



Mary Taylor, CPA
Auditor of State

**CITY OF WAVERLY
PIKE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waverly, Pike County, Ohio (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

We were unable to obtain the necessary assurances regarding the accuracy, completeness, existence and valuation of the Capital Assets reported in the Governmental Activities, Business-Type Activities, and the Water Fund and Sewer Fund for the year ended December 31, 2006.

In our opinion, except for such adjustments, if any, that would have been necessary had sufficient, competent, evidential matter been available to assure the accuracy, completeness, existence and valuation of the City's recorded Capital Assets, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waverly, Pike County, Ohio, as of December 31, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund, Fire Fund, and Police 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 18, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

January 18, 2008

City of Waverly
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(Unaudited)

The discussion and analysis of the City of Waverly's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets increased \$1,112,861. Net assets of governmental activities increased \$1,274,357. Net assets of business-type activities decreased \$161,496.
- Governmental Activities general revenues accounted for \$3,022,977 in revenue or 73 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,133,467 or 27 percent of total revenues of \$4,156,444. Business-type activities general revenues accounted for \$81,347 in revenue or 6 percent of all revenues. Program specific revenues accounted for \$1,377,665 or 94 percent of total revenues of \$1,459,012.
- The City had \$2,882,087 in expenses related to governmental activities; \$1,133,467 of these expenses was offset by program specific charges for services, grants or contributions; the remainder of these expenses were offset by general revenues. The City had \$1,620,508 in expenses related to business-type activities; \$1,377,665 was offset by program specific charges for services, grants or contributions.

Using the Annual Financial Report

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

The statement of net assets and statement of activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what monies remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in a single column.

City of Waverly
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(Unaudited)

Reporting the City as a Whole

Statement of Net Assets and Statement of Activities

While this report contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting system used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

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

City of Waverly
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(Unaudited)

The City as a Whole

Table 1 provides a summary of the City's net assets for 2006 compared to the prior year:

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005*	2006	2005*	2006	2005
Assets						
Current and Other Assets	\$ 2,954,752	\$ 2,765,139	\$ 475,296	\$ 819,346	\$ 3,430,048	\$ 3,584,485
Capital Assets, Net	3,476,126	2,593,231	9,585,857	9,766,609	13,061,983	12,359,840
Total Assets	6,430,878	5,358,370	10,061,153	10,585,955	16,492,031	15,944,325
Liabilities						
Current and Other Liabilities	1,205,440	1,473,271	114,282	191,042	1,319,722	1,664,313
Long-Term Liabilities	1,061,152	1,194,343	4,399,795	4,686,341	5,460,947	5,880,684
Total Liabilities	2,266,592	2,667,614	4,514,077	4,877,383	6,780,669	7,544,997
Net Assets						
Invested in Capital Assets						
Net of Related Debt	2,484,858	1,439,834	5,173,229	5,101,205	7,658,087	6,541,039
Restricted	500,846	534,069	-	-	500,846	534,069
Unrestricted	1,178,582	716,853	373,847	607,367	1,552,429	1,324,220
Total Net Assets	\$ 4,164,286	\$ 2,690,756	\$ 5,547,076	\$ 5,708,572	\$ 9,711,362	\$ 8,399,328

* - Restated, See Note 18

Total governmental activities net assets increased \$1,274,357 while business-type activities decreased \$161,496. The increase to governmental current assets is due to an increase to taxes receivable. The City received more income tax assessed on business profits this year than last. The decrease to the assets for the business type activities is due mainly to the decrease in total revenue for the current year. Capital assets increased in the governmental funds due to an increase in construction in progress for the storm sewer project currently underway.

City of Waverly
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(Unaudited)

Table 2 shows the changes in net assets for the year ended December 31, 2006 as compared to the prior year.

