 31, 2005. The difference between total assets and total liabilities is reported as net assets. Increases in net assets generally indicate an improvement in financial position while decreases may indicate a deterioration of financial position.
- *The Statement of Activities.* This Statement (page 13) serves the purpose of the traditional income statement. It provides consolidated reporting of the results of all activities of the City for the year ended December 31, 2005. Changes in net assets are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the City's various programs net of related revenues, as well as the separate presentation of revenues available for general purposes.

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

Governmental Activities – The reporting of services including public safety, administration and all departments, with the exception of the Sewer Fund, Water Fund, Electric Fund, Sanitation Fund and Telecommunications, which are reported as Business-Type Activities.

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

Reporting the City of Wadsworth's Most Significant Funds

Fund Financial Statements

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

- ***Governmental Funds.*** Governmental funds are used to account for "Government-Type" activities. Unlike the government-wide financial statements, governmental fund statements use a "flow of financial resources" measurement focus. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Increases in spendable resources are reported in the operating statement as "revenues" or "other financing sources". Decreases in spendable resources are reported as expenditures or other financing uses. Income taxes, property taxes, charges for services and state and federal grants finance most of those activities. The basic government fund financial statements can be found on pages 14 through 19 of this report.
- ***Proprietary Funds.*** There are two types of Proprietary Funds: Enterprise Funds and Internal Service Funds.

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

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

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

The Vehicle Maintenance Fund, Health-Insurance Retention Fund and Liability Insurance Retention Fund are the City of Wadsworth's Internal Service Funds.

- **Fiduciary Funds.** Fiduciary Funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for Fiduciary Funds is much like that used for Proprietary Funds.

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

Other Information

Notes to the Basic Financial Statements:

The notes provide additional and explanatory data. They are an integral part of the basic financial statements. Notes to the Basic Financial Statements can be found on pages 24 through 63 of this report.

The City of Wadsworth as a Whole

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Wadsworth, assets exceed liabilities by \$40,590,305 in governmental activities and \$37,678,328 in business-type activities as of December 31, 2005. The largest portion of the City's net assets reflects its investment in capital assets (i.e.; land, buildings, land improvements, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources. Since the capital assets themselves are needed to provide services, they cannot be sold to pay liabilities. Net assets are presented in the following table:

**Table 1
Net Assets**

	Governmental Activities		Business-Type Activities		Total	Total
	2005	2004	2005	2004	2005	2004
Assets						
Current and Other Assets	\$18,219,340	\$17,046,907	\$14,654,396	\$12,801,510	\$32,873,736	\$29,848,417
Capital Assets, Net	30,086,372	30,855,311	44,385,961	39,616,899	74,472,333	70,472,210
Total Assets	48,305,712	47,902,218	59,040,357	52,418,409	107,346,069	100,320,627
Liabilities						
Current and Other Liabilities	3,917,669	3,580,604	3,679,626	1,882,006	7,597,295	5,462,610
Long-Term Liabilities, Due Within One Year	717,755	451,437	712,696	571,930	1,430,451	1,023,367
Long-Term Liabilities, Due in More Than One Year	3,079,983	3,093,768	16,969,707	11,418,047	20,049,690	14,511,815
Total Liabilities	7,715,407	7,125,809	21,362,029	13,871,983	29,077,436	20,997,792
Net Assets						
Invested in Capital Assets, Net of Debt	28,473,947	28,849,545	28,471,548	29,136,899	56,945,495	57,986,444
Restricted	10,482,259	9,266,613	0	0	10,482,259	9,266,613
Unrestricted	1,634,099	2,660,251	9,206,780	9,409,527	10,840,879	12,069,778
Total Net Assets	\$40,590,305	\$40,776,409	\$37,678,328	\$38,546,426	\$78,268,633	\$79,322,835

During 2005, the City's overall financial position decreased by \$1,054,202 as Governmental Activities Net Assets decreased by \$186,104 and those for Business-Type Activities decreased by \$868,098.

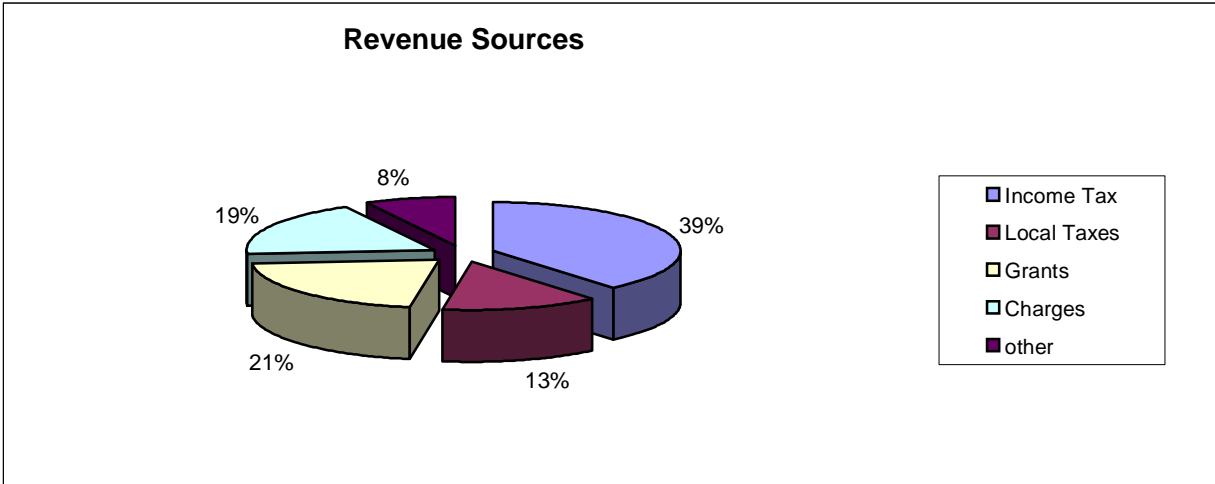
Table 2 below, indicates the changes in net assets for the year ended December 31, 2005, for both the Governmental and Business-Type Activities.

Table 2
Changes in Net Assets

	Governmental Activities 2005	Governmental Activities 2004	Business-Type Activities 2005	Business-Type Activities 2004	Total 2005	Total 2004
Revenues						
Program Revenues:						
Charges for Services	\$3,019,572	\$3,305,478	\$35,264,205	\$28,749,627	\$38,283,777	\$32,055,105
Operating Grants and Contributions	325,750	470,466	0	0	325,750	470,466
Capital Grants and Contributions	523,824	331,574	50,000	0	573,824	331,574
General Revenues:						
Taxes	8,496,631	7,545,967	0	0	8,496,631	7,545,967
Grants and Entitlements Not Restricted to Specific Programs	3,430,318	3,447,008	0	0	3,430,318	3,447,008
Investment Income	340,280	76,320	283,203	530,796	623,483	607,116
Other Income	55,164	8,251	0	0	55,164	8,251
Total Revenues	16,191,539	15,185,064	35,597,408	29,280,423	51,788,947	44,465,487
Expenses						
Program Expenses:						
General Government	3,960,462	3,422,001	0	0	3,960,462	3,422,001
Security of Persons and Property	6,496,050	5,864,968	0	0	6,496,050	5,864,968
Public Services	0	135	0	0	0	135
Public Health	75,271	145,643	0	0	75,271	145,643
Leisure Time Services	2,204,047	2,023,707	0	0	2,204,047	2,023,707
Community and Economic Development	811,973	478,550	0	0	811,973	478,550
Public Works	50,280	30,140	0	0	50,280	30,140
Transportation	2,435,891	2,512,197	0	0	2,435,891	2,512,197
Intergovernmental	156,610	16,529	0	0	156,610	16,529
Interest and Fiscal Charges	147,354	146,971	0	0	147,354	146,971
Electric	0	0	28,056,110	23,589,034	28,056,110	23,589,034
Sanitation	0	0	1,838,563	1,284,315	1,838,563	1,284,315
Sewer	0	0	2,239,016	2,497,533	2,239,016	2,497,533
Telecom	0	0	1,733,253	10,344	1,733,253	10,344
Water	0	0	2,638,269	2,401,418	2,638,269	2,401,418
Total Expenses	16,337,938	14,640,841	36,505,211	29,782,644	52,843,149	44,423,485
Increase (Decrease) in Net Assets						
Before Transfers	(146,399)	544,223	(907,803)	(502,221)	(1,054,202)	42,002
Transfers	(39,705)	2,325	39,705	(2,325)	0	0
Increase (Decrease) in Net Assets						
After Transfers	(186,104)	546,548	(868,098)	(504,546)	(1,054,202)	42,002
Net Assets - Beginning	40,776,409	40,229,861	38,546,426	39,050,972	79,322,835	79,280,833
Net Assets - Ending	<u>\$40,590,305</u>	<u>\$40,776,409</u>	<u>\$37,678,328</u>	<u>\$38,546,426</u>	<u>\$78,268,633</u>	<u>\$79,322,835</u>

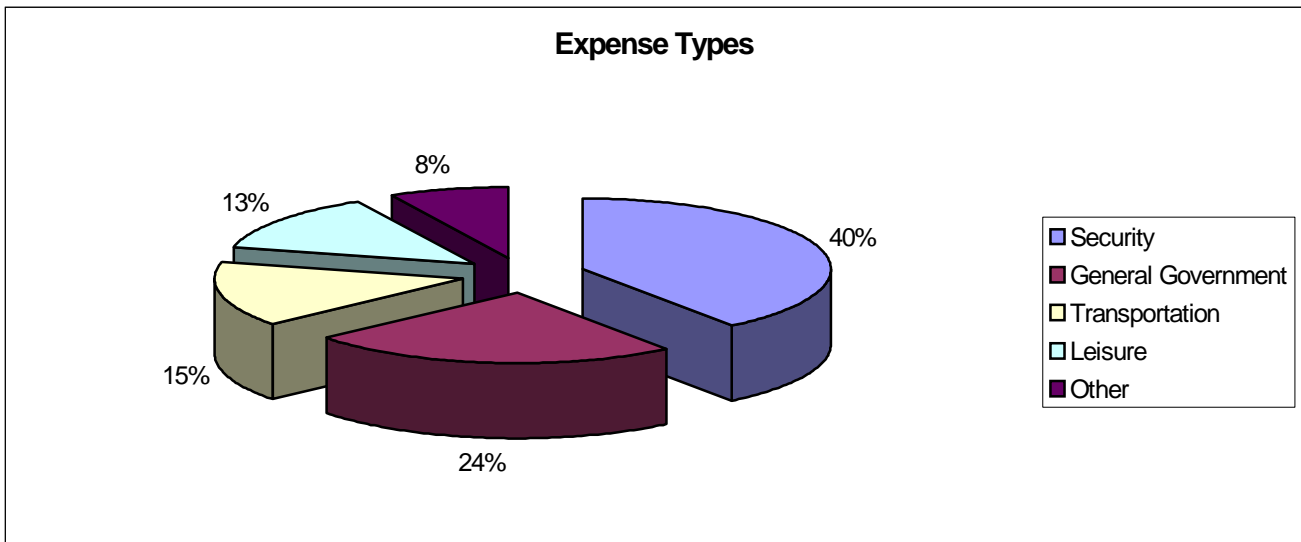
Governmental Activities

The City income tax is the largest contributor of revenue sources in government activities accounting for 38.99% of total revenues. Property and other local taxes generate 13.49% and grants and entitlements generate 21.19% of total revenues.



The City’s direct charges to users of governmental services represent 18.65% of total revenue. These charges are from fees for recreational activities, fines and forfeitures related to judicial activity and licenses and permits.

Security of Persons and Property account for 39.75% of governmental expenses, general government accounts for 24.20% of governmental expenses while transportation costs and leisure time activities represent 14.91% and 13.49% of governmental expenses respectively.



Business-Type Activities

The City’s business-type activities are the electric, sanitation, sewer, water, and telecom services. The City provides curbside trash pick-up as well as yard waste pick-up. Income to provide services is derived from user fees set by Council.

Charges for services generated 99.10% of all revenues in the business-type activities.

Individual Funds Summary And Analysis

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

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

As of the end of the current fiscal year, the City’s Governmental Funds reported combined ending fund balances of \$12,639,341, a 6.16% increase of \$733,803 in comparison with the prior year. Approximately 72.83% of this total amount of \$12,639,341 is available for spending at the government’s discretion. The remainder of fund balance, if any, is reserved to indicate that it is not readily available for new spending since it has already been committed to liquidate contracts and purchase commitments, to pay debt service or for a variety of other restricted purposes.

The General Fund is the primary operating fund of the City of Wadsworth. At the end of the current year, the General Funds’ unreserved balance was \$1,922,698, while the total fund balance was \$3,541,620. As a measure of the General Fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 24.55% of total General Fund expenditures, while total fund balance represents 45.22% of that same amount. The General Fund balance increased by \$75,640 or 2.18% over the prior year.

The Income Tax Fund receives all income tax revenue, expenses the dollars necessary to administer the income tax activities and then distributes dollars as needed for operation of the General Fund, Recreation Fund, Street Fund and Capital Improvement. In addition, \$7,400 was paid to the schools for various tax sharing agreements. The needs of these funds were less than revenues in Income Tax by \$620,824.

