



**Auditor of State
Betty Montgomery**

**CITY OF WAUSEON
FULTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Honorable Mayor and Members of Council:

We have audited the accompanying general-purpose financial statements of the City of Wauseon (the City) as of and for the year ended December 31, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund type 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 October 12, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Betty Montgomery
Auditor of State

October 12, 2004

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THE CITY OF WAUSEON, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2003

	Governmental		
	Fund Types		
	General Fund	Special Revenue Funds	Capital Projects Fund
Assets and Other Debits:			
Assets:			
Cash and Cash Equivalents	\$1,063,851	\$165,317	\$1,282,732
Investment (at cost)	0	0	0
Cash with Fiscal Agent	0	273,868	93,800
Receivables:			
Taxes	557,744	0	143,671
Accounts	71,976	0	0
Special Assessments	3,351	0	0
Loans	0	683,084	0
Interest	0	0	0
Intergovernmental Receivables	120,126	121,425	66,187
Inventory of Supplies at Cost	20,192	8,194	0
Prepaid Items	37,894	0	0
Fixed Assets (net of accumulated depreciation)	0	0	0
Other Debits:			
Amount to be Provided for General Long-Term Obligations	0	0	0
Total Assets and Other Debits	\$1,875,134	\$1,251,888	\$1,586,390
Liabilities, Equity and Other Credits:			
Liabilities:			
Accounts Payable	\$50,387	\$332	\$16,112
Accrued Wages and Benefits	168,981	11,498	747
Intergovernmental Payables	408	0	0
Deferred Revenue	346,527	81,728	2,766
Matured Bonds and Interest	0	0	0
Retainage Payable	0	0	93,800
General Obligation Notes Payable	0	0	0
Compensated Absences Payable	0	0	0
Ohio Water Development Authority Loan Payable	0	0	0
Total Liabilities	\$566,303	\$93,558	\$113,425
Equity and Other Credits:			
Investment in General Fixed Assets	0	0	0
Contributed Capital	0	0	0
Retained Earnings:			
Unreserved	0	0	0
Fund Balances:			
Reserved for Encumbrances	141,905	12,880	661,283
Reserved for Supplies Inventory	20,192	8,194	0
Reserved for Prepaid Items	37,894	0	0
Reserved for CDBG Loans	0	683,084	0
Unreserved:			
Undesignated	1,108,840	454,172	811,682
Total Equity and Other Credits	1,308,831	1,158,330	1,472,965
Total Liabilities, Equity and Other Credits	\$1,875,134	\$1,251,888	\$1,586,390

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

THE CITY OF WAUSEON, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2003

<i>Proprietary Fund Type</i>	<i>Fiduciary Fund Type</i>	<i>Account Groups</i>		Totals (Memorandum Only)
Enterprise Funds	Expendable Trust Funds	General Fixed Assets	General Long-Term Obligations	
\$3,159,672	\$67,665	\$0	\$0	\$5,739,237
855,513	0	0	0	855,513
0	0	0	0	367,668
0	0	0	0	701,415
239,264	0	0	0	311,240
0	0	0	0	3,351
311,990	0	0	0	995,074
1,577	0	0	0	1,577
0	0	0	0	307,738
75,663	0	0	0	104,049
57,244	0	0	0	95,138
11,991,662	0	8,094,457	0	20,086,119
<u>0</u>	<u>0</u>	<u>0</u>	<u>181,388</u>	<u>181,388</u>
<u>\$16,692,585</u>	<u>\$67,665</u>	<u>\$8,094,457</u>	<u>\$181,388</u>	<u>\$29,749,507</u>
\$29,092	\$0	\$0	\$0	\$95,923
50,586	0	0	0	231,812
3,719	0	0	0	4,127
0	0	0	0	431,021
3,756	0	0	0	3,756
0	0	0	0	93,800
2,400,000	0	0	0	2,400,000
30,906	0	0	181,388	212,294
<u>1,702,802</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,702,802</u>
<u>4,220,861</u>	<u>0</u>	<u>0</u>	<u>181,388</u>	<u>5,175,535</u>
0	0	8,094,457	0	8,094,457
3,373,144	0	0	0	3,373,144
9,098,580	0	0	0	9,098,580
0	0	0	0	816,068
0	0	0	0	28,386
0	0	0	0	37,894
0	0	0	0	683,084
<u>0</u>	<u>67,665</u>	<u>0</u>	<u>0</u>	<u>2,442,359</u>
<u>12,471,724</u>	<u>67,665</u>	<u>8,094,457</u>	<u>0</u>	<u>24,573,972</u>
<u>\$16,692,585</u>	<u>\$67,665</u>	<u>\$8,094,457</u>	<u>\$181,388</u>	<u>\$29,749,507</u>

