



Dave Yost • Auditor of State



**CITY OF WAUSEON  
LUCAS COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

City of Wauseon  
Fulton County  
230 Clinton Street  
Wauseon, Ohio 43567-2104

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wauseon, Fulton County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 Wauseon, Fulton County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General 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 January 10, 2013, on our consideration of the city's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

**Dave Yost**  
Auditor of State

January 10, 2013

## **CITY OF WAUSEON, OHIO**

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### ***Management's Discussion and Analysis For the Year Ended December 31, 2011***

***Unaudited***

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The discussion and analysis of the City of Wauseon's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for 2011 are as follows:

- In total, net assets increased \$596,013. Net assets of governmental activities increased \$86,789, which represents less than a 1% increase from 2010. Net assets of business-type activities increased \$509,224 or 3.6% from 2010.
- General revenues accounted for \$4,104,449 in revenue or 50.2% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,066,487, 49.8% of total revenues of \$8,170,936.
- The City had \$5,189,594 in expenses related to governmental activities; only \$1,188,346 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$4,088,037 were adequate to provide for these programs.
- Among major funds, the general fund had \$4,052,508 in revenues and other financing sources and \$3,826,441 in expenditures and other financing uses. The general fund's fund balance increased from \$423,282 to \$639,334.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

## **CITY OF WAUSEON, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2011***

***Unaudited***

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### **Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net-assets (the difference between the City's assets and liabilities) are one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as the City's tax base and the condition of the City's capital assets.

The government-wide financial statements of the City are divided into two categories:

- *Governmental Activities* – Most of the City's program's and services are reported here including security of persons and property, basic utility services, leisure time activities, community environment, transportation and general government.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's water and wastewater services are reported as business-type activities.

### **Fund Financial Statements**

Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole.

*Governmental Funds* – Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. The governmental fund financial statements provide separate information for the General and Income Tax Capital Improvement funds, both of which are considered major funds. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.



## **CITY OF WAUSEON, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2011**

**Unaudited**

*Proprietary Funds* – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The proprietary fund financial statements provide separate information for the Water and Wastewater funds, both of which are considered major funds.

### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

The following table provides a summary of the City's net assets for 2011 compared to 2010.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$5,062,998	\$4,980,386	\$4,135,821	\$3,666,550	\$9,198,819	\$8,646,936
Capital assets, Net	13,024,411	13,226,388	15,376,930	14,697,412	28,401,341	27,923,800
Total assets	18,087,409	18,206,774	19,512,751	18,363,962	37,600,160	36,570,736
Long-term debt outstanding	3,213,214	3,397,140	4,893,655	4,220,668	8,106,869	7,617,808
Other liabilities	481,515	503,743	200,189	233,611	681,704	737,354
Total liabilities	3,694,729	3,900,883	5,093,844	4,454,279	8,788,573	8,355,162
Net assets						
Invested in capital assets, net of related debt	10,144,411	10,156,388	10,542,941	10,556,298	20,687,352	20,712,686
Restricted	1,640,912	1,457,537	0	0	1,640,912	1,457,537
Unrestricted	2,607,357	2,691,966	3,875,966	3,353,385	6,483,323	6,045,351
Total net assets	<u>\$14,392,680</u>	<u>\$14,305,891</u>	<u>\$14,418,907</u>	<u>\$13,909,683</u>	<u>\$28,811,587</u>	<u>\$28,215,574</u>

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## CITY OF WAUSEON, OHIO

### *Management's Discussion and Analysis For the Year Ended December 31, 2011*

*Unaudited*

Changes in Net Assets – The following table shows the changes in net assets for 2011 compared to 2010:

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues:						
Charges for Services and Sales	\$528,885	\$635,770	\$2,878,141	\$2,637,718	\$3,407,026	\$3,273,488
Operating Grants and Contributions	532,008	980,875	0	0	532,008	980,875
Capital Grants and Contributions	127,453	561,373	0	8,095	127,453	569,468
Total Program Revenues	1,188,346	2,178,018	2,878,141	2,645,813	4,066,487	4,823,831
General revenues:						
Property Taxes	235,862	253,405	0	0	235,862	253,405
Income Taxes	3,205,427	3,069,261	0	0	3,205,427	3,069,261
Intergovernmental Revenues, Unrestricted	367,220	469,388	0	0	367,220	469,388
Investment Earnings	32,820	7,721	16,412	18,843	49,232	26,564
Miscellaneous	246,708	257,021	0	0	246,708	257,021
Total General Revenues	4,088,037	4,056,796	16,412	18,843	4,104,449	4,075,639
Total Revenues	5,276,383	6,234,814	2,894,553	2,664,656	8,170,936	8,899,470
Program Expenses						
Security of Persons and Property	2,388,370	2,241,306	0	0	2,388,370	2,241,306
Basic Utility Services	88,988	57,556	0	0	88,988	57,556
Leisure Time Activities	512,564	544,853	0	0	512,564	544,853
Community Environment	347,878	665,290	0	0	347,878	665,290
Transportation	937,575	871,987	0	0	937,575	871,987
General Government	764,921	1,020,927	0	0	764,921	1,020,927
Interest and Fiscal Charges	149,298	66,021	0	0	149,298	66,021
Water	0	0	1,256,370	1,367,293	1,256,370	1,367,293
Wastewater	0	0	1,128,959	990,853	1,128,959	990,853
Total expenses	5,189,594	5,467,940	2,385,329	2,358,146	7,574,923	7,826,086
Change in Net Assets Before Transfers	86,789	766,874	509,224	306,510	596,013	1,073,384
Transfers	0	(49,786)	0	49,786	0	0
Total Change in Net Assets	86,789	717,088	509,224	356,296	596,013	1,073,384
Beginning Net Assets	14,305,891	13,588,803	13,909,683	13,553,387	28,215,574	27,142,190
Ending Net Assets	\$14,392,680	\$14,305,891	\$14,418,907	\$13,909,683	\$28,811,587	\$28,215,574

### **Governmental Activities**

Net assets of the City's governmental activities increased \$86,789. Ohio Department of Development grants for City improvement projects received in the prior year resulted in an increase in operating grants, capital grants and community environment expenses, and a subsequent decrease in the current year.

A lump sum payment received in 2010 for cell tower rental increased prior year charges for services and resulted in the subsequent decrease in 2011.

The City receives an income tax, which is based on 1.5% of all salaries, wages, commissions and other compensation and on net profits earned by residents both in and out of the City and to earnings of non-residents (except certain transients) earned in the City.

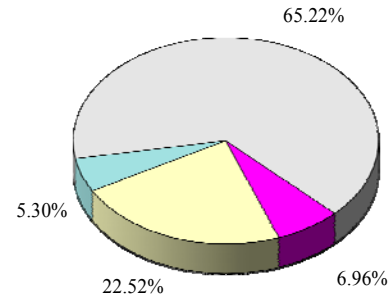
## CITY OF WAUSEON, OHIO

**Management's Discussion and Analysis  
For the Year Ended December 31, 2011**

**Unaudited**

Income taxes and property taxes made up 60.8% and 4.5% respectively of revenues for governmental activities for the City in 2011. The City's reliance upon tax revenues is demonstrated by the following graph indicating 65.22% of total revenues from general tax revenues:

Revenue Sources	2011	Percent of Total
General Tax Revenues	\$3,441,289	65.22%
Intergovernmental, Unrestricted	367,220	6.96%
Program Revenues	1,188,346	22.52%
General Other	279,528	5.30%
Total Revenue	<u>\$5,276,383</u>	<u>100.00%</u>



**Business-Type Activities**

Net assets of the business-type activities increased \$509,224. This represents a 3.6% change from the previous year. Revenues and expenses were consistent with the previous year.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The City's governmental funds reported a combined fund balance of \$4,186,141, which is an increase from last year's balance of \$4,105,452. The schedule below indicates the fund balance and the total change in fund balance at December 31, 2011 and 2010:

	Fund Balance December 31, 2011	Fund Balance December 31, 2010	Increase (Decrease)
General	\$639,334	\$423,282	\$216,052
Income Tax Capital Improvement	2,302,676	2,369,712	(67,036)
Other Governmental	1,244,131	1,312,458	(68,327)
Total	<u>\$4,186,141</u>	<u>\$4,105,452</u>	<u>\$80,689</u>

**CITY OF WAUSEON, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2011**

**Unaudited**

General Fund – The City's General Fund balance change is due to several factors. The tables that follow assist in illustrating the financial activities of the General Fund:

	2011 <u>Revenues</u>	2010 <u>Revenues</u>	Increase <u>(Decrease)</u>
Taxes	\$2,220,855	\$2,083,437	\$137,418
Intergovernmental Revenue	411,410	521,016	(109,606)
Charges for Services	398,581	586,793	(188,212)
Licenses and Permits	7,755	9,920	(2,165)
Investment Earnings	23,702	29,750	(6,048)
Fines and Forfeitures	17,222	35,248	(18,026)
All Other Revenue	178,297	250,223	(71,926)
Total	<u>\$3,257,822</u>	<u>\$3,516,387</u>	<u>(\$258,565)</u>

General Fund revenues in 2011 decreased approximately 7.4% compared to revenues in 2010. The increase in taxes can be attributed to an increase in income tax receipts. A lump sum payment received in 2010 for cell tower rental increased prior year charges for services and resulted in the subsequent decrease in 2011.