Proprietary Funds – The City’s Proprietary Funds provide the same type of information found in the government-wide business-type activity financial statements, but in more detail. Net Assets in the Sewer, Water, Electric and Other Enterprise Funds increased (decreased) \$1,334,816, (18.89%), \$180,407 (1.79%), \$(2,132,617) (10.55%) and \$(38,911) (3.37%), respectively.

Budgetary Highlights

As required by State statute, City Council adopts an annual budget.

There was no significant change from the original budget to the final budget. Actual General Fund Property Tax and Other Local Tax Collections were approximately \$94,513 under the budget. Interest Earnings suffered again in 2005 as a result of record low interest rates.

Actual General Fund expenditures compared to the budget included approximately \$455,000 remaining in encumbered funds as of December 31, 2005. Security of Persons and Property, which is largely the Police and Fire Department activity, accounted for \$260,026 of those encumbered funds and General Government accounted for \$146,131.

Actual revenue collected in the City’s Income Tax Fund was \$352,940 more than the budgeted amount, while expenses remained constant. As a result the management cut expenses in the funds supported by Income Tax.

Capital Assets and Debt Administration

Capital Assets-The City’s investment in capital assets for its governmental and business-type activities as of December 31, 2005, amounts to \$74,472,333 (net of accumulated depreciation). This investment in capital assets includes Land; Construction in Progress; Infrastructure Work in Progress; Buildings; Land Improvements; Vehicles; Equipment; and Infrastructure. The total increase in the City’s investment in capital assets for the current year was 5.68% (2.49% decrease for governmental activity and a 12.04% increase for business-type activity) (See Note 12).

Table 3
Capital Assets
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	Total
	2005	2004	2005	2004	2005	2004
Land	3,960,515	3,960,515	492,686	492,686	4,453,201	4,453,201
Construction in Progress	0	255,346	5,943,580	107,490	5,943,580	362,836
Infrastructure Work In Prog	0	0	1,652,583	916,195	1,652,583	916,195
Land Improvements	856,319	891,407	5,806	6,169	862,125	897,576
Buildings	4,850,866	5,028,315	3,115,569	3,248,186	7,966,435	8,276,501
Vehicles	1,214,614	1,320,888	1,163,454	1,354,344	2,378,068	2,675,232
Equipment	619,258	747,942	654,186	734,552	1,273,444	1,482,494
Infrastructure	18,584,800	18,650,898	31,358,097	32,757,277	49,942,897	51,408,175
Total Capital Assets, Net	30,086,372	30,855,311	44,385,961	39,616,899	74,472,333	70,472,210

Debt

At December 31, 2005, the City had a total debt of \$17,398,668 in long-term bonds, loans and other outstanding obligations, excluding compensated absences and intergovernmental payables. Details of individual obligations can be found on page 48. A large portion of this debt is revenue bonds and not a general obligation of the City.

The general obligation indebtedness of the City is subject to two statutory debt limitations referred to as the direct debt limitation: (Section 133.05 ORC). Certain debt with a repayment source other than general tax revenue, is excluded from this limitation. Under the definition, the City has no net indebtedness as of December 31, 2005. The aggregate principal amount of unvoted net indebtedness may not exceed \$47,076,284, which is 10.50% of the assessed value of real and personal property. This leaves an available unvoted debt limit of \$47,076,284. The aggregate principal amount of voted nonexempt net indebtedness of the City may not exceed \$24,659,006, which is 5.50% of the assessed value of real and personal property.

Additional information regarding the City's long-term obligations can be found in Note 16 of this report.

Table 4
Long Term Debt
(As of end of each year)

	Governmental Activities		Business-Type Activities		Total	Total
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	1,380,000	1,685,000	0	0	1,380,000	1,685,000
Revenue Bonds	0	0	10,050,833	10,480,000	10,050,833	10,480,000
Special Assessment Bonds	0	12,000	0	0	0	12,000
Police and Fire Past Service Costs	104,255	106,007	0	0	104,255	106,007
OWDA Loan	0	0	5,863,580	0	5,863,580	
Total Long Term Debt	1,484,255	1,803,007	15,914,413	10,480,000	17,398,668	12,283,007

Economic Factors

The City's original budget for 2005 utilized conservative revenue estimates with limited increases in base operating costs. Expenditures were projected to exceed revenues in some of the funds, including the general fund. City Council decided they wanted to maintain current service levels to the residents of the City by utilizing reserve fund balances.

Actual General Fund revenues were 34.28% more than the original estimated revenue for 2005. Actual General Fund expenditures were 2.15% less than the 2005 original budgeted expenditures. The net change fund balance after all activity was originally budgeted to decline 40.81%. The actual net change in fund balance was a decline of 4.37%.

Department requests were reduced from original submission; certain requested capital projects and capital acquisitions were eliminated or reduced; and only those items that management and City Council determined necessary were appropriated. City Council continues to pursue new revenue sources, while reviewing the possibility of increasing existing sources, in addition to a continued review of reducing expenditures. A close watch of current economic conditions is ongoing to determine if increased revenues, or further reductions in expenditures, are necessary in order to maintain fiscal stability.

Contacting the City Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with an overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact John P. Moss, Auditor, 120 Maple Street, Wadsworth, OH 44281, (330) 335-2742, jmoss@wadsworthcity.org.

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**City of Wadsworth, Ohio
Medina County**

**Statement of Net Assets
December 31, 2005**

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$10,606,060	\$5,363,057	\$15,969,117
Cash and Cash Equivalents in Segregated Accounts	10,939	0	10,939
Cash and Cash Equivalents with Fiscal Agents	128	947,221	947,349
Receivables:			
Taxes	3,831,898	0	3,831,898
Accounts	579,551	5,281,307	5,860,858
Accrued Interest	28,341	0	28,341
Intergovernmental	1,038,131	0	1,038,131
Special Assessments	503,224	0	503,224
Internal Balances	1,294,876	(1,294,876)	0
Materials and Supplies Inventory	250,487	652,215	902,702
Prepaid Items	75,705	59,165	134,870
Unamortized Bond Issue Costs	0	189,202	189,202
Investment in Joint Venture	0	3,457,105	3,457,105
Non-Depreciable Capital Assets	3,960,515	8,088,849	12,049,364
Depreciable Capital Assets, Net	26,125,857	36,297,112	62,422,969
<i>Total Assets</i>	<u>48,305,712</u>	<u>59,040,357</u>	<u>107,346,069</u>
Liabilities			
Accounts Payable	354,369	3,310,199	3,664,568
Contracts Payable	0	0	0
Accrued Wages and Benefits	247,482	184,923	432,405
Intergovernmental Payable	316,956	149,758	466,714
Matured Interest Payable	128	1,344	1,472
Accrued Interest Payable	170,724	33,402	204,126
Claims Payable	766,290	0	766,290
Deferred Revenue	1,962,981	0	1,962,981
Unearned Revenue	98,739	0	98,739
Noncurrent Liabilities:			
Due Within One Year	717,755	712,696	1,430,451
Due In More Than One Year	3,079,983	16,969,707	20,049,690
<i>Total Liabilities</i>	<u>7,715,407</u>	<u>21,362,029</u>	<u>29,077,436</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	28,473,947	28,471,548	56,945,495
Restricted for:			
Debt Service	1,185,387	0	1,185,387
Capital Projects	2,682,929	0	2,682,929
Other Purposes	6,613,943	0	6,613,943
Unrestricted	1,634,099	9,206,780	10,840,879
<i>Total Net Assets</i>	<u>\$40,590,305</u>	<u>\$37,678,328</u>	<u>\$78,268,633</u>

The notes to the financial statements are an integral part of this statement.

Statement of Activities
For the Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$3,960,462	\$1,047,393	\$10,041	\$34,581	(\$2,868,447)	\$0	(\$2,868,447)
Security of Persons and Property	6,496,050	1,095,457	97,715	0	(5,302,878)	0	(5,302,878)
Public Services	0	0	0	0	0	0	0
Public Health	75,271	6,757	161	0	(68,353)	0	(68,353)
Leisure Time Services	2,204,047	736,484	54,369	0	(1,413,194)	0	(1,413,194)
Community and Economic Development	811,973	56,874	852	489,243	(265,004)	0	(265,004)
Public Works	50,280	14,318	0	0	(35,962)	0	(35,962)
Transportation	2,435,891	62,040	7,700	0	(2,366,151)	0	(2,366,151)
Intergovernmental	156,610	249	154,912	0	(1,449)	0	(1,449)
Interest and Fiscal Charges	147,354	0	0	0	(147,354)	0	(147,354)
<i>Total Governmental Activities</i>	<u>16,337,938</u>	<u>3,019,572</u>	<u>325,750</u>	<u>523,824</u>	<u>(12,468,792)</u>	<u>0</u>	<u>(12,468,792)</u>
Business-Type Activities							
Electric	28,056,110	25,484,936	0	50,000	0	(2,521,174)	(2,521,174)
Sanitation	1,838,563	1,610,792	0	0	0	(227,771)	(227,771)
Sewer	2,239,016	3,553,416	0	0	0	1,314,400	1,314,400
Telecom	1,733,253	1,872,815	0	0	0	139,562	139,562
Water	2,638,269	2,742,246	0	0	0	103,977	103,977
<i>Total Business-Type Activities</i>	<u>36,505,211</u>	<u>35,264,205</u>	<u>0</u>	<u>50,000</u>	<u>0</u>	<u>(1,191,006)</u>	<u>(1,191,006)</u>
Totals	<u>\$52,843,149</u>	<u>\$38,283,777</u>	<u>\$325,750</u>	<u>\$573,824</u>	<u>(12,468,792)</u>	<u>(1,191,006)</u>	<u>(13,659,798)</u>
General Revenues:							
Property Taxes Levied For:							
General Purposes					903,156	0	903,156
Capital Projects					441,050	0	441,050
Special Revenue					839,652	0	839,652
Income Taxes					6,312,773	0	6,312,773
Grants and Entitlements not Restricted to Specific Programs					3,430,318	0	3,430,318
Investment Earnings					340,280	283,203	623,483
Other Income					55,164	0	55,164
Transfers					(39,705)	39,705	0
<i>Total General Revenues and Transfers</i>					<u>12,282,688</u>	<u>322,908</u>	<u>12,605,596</u>
Change in Net Assets					(186,104)	(868,098)	(1,054,202)
<i>Net Assets Beginning of Year</i>					<u>40,776,409</u>	<u>38,546,426</u>	<u>79,322,835</u>
<i>Net Assets End of Year</i>					<u>\$40,590,305</u>	<u>\$37,678,328</u>	<u>\$78,268,633</u>

The notes to the financial statements are an integral part of this statement.

City of Wadsworth, Ohio
Medina County
Balance Sheet
Governmental Funds
December 31, 2005

	General	Income Tax	Non-Major Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,501,276	\$475,948	\$7,110,093	\$10,087,317
Cash and Cash Equivalents in Segregated Accounts	10,939	0	0	10,939
Cash and Cash Equivalents With Fiscal Agents	0	0	128	128
Receivables:				
Taxes	979,677	1,748,016	1,104,205	3,831,898
Accounts	68,495	0	511,056	579,551
Interfund	88,161	0	0	88,161
Accrued Interest	28,341	0	0	28,341
Intergovernmental	517,831	0	520,300	1,038,131
Special Assessments	0	0	503,224	503,224
Interfund Notes	1,168,540	226,177	489,969	1,884,686
Materials and Supplies Inventory	1,333	0	198,109	199,442
Prepaid Items	56,461	331	18,913	75,705
<i>Total Assets</i>	<u>\$5,421,054</u>	<u>\$2,450,472</u>	<u>\$10,455,997</u>	<u>\$18,327,523</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$52,085	\$11,126	\$196,663	\$259,874
Contracts Payable	0	0	0	0
Accrued Wages and Benefits	163,374	1,034	73,472	237,880
Intergovernmental Payable	226,540	689	81,690	308,919
Matured Interest Payable	0	0	128	128
Accrued Interest Payable	0	0	11,241	11,241
Interfund Payable	0	0	88,161	88,161
Deferred Revenue	1,376,182	763,428	2,006,630	4,146,240
Unearned Revenue	61,253	0	37,486	98,739
Interfund Notes Payable	0	0	537,000	537,000
<i>Total Liabilities</i>	<u>1,879,434</u>	<u>776,277</u>	<u>3,032,471</u>	<u>5,688,182</u>
Fund Balances				
Reserved for:				
Encumbrances	393,921	0	396,532	790,453
Prepaid Items	56,461	331	18,913	75,705
Interfund Notes	1,168,540	226,177	489,969	1,884,686
Debt Service Principal	0	0	682,163	682,163
Unreserved, Undesignated, Reported in:				
General Fund	1,922,698	0	0	1,922,698
Special Revenue Funds	0	1,447,687	3,655,772	5,103,459
Capital Projects Funds	0	0	2,180,177	2,180,177
<i>Total Fund Balances</i>	<u>3,541,620</u>	<u>1,674,195</u>	<u>7,423,526</u>	<u>12,639,341</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,421,054</u>	<u>\$2,450,472</u>	<u>\$10,455,997</u>	<u>\$18,327,523</u>

The notes to the financial statements are an integral part of this statement.

**Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2005**

Total Governmental Funds Balances \$12,639,341

*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

Land	3,960,515	
Construction in Progress		
Land Improvements (Net of Depreciation)	856,319	
Buildings (Net of Depreciation)	4,701,197	
Vehicles (Net of Depreciation)	1,204,703	
Equipment, Furniture and Fixtures (Net of Depreciation)	612,471	
Infrastructure (Net of Depreciation)	<u>18,584,800</u>	
Total		29,920,005

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

Property Taxes	120,901	
Income Taxes	763,428	
Other Taxes	791,616	
Grants	4,090	
Special Assessments	<u>503,224</u>	
Total		2,183,259

An internal service fund is used by management to charge the costs of insurance to individual funds, the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets

Buildings (Net of Depreciation)	149,669	
Vehicles (Net of Depreciation)	9,911	
Equipment, Furniture and Fixtures (Net of Depreciation)	6,787	
Unrestricted Net Assets	(419,319)	
Internal payable representing charges in excess of cost to business-type activities - prior years	(9,033)	
Internal receivable representing cost in excess of charges to business-type activities - current year	<u>211,793</u>	
Total		(50,192)

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

General Obligation Bonds	(1,380,000)	
Special Assessment Bonds	0	
Compensated Absences	(2,202,800)	
Pension Obligation	0	
Police Past Service Costs	(104,255)	
Internal Debt	(255,570)	
Accrued Interest	<u>(159,483)</u>	
Total		<u>(4,102,108)</u>

Net Assets of Governmental Activities \$40,590,305

The notes to the financial statements are an integral part of this statement.

City of Wadsworth, Ohio
Medina County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Income Tax	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$949,287	\$0	\$1,283,816	\$2,233,103
Income Taxes	0	5,980,973	0	5,980,973
Special Assessments	0	0	120,168	120,168
Charges for Services	617,352	0	1,200,637	1,817,989
Licenses and Permits	568,634	0	256,186	824,820
Fines and Forfeitures	0	0	178,098	178,098
Intergovernmental	2,114,707	185,706	1,848,789	4,149,202
Interest	278,235	0	62,045	340,280
Rent	0	0	198,665	198,665
Contributions and Donations	22,793	0	95,156	117,949
Other	666	0	50,561	51,227
<i>Total Revenues</i>	<u>4,551,674</u>	<u>6,166,679</u>	<u>5,294,121</u>	<u>16,012,474</u>
Expenditures				
Current:				
General Government	2,525,152	339,855	449,956	3,314,963
Security of Persons and Property	4,165,386	0	1,746,750	5,912,136
Public Services	0	0	0	0
Public Health	72,728	0	346	73,074
Leisure Time Services	823,869	0	1,140,247	1,964,116
Community and Economic Development	237,304	0	523,616	760,920
Public Works	0	0	48,500	48,500
Transportation	0	0	1,772,467	1,772,467
Intergovernmental	1,704	0	154,906	156,610
Capital Outlay	0	0	715,089	715,089
Debt Service:				
Principal Retirement	1,752	0	394,584	396,336
Interest and Fiscal Charges	4,487	0	125,448	129,935
<i>Total Expenditures</i>	<u>7,832,382</u>	<u>339,855</u>	<u>7,071,909</u>	<u>15,244,146</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>(3,280,708)</u>	<u>5,826,824</u>	<u>(1,777,788)</u>	<u>768,328</u>
Other Financing Sources (Uses)				
Transfers In	3,400,000	0	1,870,696	5,270,696
Notes Issued	0	0	1,243	1,243
Proceeds of Loans	0	0	0	0
Proceeds from Sale of Capital Assets	650	0	3,287	3,937
Transfers Out	(44,302)	(5,206,000)	(60,099)	(5,310,401)
<i>Total Other Financing Sources (Uses)</i>	<u>3,356,348</u>	<u>(5,206,000)</u>	<u>1,815,127</u>	<u>(34,525)</u>
<i>Net Change in Fund Balances</i>	75,640	620,824	37,339	733,803
<i>Fund Balance Beginning of Year</i>	<u>3,465,980</u>	<u>1,053,371</u>	<u>7,386,187</u>	<u>11,905,538</u>
<i>Fund Balance End of Year</i>	<u>\$3,541,620</u>	<u>\$1,674,195</u>	<u>\$7,423,526</u>	<u>\$12,639,341</u>

The notes to the financial statements are an integral part of this statement.

City of Wadsworth, Ohio
Medina County

**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, 2005**

Net Change in Fund Balances - Total Governmental Funds \$733,803

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 outlay in the current period.

Capital Outlay	152,137	
Depreciation Expense	<u>(910,207)</u>	
Total		(758,070)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales/disposal) is to decrease net assets.

Loss on Sale of Capital Assets		0
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property Taxes	(49,245)	
Income Taxes	331,800	
Other Taxes	7,408	
Special Assessments	(118,925)	
Grants	4,090	
Total		<u>175,128</u>

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

Internal Bonds		(1,243)
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Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

General Obligation Bonds	305,000	
Special Assessment Bonds	12,000	
Police and Fire Past Service Costs	1,752	
Internal Bonds	<u>77,584</u>	
Total		396,336

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

(17,419)

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

Compensated Absences	<u>(460,602)</u>	
Pension Obligation	<u>0</u>	
Total		(460,602)

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

Change in net assets of the internal service funds	(465,830)	
Plus: Increase from charges to business-type activities	<u>211,793</u>	
Net adjustments to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.		<u>(254,037)</u>

Change in Net Assets of Governmental Activities

(\$186,104)

The notes to the financial statements are an integral part of this statement.

**City of Wadsworth, Ohio
Medina County**

**Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Property and Other Local Taxes	\$714,841	\$1,043,800	\$949,287	(\$94,513)
Charges for Services	233,235	343,218	633,242	290,024
Licenses and Permits	433,680	456,110	542,963	86,853
Intergovernmental	1,998,396	2,011,037	2,237,231	226,194
Interest	16,080	135,880	235,537	99,657
Contributions and Donations	11,310	11,310	28,198	16,888
Refunds	121,065	122,963	111,991	(10,972)
Other	260	260	146	(114)
Total Revenues	3,528,867	4,124,578	4,738,595	614,017
Expenditures				
Current:				
General Government	3,079,637	2,891,561	2,761,462	130,099
Security of Persons and Property	4,288,240	4,487,485	4,415,383	72,102
Public Services	0	0	0	0
Public Health	62,382	80,774	76,699	4,075
Leisure Time Services	871,157	882,445	852,722	29,723
Community and Economic Development	239,148	256,122	251,691	4,431
Intergovernmental	3,113	3,020	2,264	756
Debt Service:				
Principal Retirements	1,752	1,752	1,752	0
Interest and Fiscal Charges	4,487	4,487	4,487	0
Total Expenditures	8,549,916	8,607,646	8,366,460	241,186
Excess of Revenues Over (Under) Expenditures	(5,021,049)	(4,483,068)	(3,627,865)	855,203
Other Financing Sources (Uses)				
Transfers In	3,948,669	3,948,669	3,400,000	(548,669)
Proceeds from Sale of Capital Assets	0	0	650	650
Advances In	0	0	235,700	235,700
Transfers Out	(4,100)	(48,402)	(44,302)	4,100
Advances Out	(80,000)	(118,826)	(88,161)	30,665
Total Other Financing Sources (Uses)	3,864,569	3,781,441	3,503,887	(277,554)
Net Change in Fund Balance	(1,156,480)	(701,627)	(123,978)	577,649
Fund Balance at Beginning of Fiscal Year	2,833,855	2,833,855	2,833,855	0
Prior Fiscal Year Encumbrances Appropriated	462,786	462,786	462,786	0
Fund Balance at End of Fiscal Year	\$2,140,161	\$2,595,014	\$3,172,663	\$577,649

The notes to the financial statements are an integral part of this statement.

**City of Wadsworth, Ohio
Medina County**

**Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget (Non-GAAP Basis) and Actual
Income Tax
For the Year Ended December 31, 2005**

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Income Taxes	\$5,720,000	\$5,720,000	\$5,896,724	\$176,724
Intergovernmental	11,440	9,500	185,706	176,206
Refunds	25	25	35	10
Total Revenues	<u>5,731,465</u>	<u>5,729,525</u>	<u>6,082,465</u>	<u>352,940</u>
Expenditures				
Current:				
General Government	376,568	383,368	368,482	14,886
Intergovernmental	6,800	0	0	0
Total Expenditures	<u>383,368</u>	<u>383,368</u>	<u>368,482</u>	<u>14,886</u>
Excess of Revenues Over Expenditures	<u>5,348,097</u>	<u>5,346,157</u>	<u>5,713,983</u>	<u>367,826</u>
Other Financing Sources				
Transfers Out	<u>(5,206,000)</u>	<u>(5,206,000)</u>	<u>(5,206,000)</u>	<u>0</u>
Total Other Financing Sources	<u>(5,206,000)</u>	<u>(5,206,000)</u>	<u>(5,206,000)</u>	<u>0</u>
Net Change in Fund Balance	142,097	140,157	507,983	367,826
Fund Balance at Beginning of Fiscal Year	188,023	188,023	188,023	0
Prior Fiscal Year Encumbrances Appropriated	<u>2,165</u>	<u>2,165</u>	<u>2,165</u>	<u>0</u>
Fund Balance at End of Fiscal Year	<u><u>\$332,285</u></u>	<u><u>\$330,345</u></u>	<u><u>\$698,171</u></u>	<u><u>\$367,826</u></u>

The notes to the financial statements are an integral part of this statement.

City of Wadsworth, Ohio
Medina County
Statement of Fund Net Assets
Proprietary Funds
December 31, 2005

	Sewer	Water	Electric	All Other Enterprise Funds	Totals	Governmental Activities - Internal Service Funds
Assets						
Current Assets:						
Equity in Pooled Cash and Cash Equivalents	\$3,062,083	\$1,054,082	\$283,288	\$963,604	\$5,363,057	\$518,743
Cash and Cash Equivalents with Fiscal Agents	0	1,344	945,877	0	947,221	0
Materials and Supplies Inventory	2,478	135,149	514,588	0	652,215	51,045
Receivables:						
Accounts	670,384	351,630	3,986,147	273,146	5,281,307	0
Prepaid Items	10,240	13,680	28,046	7,199	59,165	0
Total Current Assets	3,745,185	1,555,885	5,757,946	1,243,949	12,302,965	569,788
Noncurrent Assets:						
Unamortized Bond Issue Costs	0	0	189,202	0	189,202	0
Interfund Notes Receivable	0	408,318	422,526	0	830,844	0
Investment in Joint Venture	0	0	3,457,105	0	3,457,105	0
Interfund Bonds Receivable	0	53,804	201,766	0	255,570	0
Non-Depreciable Capital Assets	5,977,375	269,435	1,841,235	804	8,088,849	0
Depreciable Capital Assets, Net	4,980,535	9,328,228	21,432,097	556,252	36,297,112	166,367
Total Noncurrent Assets	10,957,910	10,059,785	27,543,931	557,056	49,118,682	166,367
Total Assets	14,703,095	11,615,670	33,301,877	1,801,005	61,421,647	736,155
Liabilities						
Current Liabilities:						
Accounts Payable	101,607	57,304	2,985,394	165,894	3,310,199	94,495
Accrued Wages and Benefits	24,751	31,250	105,643	23,279	184,923	9,602
Intergovernmental Payable	20,339	26,360	84,921	18,138	149,758	8,037
Matured Interest Payable	0	1,344	0	0	1,344	0
Accrued Interest Payable	0	6,855	22,218	4,329	33,402	0
Unamortized Premium on Bonds	0	0	59,028	0	59,028	0
Claims Payable	0	0	0	0	0	766,290
Compensated Absences Payable	43,405	42,033	147,753	33,672	266,863	17,427
Revenue Bonds Payable	0	0	445,833	0	445,833	0
Total Current Liabilities	190,102	165,146	3,850,790	245,312	4,451,350	895,851
Noncurrent Liabilities:						
Interfund Note Payable	0	949,590	980,890	248,050	2,178,530	0
Compensated Absences Payable - Net of Current Portion	245,113	228,015	776,383	192,588	1,442,099	93,256
Revenue Bonds Payable - Net of Current Portion	0	0	9,605,000	0	9,605,000	0
OWDA Loans Payable - Net of Current Portion	5,863,580	0	0	0	5,863,580	0
Total Noncurrent Liabilities	6,108,693	1,177,605	11,362,273	440,638	19,089,209	93,256
Total Liabilities	6,298,795	1,342,751	15,213,063	685,950	23,540,559	989,107
Net Assets						
Invested in Capital Assets, Net of Related Debt	5,094,330	9,597,663	13,222,499	557,056	28,471,548	166,367
Unrestricted	3,309,970	675,256	4,866,315	557,999	9,409,540	(419,319)
Total Net Assets	\$8,404,300	\$10,272,919	\$18,088,814	\$1,115,055	37,881,088	(\$252,952)
					Net adjustment to reflect the consolidation of Internal Service Fund activi	(202,760)
					Net Assets of Business-Type Activities	<u>\$37,678,328</u>

The notes to the financial statements are an integral part of this statement.