THE CITY OF WAUSEON, OHIO
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	<i>Governmental Fund Types</i>			<i>Fiduciary Fund Type</i>	Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Capital Projects Fund	Expendable Trust Funds	
Revenues:					
Taxes	\$1,801,271	\$0	\$1,448,011	\$0	\$3,249,282
Intergovernmental Revenues	657,423	442,073	273,899	0	1,373,395
Charges for Services	627,878	0	0	0	627,878
Licenses and Permits	15,678	0	0	0	15,678
Investment Earnings	40,897	20,751	0	21	61,669
Fines and Forfeitures	35,106	1,638	0	0	36,744
All Other Revenues	65,970	0	0	0	65,970
Total Revenues	<u>3,244,223</u>	<u>464,462</u>	<u>1,721,910</u>	<u>21</u>	<u>5,430,616</u>
Expenditures:					
Current:					
Security of Persons and Property	1,581,749	0	0	0	1,581,749
Leisure Time Activities	444,633	0	0	0	444,633
Community Environment	427,158	40,492	32,243	0	499,893
Basic Utility Services	48,001	0	0	0	48,001
Transportation	273,984	290,869	0	0	564,853
General Government	558,148	0	0	0	558,148
Other Expenditures	1,683	275	0	0	1,958
Capital Outlay	27,171	200,000	3,057,629	0	3,284,800
Total Expenditures	<u>3,362,527</u>	<u>531,636</u>	<u>3,089,872</u>	<u>0</u>	<u>6,984,035</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(118,304)	(67,174)	(1,367,962)	21	(1,553,419)
Other Financing Sources (Uses):					
Other Financing Sources	49,222	0	42,054	0	91,276
Other Financing Uses	(85,830)	0	0	0	(85,830)
Total Other Financing Sources (Uses)	<u>(36,608)</u>	<u>0</u>	<u>42,054</u>	<u>0</u>	<u>5,446</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(154,912)	(67,174)	(1,325,908)	21	(1,547,973)
Fund Balance at Beginning of Year	1,461,576	1,223,435	2,798,873	67,644	5,551,528
Increase in Inventory Reserve	2,167	2,069	0	0	4,236
Fund Balance at End of Year	<u>\$1,308,831</u>	<u>\$1,158,330</u>	<u>\$1,472,965</u>	<u>\$67,665</u>	<u>\$4,007,791</u>

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

THE CITY OF WAUSEON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Taxes	\$1,835,000	\$1,838,038	\$3,038	\$0	\$0	\$0
Intergovernmental Revenues	643,750	640,285	(3,465)	432,500	437,131	4,631
Charges for Services	582,000	588,174	6,174	0	0	0
Licenses and Permits	15,500	15,245	(255)	0	0	0
Investment Earnings	41,000	40,897	(103)	20,751	20,751	0
Fines and Forfeitures	36,000	35,161	(839)	1,750	1,762	12
All Other Revenues	60,000	61,526	1,526	175,638	175,638	0
Total Revenues	<u>3,213,250</u>	<u>3,219,326</u>	<u>6,076</u>	<u>630,639</u>	<u>635,282</u>	<u>4,643</u>
Expenditures:						
Current:						
Security of Persons and Property	1,753,554	1,680,298	73,256	0	0	0
Public Health and Welfare Services	1,100	0	1,100	0	0	0
Leisure Time Activities	487,434	460,846	26,588	0	0	0
Community Environment	477,981	433,447	44,534	161,459	161,459	0
Basic Utility Services	90,060	77,613	12,447	0	0	0
Transportation	295,012	274,902	20,110	306,046	297,599	8,447
General Government	679,553	603,377	76,176	0	0	0
Other Expenditures	5,700	1,887	3,813	4,900	275	4,625
Capital Outlay	48,345	27,492	20,853	200,000	200,000	0
Total Expenditures	<u>3,838,739</u>	<u>3,559,862</u>	<u>278,877</u>	<u>672,405</u>	<u>659,333</u>	<u>13,072</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(625,489)	(340,536)	284,953	(41,766)	(24,051)	17,715
Other Financing Sources (Uses):						
Other Financing Sources	50,000	49,222	(778)	0	0	0
Other Financing Uses	(113,594)	(90,891)	22,703	0	0	0
Total Other Financing Sources (Uses)	<u>(63,594)</u>	<u>(41,669)</u>	<u>21,925</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(689,083)	(382,205)	306,878	(41,766)	(24,051)	17,715
Fund Balance at Beginning of Year	1,014,478	1,014,478	0	447,033	447,033	0
Prior Year Encumbrances	239,178	239,178	0	12,546	12,546	0
Fund Balance at End of Year	<u>\$564,573</u>	<u>\$871,451</u>	<u>\$306,878</u>	<u>\$417,813</u>	<u>\$435,528</u>	<u>\$17,715</u>