	2011 <u>Expenditures</u>	2010 <u>Expenditures</u>	Increase <u>(Decrease)</u>
Security of Persons and Property	\$2,302,933	\$2,176,419	\$126,514
Basic Utility Services	23,520	15,497	8,023
Leisure Time Activities	412,750	437,758	(25,008)
Community Environment	218,436	198,094	20,342
Transportation	239,961	267,154	(27,193)
General Government	576,006	628,752	(52,746)
Capital Outlay	1,300	2,944	(1,644)
Total	<u>\$3,774,906</u>	<u>\$3,726,618</u>	<u>\$48,288</u>

General Fund expenditures remained stable when compared with the prior year, increasing \$48,288 or 1.3% when compared with the previous year.

	2011 <u>Other Financing Sources (Uses)</u>	2010 <u>Other Financing Sources (Uses)</u>	Increase <u>(Decrease)</u>
Other Financing Sources	\$94,686	\$63,371	\$31,315
Other Financing Uses	(51,535)	(56,378)	4,843
Transfers In	700,000	160,000	540,000
Total	<u>\$743,151</u>	<u>\$166,993</u>	<u>\$576,158</u>

## **CITY OF WAUSEON, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2011***

***Unaudited***

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*Income Tax Capital Improvement Fund* – The Income Tax Capital Improvement Fund Balance decreased approximately 2.8%. Intergovernmental revenues increased substantially in the prior year due to grants from the Ohio Department of Development. This resulted in a subsequent decrease in intergovernmental revenues in 2011. During 2011, \$700,000 was transferred to the general fund to assist with cash flow needs.

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2011 the City amended its General Fund budget several times, none significant.

For the General Fund, original budgeted, final budgeted and actual budget basis revenues were not significantly different. Actual budget basis expenditures of \$3.9 million were less than final and original budget estimates.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### ***Capital Assets***

At the end of fiscal 2011 the City had \$28,401,341 net of accumulated depreciation invested in land, buildings, improvements, infrastructure, equipment and vehicles. Of this total, \$13,024,411 was related to governmental activities and \$15,376,930 to the business-type activities. The following table shows fiscal year 2011 and 2010 balances:

	Governmental Activities		Increase (Decrease)
	2011	2010	
Land	\$862,323	\$862,323	\$0
Construction In Progress	34,797	34,797	0
Buildings	3,827,468	3,820,038	7,430
Improvements Other than Buildings	4,010,912	3,956,356	54,556
Machinery and Equipment	3,421,758	3,130,945	290,813
Infrastructure	7,434,532	7,434,532	0
Less: Accumulated Depreciation	(6,567,379)	(6,012,603)	(554,776)
Totals	<u>\$13,024,411</u>	<u>\$13,226,388</u>	<u>(\$201,977)</u>

Radio consoles, turnout gear and other equipment purchases in the police and fire departments contributed to the increase in machinery and equipment.

**CITY OF WAUSEON, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2011**

**Unaudited**

	Business-Type Activities		Increase (Decrease)
	2011	2010	
Land	\$103,710	\$103,710	\$0
Construction in Progress	3,914,358	2,856,341	1,058,017
Buildings	7,116,172	7,116,172	0
Improvements other than Buildings	11,286,734	11,276,350	10,384
Machinery and Equipment	4,887,502	4,843,176	44,326
Less: Accumulated Depreciation	(11,931,546)	(11,498,337)	(433,209)
Totals	\$15,376,930	\$14,697,412	\$679,518

Improvements at the wastewater treatment plant resulted in the increase in construction in progress. Additional information on the City's capital assets can be found in Note 7.

**Debt**

The following table summarizes the City's debt outstanding as of December 31, 2011 and 2010:

	2011	2010
Governmental Activities:		
Capital Leases	\$35,000	\$70,000
General Obligation Bonds	2,845,000	0
Long Term Note Payable	0	3,000,000
Compensated Absences	333,214	327,140
Total Governmental Activities	3,213,214	3,397,140
Business-Type Activities:		
Ohio Water Development Authority Loans	3,083,989	2,291,114
Long Term Note Payable	1,750,000	1,850,000
Compensated Absences	59,666	79,554
Total Business-Type Activities	4,893,655	4,220,668
Totals	\$8,106,869	\$7,617,808

Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total assessed value of property. At December 31, 2011, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 10.

## ***CITY OF WAUSEON, OHIO***

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2011***

***Unaudited***

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### **ECONOMIC FACTORS**

The City of Wauseon is the county seat of Fulton County, located in the northwest corner of Ohio. The City's main source of revenue is a 1.5% income tax levied on residents of the City and nonresidents working within the City. Gross revenues from this tax are expected to exceed \$3.2 million again this year and are split between the General Fund and the Capital Projects Fund. Continued employment is a key to the stability and growth of the City's revenue stream.

The two types of employers with the largest number of employees are manufacturing and governmental/health.

A new street has been constructed through what was previously farmland in the northeast corner of the City. This has opened up a mile long, new area for future economic development and will allow the City's income tax base to grow. A Senior Villas housing complex has been constructed and an option has been taken on additional acreage.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money it receives. Questions about this report or the need for additional financial information should be directed to Jon R. Schamp, Director of Finance, City of Wauseon at 419-335-9022 or [finance@cityofwauseon.com](mailto:finance@cityofwauseon.com).

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**CITY OF WAUSEON, OHIO**

**Statement of Net Assets**  
**December 31, 2011**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 1,937,049	\$ 2,078,344	\$ 4,015,393
Investments	1,138,287	1,207,559	2,345,846
Receivables:			
Taxes	649,649	0	649,649
Accounts	32,495	344,981	377,476
Intergovernmental	379,056	0	379,056
Interest	2	0	2
Special Assessments	1,417	0	1,417
Loans	352,114	211,583	563,697
Inventory of Supplies at Cost	41,840	151,355	193,195
Prepaid Items	44,829	40,514	85,343
Restricted Assets:			
Cash and Cash Equivalents	112,412	0	112,412
Cash and Cash Equivalents with Fiscal Agent	373,848	101,485	475,333
Non-Depreciable Capital Assets	897,120	4,018,068	4,915,188
Depreciable Capital Assets, Net	12,127,291	11,358,862	23,486,153
<b>Total Assets</b>	<b>18,087,409</b>	<b>19,512,751</b>	<b>37,600,160</b>
<b>Liabilities:</b>			
Accounts Payable	64,314	34,392	98,706
Accrued Wages and Benefits	188,604	55,058	243,662
Intergovernmental Payable	60	4,966	5,026
Retainage Payable	0	101,485	101,485
Unearned Revenue	220,431	0	220,431
Accrued Interest Payable	8,106	4,288	12,394
Noncurrent liabilities:			
Due within one year	291,986	1,792,373	2,084,359
Due in more than one year	2,921,228	3,101,282	6,022,510
<b>Total Liabilities</b>	<b>3,694,729</b>	<b>5,093,844</b>	<b>8,788,573</b>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	10,144,411	10,542,941	20,687,352
Restricted For:			
Other Purposes	1,640,912	0	1,640,912
Unrestricted	2,607,357	3,875,966	6,483,323
<b>Total Net Assets</b>	<b>\$ 14,392,680</b>	<b>\$ 14,418,907</b>	<b>\$ 28,811,587</b>