City of Wadsworth, Ohio
Medina County
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005

	Sewer	Water	Electric	All Other Enterprise Funds	Totals	Governmental Activities - Internal Service Funds
Operating Revenues						
Charges for Services	\$3,553,416	\$2,742,246	\$25,484,936	\$3,483,607	\$35,264,205	\$2,764,500
Tap-In Fees	0	0	0	0	0	0
<i>Total Operating Revenues</i>	<u>3,553,416</u>	<u>2,742,246</u>	<u>25,484,936</u>	<u>3,483,607</u>	<u>35,264,205</u>	<u>2,764,500</u>
Operating Expenses						
Personal Services	772,045	1,164,633	2,692,980	1,712,634	6,342,292	464,132
Operations and Maintenance	0	0	0	0	0	0
Contractual Services	1,128,330	787,113	20,736,684	1,467,117	24,119,244	403,195
Materials and Supplies	173,833	369,294	1,072,838	244,877	1,860,842	273,160
Claims	0	0	0	0	0	2,078,974
Intergovernmental	0	0	1,186,179	0	1,186,179	0
Depreciation	142,728	261,137	1,462,705	84,331	1,950,901	10,869
Capital Outlay	0	0	0	0	0	0
Other	1,664	475	553	1,784	4,476	0
<i>Total Operating Expenses</i>	<u>2,218,600</u>	<u>2,582,652</u>	<u>27,151,939</u>	<u>3,510,743</u>	<u>35,463,934</u>	<u>3,230,330</u>
<i>Operating Income (Loss)</i>	<u>1,334,816</u>	<u>159,594</u>	<u>(1,667,003)</u>	<u>(27,136)</u>	<u>(199,729)</u>	<u>(465,830)</u>
Non-Operating Revenues (Expenses)						
Interest	0	41,906	160,098	0	202,004	0
Capital Grants and Contributions	0	0	50,000	0	50,000	0
Investment in Joint Venture	0	0	(148,436)	0	(148,436)	0
Interest and Fiscal Charges	0	(21,093)	(496,788)	(11,775)	(529,656)	0
Loss on Disposal of Capital Assets	0	0	(70,193)	0	(70,193)	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>0</u>	<u>20,813</u>	<u>(505,319)</u>	<u>(11,775)</u>	<u>(496,281)</u>	<u>0</u>
<i>Income (Loss) Before Transfers</i>	<u>1,334,816</u>	<u>180,407</u>	<u>(2,172,322)</u>	<u>(38,911)</u>	<u>(696,010)</u>	<u>(465,830)</u>
Transfers In	0	0	44,302	0	44,302	0
Transfers Out	0	0	(4,597)	0	(4,597)	0
<i>Change in Net Assets</i>	<u>1,334,816</u>	<u>180,407</u>	<u>(2,132,617)</u>	<u>(38,911)</u>	<u>(656,305)</u>	<u>(465,830)</u>
<i>Net Assets at Beginning of Year</i>	<u>7,069,484</u>	<u>10,092,512</u>	<u>20,221,431</u>	<u>1,153,966</u>		<u>212,878</u>
<i>Net Assets at End of Year</i>	<u>\$8,404,300</u>	<u>\$10,272,919</u>	<u>\$18,088,814</u>	<u>\$1,115,055</u>		<u>(\$252,952)</u>
					Adjustment to reflect the consolidation of Internal Service Fund activities related to Ente	<u>(211,793)</u>
					Change in Net Assets of Business-Type Activities	<u>(\$868,098)</u>

The notes to the financial statements are an integral part of this statement.

City of Wadsworth, Ohio
Medina County
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Enterprise Funds				Governmental Activity	
	Sewer	Water	Electric	All Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities						
Cash Received from Customers	\$3,597,383	\$2,721,600	\$25,890,170	\$3,463,080	\$35,672,233	\$2,764,500
Cash Payments to Employees for Services	(826,677)	(1,195,113)	(3,876,819)	(1,521,680)	(7,420,289)	(340,734)
Cash Payments for Goods and Services	(1,461,220)	(1,141,816)	(20,181,874)	(1,549,635)	(24,334,545)	(588,442)
Cash Payments for Claims	0	0	0	0	0	(1,803,095)
Other Operating Revenue	0	0	81,199	0	81,199	0
Other Operating Expenses	(1,664)	(475)	(553)	(1,784)	(4,476)	0
Intergovernmental Expenses	0	0	(1,186,179)	0	(1,186,179)	0
Net Cash Provided by (Used for) Operating Activities	1,307,822	384,196	725,944	389,981	2,807,943	32,229
Cash Flows from Noncapital Financing Activities						
Operating Transfers In	0	0	44,302	0	44,302	0
Operating Transfers Out	0	0	(4,597)	0	(4,597)	0
Interfund Notes Receivable	0	(408,318)	(422,526)	0	(830,844)	0
Interfund Notes Receivable Repaid from Other Funds	0	163,940	590,760	0	754,700	0
Interfund Bond Receivable	0	(53,804)	(201,766)	0	(255,570)	0
Interfund Bonds Receivable Repaid from Other Funds	0	68,482	256,806	0	325,288	0
Proceeds of Internal Notes	0	949,590	980,890	248,050	2,178,530	0
Repayment of Internal Notes	0	(533,295)	(293,225)	(377,975)	(1,204,495)	0
Interest Payments	0	(20,056)	0	(7,244)	(27,300)	0
Net Cash Provided by Noncapital Financing Activities	0	166,539	950,644	(137,169)	980,014	0
Cash Flows from Capital and Related Financing Activities						
Capital Grants Received	0	0	50,000	0	50,000	0
Acquisition of Capital Assets	0	0	(931,069)	0	(931,069)	0
Proceeds from Sale of Capital Assets	0	0	3,993	2,863	6,856	0
Principal Payments	0	0	(429,167)	0	(429,167)	0
Interest Payments	0	0	(488,289)	(7,875)	(496,164)	0
Net Cash Provided by (Used in) Capital and Related Financing Activities	0	0	(1,794,532)	(5,012)	(1,799,544)	0
Cash Flows from Investing Activities						
Interest on Investments	0	41,906	157,147	0	199,053	0
Net Cash Provided by Investing Activities	0	41,906	157,147	0	199,053	0
Net Increase (Decrease) in Cash and Cash Equivalents	1,307,822	592,641	39,203	247,800	2,187,466	32,229
Cash and Cash Equivalents Beginning of Year	1,754,261	461,441	244,085	715,804	3,175,591	486,514
Cash and Cash Equivalents End of Year	\$3,062,083	\$1,054,082	\$283,288	\$963,604	\$5,363,057	\$518,743
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities						
Operating Income (Loss)	\$1,334,816	\$159,594	(\$1,667,003)	(\$27,136)	(\$199,729)	(\$465,830)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities						
Depreciation	142,728	261,137	1,462,705	84,331	1,950,901	10,869
(Gain)/Loss on Disposal of Capital Assets	0	500	0	(2,863)	(2,363)	
(Increase) Decrease in Operating Assets:						
Accounts Receivable	(204,385)	(20,646)	(760,340)	(17,664)	(1,003,035)	0
Prepaid Items	(934)	(824)	(1,383)	(321)	(3,462)	0
Materials and Supplies Inventory	511	(6,625)	9,893	0	3,779	(6,582)
Increase (Decrease) in Operating Liabilities:						
Accounts Payable	73,103	21,408	1,594,067	162,680	1,851,258	94,495
Accrued Wages and Benefits	(15,136)	(6,470)	(5,422)	13,000	(14,028)	9,602
Compensated Absences Payable	(16,744)	(16,567)	116,594	177,681	260,964	110,683
Intergovernmental Payable	(6,137)	(7,311)	(23,167)	273	(36,342)	3,113
Claims Payable	0	0	0	0	0	275,879
Total Adjustments	(26,994)	224,602	2,392,947	417,117	3,007,672	498,059
Net Cash Provided by (Used for) Operating Activities	\$1,307,822	\$384,196	\$725,944	\$389,981	\$2,807,943	\$32,229

The notes to the financial statements are an integral part of this statement.

City of Wadsworth, Ohio
Medina County
Statement of Fiduciary Net Assets
Fiduciary Fund
December 31, 2005

	<u>Agency</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$98,479
Cash and Cash Equivalents in Segregated Accounts	1,104,844
Cash and Cash Equivalents With Fiscal Agent	
Accounts Receivable	<u>3,656</u>
Total Current Assets	<u>1,206,979</u>
Noncurrent Assets:	
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>312,060</u>
Total Noncurrent Assets	<u>312,060</u>
<i>Total Assets</i>	<u><u>\$1,519,039</u></u>
Liabilities	
Current Liabilities:	
Accounts Payable	14,488
Undistributed Monies	136,222
Retainage Payable	<u>1,056,269</u>
Total Current Liabilities	<u>1,206,979</u>
Current Liabilities Payable From Restricted Assets:	
Refundable Deposits	<u>312,060</u>
<i>Total Liabilities</i>	<u><u>\$1,519,039</u></u>

The notes to the financial statements are an integral part of this statement.

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Wadsworth, Ohio, (the City) was incorporated in 1866 under the laws of the State of Ohio. The City operates under the Mayor-Council form of government.

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

The City provides various services and consists of many different activities and smaller accounting entities. These include police and fire-fighting forces, emergency medical services, sewage and water treatment plants, an electric utility, a cable utility, an internet utility, a street maintenance department, a parks and recreation system, a community access television program, a trash collection service, an airport, planning and zoning, and a staff to provide the necessary support for these services. The City also includes a municipal court with a jurisdiction extending beyond the boundaries of the City. These service departments and the Wadsworth Municipal Court are included as part of the primary reporting entity.

The City is associated with the Ohio Municipal Electric Generation Agency Joint Venture 1, 2, 5 and 6 and the Woodlawn Union Cemetery, all of which are joint ventures. The City is also associated with the Municipal Energy Services Agency, which is defined as a jointly governed organization. These organizations are presented in Notes 20 and 21.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. *Basis Of Presentation*

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

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

activity of the internal service fund are eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

Fund Financial Statements

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

B. *Fund Accounting*

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

Governmental Funds

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

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

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax Fund - The Income Tax special revenue fund accounts for all revenues and expenses relative to the collection of income tax.

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

Proprietary Funds

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

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

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

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

Electric Enterprise Fund - The electric enterprise fund accounts for the cost of operating the municipally-owned electric utility and the related revenue from charges for services.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City does not have trust funds. The agency funds account for municipal court collections that are distributed to various local governments maintaining the law library and assisting in payment of individuals' utilities. The City's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. *Measurement Focus*

Government-Wide Financial Statements

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

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions

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

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

CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetaries

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Annual Appropriation Ordinance, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Annual Appropriation Ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the City Council.

Tax Budget In July, the City Administration presents the annual Tax Budget for the following year to City Council for consideration and passage. The adopted budget 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. The City of Wadsworth obtained an extension of 30 days from the Budget Commission.

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the Annual Appropriation Ordinance. On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31 of the preceding year. The Certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official Certificate of Estimated Resources issued during 2005.

Appropriations For management, a temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. The Annual Appropriation Ordinance must be passed by April 1 of each year for the period January 1 to December 31. Appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures and encumbrances may not exceed the appropriations at any level of control. Any revisions that alter the appropriations of a fund must first be approved by City Council. Council may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources.

Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. Appropriation amounts are as originally adopted, or as amended by City Council throughout the year by supplemental appropriations which either reallocate or increase the original appropriation amounts. During the year, supplemental appropriation measures were legally enacted; however, none of these amendments were significant. The budgetary figures which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all amendments and modifications.

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. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the legal level of budgetary control. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and reported in the notes to the basic financial statements for the proprietary funds.

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 appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

F. Cash, Cash Equivalents and Investments

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

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For purposes of the Statement of Cash Flows and for presentation on the Statement of Net Assets/Balance Sheet, investments with original maturities of three months or less at the time they are purchased by the City and investments of the cash management pool are considered to be cash equivalents. Investments with a maturity of more than three months are reported as investments. Nonparticipating investment contracts such as overnight repurchase agreements and nonnegotiable certificates of deposit are reported at cost. Investments other than nonparticipating investment contracts, are reported at fair value which is based on quoted market prices.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2005.

Following Ohio statutes, the City has, by ordinance, specified the funds to receive an allocation of interest earnings. During the year 2005, interest revenue credited to the general fund, bond retirement fund, water fund and electric fund amounted to \$278,235, \$21,621, \$41,906 and \$160,098, which includes \$234,463 assigned from other City funds.

The City utilizes a fiscal agent to hold bonds and coupons for retainage on construction contracts. The balance in this account is presented on the balance sheet as "Cash With Fiscal and Escrow Agent" and represents deposits.