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

(Continued)

THE CITY OF WAUSEON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	<i>Capital Projects Fund</i>			<i>Expendable Trust Funds</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Taxes	\$1,550,000	\$1,554,860	\$4,860	\$0	\$0	\$0
Intergovernmental Revenues	212,712	212,712	0	0	0	0
Charges for Services	0	0	0	0	0	0
Licenses and Permits	0	0	0	0	0	0
Investment Earnings	0	0	0	20	21	1
Fines and Forfeitures	0	0	0	0	0	0
All Other Revenues	0	0	0	600	0	(600)
Total Revenues	1,762,712	1,767,572	4,860	620	21	(599)
Expenditures:						
Current:						
Security of Persons and Property	0	0	0	0	0	0
Public Health and Welfare Services	0	0	0	0	0	0
Leisure Time Activities	0	0	0	0	0	0
Community Environment	53,000	32,433	20,567	4,900	0	4,900
Basic Utility Services	0	0	0	0	0	0
Transportation	0	0	0	0	0	0
General Government	0	0	0	0	0	0
Other Expenditures	0	0	0	0	0	0
Capital Outlay	4,374,614	3,731,722	642,892	0	0	0
Total Expenditures	4,427,614	3,764,155	663,459	4,900	0	4,900
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,664,902)	(1,996,583)	668,319	(4,280)	21	4,301
Other Financing Sources (Uses):						
Other Financing Sources	109,288	42,054	(67,234)	0	0	0
Other Financing Uses	0	0	0	(54,000)	0	54,000
Total Other Financing Sources (Uses)	109,288	42,054	(67,234)	(54,000)	0	54,000
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,555,614)	(1,954,529)	601,085	(58,280)	21	58,301
Fund Balance at Beginning of Year	2,297,789	2,297,789	0	67,644	67,644	0
Prior Year Encumbrances	262,077	262,077	0	0	0	0
Fund Balance at End of Year	\$4,252	\$605,337	\$601,085	\$9,364	\$67,665	\$58,301

(Continued)

THE CITY OF WAUSEON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	<i>Totals (Memorandum Only)</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Taxes	\$3,385,000	\$3,392,898	\$7,898
Intergovernmental Revenues	1,288,962	1,290,128	1,166
Charges for Services	582,000	588,174	6,174
Licenses and Permits	15,500	15,245	(255)
Investment Earnings	61,771	61,669	(102)
Fines and Forfeitures	37,750	36,923	(827)
All Other Revenues	236,238	237,164	926
Total Revenues	5,607,221	5,622,201	14,980
Expenditures:			
Current:			
Security of Persons and Property	1,753,554	1,680,298	73,256
Public Health and Welfare Services	1,100	0	1,100
Leisure Time Activities	487,434	460,846	26,588
Community Environment	697,340	627,339	70,001
Basic Utility Services	90,060	77,613	12,447
Transportation	601,058	572,501	28,557
General Government	679,553	603,377	76,176
Other Expenditures	10,600	2,162	8,438
Capital Outlay	4,622,959	3,959,214	663,745
Total Expenditures	8,943,658	7,983,350	960,308
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,336,437)	(2,361,149)	975,288
Other Financing Sources (Uses):			
Other Financing Sources	159,288	91,276	(68,012)
Other Financing Uses	(167,594)	(90,891)	76,703
Total Other Financing Sources (Uses)	(8,306)	385	8,691
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(3,344,743)	(2,360,764)	983,979
Fund Balance at Beginning of Year	3,826,944	3,826,944	0
Prior Year Encumbrances	513,801	513,801	0
Fund Balance at End of Year	\$996,002	\$1,979,981	\$983,979

THE CITY OF WAUSEON, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Enterprise Funds
<u>Operating Revenues:</u>	
Charges for Services	\$2,326,582
Total Operating Revenues	2,326,582
<u>Operating Expenses:</u>	
Personal Services	827,887
Materials and Supplies	338,506
Contractual Services	364,884
Depreciation	448,320
Other Operating Expenses	33,131
Total Operating Expenses	2,012,728
Operating Income	313,854
<u>Nonoperating Revenues (Expenses):</u>	
Loss on Disposal of Fixed Assets	(9,553)
Interest Income	36,919
Interest and Fiscal Charges	(203,353)
Other Nonoperating Revenue	42,439
Net Nonoperating Revenues (Expenses)	(133,548)
Net Income	180,306
Add: Depreciation on Contributed Capital	134,126
Retained Earnings at Beginning of Year	8,784,148
Retained Earnings at End of Year	\$9,098,580