See accompanying notes to the basic financial statements

## CITY OF WAUSEON, OHIO

### *Statement of Activities* *For the Year Ended December 31, 2011*

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Security of Persons and Property	\$ 2,388,370	\$ 486,358	\$ 42,880	\$ 127,453
Basic Utility Services	88,988	1,070	0	0
Leisure Time Activities	512,564	0	0	0
Community Environment	347,878	7,330	12,562	0
Transportation	937,575	0	476,566	0
General Government	764,921	34,127	0	0
Interest and Fiscal Charges	149,298	0	0	0
<b>Total Governmental Activities</b>	<u>5,189,594</u>	<u>528,885</u>	<u>532,008</u>	<u>127,453</u>
<b>Business-Type Activities:</b>				
Water	1,256,370	1,621,892	0	0
Wastewater	1,128,959	1,256,249	0	0
<b>Total Business-Type Activities</b>	<u>2,385,329</u>	<u>2,878,141</u>	<u>0</u>	<u>0</u>
<b>Totals</b>	<u>\$ 7,574,923</u>	<u>\$ 3,407,026</u>	<u>\$ 532,008</u>	<u>\$ 127,453</u>

#### General Revenues

Property Taxes Levied for:

General Purposes

Income Taxes

Intergovernmental Revenues, Unrestricted

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

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Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (1,731,679)	\$ 0	\$ (1,731,679)
(87,918)	0	(87,918)
(512,564)	0	(512,564)
(327,986)	0	(327,986)
(461,009)	0	(461,009)
(730,794)	0	(730,794)
(149,298)	0	(149,298)
<u>(4,001,248)</u>	<u>0</u>	<u>(4,001,248)</u>
0	365,522	365,522
0	127,290	127,290
<u>0</u>	<u>492,812</u>	<u>492,812</u>
<u>(4,001,248)</u>	<u>492,812</u>	<u>(3,508,436)</u>
235,862	0	235,862
3,205,427	0	3,205,427
367,220	0	367,220
32,820	16,412	49,232
246,708	0	246,708
<u>4,088,037</u>	<u>16,412</u>	<u>4,104,449</u>
86,789	509,224	596,013
<u>14,305,891</u>	<u>13,909,683</u>	<u>28,215,574</u>
<u>\$ 14,392,680</u>	<u>\$ 14,418,907</u>	<u>\$ 28,811,587</u>

**CITY OF WAUSEON, OHIO**

**Balance Sheet  
Governmental Funds  
December 31, 2011**

	General	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Cash and Cash Equivalents	\$ 92,907	\$ 1,609,544	\$ 234,598	\$ 1,937,049
Investments	337,657	600,955	199,675	1,138,287
Receivables:				
Taxes	545,111	104,538	0	649,649
Accounts	23,851	0	8,644	32,495
Intergovernmental	172,183	0	206,873	379,056
Interest	2	0	0	2
Special Assessments	1,417	0	0	1,417
Loans	0	0	352,114	352,114
Inventory of Supplies, at Cost	29,186	0	12,654	41,840
Prepaid Items	39,552	0	5,277	44,829
Restricted Assets:				
Cash and Cash Equivalents	0	0	112,412	112,412
Cash and Cash Equivalents with Fiscal Agent	0	0	373,848	373,848
<b>Total Assets</b>	<b>\$ 1,241,866</b>	<b>\$ 2,315,037</b>	<b>\$ 1,506,095</b>	<b>\$ 5,062,998</b>
<b>Liabilities:</b>				
Accounts Payable	\$ 63,745	\$ 0	\$ 569	\$ 64,314
Accrued Wages and Benefits Payable	173,972	3,565	11,067	188,604
Intergovernmental Payable	60	0	0	60
Deferred Revenue	364,755	8,796	250,328	623,879
<b>Total Liabilities</b>	<b>602,532</b>	<b>12,361</b>	<b>261,964</b>	<b>876,857</b>
<b>Fund Balance:</b>				
Nonspendable	68,738	0	370,045	438,783
Restricted	0	0	1,082,747	1,082,747
Committed	0	2,302,676	0	2,302,676
Assigned	78,077	0	0	78,077
Unassigned	492,519	0	(208,661)	283,858
<b>Total Fund Balance</b>	<b>639,334</b>	<b>2,302,676</b>	<b>1,244,131</b>	<b>4,186,141</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,241,866</b>	<b>\$ 2,315,037</b>	<b>\$ 1,506,095</b>	<b>\$ 5,062,998</b>

See accompanying notes to the basic financial statements

## **CITY OF WAUSEON, OHIO**

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### ***Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities December 31, 2011***

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<b>Total Governmental Fund Balances</b>	\$	4,186,141
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.		13,024,411
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		403,448
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Capital Leases Payable	(35,000)	
General Obligation Bonds Payable	(2,845,000)	
Compensated Absences Payable	(333,214)	
Accrued Interest Payable	(8,106)	
	<u>                    </u>	<u>(3,221,320)</u>
<b><i>Net Assets of Governmental Activities</i></b>	<b>\$</b>	<b><u>14,392,680</u></b>

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2011**

	General	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 2,220,855	\$ 1,223,173	\$ 0	\$ 3,444,028
Intergovernmental Revenue	411,410	140,015	427,227	978,652
Charges for Services	398,581	0	0	398,581
Licenses and Permits	7,755	0	0	7,755
Investment Earnings	23,702	1,221	7,897	32,820
Fines and Forfeitures	17,222	0	105,752	122,974
All Other Revenue	178,297	60,377	0	238,674
<b>Total Revenue</b>	<b>3,257,822</b>	<b>1,424,786</b>	<b>540,876</b>	<b>5,223,484</b>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	2,302,933	0	11,770	2,314,703
Basic Utility Services	23,520	0	0	23,520
Leisure Time Activities	412,750	0	0	412,750
Community Environment	218,436	43,713	5,000	267,149
Transportation	239,961	0	377,175	617,136
General Government	576,006	0	7,265	583,271
Capital Outlay	1,300	638,069	0	639,369
Debt Service:				
Principal Retirement	0	3,000,000	155,000	3,155,000
Interest & Fiscal Charges	0	112,124	109,433	221,557
<b>Total Expenditures</b>	<b>3,774,906</b>	<b>3,793,906</b>	<b>665,643</b>	<b>8,234,455</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(517,084)	(2,369,120)	(124,767)	(3,010,971)
<b>Other Financing Sources (Uses):</b>				
Bond Issuance	0	3,000,000	0	3,000,000
Premium on Bond Issuance	0	0	55,772	55,772
Other Financing Sources	94,686	2,084	0	96,770
Other Financing Uses	(51,535)	0	0	(51,535)
Transfers In	700,000	0	0	700,000
Transfers Out	0	(700,000)	0	(700,000)
<b>Total Other Financing Sources (Uses)</b>	<b>743,151</b>	<b>2,302,084</b>	<b>55,772</b>	<b>3,101,007</b>
Net Change in Fund Balance	226,067	(67,036)	(68,995)	90,036
<b>Fund Balance at Beginning of Year</b>	<b>423,282</b>	<b>2,369,712</b>	<b>1,312,458</b>	<b>4,105,452</b>
Increase (Decrease) in Inventory Reserve	(10,015)	0	668	(9,347)
<b>Fund Balance End of Year</b>	<b>\$ 639,334</b>	<b>\$ 2,302,676</b>	<b>\$ 1,244,131</b>	<b>\$ 4,186,141</b>

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

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***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, 2011***

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**Net Change in Fund Balances - Total Governmental Funds** \$ 90,036

***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	468,688	
Depreciation Expense	(639,435)	(170,747)

The net effect of various miscellaneous transactions involving capital assets (i.e. disposals and donations) is to increase net assets.