G. *Interfund Balances*

On fund financial statements, interfund loans of up to one year are classified as "Interfund Notes Receivable/Payable" on the balance sheet and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

H. *Inventory*

On government-wide and fund financial statements, inventories are presented at cost on a first-in, first-out basis and are expensed when used.

Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types and proprietary funds when used.

I. *Prepaid Items*

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

**CITY OF WADSWORTH, OHIO
 MEDINA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold for all items having a cost of five thousand dollars or more. Exceptions exist for items such as an interest in land, which is always capitalized. The City’s infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. Interest incurred during the construction of capital assets is also capitalized.

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings	25 to 100 years	25 to 100 years
Equipment	3 to 50 years	3 to 50 years
Vehicles	8 to 30 years	8 to 30 years
Infrastructure	3 to 110 years	3 to 110 years

K. Compensated Absences

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

CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported.

L. *Accrued and Long-Term Obligations*

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

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

M. *Fund Balance Reserves*

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

N. *Net Assets*

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

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

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Operating Revenues and Expenses

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

P. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets or from grants or outside contributions of resources restricted to capital acquisition and construction.

Q. Interfund Activity

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

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

S. Estimates

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

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 3 -- CHANGES IN ACCOUNTING PRINCIPLES

For the year 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosure, an amendment of GASB Statement No. 3. GASB Statement No. 40 addresses common deposit and investment risk related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. This Statement is designed to inform financial statement users about deposit and investment risk that could affect a government's ability to provide services and meet its obligations.

NOTE 3 -- CHANGES IN ACCOUNTING PRINCIPLES (continued)

The City also implemented for year 2005 GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Post Employment Benefit Expenditures/Expenses and Liabilities by Cost-sharing Employers." This Bulletin addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participation in a cost-sharing, multiple-employer pension plan and other post employment plans. The implementation of GASB Technical Bulletin No. 2004-2 did not materially affect the basic financial statements of the City.

In addition, for year 2005, the City implemented GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of GASB 42 did not materially affect the basic financial statements of the City.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Basis) presented for the General Fund and the Income Tax Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year-end encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
5. Advances-in and advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

**CITY OF WADSWORTH, OHIO
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NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

Net Changes in Fund Balance

	General Fund	Income Tax Fund
GAAP Basis	\$75,640	\$620,824
Net Adjustment for Revenue Accruals	422,621	(84,214)
Net Adjustment for Expenditure Accruals	(1,077,090)	(32,582)
Encumbrances	454,851	3,955
Budget Basis	(\$123,978)	\$507,983

NOTE 5 – ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

The following funds had a deficit in fund balance at December 31, 2005:

Fund	Deficit
Capital Project Funds	
CDBG	(\$3,933)
CHIP Grant Fiscal Year 2003	(15,543)
Special Assessments	(221,012)

Deficit Net Assets

The following funds had a deficit in net assets at December 31, 2005:

Fund	Deficit
Health Insurance Retention	(\$456,649)

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

NOTE 6 - DEPOSITS AND INVESTMENTS

Deposits and investments are restricted by provisions of the Ohio Revised Code. State statutes classify monies held by the City into three categories:

CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

1. 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.
2. Inactive deposits are public deposits that Council has identified as not required for use within the current two-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.
3. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

7. Banker’s Acceptances and Commercial Paper notes, each with a maturity not exceeding 180 days. Commercial Paper must be rated at the time of purchase in the highest classification by at least two (2) nationally recognized rating services. The combined total of Banker’s Acceptances and Commercial Paper will not exceed 25% of the total portfolio at the time of purchase.

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. The City has not purchased these types of investments or issued these types of notes. 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.

Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits

Custodial credit risk is the risk that, in the event of bank failure, the City’s deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution.

At December 31, 2005, the carrying amount of the City’s deposits was \$11,683,262. Of the City’s bank balance of \$6,712,971, \$477,542 was covered by FDIC and \$6,235,429 was held in collateral pools with no specifications for whom such funds are held.

Investments

As of December 31, 2005, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity	
		Less Than One Year	More Than 10
STAR Ohio	\$2,154,713	\$2,154,713	0
Repurchase Agreement	663,838	663,838	0
Federal Home Loan Mortgage Corporation Discount Notes	2,949,193	2,949,193	0
Government National Mortgage Association	4,882	0	4,882
Federal Home Loan Bank Discount Notes	986,900	986,900	0
Total	<u>\$6,759,526</u>	<u>\$6,754,644</u>	<u>\$4,882</u>

**CITY OF WADSWORTH, OHIO
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 NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. According to the City’s policy, investments made by the Treasurer must mature within five years from the date of purchase with an average weighted maturity not to exceed two years.

Credit Risk: Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. Investments had the following ratings by Standard & Poors.

STAR Ohio	AAAm
Federal Home Loan Mortgage Corporation Discount Notes	A-1+
Federal Home Loan Bank Discount Notes	AAA

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counter-party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Mortgage Corporation Discount Notes and the Federal Home Loan Bank Discount Notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counter-party’s trust department or agent but not in the City’s name. The City has no investment policy dealing with investment custodial credit risk beyond the requirement in State Statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk is the possibility of loss attributed to the magnitude of the City’s investment in a single issuer. More than five percent of the City’s investments are in STAR Ohio, Federal Home Loan Mortgage Corporation Discount Notes and the Federal Home Loan Bank Discount Notes. These investments are 32%, 44% and 15% respectively, of the City’s total investments. The City’s policy places no limit on the amount that may be invested in any one issuer.

STAR Ohio is an investment pool managed by the State Treasurer’s Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price that is the price the investment could be sold for on December 31, 2005.

NOTE 7 - RECEIVABLES

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

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

NOTE 8 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2005 for real and public utility property taxes represents collections of the 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) is for 2005 taxes.

**CITY OF WADSWORTH, OHIO
 MEDINA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 8 - PROPERTY TAXES (continued)

2005 real property taxes are levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35% of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25% of true value.

The full tax rate for all City operations for the year ended December 31, 2005, was \$5.80 per \$1,000 of assessed value.

The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

	<u>Total Assessed Value</u>	<u>%</u>
Real Property Valuation:		
Residential/Agriculture	\$325,052,920	72.50%
Commercial/Industrial/Mineral	81,580,100	18.20%
Public Utilities	5,230	0.00%
Tangible Personal Property Valuation:		
General	38,840,675	8.66%
Public Utilities	2,866,640	0.64%
Total Valuation	<u>\$448,345,565</u>	<u>100.00%</u>

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

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

NOTE 9 - INCOME TAX

The City levies and collects an income tax of 1.3% 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 for the tax paid to another municipality to offset up to 1.0% of the total rate. Residents are required to remit the remaining 0.3% to the City's tax collection agency. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Withheld income taxes and other various income tax collections for 2005 received 60 days after year-end have been recognized as revenue in 2005.

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 9 - INCOME TAX (continued)

Corporations and other individual taxpayers are also billed for their estimated taxes quarterly. They must pay at least 80% by January and must file a final return annually.

Income tax revenues are distributed, as needed, to the various funds of the City pursuant to Council ordinance. In 2005 income tax revenue was distributed to the following funds: General; Recreation; Street; and Capital Improvement.

NOTE 10 - SPECIAL ASSESSMENTS

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

The City's special assessments include the construction, repair or improvement of streets, sidewalks, waterlines and public parking lots which are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year.

NOTE 11 - RISK MANAGEMENT

A. Liability Insurance

The City is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors or omissions, and natural disasters.

1. Blanket building and personal property insurance, with a \$2,500 deductible and a \$22,135,782 limit on buildings, \$7,057,408 on business personal property and \$91,345 on property in the open.
2. Vehicle liability insurance with physical damage, comprehensive and collision subject to a \$1,000,000 limit per accident or loss. A deductible of \$2,000 applies to the Pierce Fire Truck and to the Spartan Tanker.
3. Law enforcement liability coverage with a \$1,000,000 limit and a \$10,000 deductible.
4. Public officials liability coverage with a \$1,000,000 limit and a \$10,000 deductible.
5. Umbrella liability coverage of \$5,000,000 per occurrence and aggregate.

There were no reductions in insurance coverage from the previous year, nor have settlements exceeded insurance coverage in any of the prior three fiscal years.

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 11 - RISK MANAGEMENT (continued)

B. Workers' Compensation

The City pays the State Workers' Compensation System, and insurance purchasing pool, a premium based on a rate of \$100 of salaries. The rate is calculated based on accident history and administrative costs for the pool. The City of Wadsworth belongs to the Ohio Rural Water Association pool and receives an extra 4% reduction for membership in the Medina County Safety Council. Managed Care is provided by Comp Management Health Systems.

C. Health Insurance

The City has elected to provide employee medical, prescription and dental benefits through a self-insurance program with a Stop Loss Policy to insure against specific and aggregate losses. The City maintains a self-insurance fund, number 720, to account for and finance its risk of loss. Stop loss coverage of \$75,000 with an aggregate of \$2,254,208 is purchased. The Fund is financed by assessing City Departments the amount necessary to pay all costs and maintain a reasonable carryover balance. Currently, the Departments are assessed per each employee at the rate of \$324.16 per individual coverage and \$858.59 per family coverage. Employee contributions per pay are \$5.00 for single coverage and \$10.00 for family. Coverage is administered by Medical Mutual, a third party administrator.

The plan provides a medical plan with a \$100 deductible per individual and \$200 per family and subject to a 20% co-payment for expenses out of the network.

The Dental Plan is subject to a \$25.00 deductible and no co-payment, with a maximum coverage of \$750 annually.

The City also provides prescription drug insurance to its employees through the self-insurance program. The plan pays the cost of prescriptions with a required co-payment of \$5.00 for generic drugs and \$8.00 for brand name drugs, per retail prescription. The Third party administrator, Paid Prescriptions, reviews the claims, which are then paid by the City.

The claims liability of \$766,290 reported in the self-insurance fund at December 31, 2005 is based on the requirements of GASB Statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Services" which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The claims liability is based on an estimate supplied by the City's third party administrator. A summary of the fund's claims liability during the past two years is as follows:

**CITY OF WADSWORTH, OHIO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 11 - RISK MANAGEMENT (continued)

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2004	\$111,395	\$2,094,096	(\$1,715,080)	\$490,411
2005	\$490,411	\$2,078,974	(\$1,803,095)	\$766,290

NOTE 12 – CAPITAL ASSETS

The capital asset balances of the governmental activities are as follows:

	Beginning Balance 01/01/2005	Additions	Deletions	Balance 12/31/2005
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$3,960,515	\$0	\$0	\$3,960,515
Construction in Progress	255,346	0	(255,346)	0
Total Capital Assets, Not Being Depreciated	4,215,861	0	(255,346)	3,960,515
Capital Assets, Being Depreciated:				
Buildings	7,610,167	0	0	7,610,167
Land Improvements	1,522,391	0	0	1,522,391
Vehicles	3,542,676	58,526	(51,771)	3,549,431
Equipment	1,973,684	1,179	(3,905)	1,970,958
Infrastructure	24,211,700	351,683	0	24,563,383
Total Capital Assets, Being Depreciated	38,860,618	411,388	(55,676)	39,216,330
Less Accumulated Depreciation:				
Buildings	(2,581,852)	(177,449)	0	(2,759,301)
Land Improvements	(630,984)	(35,088)	0	(666,072)
Vehicles	(2,221,788)	(164,610)	51,581	(2,334,817)
Equipment	(1,225,742)	(126,148)	190	(1,351,700)
Infrastructure	(5,560,802)	(417,781)	0	(5,978,583)
Total Accumulated Depreciation	(12,221,168)	(921,076)	51,771	(13,090,473)
Total Capital Assets, Being Depreciated, Net	26,639,450	(509,688)	(3,905)	26,125,857
Governmental Activities Capital Assets, Net	\$30,855,311	(\$509,688)	(\$259,251)	\$30,086,372

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 12 – CAPITAL ASSETS (continued)

The capital asset balances of the business-type activities are as follows:

	Beginning Balance 01/01/2005	Additions	Deletions	Balance 12/31/2005
Business-Type Activities				
Capital Assets, Not Being Depreciated:				
Land	\$492,686	\$0	\$0	\$492,686
Construction in Progress	107,490	5,863,580	(27,490)	5,943,580
Infrastructure Work in Progress	916,195	736,388	0	1,652,583
Total Capital Assets, Not Being Depreciated	<u>1,516,371</u>	<u>6,599,968</u>	<u>(27,490)</u>	<u>8,088,849</u>
Capital Assets, Being Depreciated:				
Buildings	6,647,201	0	0	6,647,201
Land Improvements	7,258	0	0	7,258
Vehicles	3,645,940	64,393	(112,341)	3,597,992
Equipment	1,580,997	7,295	0	1,588,292
Infrastructure	51,943,823	122,993	(46,083)	52,020,733
Total Capital Assets, Being Depreciated	<u>63,825,219</u>	<u>194,681</u>	<u>(158,424)</u>	<u>63,861,476</u>
Less Accumulated Depreciation:				
Buildings	(3,399,015)	(132,617)	0	(3,531,632)
Land Improvements	(1,089)	(363)	0	(1,452)
Vehicles	(2,291,596)	(253,287)	110,345	(2,434,538)
Equipment	(846,445)	(87,661)	0	(934,106)
Infrastructure	(19,186,546)	(1,476,973)	883	(20,662,636)
Total Accumulated Depreciation	<u>(25,724,691)</u>	<u>(1,950,901)</u>	<u>111,228</u>	<u>(27,564,364)</u>
Total Capital Assets, Being Depreciated, Net	<u>38,100,528</u>	<u>(1,756,220)</u>	<u>(47,196)</u>	<u>36,297,112</u>
Business-Type Activities Capital Assets, Net	<u>\$39,616,899</u>	<u>\$4,843,748</u>	<u>(\$74,686)</u>	<u>\$44,385,961</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$183,756
Security of Persons and Property	129,673
Public Health	25,655
Transportation	504,295
Leisure Time Activities	77,697
Total	<u>\$921,076</u>

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. *Public Employees Retirement System*

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

1. The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
3. The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. The OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to: Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

Plan members are required to contribute 8.50% of their annual covered salary to fund pension benefit obligations. The City is required to contribute 13.55%. Contributions are authorized by state statute. The contribution rates are determined actuarially. The City's contributions for pension obligations to the OPERS for the years ending December 31, 2005, 2004 and 2003 were \$1,014,409, \$953,145, and \$976,036, respectively, equal to the required contributions for each year. 88.29% has been contributed for 2005.