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

THE CITY OF WAUSEON, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Enterprise Funds</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$2,382,631
Cash Payments for Goods and Services	(838,696)
Cash Payments to Employees	<u>(838,399)</u>
Net Cash Provided by Operating Activities	<u>705,536</u>
 <u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	(222,611)
Proceeds from General Obligation Notes	2,400,000
Retirement of General Obligation Notes	(2,650,000)
Proceeds from Ohio Water Development Authority Loans	100,826
Principal Paid on Ohio Water Development Authority Loans	(217,858)
Interest Paid on All Debt	<u>(184,843)</u>
Net Cash Used For Capital and Related Financing Activities	<u>(774,486)</u>
 <u>Cash Flows from Investing Activities:</u>	
Purchase of Investment	(855,513)
Receipts of Interest	<u>35,342</u>
Net Cash Used by Investing Activities	<u>(820,171)</u>
 Net Decrease in Cash and Cash Equivalents	 (889,121)
Cash and Cash Equivalents at Beginning of Year	<u>4,048,793</u>
Cash and Cash Equivalents at End of Year	<u><u>\$3,159,672</u></u>
 <u>Reconciliation of Operating Income to Net Cash</u>	
<u> Provided by Operating Activities:</u>	
Operating Income	\$313,854
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	448,320
Miscellaneous Nonoperating Revenue	40,316
Adjustments to Assets and Liabilities:	
Decrease in Accounts Receivable	15,733
Increase in Loan Receivable	(121,210)
Decrease in Inventory	16,787
Increase in Prepaid Items	(1)
Increase in Accounts Payable	148
Increase in Accrued Wages and Benefits	9,151
Increase in Intergovernmental Payables	2,101
Decrease in Compensated Absences Payable	<u>(19,663)</u>
Total Adjustments	<u>391,682</u>
Net Cash Provided by Operating Activities	<u><u>\$705,536</u></u>

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

THE CITY OF WAUSEON, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003

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 accompanying general purpose financial statements of the City present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 2003 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 general purpose 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, account groups, 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.

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 and account groups, 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 general purpose financial statements. The following fund types and account groups 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 governmental fund types:

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.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

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. Fund equity (i.e., net assets) is segregated into contributed capital and retained earnings components. The enterprise funds operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Funds

Trust Funds - These funds are used to account for assets held by a government unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains expendable trust funds which are accounted for and reported similarly to governmental funds.

Account Groups - To make a clear distinction between fixed assets related to specific funds and those of general government and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for fixed assets of the City other than that accounted for in the proprietary funds.

General Long-Term Debt Account Group - This account group is established to account for all long-term debt and other long-term obligations of the City except that accounted for in the proprietary funds.

C. 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

The modified accrual basis of accounting is followed by the governmental funds and expendable trust 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.

Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, 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, income taxes other than those withheld by employers 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, 2003 but which are not intended to finance 2003 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 3.

The accrual basis of accounting is utilized for reporting purposes 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.

D. 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, function and object level. Budgetary modifications may only be made by ordinance or resolution of the City Council.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

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.

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 2003.

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 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual Non-GAAP Budgetary Basis--All Governmental Fund Types and Expendable Trust Funds are 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 and are reported as reservations of fund balances for governmental funds in the accompanying general purpose financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

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.

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 (budgetary basis) as opposed to reservation of fund balance (GAAP basis).

Provisions of Ohio Revised Code (ORC) require that all proceeds and retirements of note renewals be recorded in a debt service fund. Therefore, the city budgets all note renewal activity in the debt service fund. However, Generally Accepted Accounting Principles (GAAP) require note obligations to remain obligations of the fund in which the original proceeds were deposited. All of the budgetary activity in the debt service fund relates to renewal notes. GAAP Basis reclassifications eliminate all activity in the debt service fund, therefore, no reconciliation is presented in the following table.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)6. **Budgetary Basis of Accounting** (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the governmental and similar trust funds:

	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			
	General Fund	Special Revenue Funds	Capital Projects Fund	Expendable Trust Funds
GAAP Basis (as reported)	(\$154,912)	(\$67,174)	(\$1,325,908)	\$21
Increase (Decrease):				
Accrued Revenues at December 31, 2003 received during 2004	(406,670)	(3,164)	(207,092)	0
Accrued Revenues at December 31, 2002 received during 2003	381,774	34,879	252,754	0
Accrued Expenditures at December 31, 2003 paid during 2004	219,776	11,830	16,859	0
Accrued Expenditures at December 31, 2002 paid during 2003	(221,603)	(14,903)	(13,747)	0
2002 Prepays for 2003	30,024	0	0	0
2003 Prepays for 2004	(37,894)	0	0	0
Perspective Difference:				
(CDBG Loans)	0	18,138	0	0
Outstanding Encumbrances	(192,700)	(3,657)	(677,395)	0
Budget Basis	<u>(\$382,205)</u>	<u>(\$24,051)</u>	<u>(\$1,954,529)</u>	<u>\$21</u>