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.		(31,230)
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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.		5,632
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The issuance of long-term debt (e.g. notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

General Obligation Bond Issuance	(3,000,000)	
General Obligation Bond Principal Retirement	155,000	
Long Term Note Principal Retirement	3,000,000	
Capital Lease Principal Retirement	35,000	
Accrued Interest Payable	18,519	208,519

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

Compensated Absences	(6,074)	
Change in Inventory	(9,347)	(15,421)

<b><i>Change in Net Assets of Governmental Activities</i></b>		<b><u>\$ 86,789</u></b>
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See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Year Ended December 31, 2011**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 2,092,359	\$ 2,092,359	\$ 2,188,788	\$ 96,429
Intergovernmental Revenue	438,500	438,500	471,529	33,029
Charges for Services	444,500	444,500	451,530	7,030
Licenses and Permits	9,400	9,400	7,620	(1,780)
Investment Earnings	20,000	20,000	23,702	3,702
Fines and Forfeitures	32,000	32,000	17,218	(14,782)
All Other Revenues	159,141	159,141	190,567	31,426
Total Revenues	<u>3,195,900</u>	<u>3,195,900</u>	<u>3,350,954</u>	<u>155,054</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	2,326,409	2,394,909	2,337,090	57,819
Basic Utility Services	38,131	29,131	22,369	6,762
Leisure Time Activities	578,656	457,656	424,064	33,592
Community Environment	211,578	242,578	220,823	21,755
Transportation	280,333	273,333	252,939	20,394
General Government	681,472	670,472	637,351	33,121
Capital Outlay	1,500	1,500	1,300	200
Total Expenditures	<u>4,118,079</u>	<u>4,069,579</u>	<u>3,895,936</u>	<u>173,643</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(922,179)	(873,679)	(544,982)	328,697
<b>Other Financing Sources (Uses):</b>				
Transfers In	900,000	900,000	700,000	(200,000)
Other Financing Sources	65,000	65,000	84,449	19,449
Other Financing Uses	(65,000)	(60,000)	(51,535)	8,465
Total Other Financing Sources (Uses):	<u>900,000</u>	<u>905,000</u>	<u>732,914</u>	<u>(172,086)</u>
Net Change in Fund Balance	(22,179)	31,321	187,932	156,611
Fund Balance at Beginning of Year	19,366	19,366	19,366	0
Prior Year Encumbrances	81,830	81,830	81,830	0
Fund Balance at End of Year	<u>\$ 79,017</u>	<u>\$ 132,517</u>	<u>\$ 289,128</u>	<u>\$ 156,611</u>

See accompanying notes to the basic financial statements



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**CITY OF WAUSEON, OHIO**

**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2011**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 859,612	\$ 1,218,732	\$ 2,078,344
Investments	0	1,207,559	1,207,559
Receivables:			
Accounts	184,558	160,423	344,981
Loans	211,583	0	211,583
Inventory of Supplies at Cost	133,870	17,485	151,355
Prepaid Items	20,865	19,649	40,514
Total Current Assets	<u>1,410,488</u>	<u>2,623,848</u>	<u>4,034,336</u>
Noncurrent Assets:			
Restricted Assets:			
Cash and Cash Equivalents with Fiscal Agent	0	101,485	101,485
Total Restricted Assets	<u>0</u>	<u>101,485</u>	<u>101,485</u>
Capital Assets, Net	<u>7,128,076</u>	<u>8,248,854</u>	<u>15,376,930</u>
Total Noncurrent Assets	<u>7,128,076</u>	<u>8,350,339</u>	<u>15,478,415</u>
Total Assets	<u>8,538,564</u>	<u>10,974,187</u>	<u>19,512,751</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	10,810	23,582	34,392
Accrued Wages and Benefits	30,410	24,648	55,058
Intergovernmental Payable	4,966	0	4,966
Retainage Payable	0	101,485	101,485
Compensated Absences Payable - Current	15,677	12,140	27,817
Accrued Interest Payable	4,288	0	4,288
General Obligation Notes Payable	1,750,000	0	1,750,000
OWDA Loans Payable - Current	14,556	0	14,556
Total Current Liabilities	<u>1,830,707</u>	<u>161,855</u>	<u>1,992,562</u>

**CITY OF WAUSEON, OHIO**

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	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
Noncurrent Liabilities:			
OWDA Loans Payable	197,027	2,872,406	3,069,433
Compensated Absences Payable	12,699	19,150	31,849
Total Noncurrent Liabilities	209,726	2,891,556	3,101,282
<b>Total Liabilities</b>	<b>2,040,433</b>	<b>3,053,411</b>	<b>5,093,844</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	5,166,493	5,376,448	10,542,941
Unrestricted	1,331,638	2,544,328	3,875,966
Total Net Assets	<u>\$ 6,498,131</u>	<u>\$ 7,920,776</u>	<u>\$ 14,418,907</u>

See accompanying notes to the basic financial statements

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**CITY OF WAUSEON, OHIO**

**Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2011**

	Business-Type Activities		Total
	Enterprise Funds		
	Water	Wastewater	
<b>Operating Revenues:</b>			
Charges for Services	\$ 1,545,521	\$ 1,256,142	\$ 2,801,663
<b>Total Operating Revenues</b>	<u>1,545,521</u>	<u>1,256,142</u>	<u>2,801,663</u>
<b>Operating Expenses:</b>			
Personal Services	554,188	424,136	978,324
Contractual Services	120,347	107,188	227,535
Materials and Supplies	254,440	347,445	601,885
Depreciation	198,160	238,226	436,386
<b>Total Operating Expenses</b>	<u>1,127,135</u>	<u>1,116,995</u>	<u>2,244,130</u>
<b>Operating Income</b>	418,386	139,147	557,533
<b>Non-Operating Revenue (Expenses):</b>			
Interest Income	1,414	14,998	16,412
Interest and Fiscal Charges	(30,012)	0	(30,012)
Loss on Disposal of Capital Assets	(32,121)	0	(32,121)
Other Nonoperating Revenue	76,371	107	76,478
Other Nonoperating Expense	(67,102)	(11,964)	(79,066)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(51,450)</u>	<u>3,141</u>	<u>(48,309)</u>
<b>Change in Net Assets</b>	366,936	142,288	509,224
<b>Net Assets Beginning of Year</b>	<u>6,131,195</u>	<u>7,778,488</u>	<u>13,909,683</u>
<b>Net Assets End of Year</b>	<u>\$ 6,498,131</u>	<u>\$ 7,920,776</u>	<u>\$ 14,418,907</u>

See accompanying notes to the basic financial statements

**CITY OF WAUSEON, OHIO**

**Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2011**

	Business-Type Activities		Totals
	Enterprise Funds		
	Water	Wastewater	
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$1,624,601	\$1,247,476	\$2,872,077
Cash Payments for Goods and Services	(474,351)	(466,235)	(940,586)
Cash Payments to Employees	(591,955)	(423,705)	(1,015,660)
Net Cash Provided by Operating Activities	558,295	357,536	915,831
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(70,669)	(1,087,487)	(1,158,156)
Notes Issued	1,750,000	0	1,750,000
Note Retirement	(1,850,000)	0	(1,850,000)
OWDA Loan Issuance	0	862,635	862,635
OWDA Loan Retirement	(14,076)	(55,684)	(69,760)
Interest Paid on All Debt	(35,282)	0	(35,282)
Net Cash Used by Capital and Related Financing Activities	(220,027)	(280,536)	(500,563)
<u>Cash Flows from Investing Activities:</u>			
Purchase of Investments	0	(1,220,565)	(1,220,565)
Sale of Investments	0	1,207,212	1,207,212
Receipts of Interest	1,414	15,927	17,341
Net Cash Provided by Investing Activities	1,414	2,574	3,988
Net Increase in Cash and Cash Equivalents	339,682	79,574	419,256
Cash and Cash Equivalents at Beginning of Year	519,930	1,240,643	1,760,573
Cash and Cash Equivalents at End of Year	\$859,612	\$1,320,217	\$2,179,829
<u>Reconciliation of Cash and</u>			
<u>Cash Equivalents per the Statement of Net Assets:</u>			
Cash and Cash Equivalents	\$859,612	\$1,218,732	\$2,078,344
Cash and Cash Equivalents with Fiscal Agent	0	101,485	101,485
Cash and Cash Equivalents at End of Year	\$859,612	\$1,320,217	\$2,179,829