B. *Ohio Police and Fire Pension Fund*

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

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% and 24.0%, respectively, for police officers and firefighters. The City's contributions for pension obligations to the OP&F Ohio for the years ending December 31, 2005, 2004 and 2003 were \$269,831, \$243,648, and \$300,871, respectively, equal to the required contributions for each year. 72.72% has been contributed for 2004.

C. *Social Security System*

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

NOTE 14 – POST EMPLOYMENT BENEFITS

A. *Public Employees Retirement System*

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

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

OPERS provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Post-Employment Benefits Other Than Pension Benefits by State and Local

Governmental Employers". A portion of each employer's contribution to the OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2005 employer contribution rate was 13.55% of covered payroll; 4.0% was the portion that was used to fund health care for the year 2005. The City's actual contributions for 2005 which were used to fund post-employment benefits were \$424,883.

**CITY OF WADSWORTH, OHIO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 14 – POST EMPLOYMENT BENEFITS (continued)

The assumptions and calculations below were based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.0%, an annual increase in active employee total payroll of 4.0% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll over and above the 4.0% base increase of between .50% and 6.3% based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1.0% to 6.0% for the next eight years. In subsequent years (nine and beyond) health care costs were assumed to increase at 4.0% (the projected wage inflation rate).

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

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

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

The Traditional Pension and Combined Plans had 376,109 active contributing participants as of December 31, 2005. The number of active contributing participants for both plans used in the December 31, 2004, actuarial valuation was 355,287. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarially accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides post-retirement health care coverage to any person who 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 18 whether or not the child is attending school or under the age of 22, if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an

Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll. The City's actual contributions for 2005 which were used to fund post-employment benefits were \$166,280.

**CITY OF WADSWORTH, OHIO
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 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 14 – POST EMPLOYMENT BENEFITS (continued)

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

Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2004 and 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. The OP&F’s total health care expenses for the year ended December 31, 2004, (the latest information available) was \$102,173,796, which was net of member of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, the date of the last actuarial valuation available, was 13,812 for police and 10,528 for firefighters.

NOTE 15 - COMPENSATED ABSENCES

City employees earn vacation and sick leave at varying rates depending on length of service and department policy. All accumulated, unused vacation time is paid upon separation if the employee has acquired at least one year of service with the City. Accumulated, unused sick leave is paid to a retiring employee up to a maximum of 160 days. As of December 31, 2005, the City’s liability for compensated absences was \$2,237,084 for governmental activities and \$1,708,962 for business-type activities.

NOTE 16 – LONG-TERM OBLIGATIONS

	Interest Rate	Original Issue Amount	Date of Maturity
Governmental Activities:			
1997 City Hall Construction	8.00%	\$3,500,000	December 1, 2009
1986 Downtown Sidewalk Improvement	9.25%	228,000	December 1, 2005
1968 Liability for Police Past Service Cost	2.36%	124,769	May 15, 2035
Business-Type Activities:			
2000 American Municipal Power – Ohio	1.65% - 5.25%	11,645,000	February 15, 2022
OWDA Loan	3.15%	5,863,580	July 1, 2028

CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 16 – LONG-TERM OBLIGATIONS (continued)

Long-term liability activity for the year ended December 31, 2005 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Amount Due in One Year
Governmental Activities:					
1997 City Hall Construction					
General Obligation Bond	\$1,685,000	\$0	(\$305,000)	\$1,380,000	\$320,000
1986 Downtown Sidewalk Improvement Special					
Assessment Bond	12,000	0	(12,000)	0	0
1968 Liability for Police Past Service Cost	106,007	0	(1,752)	104,255	1,827
Total Long-Term Debt	<u>1,803,007</u>	<u>0</u>	<u>(318,752)</u>	<u>1,484,255</u>	<u>321,827</u>
Intergovernmental Payable	36,162	40,237	0	76,399	31,698
Compensated Absences	1,706,036	640,794	(109,746)	2,237,084	364,230
Governmental Activities - Long-Term Liabilities	<u>\$3,545,205</u>	<u>\$681,031</u>	<u>(\$428,498)</u>	<u>\$3,797,738</u>	<u>\$717,755</u>
Business-Type Activities:					
2000 American Municipal Power-Ohio Revenue Bonds	\$10,480,000	\$0	(\$429,167)	\$10,050,833	\$445,833
Less Deferred Amounts:					
Unamortized Premium on Bonds	61,979	0	(2,951)	59,028	0
OWDA Loan	0	5,863,580	0	5,863,580	0
Total Long-Term Debt	<u>10,541,979</u>	<u>5,863,580</u>	<u>(432,118)</u>	<u>15,973,441</u>	<u>445,833</u>
Compensated Absences	1,447,998	365,302	(104,338)	1,708,962	266,863
Business-Type - Long-Term Liabilities	<u>\$11,989,977</u>	<u>\$6,228,882</u>	<u>(\$536,456)</u>	<u>\$17,682,403</u>	<u>\$712,696</u>

Outstanding general obligation bonds were issued to finance water treatment plant construction and renovation and city hall construction and improvements. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from water service charges for the water treatment bonds and from hotel/motel taxes, City income tax monies and utility service charges for the city hall construction bonds.

On March 1, 2003, the City of Wadsworth and American Municipal Power-Ohio, Inc. (AMP-Ohio) amended and restated a loan agreement. In accordance with the agreement, AMP-Ohio issued \$11,645,000 of bonds and loaned the proceeds received from the bonds to the City. The loan proceeds were used to:

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 16 – LONG-TERM OBLIGATIONS (continued)

1. Refinance notes originally issued to pay the cost of financing the construction and installation of various capital improvements for the municipal electric utility and the telecommunications system of the City;
2. Providing funds for additional improvements to the telecommunications system;
3. Fund a debt service reserve fund; and
4. Pay the costs of issuance of the 2003 bonds.

On January 27, 2005, the City obtained an OWDA loan for improvements to the waste water treatment plant. The loan will be paid from sewer user fees and sewer tap-in fees.

Special assessment bonds are those which have been issued to fund various improvements within the City. A portion of these costs have been passed along to the property owners benefiting from the improvements. Generally, the property owners have the choice of paying their assessed portion in one sum at the inception of the project or in installments over a period of years, with interest. The City, however, remains fully liable for any debt associated with delinquent property assessments.

The liability for police past service costs relates to the City’s liability to certain employees incurred prior to the establishment of the statewide Ohio Police and Fire Pension Fund. The City is required to make payments of approximately \$6,200 annually, which includes interest, through the year 2034. These past service costs are payable from taxes levied on all taxable property in the City.

The annual requirements to amortize all long-term debt outstanding as of December 31, 2005, are as follows:

Year Ending December 31,	Governmental Activities			
	Police Past Service Cost		General Obligations	
	Principal	Interest	Principal	Interest
2006	1,827	4,411	320,000	65,795
2007	1,905	4,333	335,000	50,915
2008	1,987	4,251	355,000	35,170
2009	2,072	4,166	370,000	18,130
2010	2,161	4,077	0	0
2011 - 2015	12,281	18,909	0	0
2016 - 2020	15,156	16,034	0	0
2021 - 2025	18,703	12,487	0	0
2026 - 2030	23,080	8,110	0	0
2031 - 2035	25,083	2,714	0	0
Total	<u>\$104,255</u>	<u>\$79,492</u>	<u>\$1,380,000</u>	<u>\$170,010</u>

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 16 – LONG-TERM OBLIGATIONS (continued)

Year Ending December 31,	Business-Type Activities			
	Revenue Bonds		OWDA Loan	
	Principal	Interest	Principal	Interest
2006	430,000	483,503	0	0
2007	445,000	468,943	0	0
2008	460,000	452,645	581,680	206,764
2009	475,000	434,873	1,163,360	413,528
2010	495,000	415,710	1,163,360	413,528
2011 - 2015	2,805,000	1,720,331	2,955,180	1,033,820
2016 - 2020	3,620,000	903,381	0	0
2021 - 2025	1,320,833	86,875	0	0
2026 - 2030	0	0	0	0
2031 - 2035	0	0	0	0
Total	<u>\$10,050,833</u>	<u>\$4,966,261</u>	<u>\$5,863,580</u>	<u>\$2,067,640</u>

NOTE 17 - CONTINGENT LIABILITIES

Several claims and lawsuits are pending against the City. It is management’s opinion that the ultimate liability will be covered by insurance, and/or will not have a material effect on these basic financial statements.

Also, the City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, City management believes such disallowances, if any, will not be significant.

NOTE 18 – INTERFUND TRANSACTIONS

Internal borrowings consist of internal notes and bonds issued by various funds to finance projects internally rather than through outside parties. Each internal note or bond is identified as to which fund is liable for repayment, however, the actual borrowing comes from a pool of funds rather than specific funds. The borrowings pay interest to specified funds based on the percentage of fund balances.

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 18 – INTERFUND TRANSACTIONS (continued)

Following is a detail of Interfund Notes Receivable/Payable, by debt issue, during 2005:

	Balance 01/01/05	Additions	Deletions	Balance 12/31/05
Governmental Activities:				
Non-Major Governmental Funds				
1997 Salt Shed				
Issue: 11/04, Maturity 11/05, Rate 4.00%	11,875	0	(11,875)	0
2004 Street Improvement				
Issue: 11/04, Maturity 11/05, Rate 4.00%	9,400	0	(9,400)	0
2005 Street Improvements				
Issue: 11/05, Maturity 11/06, Rate 4.00%	0	37,000	0	37,000
2002 Durling Drive Improvements				
Issue: 07/04, Maturity 07/05, Rate 4.00%	22,270	0	(22,270)	0
2002 Durling Drive Improvements				
Issue: 07/05, Maturity 07/06, Rate 4.00%	0	34,000	0	34,000
2005 Akron Road Improvements				
Issue: 4/05, Maturity 4/06, Rate 4.00%	0	350,000	0	350,000
2004 Sidewalk Improvements				
Issue: 11/05, Maturity 11/06, Rate 4.00%	0	36,000	0	36,000
2005 Stormwater Improvements				
Issue 11/05, Maturity 11/06, Rate 4.00%	0	80,000	0	80,000
	<u>43,545</u>	<u>537,000</u>	<u>(43,545)</u>	<u>537,000</u>
Total Governmental Activities				

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 18 – INTERFUND TRANSACTIONS (continued)

	Balance 01/01/05	Additions	Deletions	Balance 12/31/05
Proprietary Funds:				
Water Fund				
2004 Rogues Hollow Well Issue: 12/04, Maturity 12/05, Rate 4.00%	127,550	0	(127,550)	0
2004 Rogues Hollow Well Issue: 12/05, Maturity 12/06, Rate 4.00%	0	495,000	0	495,000
2002 Water Treatment Plant Issue: 07/04, Maturity 07/05, Rate 4.00%	240,000	0	(240,000)	0
2002 Water Treatment Plant Issue: 04/05, Maturity 04/06, Rate 4.00%	0	200,000	0	200,000
1997 Bird Street Tank Painting Issue: 10/02, Maturity 10/03, Rate 4.00%	5,875	0	(5,875)	0
1997 Development of Water Wells Issue: 09/04, Maturity 09/05, Rate 4.00%	66,120	0	(66,120)	0
1997 Development of Water Wells Issue: 09/05, Maturity 09/06, Rate 4.00%	0	49,590	0	49,590
2001 Lagoon Restoration Issue: 11/04, Maturity 11/05, Rate 4.00%	93,750	0	(93,750)	0
2001 Lagoon Restoration Issue: 11/05, Maturity 11/06, Rate 4.00%	0	75,000	0	75,000
2005 Water System Improvements Issue: 11/05, Maturity 11/06, Rate 4.00%	0	130,000	0	130,000
Total Water	<u>533,295</u>	<u>949,590</u>	<u>(533,295)</u>	<u>949,590</u>
Electric Fund				
2003 Broadband Communications Issue: 10/04, Maturity 10/05, Rate 4.00%	122,225	0	(122,225)	0
2003 Broadband Communications Issue: 10/05, Maturity 10/06, Rate 4.00%	0	104,765	0	104,765
2004 Broadband Communications Issue: 10/04, Maturity 10/05, Rate 4.00%	171,000	0	(171,000)	0
2004 Broadband Communications Issue: 10/05, Maturity 10/06, Rate 4.00%	0	149,625	0	149,625
2005 Delivery Point Transformer Issue: 11/05, Maturity 11/06, Rate 4.00%	0	554,500	0	554,500
2005 Broadband Communications Issue: 11/05, Maturity 11/06, Rate 4.00%	0	172,000	0	172,000
Total Electric	<u>293,225</u>	<u>980,890</u>	<u>(293,225)</u>	<u>980,890</u>