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term certificates of deposit with original maturities of three months or less. Certificates of deposit are considered cash equivalents because they are highly liquid investments with maturity dates 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 2, "Cash, Cash Equivalents and Investments."

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**F. 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 (repurchase agreements) which are reported at cost. The City allocates interest among the various funds as determined by City Ordinance. See Note 2, "Cash, Cash Equivalents and Investments."

G. Inventory

Inventory is stated at cost (first in, first out) in the governmental funds, and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental and expendable trust funds when purchased and as expenses in the proprietary funds when used.

H. Fixed Assets and Depreciation

The accounting and reporting treatment applied to fixed assets is determined by their ultimate use:

1. Property, Plant and Equipment - General Governmental Purposes

Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received.

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have not been capitalized. Such assets normally are immovable and of value only to the City; therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

The City has elected not to record depreciation in the General Fixed Assets Account Group.

2. Property, Plant and Equipment - Proprietary Funds

Property, plant and equipment acquired by the proprietary funds are stated at estimated historical cost, including interest capitalized during construction and architectural and engineering fees where applicable. Contributed fixed assets are recorded at fair market value at the date received.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (Years)</u>
Buildings	30
Improvements Other than Buildings	30 - 50
Machinery, Equipment, Furniture and Fixtures	10

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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 one-quarter of the accumulated sick time upon retirement to a maximum of 57 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, 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 account "Compensated Absences Payable." The remaining portion of the liability is reported in the General Long-Term Obligations Account Group.

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

J. Pensions

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

K. Reservations of Fund Balance

Reserves indicate that a portion of the fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for supplies inventory, prepaid items, Community Development Block Grant (CDBG) Loans and encumbered amounts that are not accrued at year end.

L. Total Columns on Combined Financial Statements - Overview

Total columns on the Combined Statements-Overview are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

The City maintains a cash and investments pool used by all funds except the Water Operating, Water Service Deposits, Sewer Operating, Wastewater Debt Reserve, Construction Escrow and Pride of Wauseon Funds. Each fund type's portion of this pool is displayed on the Combined 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 two 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;
- 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).

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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. Based upon criteria described in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," collateral held in single financial institution collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Investments:

- Category 1 Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

A. Deposits

At year end, the carrying amount of the City's deposits was \$5,367,237 and the bank balance was \$5,440,066. Federal depository insurance covered \$320,644 of the bank balance, deposits of \$3,050,027 were classified as Category 2, and the remaining deposits of \$2,069,395 were classified as Category 3. The City also had cash with fiscal agent in the amount of \$367,668, \$273,868 of which was related to the Community Development Block Grant Economic Development Revolving Loan Fund, and \$93,800 of which was related to construction escrow accounts. \$93,800 of the cash with fiscal agent is covered by Federal depository insurance and the remaining \$273,868 is classified as Category 2. The City also had petty cash in the amount of \$4,350.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**B. Investments**

The City's investments at December 31, 2003 were as follows:

<u>Non-Categorized Investments</u>	<u>Category 2</u>	<u>Fair Value</u>	<u>Reported Amount</u>
Repurchase Agreement	N/A	\$372,000	\$372,000
 <u>Categorized Investments</u>			
Federal Home Loan Mortgage Corporation	352,736	352,736	352,736
Federal Home Loan Bank	351,092	351,092	351,092
Federal National Mortgage Association	151,685	151,685	151,685
Total Categorized Investments	<u>855,513</u>	<u>855,513</u>	<u>855,513</u>
Total Investments	<u>\$855,513</u>	<u>\$1,227,513</u>	<u>\$1,227,513</u>

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined 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 combined 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 Combined Balance Sheet	\$5,739,237	\$855,513
Investments:		
Repurchase Agreement	<u>(372,000)</u>	<u>372,000</u>
Per GASB Statement No. 3	<u>\$5,367,237</u>	<u>\$1,227,513</u>

* Does not include Cash with Fiscal Agent

NOTE 3 - TAXES**A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2003 were levied after October 1, 2002 on assessed values as of January 1, 2002 the lien date. Assessed values for real property 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 made in the third year following reappraisal. The last reappraisal was completed during 2003. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder payable by July 20.