(Continued)

**CITY OF WAUSEON, OHIO**

	Business-Type Activities Enterprise Funds		Totals
	Water	Wastewater	
	<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>		
Operating Income	\$418,386	\$139,147	\$557,533
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	198,160	238,226	436,386
Miscellaneous Nonoperating Revenue	90,216	107	90,323
Miscellaneous Nonoperating Expense	(66,531)	(11,964)	(78,495)
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(11,136)	(8,773)	(19,909)
Increase in Inventory	(26,364)	(3,990)	(30,354)
(Increase) Decrease in Prepaid Items	(3,788)	2,615	(1,173)
Increase (Decrease) in Accounts Payable	(2,881)	1,737	(1,144)
Decrease in Accrued Wages and Benefits	(16,885)	(563)	(17,448)
Increase (Decrease) in Compensated Absences	(20,882)	994	(19,888)
Total Adjustments	139,909	218,389	358,298
Net Cash Provided by Operating Activities	\$558,295	\$357,536	\$915,831

See accompanying notes to the basic financial statements

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# **CITY OF WAUSEON, OHIO**

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Wauseon (the "City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution, the laws of the State of Ohio and its Charter. Wauseon became a city on April 20, 1981, and operates under a Council/Mayor form of government.

The financial statements are presented as of December 31, 2011 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

#### **A. Reporting Entity**

The accompanying basic financial statements comply with the provisions of the GASB Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, agencies, boards and commissions that are part of the primary government, which include the following services: public safety, highways and streets, sanitation, health and social services, culture/recreation, public improvements, planning and zoning, and general administrative services. In addition, the City owns and operates a water treatment and distribution system and a wastewater treatment and collection system, which are reported as enterprise funds.

#### **1. Jointly Governed Organization**

The City in conjunction with the Clinton Township Trustees formed the Wauseon Union Cemetery (the "Cemetery") under the authority of Ohio Revised Code Section 759.27. The Cemetery's Board of Trustees is composed of three members, one of whom is a member of the Board of Township Trustees and one a member of the Wauseon City Council. Funding for the Cemetery is provided by a tax levy on all real property located within Clinton Township. Taxes are collected by the County Auditor and remitted to the Board of Cemetery Trustees for use in the care and maintenance of the Cemetery.

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **B. Basis of Presentation - Fund Accounting**

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the basic financial statements. The following fund types are used by the City:

***Governmental Funds*** - Governmental funds are those funds through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except the resources accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is on determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's major governmental funds:

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

**Income Tax Capital Improvement Fund** - This fund is used to account for the financial resources used for the major capital projects undertaken by the City. These financial resources include 40% of City income tax receipts.

##### ***Proprietary Funds***

**Enterprise Funds** - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The enterprise funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The enterprise funds operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The City's major enterprise funds are:

**Water Fund** - This fund is used to account for the operation of the City's water service.

**Wastewater Fund** - This fund is used to account for the operation of the City's sanitary sewer service.

## ***CITY OF WAUSEON, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **C. Basis of Presentation – Financial Statements**

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund 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.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of 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** – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus.

The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **C. Basis of Presentation – Financial Statements (Continued)**

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this 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 net total 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 represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is considered to be 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Revenue considered susceptible to accrual at year end includes income taxes, interest on investments, loans and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenue, including licenses, permits, certain charges for services, and miscellaneous revenues, is recorded as revenue when received in cash because generally this revenue is not measurable until received.

Special assessment installments including related accrued interest, which are measurable but not available at December 31, are recorded as deferred revenue. Property taxes measurable as of December 31, 2011 but which are not intended to finance 2011 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 4.

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **D. Basis of Accounting** (Continued)

The accrual basis of accounting is utilized for reporting purposes by the government wide financial statements and by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Pursuant to GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*," the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its business-type activities and enterprise funds.

##### **E. Budgetary Process**

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 appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year. All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The legal level of budgetary control is at the fund level. Budgetary modifications may only be made by ordinance or resolution of the City Council.

##### **1. Tax Budget**

Prior to fiscal year 2002, the Finance Director would submit an annual tax budget for the following fiscal year to City Council by July 15 for consideration and passage. The adopted budget was 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. Beginning in year 2002, this requirement was waived by the County Budget Commission.

## ***CITY OF WAUSEON, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **E. Budgetary Process** (Continued)

###### **2. Estimated Resources**

Prior to October 1, the City accepts, by formal resolution, the tax rates, as determined by the County Budget Commission, and receives the Commission's 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 fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2011.

###### **3. Appropriations**

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. Total fund appropriations may not exceed the current estimated resources as certified by the County Budget Commission. The budgetary figures which appear in the Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual Non-GAAP Budgetary Basis for the General Fund is provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

###### **4. Encumbrances**

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities.

###### **5. Lapsing of Appropriations**

At the close of each fiscal 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 subsequent fiscal year and need not be reappropriated.

**CITY OF WAUSEON, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process** (Continued)

6. Budgetary Basis of Accounting

The City's budgetary process accounts for the City's transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on the cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures on the budgetary basis.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund:

	<u>Net Change in Fund Balance</u>
	<u>General Fund</u>
GAAP Basis (as reported)	\$226,067
Increase (Decrease):	
Accrued Revenues at December 31, 2011 received during 2012	(377,809)
Accrued Revenues at December 31, 2010 received during 2011	460,704
Accrued Expenditures at December 31, 2011 paid during 2012	237,777
Accrued Expenditures at December 31, 2010 paid during 2011	(216,919)
2010 Prepays for 2011	39,100
2011 Prepays for 2012	(39,552)
Outstanding Encumbrances	(141,436)
Budget Basis	<u>\$187,932</u>

## ***CITY OF WAUSEON, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **F. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits and investments with original maturities of three months or less.

The City pools a majority of its cash for investment and resource management purposes, while maintaining some segregated funds. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintains its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. See Note 3, "Cash, Cash Equivalents and Investments."

##### **G. Investments**

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts which are reported at cost. The City allocates interest among the various funds as determined by City Ordinance. See Note 3, "Cash, Cash Equivalents and Investments."

##### **H. Inventory**

On the government-wide financial statements and in the proprietary funds, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental funds when purchased.

##### **I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2011, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.



# **CITY OF WAUSEON, OHIO**

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## ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **J. Capital Assets and Depreciation**

Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000.

##### **1. Property, Plant and Equipment - Governmental Activities**

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

Contributed capital assets are recorded at fair market value at the date received. Capital assets include land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Estimated historical costs for governmental activities capital asset values were initially determined by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

##### **2. Property, Plant and Equipment – Business Type Activities**

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Assets and in the respective funds.

##### **3. Depreciation**

All capital assets are depreciated, excluding land and construction in progress. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental and Business-Type Activities Estimated Lives (in years)</u>
Buildings	30
Improvements other than Buildings	30 - 50
Infrastructure	30
Machinery, Equipment, Furniture and Fixtures	10

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **K. Long-Term Obligations**

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
Ohio Water Development Authority Loan	Water Fund
Compensated Absences	General Fund, Street Construction, Maintenance and Repair Fund, Water Fund, Wastewater Fund
Capital Lease	Income Tax Capital Improvement Fund
Long Term Note Payable/GO Bonds	Income Tax Capital Improvement Fund, Bond Retirement Fund, Water Fund

##### **L. Compensated Absences**

All full-time City employees earn vacation at varying rates based upon length of service. Ohio Law requires that vacation time not be accumulated for more than three years. However, City policy requires that all vacation time be used by the employee's anniversary date. Accrued vacation can be carried over with the written authorization of the department head. Employees with a minimum of one year of service become vested in accumulated unpaid vacation time. Unused vacation is payable upon termination of employment.

All full-time City employees earn sick leave at the rate of 1.25 days per calendar month of active service. Unused sick time may be accumulated until retirement. Police department employees with a minimum of ten years of service with the City are paid one-quarter of the accumulated sick time upon retirement to a maximum of 60 days wages. All other employees with a minimum of ten years of service with the City are paid 30% of the accumulated sick time upon retirement to a maximum of 60 days wages. Monetary compensation for accumulated unused vacation and/or sick leave is the hourly rate of compensation of the employee at the time of separation.