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 18 – INTERFUND TRANSACTIONS (continued)

	Balance 01/01/05	Additions	Deletions	Balance 12/31/05
All Other Enterprise Funds				
Sanitation				
2001 Sanitation Equipment Acquisition Issue: 10/04, Maturity 10/05, Rate 4.00%	196,875	0	(196,875)	0
2001 Sanitation Equipment Acquisition Issue: 10/05, Maturity 10/06, Rate 4.00%	0	157,500	0	157,500
Telecom				
1996 Cable TV Headend Issue: 03/04, Maturity 03/05, Rate 4.00%	181,100	0	(181,100)	0
1996 Cable TV Headend Issue: 03/05, Maturity 03/06, Rate 4.00%	0	90,550	0	90,550
Total Non-Major Business-Type Activites	<u>377,975</u>	<u>248,050</u>	<u>(377,975)</u>	<u>248,050</u>
Total Proprietary Funds	<u>1,204,495</u>	<u>2,178,530</u>	<u>(1,204,495)</u>	<u>2,178,530</u>

The following is a summary of interfund notes, outstanding at December 31, 2005:

	Receivable Funds					Total Interfund Notes Payable
	General Fund	Income Tax Fund	Non-Major Governmental Funds	Water Fund	Electric Fund	
Payable Funds:						
Governmental Funds:						
Non-Major						
Governmental Funds	<u>\$92,961</u>	<u>\$17,998</u>	<u>\$57,547</u>	<u>\$77,578</u>	<u>\$290,916</u>	<u>\$537,000</u>

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 18 – INTERFUND TRANSACTIONS (continued)

	Receivable Funds					Total Interfund Notes Payable
	General Fund	Income Tax Fund	Non-Major Governmental Funds	Water Fund	Electric Fund	
Payable Funds:						
Proprietary Funds:						
Water Fund	679,251	131,449	138,890	0	0	949,590
Electric Fund	354,273	68,588	262,384	295,645	0	980,890
Non-Major Enterprise Funds	42,055	8,142	31,148	35,095	131,610	248,050
Total Proprietary Funds	<u>1,075,579</u>	<u>208,179</u>	<u>432,422</u>	<u>330,740</u>	<u>131,610</u>	<u>2,178,530</u>
Total Interfund Notes Receivable	<u>\$1,168,540</u>	<u>\$226,177</u>	<u>\$489,969</u>	<u>\$408,318</u>	<u>\$422,526</u>	<u>\$2,715,530</u>

The following is a detail of Interfund Bonds Receivable/Payable, by debt issue during 2005:

	Balance 01/01/05	Additions	Deletions	Balance 12/31/05
Governmental Activities:				
2001 Sidewalk Improvement				
Issue: 09/04, Maturity 09/07, Rate 4.00%	10,941	0	(2,020)	8,921
1993 Great Oaks Extension				
Issue: 09/94, Maturity 09/14, Rate 8300%	188,583	0	(13,650)	174,933
Grandview Improvement				
Issue: 09/91, Maturity 09/06, Rate 7.00%	24,385	0	(11,780)	12,605
Waverly Improvement				
Issue: 04/90, Maturity 04/05, Rate 8.00%	7,978	0	(7,978)	0
Westwood Improvement				
Issue: 09/90, Maturity 08/03, Rate 8.00%	7,353	0	(7,353)	0
2002 Sidewalk Improvement				
Issue: 09/04, Maturity 09/09, Rate 4.00%	12,651	0	(2,336)	10,315
1994 Seville Road Sanitary Sewer				

**CITY OF WADSWORTH, OHIO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 18 – INTERFUND TRANSACTIONS (continued)

	Balance 01/01/05	Additions	Deletions	Balance 12/31/05
Governmental Activities:				
Issue: 07/94, Maturity 07/09, Rate 7.00% Archwood Waterline	3,130	0	(544)	2,586
Issue: 07/94, Maturity 07/09, Rate 7.00% 1997 Rittman Road Waterline	2,011	0	(2,011)	0
Issue: 07/97, Maturity 07/12, Rate 6.50% 1998 Silvercrest Waterline	16,660	0	(1,653)	15,007
Issue: 10/98, Maturity 10/13, Rate 6.00% 1998 Silvercrest Sewer	44,536	0	(3,876)	40,660
Issue: 08/99, Maturity 08/14, Rate 6.00% 1999 Mechanic Street	54,376	0	(4,125)	50,251
Issue: 08/99, Maturity 08/04, Rate 6.00% 2000 Grace Drive Sanitary Sewer	32,269	0	(5,725)	26,544
Issue 09/00, Maturity 09/15, Rate 8.00% 1999 Street Program	4,647	0	(279)	4,368
Issue 08/00, Maturity 08/05, Rate 6.00% 1999 Sidewalk Program	3,154	0	(3,154)	0
Issue 08/01, Maturity 08/06, Rate 6.00% 2001 Street Improvement	3,515	0	(1,706)	1,809
Issue 09/02, Maturity 09/07, Rate 4.00% 2000 Street Improvement	4,069	0	(1,304)	2,765
Issue 08/01, Maturity 08/06, Rate 6.00% Southeast Downtown	4,173	0	(2,026)	2,147
Issue 08/01, Maturity 08/11, Rate 6.00% 2001 Sidewalk Improvement	20,310	0	(2,420)	17,890
Issue 09/02, Maturity 09/07, Rate 4.00% 2000 Sidewalk Improvement	4,819	0	(1,544)	3,275
Issue 08/01, Maturity 08/06, Rate 6.00% 2002 Sidewalk Improvement	1,688	0	(819)	869
Issue: 09/03, Maturity 09/08, Rate 3.00% 2004 Street Program	5,375	0	(1,285)	4,090
Issue: 9/05, Maturity 9/10, Rate 4.00%	0	1,243	0	1,243
Total Governmental Activities	<u>456,623</u>	<u>1,243</u>	<u>(77,588)</u>	<u>380,278</u>

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 18 – INTERFUND TRANSACTIONS (continued)

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

	Transfers In:			Total
	General Fund	Non-Major Governmental Funds	Electric Fund	
Transfers Out:				
General Fund	\$0	\$0	\$44,302	\$44,302
Income Tax Fund	3,400,000	1,806,000	0	5,206,000
Non-Major Governmental Funds	0	60,099	0	60,099
Electric Fund	0	4,597	0	4,597
Total	\$3,400,000	\$1,870,696	\$44,302	\$5,314,998

Interfund receivable/payable for the year ended December 31, 2005 consisted of the following:

Payable Fund	Receivable Fund
Non-Major Governmental Funds	General Fund - \$88,161

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

NOTE 19 - RELATED ORGANIZATIONS

On June 30, 2001 the City granted and established a franchise to Wadsworth Airport Management Corporation for a period of five years for the operation and maintenance of the Wadsworth Municipal Airport. The City of Wadsworth pays two thousand five hundred dollars per month to the Wadsworth Airport Management Corporation and pays for liability insurance not to exceed six thousand dollars per year. Wadsworth Airport Management Corporation agrees to pay the City of Wadsworth ten cents per gallon of aviation fuel sold.

NOTE 20 - JOINT VENTURES

OMEGA JV 1

The City’s electric enterprise fund has entered into an ongoing joint venture agreement with other Ohio municipal electric systems to form the Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV 1) for the purpose of providing electric power and energy to its participants on a cooperative basis. Title to the six diesel-powered generating units in OMEGA JV 1, were transferred to the municipal electrical systems from American Municipal

CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 20 - JOINT VENTURES (continued)

Power-Ohio, Incorporated (AMP-Ohio), a membership organization comprised of communities throughout Ohio, West Virginia and Pennsylvania that own and operate electric systems. Each participant has a contract which provides for AMP-Ohio to purchase the right to each participant's share of power and energy that is made available through the joint venture contract. The City's equity interest in JV 1 is reported in the City's electric enterprise fund. The City's undivided ownership of OMEGA JV 1 is 11.24%. The City's equity interest was \$51,189 for JV 1 at December 31, 2005. The following is a summary of audited financial information of OMEGA JV 1 for the year ended December 31, 2005:

	OMEGA JV 1
Total Assets	\$541,789
Total Liabilities	86,368
Participants Equity	455,421
Total Revenues	368,788
Total Expenses	376,753
(Deficiency) of Revenue	
(Under) Expenses	(\$7,965)

Additional financial information can be obtained from AMP-Ohio, 2600 Airport Drive, Columbus, Ohio 43219. OMEGA JV 1 is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City.

OMEGA JV 2

The City is a Financing Participant and an Owner Participant with percentages of liability and ownership of 7.41% and 5.81%, respectively and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV 2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV 2 Project in the amount of their respective Project shares. Purchaser Participants agree to purchase the output associated with their respective project share, ownership of which is held in trust for such Purchaser Participants.

Pursuant to the OMEGA JV 2 Agreement (Agreement), the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction and equipping of OMEGA JV 2, including such portions of OMEGA JV 2 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the Agreement.

Pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of Operating and Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. Under the terms of the Agreement, each Financing Participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV 2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2005, the City of Wadsworth has met their debt coverage obligations.

CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 20 - JOINT VENTURES (continued)

OMEGA JV 2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 Megawatt (MW) of distributed generation of which 134.081 MW is the participants entitlement and 4.569 MW are held in reserve. On dissolution of OMEGA JV 2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV 2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV 2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV 2. The City's net obligation for these bonds at December 31, 2005 was \$2,646,124 (including amounts withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected). The City's net investment and its share of operating results of OMEGA JV 2 are reported in the City's electric fund (an enterprise fund). The City's net investment in OMEGA JV 2 was \$2,578,034 at December 31, 2005. Complete financial statements for OMEGA JV 2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

The City's liability for the bonds are disclosed below:

	Principal	Interest	Total Debt Service
2006	\$143,701	\$152,801	\$296,502
2007	149,627	147,053	296,680
2008	157,034	139,571	296,605
2009	164,812	131,720	296,532
2010	172,960	123,479	296,439
2011 – 2020	2,304,401	660,984	2,965,385
Total Gross Liability	3,092,535	\$1,355,608	\$4,448,143
Less: Amounts Held in Reserve	(446,411)		
Net Obligation	<u>\$2,646,124</u>		

The following is a summary of audited financial information of OMEGA JV 2:

	OMEGA JV 2
Total Assets	\$46,366,580
Total Liabilities	1,986,924
Participants Equity	44,379,656
Total Revenues	2,809,375
Total Expenses	5,315,985
(Deficiency) of Revenue	
(Under) Expenses	(\$2,506,610)

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 20 - JOINT VENTURES (continued)

OMEGA JV 5

The City is a Financing Participant with an ownership of 5.62% and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV 5). Financing Participants own undivided interests, as tenants in common, in the OMEGA JV 5 Project.

Pursuant to the OMEGA JV 5 Agreement (Agreement), the participants jointly undertook as Financing Participants, the acquisition, construction and equipping of OMEGA JV 5, including such portions of OMEGA JV 5 as have been acquired, constructed or equipped by AMP-Ohio.

OMEGA JV 5 was created to construct a 42 Megawatt (MW) run-of-the-river hydroelectric plant (including 40 MW of backup generation) and associated transmission facilities (on the Ohio River near the Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV 5 Participants.

Pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating and Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV 5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement, each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV 5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2005, the City has met their debt coverage obligation.

The Agreement provides that the failure of any OMEGA JV 5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV 5 may take certain actions including the termination of a defaulting OMEGA JV 5 Participant's entitlement to Project Power. Each Participant may purchase a pro rata share of the defaulting OMEGA JV 5 Participant's entitlement to Project Power, which together with the share of the other non-defaulting OMEGA JV 5 Participants, is equal to the defaulting OMEGA JV 5 Participant's ownership share of the Project, in kilowatts ("Step Up Power") provided that the sum of any such increases shall not exceed, without consent of the non-defaulting OMEGA JV 5 Participant, an accumulated maximum kilowatts equal to 25% of such non-defaulting OMEGA JV 5 Participant's ownership share of the project prior to any such increases.