NOTE 3 - TAXES (Continued)

A. Property Taxes (Continued)

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually. The first payment is due April 30; the remainder payable by September 20.

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, 2003 was \$2.20 per \$1,000 of assessed value. The assessed value upon which the 2003 levy was based was \$128,409,170. This amount constitutes \$104,577,370 in real property assessed value, \$6,460 in public utility assessed value and \$23,825,340 in tangible personal property 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 4 - RECEIVABLES

Receivables at December 31, 2003 consisted of taxes, accounts receivable, special assessments, loans receivable and intergovernmental receivables arising from shared revenues. All receivables other than those offset by deferred revenues are considered collectible in full.

NOTE 5 - FIXED ASSETS**A. General Fixed Assets**

Summary by Category of changes in general fixed assets:

Category	December 31, 2002	Additions	Deletions	December 31, 2003
Land	\$496,644	\$0	\$0	\$496,644
Buildings and Improvements	3,561,160	119,503	0	3,680,663
Land Improvements	551,969	421,126	0	973,095
Machinery and Equipment	2,910,907	144,822	(111,674)	2,944,055
Totals	\$7,520,680	\$685,451	(\$111,674)	\$8,094,457

B. Proprietary Fixed Assets

Summary by Category at December 31, 2003:

Category	Historic Cost	Accumulated Depreciation	Book Value
Land	\$77,875	\$0	\$77,875
Buildings and Improvements	5,015,921	(2,635,837)	2,380,084
Land Improvements	10,678,648	(1,973,859)	8,704,789
Machinery and Equipment	4,682,567	(3,853,653)	828,914
Property, Plant and Equipment	\$20,455,011	(\$8,463,349)	\$11,991,662

NOTE 6 – 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 (the "Ohio PERS")

The following information was provided by the Ohio PERS 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 the Ohio PERS: 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. 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.

NOTE 6 – DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

The Ohio PERS 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. 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 the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2003 employer contribution rate for local government employer units was 13.55%, of covered payroll, 8.55% to fund the pension and 5.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2003, 2002 and 2001 were \$239,147, \$234,482 and \$219,476, respectively, which were equal to the required contributions for each year.

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2003 employer contribution rate (identified above) that was used to fund health care for the year 2003 was 5.0% of covered payroll which amounted to \$88,246.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2002 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

NOTE 6 – DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 364,881. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2002 is \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

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

All City full-time police officers participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund 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 Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. 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% for police officers. The City's contributions to the OP&F Fund for the years ending December 31, 2003, 2002 and 2001 were \$109,305, \$102,007 and \$95,529 for police respectively, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2003 covered payroll that was used to fund postemployment health care benefits was \$43,442 representing 7.75% of covered payroll for police. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2002, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,527 for police and 10,396 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2002 were \$141,028,006, which was net of member contributions of \$12,623,875.

NOTE 7 - NOTES PAYABLE

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of twenty years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than those principal maturities required if the bonds had been issued at the expiration of the initial five year period. Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or from available funds of the City or a combination of these sources.

	Balance December 31, 2002	Issued (Retired)	Balance December 31, 2003
Enterprise Bond Anticipation Notes:			
2.350% Waterworks System Improvement	\$2,650,000	(\$2,650,000)	\$0
1.680% Waterworks System Improvement	<u>0</u>	<u>2,400,000</u>	<u>2,400,000</u>
Total Enterprise Bond Anticipation Notes	<u>\$2,650,000</u>	<u>(\$250,000)</u>	<u>\$2,400,000</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Activity in Long-Term Obligations in 2003 was as follows:

	Maturity Date	Balance December 31, 2002	Issued (Retired)	Balance December 31, 2003
Enterprise Funds Long-Term Debt:				
Ohio Water Development Authority Loan:				
Wastewater Treatment Plant	01/01/09	\$1,608,670	(\$217,858)	\$1,390,812
Tedrow Water Supply Improvements	01/01/24	<u>190,780</u>	<u>121,210</u>	<u>311,990</u>
Total Enterprise Long-Term Debt		<u>\$1,799,450</u>	<u>(\$96,648)</u>	<u>\$1,702,802</u>
General Long-Term Debt:				
Other Long-Term Obligations:				
Compensated Absences		<u>188,416</u>	<u>(7,028)</u>	<u>181,388</u>
Total General Long-Term Debt and Other Long-Term Obligations		<u>\$188,416</u>	<u>(\$7,028)</u>	<u>\$181,388</u>

The City's total debt margin was approximately \$13,482,963 at December 31, 2003. 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. The City has no debt within the 5.5% unvoted debt limitation or the 10.5% overall debt limitation.