Table 2

	Governmental Activities		Business Type Activities		Total	
	2006	2005*	2006	2005	2006	2005*
Revenues						
Program Revenues:						
Charges for Services and Sales	\$ 241,003	\$ 203,252	\$ 1,296,639	\$ 1,442,022	\$ 1,537,642	\$ 1,645,274
Operating Grants and Contributions	370,901	362,567	81,026	151,612	451,927	514,179
Capital Grants	521,563	15,603	-	-	521,563	15,603
Total Program Revenues	1,133,467	581,422	1,377,665	1,593,634	2,511,132	2,175,056
General Revenues:						
Property & Income Taxes	2,360,692	2,512,332	-	-	2,360,692	2,512,332
Grants and Entitlements	539,662	463,036	-	-	539,662	463,036
Unrestricted Investment Earnings	19,385	28,187	544	821	19,929	29,008
Other	103,238	99,982	80,803	35,514	184,041	135,496
Total General Revenues	3,022,977	3,103,537	81,347	36,335	3,104,324	3,139,872
Total Revenues	4,156,444	3,684,959	1,459,012	1,629,969	5,615,456	5,314,928
Program Expenses						
General Government -						
Legislative and Executive	816,760	794,395	-	-	816,760	794,395
Security of Persons & Property	1,381,773	1,642,770	-	-	1,381,773	1,642,770
Transportation	644,474	615,489	-	-	644,474	615,489
Public Health	1,470	1,470	-	-	1,470	1,470
Community Environment	798	2,715	-	-	798	2,715
Interest and Fiscal Charges	36,812	44,371	-	-	36,812	44,371
Water	-	-	789,811	1,348,415	789,811	1,348,415
Sewer	-	-	830,697	1,416,797	830,697	1,416,797
Total Expenses	2,882,087	3,101,210	1,620,508	2,765,212	4,502,595	5,866,422
Changes in Net Assets	1,274,357	583,749	(161,496)	(1,135,243)	1,112,861	(551,494)
Beginning Net Assets	2,889,929	2,306,180	5,708,572	6,843,815	8,598,501	9,149,995
Ending Net Assets	<u>\$ 4,164,286</u>	<u>\$ 2,889,929</u>	<u>\$ 5,547,076</u>	<u>\$ 5,708,572</u>	<u>\$ 9,711,362</u>	<u>\$ 8,598,501</u>

* As restated – See Note 18.

The decrease in expenses for the Water and Sewer funds is due to a large decrease in depreciation due to a re-appraisal report done by the City. The increase in capital grants from 2005 to 2006 is due to monies for the West North Street Fund for capital purchases. The decrease in Security of Persons and Property is due to a decrease in capital outlay spending.

City of Waverly
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(Unaudited)

Governmental Activities

Several revenue sources fund governmental activities, with income taxes generally being the biggest contributor. General revenues from property taxes are also a large revenue generator. With the combination of property tax, income tax and intergovernmental receipts comprising approximately 96% of all general revenues in the governmental activities, the City monitors each of these revenue sources very closely for fluctuations.

General government and security of persons and property are the major activities of the City, generating approximately 76% of the total expenses.

Business-Type Activities

The City's business-type activities are its water and sewer departments. The water and wastewater treatment plants provide services to the City's residents. The sewer operations generated program revenues of \$777,949 and had expenses of \$830,697. The water operations generated program revenues of \$599,716 and had expenses of \$789,811. The City's goal is to cover the costs of operations as well as build a cash balance in these funds. The City is also generating funds for additional capital expansion to ensure continued capacity and capacity improvements for future growth and development.

The City's Funds

The City's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds on the modified accrual basis of accounting had total revenues of \$3,982,514 and expenditures of \$5,145,111. The net change in fund balance for the year was most significant in the General Fund, where the fund balance went from \$707,363 in 2005 to \$926,432 in 2006. The primary reason for this increase was due to an increase in income tax revenue which was partially offset by the increases in expenditures. The Fire Fund had a fund balance decrease of \$10,336 due to a decrease in tax revenue. The Police Fund had a fund balance decrease in the amount of \$43,512 due primarily to a decrease in tax revenue. The West North Street Fund had a fund balance decrease of \$86,222 due to an increase in capital expenditures from the prior year.