OMEGA JV 5 is managed by AMP-Ohio, which acts as the joint venture's agent. During 1993 and 2001, AMP-Ohio issued \$153,415,000 and \$13,899,981, respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV 5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV 5 Project. On February 17, 2004, the 1993 Certificates were refunded by issuing 2004 Beneficial interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

The City's net investment and its share of operating results of OMEGA JV 5 are reported in the City's electric fund (an enterprise fund). The City's net investment to date in OMEGA JV 5 was \$521,647 at December 31, 2005. Complete financial statements for OMEGA JV 5 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

**CITY OF WADSWORTH, OHIO
 MEDINA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 20 - JOINT VENTURES (continued)

The following is a summary of audited financial information of OMEGA JV 5 for the year ended December 31, 2005:

	OMEGA JV 5
Total Assets	\$176,566,949
Total Liabilities	167,284,966
Participants Equity	9,281,983
Total Revenues	24,961,328
Total Expenses	24,324,457
Excess Revenue Over Expenses	\$636,871

OMEGA JV 6

The City is a Financing Participant with an ownership percentage of 3.47% and shares participation with nine other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 6 (OMEGA JV 6). Financing Participants, after consideration of the potential risks and benefits can choose to be Owner Participants or Purchaser Participants. Owner Participants own undivided interests, as tenants in common in the Project in the amount of its Project Share. Purchaser Participants purchase the Project Power associated with its Project Share.

Pursuant to the OMEGA Joint Venture JV6 Agreement (Agreement), the participants agree jointly to plan, acquire, construct, operate and maintain the Project, and hereby agree, to pay jointly for the electric power, energy and other services associated with the Project.

OMEGA JV6 was created to construct four (4) wind turbines near Bowling Green Ohio. Each turbine has a nominal capacity of 1.8 MW and sells electricity from its operations to OMEGA JV6 Participants.

Pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Adjustable Rate Revenue Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV6, any excess funds shall be refunded to the Non-Financing Participants in proportion to each participant's Project Share and to Financing Participant's respective obligations first by credit against the Financing Participant's respective obligations. Any other excess funds shall be paid to the Participants in proportion to their respective Project Shares. Under the terms of the Agreement, each financing participant is to fix, charge and collect rates, fees, charges, including other available funds, at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV6 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2005, the City has met their debt coverage obligation.

The Agreement provides that the failure of any JV6 participant to make any payment due by the due date constitutes a default. In the event of a default and one in which the defaulting Participant failed to cure its default as provided for in the Agreement, the remaining participants would acquire the defaulting Participant's interest in the project and assume responsibility for the associated payments on a pro rata basis up to a maximum amount equal to 25% of such non-defaulting Participant's Project share ("Step Up Power").

CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 20 - JOINT VENTURES (continued)

OMEGA JV6 is managed by American Municipal Power-Ohio, Inc., which acts as the joint venture's agent. On July 30, 2004, AMP-Ohio issued \$9,861,000 adjustable rate bonds that mature on August 15, 2019. The net proceeds of the bond issues were used to construct the OMEGA JV6 Project. The City's net obligation for these bonds at December 31, 2005 was \$276,788 (Including amount withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected).

The City's net investment and its share of operating results of OMEGA JV6 are reported in the City's electric fund (an enterprise fund). The City's net investment to date in OMEGA JV6 was \$305,811 at December 31, 2005. Complete financial statements for OMEGA JV6 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

The City's liability for the bonds are disclosed below:

	Principal	Interest	Total Debt Service
2006	\$24,000	\$9,897	\$33,897
2007	22,000	11,629	33,629
2008	20,000	13,461	33,461
2009	20,000	13,707	33,707
2010	20,000	13,753	33,753
2011 – 2019	214,218	65,211	279,429
Total Gross Liability	320,218	\$127,658	\$447,876
Less: Amounts Held in Reserve	(43,430)		
Net Obligation	<u>\$276,788</u>		

The following is a summary of audited financial information of OMEGA JV 6 for the year ended December 31, 2005:

	OMEGA JV 6
Total Assets	\$9,460,505
Total Liabilities	647,497
Participants Equity	8,813,009
Total Revenues	437,336
Total Expenses	565,784
(Deficiency) of Revenue (Under) Expenses	(\$128,448)

**CITY OF WADSWORTH, OHIO
 MEDINA COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 20 - JOINT VENTURES (continued)

Woodlawn Union Cemetery

The City is a participant along with Wadsworth Township in a joint venture to establish and manage the Woodlawn Union Cemetery. This establishment is allowable under Ohio Revised Code Section 759.27. This joint venture is considered a separate reporting entity by the City and has not been included in these basic financial statements. Complete financial statements for the Woodlawn Cemetery can be obtained from the Secretary-Treasurer of the Cemetery. Audited financial information for the Cemetery for the year ended December 31, 2005 was as follows:

Total Receipts	\$175,988
Total Disbursements	(\$184,880)
(Deficiency) of Receipts (Under) Disbursements	<u>(\$8,892)</u>

The Cemetery has no outstanding debt.

NOTE 21 - JOINTLY GOVERNED ORGANIZATION

Municipal Energy Services Agency (MESA)

The Municipal Energy Services Agency (MESA) is a jointly governed organization among the City and 30 other municipal electric systems. MESA was formed to provide access to a pool of personnel experienced in the planning, management, engineering, construction, safety training and other technical aspects of the operation and maintenance of municipal electric and other utility systems. The continued existence of MESA is not dependent on the City's continued participation and the City does not have an equity interest in or financial responsibility for MESA. MESA has no outstanding debt.

NOTE 22 – SEGMENT INFORMATION

The City maintains two enterprise funds which are intended to be self-supported through user fees charged for services provided to consumers. The Sanitation Fund accounts for the charges for services fees collected for residential and commercial trash services provided to City residents. The Telecom Fund accounts for the charges for services fees collected for cable and internet services.

CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 22 – SEGMENT INFORMATION (continued)

Combined Statement of Net Assets

	Telecom	Sanitation	Total
Assets			
Current Assets	\$478,048	\$765,901	\$1,243,949
Capital Assets	0	557,056	557,056
Total Assets	478,048	1,322,957	1,801,005
Liabilities			
Current Liabilities	141,002	104,310	245,312
Interfund Note Payable	90,550	157,500	248,050
Noncurrent Liabilities	101,672	90,916	192,588
Total Liabilities	333,224	352,726	685,950
Net Assets			
Invested in Capital Assets, Net of Related Debt	0	557,056	557,056
Unrestricted	144,824	413,175	557,999
Total Net Assets	\$144,824	\$970,231	\$1,115,055

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	Telecom	Sanitation	Total
Charges for Services	\$1,872,815	\$1,610,792	\$3,483,607
Depreciation Expense	0	(84,331)	(84,331)
Other Operating Expenses	(1,713,419)	(1,712,993)	(3,426,412)
Operating Income (Loss)	159,396	(186,532)	(27,136)
Non-Operating Expenses			
Interest and Fiscal Charges	(4,228)	(7,547)	(11,775)
Change in Net Assets	155,168	(194,079)	(38,911)
Net Assets at Beginning of Year	(10,344)	1,164,310	1,153,966
Net Assets (Deficit) at End of Year	\$144,824	\$970,231	\$1,115,055

Condensed Statement of Cash Flows

	Telecom	Sanitation	Total
Net Cash Provided by (Used for)			
Operating Activities	\$394,709	(\$4,728)	\$389,981
Noncapital Financing Activities	(97,794)	(39,375)	(137,169)
Capital and Related Financing Activities	0	(5,012)	(5,012)
Net Increase (Decrease)	296,915	(49,115)	247,800
Beginning Cash and Cash Equivalents	181,100	534,704	715,804
Ending Cash and Cash Equivalents	\$478,015	\$485,589	\$963,604

CITY OF WADSWORTH, OHIO

SINGLE AUDIT REPORT

DECEMBER 31, 2005

**CITY OF WADSWORTH, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2005**

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JAMES G. ZUPKA, C.P.A., INC.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor, City Auditor,
and Members of City Council
City of Wadsworth, Ohio

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 Wadsworth, Ohio, as of and for the year ended December 31, 2005, which collectively comprise the City of Wadsworth, Ohio's basic financial statements and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Wadsworth, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Citation as Item 2005-1.

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

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

James G. Zupka, CPA, Inc.
Certified Public Accountants

November 22, 2006

JAMES G. ZUPKA, C.P.A., INC.

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**REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor, City Auditor,
and Members of City Council
City of Wadsworth, Ohio

We have audited the compliance of the City of Wadsworth, Ohio, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The City of Wadsworth, Ohio's major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Wadsworth, Ohio's management. Our responsibility is to express an opinion on the City of Wadsworth, Ohio's compliance based on our audit.

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

In our opinion, the City of Wadsworth, Ohio, complied, in all material respects, with the requirements referred to above that are reasonable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

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 Wadsworth, Ohio, as of and for the year ended December 31, 2005, and have issued our report thereon dated November 22, 2006. Our audit was performed for the purpose of forming opinions on the basic financial statements that collectively comprise the City of Wadsworth, Ohio's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

James G. Zupka, CPA, Inc.
Certified Public Accountants

November 22, 2006

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through or Grantor's Number	Expenditures
<u>U.S. Department of the Treasury,</u>			
<u>Bureau of Alcohol, Tobacco, and Firearms</u>			
<i>Direct:</i>			
Gang Resistance Education and Training	21.053	N/A	\$ 11,230
Total U.S. Department of the Treasury, Bureau of Alcohol, Tobacco, and Firearms			<u>11,230</u>
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed Through Ohio Department of Development:</i>			
<u>Community Development Block Grant</u>			
State's Program	14.228	AF-04-193-1	68,830
	14.228	AC-03-193-1	63,028
	14.228	AF-03-193-1	60,186
Total Community Development Block Grant			<u>192,044</u>
<u>Home Investment Partnerships Program</u>			
State's Program	14.239	AC-03-193-2	342,667
Total Home Investment Partnerships Program			<u>342,667</u>
Total U.S. Department of Housing and Urban Development			<u>534,711</u>
<u>U.S. Department of Transportation</u>			
<i>Direct:</i>			
Airport Improvement Program	20.106	N/A	33,338
Total U.S. Department of Transportation			<u>33,338</u>
<u>U.S. Department of Homeland Security</u>			
<i>Passed Through Ohio Department of Public Safety</i>			
FEMA Public Assistance	97.036	DR-1519-OH	133,914
Total U.S. Department of Homeland Security			<u>133,914</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 713,193</u>

See Notes to the Schedule of Expenditures of Federal Awards

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2005**

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes activity of the City's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B: COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

The City has established a revolving loan program to provide low-interest loans to businesses in order to create jobs for persons from low to moderate income households, and to eligible persons for rehabilitation of their homes. The federal Department of Housing and Urban Development (HUD) grants money for these loans to the City, which is passed through the Ohio Department of Development (ODOD). The initial loan amount is recorded as a disbursement on the accompanying Schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements in the Schedule.

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
DECEMBER 31, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

2005(i)	Type of Financial Statement Opinion	Unqualified
2005(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2005(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
2005(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
2005(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
2005(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
2005(v)	Type of Major Programs' Compliance Opinion	Unqualified
2005(vi)	Are there any reportable findings under .510?	No
2005(vii)	Major Programs (list): Home Investment Partnerships Program - CFDA #14.239 Community Development Block Grant - CFDA #14.228	
2005(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
2005(ix)	Low Risk Auditee?	No

**CITY OF WADSWORTH, OHIO
 MEDINA COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A-133 & .505
 DECEMBER 31, 2003
 (CONTINUED)**

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

2005-1 - Appropriations Exceed Estimated Revenues

Criteria

Ohio Revised Code 5705.39 states that total appropriations from each fund shall not exceed total estimated revenue. The City's appropriations exceeded estimated resources in the following funds at December 31, 2005:

	Revenues Plus Carryover <u>Balances</u>	<u>Appropriations</u>	<u>Excess</u>
<u>Capital Projects Funds</u>			
Fund 401 - CDBG FY 1998	\$ 62,030	\$ 105,386	\$ (43,356)
Fund 403 - CHIP Grant FY 1999	509,574	617,333	(107,759)
Fund 432 - EMS Equipment Reserve	87,576	87,978	(402)
Fund 566 - Street Improvement 2001	15,042	15,072	(30)
Fund 567 - Street Improvement 2000	142,553	143,931	(1,378)
Fund 570 - Road Improvement Projects	77,849	334,718	(256,869)
<u>Enterprise Funds</u>			
Fund 608 - Electric	27,727,872	28,094,656	(366,784)
Fund 682 - Fiber Optics	183,149	214,214	(31,065)

Cause/Effect

The failure to limit appropriations to estimated revenue could result in expenditures exceeding available resources.

Recommendation

We recommend that the City review estimated resources prior to appropriating the funds to be in compliance with Ohio Revised Code Section 5705.39.

Corrective Action Plan

The City will implement the recommendation in 2006.

**CITY OF WADSWORTH, OHIO
MEDINA COUNTY
STATUS OF PRIOR CITATIONS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005**

The prior audit report, as of December 31, 2004, included one citation, which is repeated in this audit period. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



Mary Taylor, CPA
Auditor of State

CITY OF WADSWORTH

MEDINA 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
FEBRUARY 8, 2007**