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 are as follows:

Years	OWDA Loans		
	Principal	Interest	Totals
2004	\$246,979	\$125,365	\$372,344
2005	266,839	105,503	372,342
2006	288,324	84,018	372,342
2007	311,563	60,779	372,342
2008	336,664	36,037	372,701
2009-2013	70,462	37,579	108,041
2014-2018	83,356	24,682	108,038
2019-2023	98,615	9,424	108,039
Totals	<u>\$1,702,802</u>	<u>\$483,387</u>	<u>\$2,186,189</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 9 - COMPENSATED ABSENCES

All full-time City employees earn vacation at varying rates based upon length of service. As of December 31, 2003, the liability for unpaid compensated absences was \$181,388 for all funds of the City except proprietary funds. This portion is considered long-term and is reported in the General Long-Term Obligations Account Group. The portion attributable to the proprietary funds has been recorded within those funds.

The compensated absences balances as of December 31, 2003 in the General Long-Term Obligations Account and the proprietary funds were as follows:

	General			
	Long-Term Obligations		Proprietary Funds	
	Hours	Amount	Hours	Amount
Sick Leave	22,640	\$100,374	3,200	\$15,638
Vacation / Compensatory Time	4,585	81,014	841	15,268
Totals	<u>27,225</u>	<u>\$181,388</u>	<u>4,041</u>	<u>\$30,906</u>

NOTE 10 - CONTRIBUTED CAPITAL

Contributed capital represents resources from other funds, governments and private sources provided to the City's proprietary funds that are not subject to repayment. These assets are recorded at their estimated fair market value on the date received. Depreciation on assets acquired or constructed with contributed resources is expensed and closed to contributed capital. Capital contributions received after December 31, 2000 are recorded as revenue in the proprietary funds. Changes in contributed capital are as follows:

NOTE 10 - CONTRIBUTED CAPITAL (Continued)

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Balance at Beginning of Year	\$957,095	\$2,550,175	\$3,507,270
Reductions	<u>(21,137)</u>	<u>(112,989)</u>	<u>(134,126)</u>
Balance at End of Year	<u>\$935,958</u>	<u>\$2,437,186</u>	<u>\$3,373,144</u>

NOTE 11 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains enterprise funds which provide water and sewer services. Segment information for the year ended December 31, 2003 is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues	\$1,320,343	\$1,006,239	\$2,326,582
Depreciation Expense	214,885	233,435	448,320
Operating Income	105,279	208,575	313,854
Net Income	48,906	131,400	180,306
Property, Plant and Equipment:			
Additions	92,594	130,017	222,611
Deletions	72,765	648	73,413
Total Assets	8,796,673	7,895,912	16,692,585
Net Working Capital	(588,190)	2,680,750	2,092,560
Notes and Loans Payable	2,711,990	1,390,812	4,102,802
Total Equity	6,016,745	6,454,979	12,471,724

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 2003, 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
Property	19,992,200/1,000	per occurrence
Boiler and Machinery	28,290,500/1,000	per occurrence
Automobile Physical Damage	1,462,290/250-1,000	per occurrence

NOTE 12 - RISK MANAGEMENT (Continued)

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. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 13 - CONSTRUCTION COMMITMENTS

As of December 31, 2003, the City had the following commitments with respect to capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Glenwood St - North Engineering	\$75,621	February 2004
Glenwood St - South Engineering	499,634	April 2004
Total	<u><u>\$575,255</u></u>	

NOTE 14 - CONTINGENCIES

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect on the financial condition of the City.

NOTE 15 – 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.

THE CITY OF WAUSEON, OHIO
SCHEDULE OF GENERAL FIXED ASSETS
BY CATEGORY
DECEMBER 31, 2003

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Land Improvements</u>	<u>Machinery and Equipment</u>	<u>Total</u>
<u>General Government:</u>					
Municipal Building	\$11,666	\$2,075,723	\$19,004	\$1,151,116	\$3,257,509
General Storm	123,874	0	0	5,960	129,834
Miscellaneous	111,126	79,900	25,561	54,916	271,503
Total	<u>246,666</u>	<u>2,155,623</u>	<u>44,565</u>	<u>1,211,992</u>	<u>3,658,846</u>
<u>Transportation:</u>					
Street	<u>4,630</u>	<u>240,794</u>	<u>3,832</u>	<u>1,013,746</u>	<u>1,263,002</u>
<u>Leisure Time Activities:</u>					
Parks	<u>186,527</u>	<u>959,632</u>	<u>880,456</u>	<u>397,790</u>	<u>2,424,405</u>
<u>Community Environment:</u>					
Chamber of Commerce	25,383	9,730	3,000	0	38,113
Recycling	33,438	314,884	41,242	320,527	710,091
Total	<u>58,821</u>	<u>324,614</u>	<u>44,242</u>	<u>320,527</u>	<u>748,204</u>
Total General Fixed Assets	<u><u>\$496,644</u></u>	<u><u>\$3,680,663</u></u>	<u><u>\$973,095</u></u>	<u><u>\$2,944,055</u></u>	<u><u>\$8,094,457</u></u>