General Fund Budgeting Highlights

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

For the General Fund, original budgeted revenues were \$2,001,450 and final budgeted revenues were \$2,001,450. Actual revenues varied with final budgeted revenues in the amount of \$365,222, due to a larger than anticipated amount of income tax revenue. Original budgeted expenditures were \$2,249,491 and final budgeted expenditures were \$2,249,491. Actual budgetary basis expenditures were \$48,301 less than the final budgeted expenditures.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2006 the City had \$13,061,983 invested in land, land improvements, construction in progress, buildings and improvements, furniture and equipment, vehicles, water and sewer lines, and infrastructure. Table 3 shows 2006 balances as compared to the prior year.

City of Waverly
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(Unaudited)

Table 3

	Governmental Activities		Business-Type Activities		Total	
	2006	2005*	2006	2005*	2006	2005*
Land	\$ 239,268	\$ 239,268	\$ 70,000	\$ 70,000	\$ 309,268	\$ 309,268
Land Improvements	304,519	356,215	68,088	77,766	372,607	433,981
Furniture and Equipment	608,088	733,543	163,932	188,637	772,020	922,180
Buildings and Improvements	809,702	815,895	8,975,706	9,214,782	9,785,408	10,030,677
Vehicles	204,995	-	-	-	204,995	-
Infrastructure	395,568	448,310	209,440	215,424	605,008	663,734
Construction in Progress	913,986	-	98,691	-	1,012,677	-
Totals	\$ 3,476,126	\$ 2,593,231	\$ 9,585,857	\$ 9,766,609	\$ 13,061,983	\$ 12,359,840

*As restated – See Note 18.

The decrease noted in the capital assets for business-type activities is due to current year depreciation expense which was partially offset by additions. The increase to governmental activities was mainly due to the addition of \$913,986 in construction in progress for the West North Street project. See Note 8 for additional information on the City's capital assets.

Debt

At December 31, 2006, the City of Waverly had \$5,460,947 in notes, loans, and compensated absences outstanding with \$421,980 due within one year.

Table 4
 Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Compensated Absences	\$ 37,823	\$ 40,946	\$ 19,228	\$ 20,937	\$ 57,051	\$ 61,883
Synagro Loan	-	-	182,240	216,286	182,240	216,286
Long Term Notes	919,882	1,038,306	161,352	216,713	1,081,234	1,255,019
O.W.D.A. Loans	-	-	3,931,867	4,119,895	3,931,867	4,119,895
O.P.W.C. Loans	103,447	115,091	105,108	112,510	208,555	227,601
Total	\$ 1,061,152	\$ 1,194,343	\$ 4,399,795	\$ 4,686,341	\$ 5,460,947	\$ 5,880,684

The City's overall legal debt margin was \$6,945,578 at December 31, 2006.

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

The Future

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

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

Contacting the City's Finance Department

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

City of Waverly
Statement of Net Assets
December 31, 2006

	Governmental Activities	Business-Type Activities	Totals
<u>ASSETS</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,149,034	\$ 188,661	\$ 1,337,695
Receivables:			
Taxes	1,529,146	-	1,529,146
Accounts	47,226	267,725	314,951
Special Assessments	10,588	-	10,588
Due From Other Governments	216,776	-	216,776
Loans Receivable	1,982	-	1,982
Restricted Assets:			
Cash and Cash Equivalents	-	18,910	18,910
Non-Depreciable Capital Assets	1,153,254	168,691	1,321,945
Depreciable Capital Assets	2,322,872	9,417,166	11,740,038
Total Assets	<u>6,430,878</u>	<u>10,061,153</u>	<u>16,492,031</u>
<u>Liabilities</u>			
Accounts Payable	25,254	46,531	71,785
Contracts Payable	5,213	-	5,213
Accrued Wages and Benefits	26,205	9,351	35,556
Due to Other Governments	119,378	39,490	158,868
Unearned Revenue	1,029,390	-	1,029,390
Retainage Payable	-	18,910	18,910
Long-Term Liabilities			
Due Within One Year	156,283	265,697	421,980
Due in More than One Year	904,869	4,134,098	5,038,967
Total Liabilities	<u>2,266,592</u>	<u>4,514,077</u>	<u>6,780,669</u>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	2,484,858	5,173,229	7,658,087
Restricted for:			
Capital Projects	42,489	-	42,489
Police	82,930	-	82,930
Fire	27,623	-	27,623
Other Purposes	347,804	-	347,804
Unrestricted	1,178,582	373,847	1,552,429
Total Net Assets	<u>\$ 4,164,286</u>	<u>\$ 5,547,076</u>	<u>\$ 9,711,362</u>

See accompanying notes to the basic financial statements.