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," the City records a liability for vacation time and sick leave when the obligation is attributable to services previously rendered or to rights that vest or accumulate, and when payment of the obligation is probable and can be reasonably determined. For governmental funds, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected. In the government wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

Compensated absences are expensed in the enterprise funds when earned and the related liability reported within the funds.

## ***CITY OF WAUSEON, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **M. 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 borrowings 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.

##### **N. Pensions**

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

##### **O. Interfund Activity**

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.

##### **P. Fund Balances**

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

*Nonspendable* – Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally contractually required to be maintained intact.

*Restricted* – Restricted fund balance consists of amounts that have constraints placed on them either externally by third parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

## ***CITY OF WAUSEON, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **P. Fund Balances** (Continued)

*Committed* – Committed fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision making authority. For the City, these constraints consist of ordinances and resolutions passed by City Council. Committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action (ordinance, resolution) it employed previously to commit those amounts.

*Assigned* – Assigned fund balance consists of amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.

*Unassigned* – Unassigned fund balance consists of amounts that have not been restricted, committed or assigned to specific purposes within the General Fund as well as negative fund balances in all other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted (committed, assigned and unassigned) resources as they are needed.

##### **Q. Operating Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water treatment and distribution and wastewater collection and treatment. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

##### **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 and that are either unusual in nature or infrequent in occurrence. The City had no special or extraordinary items to report during fiscal year 2011.

**CITY OF WAUSEON, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011**

**NOTE 2 – FUND BALANCE CLASSIFICATION**

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

Fund Balances	General Fund	Income Tax Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Loans Receivable	\$0	\$0	\$352,114	\$352,114
Prepaid Items	39,552	0	5,277	44,829
Supplies Inventory	29,186	0	12,654	41,840
Total Nonspendable	<u>68,738</u>	<u>0</u>	<u>370,045</u>	<u>438,783</u>
Restricted:				
Street Improvements	0	0	606,816	606,816
Drug and Alcohol Treatment and Education	0	0	102,083	102,083
Community Development and Improvement	0	0	373,848	373,848
Total Restricted	<u>0</u>	<u>0</u>	<u>1,082,747</u>	<u>1,082,747</u>
Committed:				
Capital Improvements	0	2,302,676	0	2,302,676
Assigned:				
Other Purposes	78,077	0	0	78,077
Unassigned (Deficits):	492,519	0	(208,661)	283,858
Total Fund Balances	<u>\$639,334</u>	<u>\$2,302,676</u>	<u>\$1,244,131</u>	<u>\$4,186,141</u>

## ***CITY OF WAUSEON, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

The City maintains a cash and investments pool used by all funds except the Water Operating, Water Service Deposits, Wastewater Operating, Wastewater Debt Reserve, and the Revolving Loan Funds. Each fund type's portion of this pool is displayed on the Balance Sheet as "Cash and Cash Equivalents." The deposits and investments of the aforementioned funds are held separately from those of other City funds. Ohio law requires the classification of funds held by the City into three categories.

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "cash equivalent" status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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;
- 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;
- 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;

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

#### **A. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of City cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the City's deposits was \$4,490,076 and the bank balance was \$4,561,893. Federal depository insurance covered \$857,613 of the bank balance and \$3,704,280 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	<u>\$1,610,274</u>
Uninsured and collateralized with securities held by the pledging institution's trust department in the City's name	<u>2,094,006</u>
Total Balance	<u><u>\$3,704,280</u></u>

The City had cash with fiscal agent in the amount of \$373,848, which was related to the Community Development Block Grant Economic Development Revolving Loan Fund. In addition, the City also had restricted cash in the amount of \$112,412, which was related to permissive tax monies held and secured by Fulton County. The City had petty cash in the amount of \$650.

**CITY OF WAUSEON, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011**

**NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**B. Investments**

The City's investments at December 31, 2011 are summarized below:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
Government Money Market	\$210,903	AA+ <sup>1</sup> / Aaa <sup>2</sup>	\$210,903	\$0	\$0
Treasury Notes	203,156	AA+ <sup>1</sup> / Aaa <sup>2</sup>	0	203,156	0
FHLMC	532,113	AA+ <sup>1</sup> / Aaa <sup>2</sup>	0	532,113	0 <sup>a</sup>
FHLB	640,951	AA+ <sup>1</sup> / Aaa <sup>2</sup>	0	640,951	0 <sup>b</sup>
FNMA	758,723	AA+ <sup>1</sup> / Aaa <sup>2</sup>	0	0	758,723 <sup>c</sup>
Total Investments	<u>\$2,345,846</u>		<u>\$210,903</u>	<u>\$1,376,220</u>	<u>\$758,723</u>

<sup>1</sup> Standard & Poor's

<sup>2</sup> Moody's Investor Service

<sup>a</sup> Call Option – Callable from January 2012, April 2012, October 2012.

<sup>b</sup> Call Option – Callable from May 2012.

<sup>c</sup> Call Option – Callable from April 2012, October 2012.

*Interest Rate Risk* – The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date.

*Concentration of Credit Risk* – The City places no limit on the amount the City may invest in one issuer. Of the City's total investments, 9% are invested in Government Money Market accounts, 9% are invested in treasury notes, 23% in FHLMC, 27% are FHLB, and 32% are FNMA.

*Custodial Credit Risk* – The City's balance of investments are held by the trust department of its banking institution in the City's name.



**CITY OF WAUSEON, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011***

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**NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**C. Reconciliation of Cash, Cash Equivalents and Investments**

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the financial statements and the classifications per items A and B of this note are as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Financial Statements	\$4,603,138	\$2,345,846
Cash with Fiscal Agent	(112,412)	
Petty Cash	(650)	
Per GASB Statement No. 3	<u>\$4,490,076</u>	<u>\$2,345,846</u>

**NOTE 4 - TAXES**

**A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property and located in the City. Real property taxes (other than public utility) collected during 2011 were levied after October 1, 2010 on assessed values as of January 1, 2010, the lien date. Assessed values are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments are made in the third year following reappraisal. The last reappraisal was completed in 2008. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill NO.66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business a railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

## ***CITY OF WAUSEON, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 4 - TAXES (Continued)**

##### **A. Property Taxes (Continued)**

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Wauseon. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2011 was \$2.20 per \$1,000 of assessed value. The assessed value upon which the 2011 levy was based was \$114,872,550. This amount constitutes \$111,767,360 in real property assessed value and \$3,105,190 in public utility assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of one percent of assessed value without a vote of the people. Under current procedures, the City's share is .22% (2.20 mills) of assessed value.

##### **B. Income Tax**

The City levies a tax of one and one half percent on all salaries, wages, and other compensation earned by residents both in and out of the City and to earnings of non-residents (except certain transients) earned in the City. The tax also applies to the net income earned by business organizations on work conducted within the City of Wauseon. Income tax revenue is accounted for through the General and Capital Projects Funds.

#### **NOTE 5 - RECEIVABLES**

Receivables at December 31, 2011 consisted of taxes, accounts receivable, special assessments, interest, loans receivable and intergovernmental receivables arising from shared revenues. All receivables other than those offset by deferred revenues are considered collectible in full.