THE CITY OF WAUSEON, OHIO
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS
BY FUNCTION AND ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2003

<u>Function and Activity</u>	<u>December 31, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2003</u>
<u>General Government:</u>				
Municipal Building	\$3,242,276	\$47,657	(\$32,424)	\$3,257,509
General Storm	129,834	0	0	129,834
Miscellaneous	268,503	3,000	0	271,503
Total	<u>3,640,613</u>	<u>50,657</u>	<u>(32,424)</u>	<u>3,658,846</u>
<u>Transportation:</u>				
Street	<u>1,138,269</u>	<u>198,983</u>	<u>(74,250)</u>	<u>1,263,002</u>
<u>Leisure Time Activities:</u>				
Parks	<u>1,998,461</u>	<u>430,944</u>	<u>(5,000)</u>	<u>2,424,405</u>
<u>Community Environment:</u>				
Chamber of Commerce	33,748	4,365	0	38,113
Recycling	709,589	502	0	710,091
Total	<u>743,337</u>	<u>4,867</u>	<u>0</u>	<u>748,204</u>
Total General Fixed Assets	<u><u>\$7,520,680</u></u>	<u><u>\$685,451</u></u>	<u><u>(\$111,674)</u></u>	<u><u>\$8,094,457</u></u>

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the City Council:

We have audited the financial statements of the City of Wauseon (the City) as of and for the year ended December 31, 2003, and have issued our report thereon dated October 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the City in a separate letter dated October 12, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial

reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. We also noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the City in a separate letter dated October 12, 2004.

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



Betty Montgomery
Auditor of State

October 12, 2004

**CITY OF WAUSEON
FULTON COUNTY**

SCHEDULE OF FINDINGS
DECEMBER 31, 2003

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

Material Weakness - Fixed Assets Records

The following deficiencies were noted during our testing of fixed assets:

- The City has no formal written fixed asset policy in place.
- As a matter of practice assets are not physically verified for existence against the asset records available.
- The General Fixed Asset Account Group asset records consist of an appraisal listing which reports governmental fixed assets at \$5,334,229 or \$2,760,228 less than the \$8,094,457 reported on the balance sheet. The following deficiencies were noted in this difference:
 - Acquisition costs were not reported for all items on the appraisal listing and items under the capitalization threshold (\$300) were included on the appraisal listing.
 - The following categories acquisition costs were not reported on the appraisal listing: Land (\$496,644), vehicles (\$1,135,543) and improvements other than buildings (\$383,846) relating to the bike path and recycling improvements.
 - The appraisal listing cutoff date is September 1 of each year which does not coincide with fiscal year end date of December 31.
 - Depreciation is not shown.
- The Enterprise fixed asset records did not provide adequate information as follows:
 - Tag numbers
 - Location of the asset

These weaknesses could result in the possible misappropriation of assets going undetected and misrepresentation of the City's fixed assets value on the financial statements. To maintain adequate safeguards over fixed assets and to reduce the risk of misstatement, we recommend that:

- A fixed asset policy needs to be prepared to include the following:
 - Process to making additions, deletions, and transfers to fixed asset records.
 - Establishment of the useful life of the asset
 - Depreciation method to use (i.e. straight line)
 - Annual depreciation expense and accumulated depreciation (GASB 34 will require this for all fixed assets)
 - Establishment of a capitalization threshold amount.
 - Any other information the City considers necessary.

FINDING NUMBER 2003-001
(Continued)

- Departments should be provided a list of the asset records and perform a physical inspection as to their existence. The finance department should be notified on any discrepancies found during this inspection.
- The City should maintain a fixed asset subsidiary record for all the City's fixed assets. This record should have the same cutoff date as the City year end and reconcile to the fixed asset amount reported on the financial statements. At a minimum the records should show:
 - Date of acquisition
 - Acquisition costs
 - Tag Numbers and location
 - Adequate description of the asset (i.e. Serial numbers, model numbers)
 - Useful life of the asset
 - Annual and accumulated depreciation
 - The function to which an asset is assigned (GASB 34 will require reporting depreciation expense by functional category)



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

CITY OF WAUSEON

FULTON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 4, 2004**