**CITY OF WAUSEON, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011**

**NOTE 6 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2011:

Fund	Transfer In	Transfer Out
General Fund	\$700,000	\$0
Income Tax Capital Improvement Fund	0	700,000
Totals	<u>\$700,000</u>	<u>\$700,000</u>

**NOTE 7 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2011:

**Historical Cost:**

Class	December 31, 2010	Additions	Deletions	December 31, 2011
<b>Capital assets not being depreciated:</b>				
Land	\$862,323	\$0	\$0	\$862,323
Construction in Progress	34,797	0	0	34,797
Subtotal	897,120	0	0	897,120
<b>Capital assets being depreciated:</b>				
Buildings	3,820,038	7,430	0	3,827,468
Improvements Other than Buildings	3,956,356	54,556	0	4,010,912
Machinery and Equipment	3,130,945	406,702	(115,889)	3,421,758
Infrastructure	7,434,532	0	0	7,434,532
Subtotal	18,341,871	468,688	(115,889)	18,694,670
Total Cost	<u>\$19,238,991</u>	<u>\$468,688</u>	<u>(\$115,889)</u>	<u>\$19,591,790</u>

**Accumulated Depreciation:**

Class	December 31, 2010	Additions	Deletions	December 31, 2011
Buildings	(\$1,994,464)	(\$113,268)	\$0	(\$2,107,732)
Improvements Other than Buildings	(573,793)	(105,515)	0	(679,308)
Machinery and Equipment	(1,948,859)	(197,249)	84,659	(2,061,449)
Infrastructure	(1,495,487)	(223,403)	0	(1,718,890)
Total Accumulated Depreciation	<u>(\$6,012,603)</u>	<u>(\$639,435) *</u>	<u>\$84,659</u>	<u>(\$6,567,379)</u>
<b>Net Value:</b>	<u>\$13,226,388</u>			<u>\$13,024,411</u>

**CITY OF WAUSEON, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011**

**NOTE 7 - CAPITAL ASSETS (Continued)**

**A. Governmental Activities Capital Assets (Continued)**

\* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$77,019
Basic Utility Services	55,453
Leisure Time Activities	100,071
Community Environment	13,134
Transportation	314,058
General Government	79,700
Total Depreciation Expense	\$639,435

Under GASB Statement No. 34, the City is not required to retroactively report infrastructure assets. Only infrastructure capital assets acquired or constructed beginning in 2003 are reflected in the basic financial statements for the fiscal year ended December 31, 2011.

**B. Business-Type Activities Capital Assets**

Summary by Category at December 31, 2011:

**Historical Cost:**

Class	December 31, 2010	Additions	Deletions	December 31, 2011
<b>Capital assets not being depreciated:</b>				
Land	\$103,710	\$0	\$0	\$103,710
Construction in Progress	2,856,341	1,058,017	0	3,914,358
Subtotal	2,960,051	1,058,017	0	4,018,068
<b>Capital assets being depreciated:</b>				
Buildings	7,116,172	0	0	7,116,172
Improvements other than Buildings	11,276,350	10,384	0	11,286,734
Machinery and Equipment	4,843,176	79,624	(35,298)	4,887,502
Subtotal	23,235,698	90,008	(35,298)	23,290,408
Total Cost	\$26,195,749	\$1,148,025	(\$35,298)	\$27,308,476

**Accumulated Depreciation:**

Class	December 31, 2010	Additions	Deletions	December 31, 2011
Buildings	(\$3,712,063)	(\$162,981)	\$0	(\$3,875,044)
Improvements other than Buildings	(3,565,511)	(238,786)	0	(3,804,297)
Machinery and Equipment	(4,220,763)	(34,619)	3,177	(4,252,205)
Total Accumulated Depreciation	(\$11,498,337)	(\$436,386)	\$3,177	(\$11,931,546)
<b>Net Value:</b>	\$14,697,412			\$15,376,930

## ***CITY OF WAUSEON, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 8 – DEFINED BENEFIT PENSION PLANS**

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

##### **A. Ohio Public Employees Retirement System ("OPERS")**

The following information was provided by OPERS to assist the City in complying with GASB Statement No. 27, *"Accounting for Pensions by State and Local Government Employers."*

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by OPERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is 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 MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for OPERS. Interested parties may obtain a copy by making a written request to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The ORC provides statutory authority for employee and employer contributions. For 2011, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 10.0%. The 2011 employer contribution rate for local government employer units was 14.00%, of covered payroll which is the maximum contribution rate set by State statutes. Employer contribution rates are actuarially determined. A portion of the City's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The portion of employer contributions allocated to pension obligations for members in the Traditional Plan was 10.0% for calendar year 2011. The portion of employer contributions allocated to pension obligations for members in the Combined Plan was 7.95% for calendar year 2011. The contribution requirements of plan members and the City are established and may be amended by the OPERS Board. The City's required contributions for pension obligations to OPERS for the years ending December 31, 2011, 2010, and 2009 were \$191,162, \$168,747 and \$159,583, respectively, which were equal to the required contributions for each year.

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)**

##### **B. Ohio Police and Fire Pension Fund (“OP&F”)**

All City full-time police officers and full-time firefighters participate in OP&F, a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the ORC. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. A portion of the City’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for 2011, 12.75% of annual covered salary for police and 17.25% of annual covered salary for firefighters, respectively, were the portions used to fund pension obligations. The City’s contributions for pension obligations to the OP&F Fund for the years ending December 31, 2011, 2010, and 2009 were \$89,825, \$83,669 and \$87,101 for police and \$10,497, \$10,109 and \$10,109 for firefighters, respectively, which were equal to the required contributions for each year.

#### **NOTE 9 - POSTEMPLOYMENT BENEFITS**

##### **A. Ohio Public Employees Retirement System (“OPERS”)**

Plan Description – OPERS administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

The ORC permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the ORC.

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 9 - POSTEMPLOYMENT BENEFITS (Continued)**

##### **A. Ohio Public Employees Retirement System (“OPERS”) (Continued)**

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

The OPERS Postemployment Health Care plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% for calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% for calendar year 2011. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OPERS for the years ending December 31, 2011, 2010, and 2009 were \$76,465, \$96,202 and \$115,391, respectively, which were equal to the required contributions for each year.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

##### **B. Ohio Police and Fire Pension Fund (“OP&F”)**

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

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 9 - POSTEMPLOYMENT BENEFITS (Continued)**

##### **B. Ohio Police and Fire Pension Fund ("OP&F") (Continued)**

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

The ORC permits, but does not mandate, OP&F to provide OPEB benefits. Authority to establish and amend benefits is provided in Chapter 742 of the ORC.

OP&F issues a stand-alone financial report that includes financial information and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The ORC provides for contribution requirements of the participating employers and of plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The ORC states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care to the OP&F for the years ending December 31, 2011, 2010, and 2009 were \$47,555, \$44,295 and \$46,112 for police and \$4,108, \$3,956 and \$3,956 for firefighters, respectively, which were equal to the required contributions for each year.



**CITY OF WAUSEON, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011**

**NOTE 10 - LONG-TERM OBLIGATIONS**

Activity in Long-Term Obligations in 2011 was as follows:

Interest Rate	Purpose	Maturity Date	Balance December 31, 2010	Additions	Deductions	Balance December 31, 2011	Amount Due Within One Year
<b>Governmental Activities:</b>							
General Obligation Bonds:							
2.0-5.0%	Street Improvement	2029	\$0	\$3,000,000	(\$155,000)	\$2,845,000	\$125,000
Long Term Notes Payable:							
1.50%	Street Improvement	2011	3,000,000	0	(3,000,000)	0	0
	Capital Leases		70,000	0	(35,000)	35,000	35,000
	Compensated Absences		327,140	333,214	(327,140)	333,214	131,986
	Total Governmental Activities		3,397,140	3,333,214	(3,517,140)	3,213,214	291,986
<b>Business-Type Activities:</b>							
Ohio Water Development Authority Loans:							
3.34%	Wastewater Treatment Plant	2031	2,065,455	862,635	(55,684)	2,872,406	0
3.39%	Tedrow Water Supply Improvements	2024	225,659	0	(14,076)	211,583	14,556
	Total Ohio Water Development Authority Loans		2,291,114	862,635	(69,760)	3,083,989	14,556
Long Term Note Payable:							
1.50%	Water Improvements	2011	1,850,000	0	(1,850,000)	0	0
0.70%	Water Improvements	2012	0	1,750,000	0	1,750,000	1,750,000
	Compensated Absences		79,554	59,666	(79,554)	59,666	27,817
	Total Business-Type Activities		4,220,668	2,672,301	(1,999,314)	4,893,655	1,792,373
	Total Other Long-Term Obligations		\$7,617,808	\$6,005,515	(\$5,516,454)	\$8,106,869	\$2,084,359

**Wastewater Treatment Plant Improvements** - In 2010 the City entered into an agreement with the OWDA, as administrator for the U. S. Environmental Protection Agency (EPA), for the City to receive a loan for improvements to the City's wastewater treatment plant. The total amount is subject to change and has not been finalized. The interest rate on the loan is 3.34%, per annum. This loan is payable from wastewater charges and is received by the City in increments as the project is completed. As of December 31, 2011, the City had received \$2,928,090 from OWDA. Subsequent amounts will be received in future years. An estimate of future financing requirements has been made based on the \$2,872,406 loan balance at December 31, 2011.

**CITY OF WAUSEON, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011**

**NOTE 10 - LONG-TERM OBLIGATIONS (Continued)**

The City's total debt margin was \$9,216,618 at December 31, 2011. The Ohio Revised Code provides that the net debt of a municipal corporation, when approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxable value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011 are as follows:

Years	Governmental Activities		Business-Type Activities			
	General Obligation Bonds		Long Term Notes		OWDA Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$125,000	\$100,625	\$1,750,000	\$12,250	\$14,556	\$7,050
2013	125,000	94,375	0	0	117,763	100,929
2014	130,000	91,875	0	0	121,760	96,930
2015	130,000	89,275	0	0	125,895	92,796
2016	135,000	86,675	0	0	130,169	88,523
2017-2021	725,000	378,965	0	0	720,213	373,242
2022-2026	865,000	233,590	0	0	783,427	245,203
2027-2031	610,000	52,001	0	0	876,639	108,777
2032	0	0	0	0	193,567	3,520
Totals	<u>\$2,845,000</u>	<u>\$1,127,381</u>	<u>\$1,750,000</u>	<u>\$12,250</u>	<u>\$3,083,989</u>	<u>\$1,116,970</u>

In 2002 the City entered into a loan agreement with OWDA on behalf of Fulton County for the Tedrow Waterline Project. Fulton County remits payment to the City in order to meet the loan debt obligation.

**NOTE 11 - CAPITAL LEASES**

The City leases a dump truck under a capital lease. The original cost of the equipment and the related liability are reported on the Government – wide Statement of Net Assets.

The following is a schedule of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of December 31, 2011:

Year Ending December 31,	Capital Lease
2012	<u>\$36,685</u>
Minimum Lease Payments	<u>36,685</u>
Less amount representing interest at the City's incremental borrowing rate of interest	<u>(1,685)</u>
Present value of minimum lease payments	<u>\$35,000</u>

## **CITY OF WAUSEON, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 12 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2011, the City participated in the Public Entities Pool of Ohio (PEP), established as a risk sharing self insurance pool for the purpose of enabling the subscribing political subdivisions to obtain liability insurance and providing a formalized, jointly administered self-insurance program for its members. PEP is a corporation governed by a seven member board of directors, consisting of representatives elected by the 230 participating governments.

The City pays an annual premium to the PEP. The agreement provides that the PEP will be self-sustaining through member premiums and excess insurance. The types of coverages and deductibles per occurrence are as follows:

<u>Coverage</u>		
Legal Liability	\$3,000,000	per occurrence
Automobile Liability	\$3,000,000	per occurrence
Law Enforcement	\$3,000,000/5,000	per occurrence
Wrongful Acts	\$3,000,000/5,000	per occurrence
Real Property	\$24,144,100/1,000	per occurrence
Boiler and Machinery	\$8,012,400/1,000	per occurrence
Automobile Physical Damage	\$1,916,596/500-1,000	per occurrence

The City also purchases insurance coverage to provide employee health benefits and pays unemployment claims to the State of Ohio as incurred.

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. There has been no significant reduction in insurance coverages from coverages in the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

#### **NOTE 13 - CONTINGENCIES**

##### **A. Grants**

The City received financial assistance from State and Federal agencies in the form of grants. The expense of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2011.

**CITY OF WAUSEON, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2011***

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**NOTE 13 – CONTINGENCIES (Continued)**

**B. Litigation**

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

**NOTE 14 – RAW WATERLINE COST SHARING AGREEMENT**

The City of Wauseon and City of Napoleon, Henry County entered into an agreement for the construction and operation of a raw water supply line from the City of Napoleon to the City of Wauseon. The City of Wauseon paid for the construction of the raw water line. Per the agreement, the City of Napoleon contributed \$1,000,000 towards its share of the project in 2001. The balance of the City of Napoleon's commitment will be repaid through water credits to the City of Wauseon over a period of twenty five years.

**NOTE 15 - CONSTRUCTION COMMITMENTS**

The City had the following contractual commitments at December 31, 2011:

<u>Project</u>	<u>Remaining Contractual Commitment</u>	<u>Estimated Date of Completion</u>
Wet Weather Storage Basin:		
Mosser Construction Inc	\$16,000	2012
Brint Electric	4,318	2012

**NOTE 16 – RELATED PARTY TRANSACTIONS**

The City procures printing services from Tomahawk Printing. Expenditures to Tomahawk Printing for the fiscal year 2011 were \$1,615. Mayor Jerry Dehnbostel is the owner of Tomahawk Printing.

The City procures work clothing from Shaw's Clothing. Expenditures to Shaw's Clothing for the fiscal year 2011 were \$10,709. Council President and Mayor Elect Doug Shaw is the owner of Shaw's Clothing.

The City has established a revolving loan fund from which it loans out monies to local business for the purpose of community development. Recipients of these funds include Wauseon Machine and JMW Computers, which represent related party transactions.

## ***CITY OF WAUSEON, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2011***

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#### **NOTE 16 – RELATED PARTY TRANSACTIONS (Continued)**

Council member Jeffery Stiriz's brother-in-law is a co-owner of Wauseon Machine. Mr. Stiriz has abstained from voting on previous loan approvals. Total amounts to be received from Wauseon Machine for loans outstanding at December 31, 2011 totaled \$190,914.

Ex-Council member Dan Garvin is the father of the owner of JMW Computers. JMW Computers has defaulted on its loans due to the City as a result of nonpayment. The total amount due to the City as of December 31, 2011 is \$41,733.

#### **NOTE 17 – SUBSEQUENT EVENT**

On August 6, 2012, the City passed an ordinance providing for the issuance and sale of \$1,650,000 of Notes, in anticipation of the issuance of bonds, for the purpose of improving the municipal waterworks system by acquiring, constructing and installing a water line and municipal water treatment plant by constructing an additional treatment building and lagoon, acquiring additional treatment tanks, a high service pump and additional piping and making other necessary improvements.

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# Dave Yost • Auditor of State

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

City of Wauseon  
Fulton County  
230 Clinton Street  
Wauseon, Ohio 43567-2104

To the Members of Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wauseon, Fulton County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 10, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2011-001 to be a significant deficiency. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-001.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated January 10, 2013.

We intend this report solely for the information and use of management, the audit committee, City Council, and others within the City. We intend it for no one other than these specified parties.

**Dave Yost**  
Auditor of State

January 10, 2013



CITY OF WAUSEON  
FULTON COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2011

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

FINDING NUMBER 2011-001

**SIGNIFICANT DEFICIENCY / NONCOMPLIANCE CITATION**

**Ohio Revised Code, Section 5705.09(B)**, provides that each subdivision shall establish a sinking fund whenever the subdivision has outstanding bonds other than serial bonds.

**Ohio Revised Code, Section 5705.09(C)**, provides that each subdivision shall establish a bond retirement fund, for the retirement of serial bonds, notes, or certificates of indebtedness.

The City issued \$3,000,000 street improvement bonds on May 26, 2011. This bond issue includes serial and term bonds. The City has not established a sinking fund or a bond retirement fund. The City recorded activity in the Income Tax Capital Improvement Fund that should have been recorded in a Bond Retirement Fund and failed to record the premium and insurance/discount/issuance costs. This resulted in adjustments to the financial statements to properly record certain bond retirement activity such as the following:

- Principal and interest payments totaling \$155,000 and \$55,693 respectively were incorrectly paid out of Income Tax Capital Improvement Fund,
- Nonrefunding proceeds totaling \$2,032 were incorrectly recorded in the Income Tax Capital Improvement Fund, and
- Bond premium and insurance/discount/issuance costs totaling \$55,772 and \$53,740 respectively were not recorded on the financial statements.

The above transactions should have been recorded in the Bond Retirement Fund. Management should carefully review applicable Ohio Revised Codes Sections and Council Ordinances to ensure the required funds have been established and that activity is properly recorded. The financial statements and City's accounting records have been adjusted to correct these errors.

**Officials' Response:**

We did not receive a response from Officials to this finding.