City of Waverly
Statement of Activities
For the Year Ended December 31, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental Activities:							
General Government:							
Legislative and Executive	\$ 816,760	\$ 8,626	\$ 8	\$ -	\$ (808,126)	\$ -	\$ (808,126)
Security of Persons and Property	1,381,773	219,002	274,601	-	(888,170)	-	(888,170)
Public Health	1,470	12	-	-	(1,458)	-	(1,458)
Community Environment	798	21	185	-	(592)	-	(592)
Transportation	644,474	12,900	92,137	521,563	(17,874)	-	(17,874)
Interest and Fiscal Charges	36,812	442	3,970	-	(32,400)	-	(32,400)
Total Governmental Activities	<u>2,882,087</u>	<u>241,003</u>	<u>370,901</u>	<u>521,563</u>	<u>(1,748,620)</u>	<u>-</u>	<u>(1,748,620)</u>
Business-Type activities:							
Sewer	830,697	696,923	81,026	-	-	(52,748)	(52,748)
Water	789,811	599,716	-	-	-	(190,095)	(190,095)
Total Business-Type Activities	<u>1,620,508</u>	<u>1,296,639</u>	<u>81,026</u>	<u>-</u>	<u>-</u>	<u>(242,843)</u>	<u>(242,843)</u>
Total Government	<u>\$ 4,502,595</u>	<u>\$ 1,537,642</u>	<u>\$ 451,927</u>	<u>\$ 521,563</u>	<u>\$ (1,748,620)</u>	<u>\$ (242,843)</u>	<u>\$ (1,991,463)</u>
General revenues:							
Taxes:							
Property taxes, levied for:							
General Purposes					87,824	-	87,824
Other Purposes					564,130	-	564,130
Income taxes					1,708,738	-	1,708,738
Grants and Contributions Not Restricted to Specific Programs					539,662	-	539,662
Unrestricted Investment Earnings					19,385	544	19,929
Miscellaneous					103,238	80,803	184,041
Total general revenues					<u>3,022,977</u>	<u>81,347</u>	<u>3,104,324</u>
Changes in net assets					1,274,357	(161,496)	1,112,861
Net assets - January 1, 2006 - As Restated - See Note 18					<u>2,889,929</u>	<u>5,708,572</u>	<u>8,598,501</u>
Net assets - December 31, 2006					<u>\$ 4,164,286</u>	<u>\$ 5,547,076</u>	<u>\$ 9,711,362</u>

See accompanying notes to the basic financial statements.

City of Waverly
Balance Sheet
Governmental Funds
December 31, 2006

	General	Fire	Police	West North Street	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 688,750	\$ 51,627	\$ 118,429	\$ 11,717	\$ 278,513	\$ 1,149,036
Receivables:						
Taxes	815,329	153,665	472,804	-	87,348	1,529,146
Accounts	47,201	-	-	-	25	47,226
Due from Other Governments	116,424	4,166	16,170	-	80,016	216,776
Special Assessments Receivable	-	-	-	-	10,588	10,588
Loans Receivable	-	-	-	-	1,982	1,982
Total Assets	\$ 1,667,704	\$ 209,458	\$ 607,403	\$ 11,717	\$ 458,472	\$ 2,954,754
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	\$ 14,226	\$ 1,242	\$ 8,095	\$ -	\$ 1,691	\$ 25,254
Contracts Payable	-	-	-	3,713	1,500	5,213
Accrued Wages and Benefits	5,895	1,618	13,047	-	5,645	26,205
Due to Other Governments	29,812	18,543	49,993	-	21,030	119,378
Deferred Revenue	691,339	154,633	476,839	-	157,141	1,479,952
Total Liabilities	741,272	176,036	547,974	3,713	187,007	1,656,002
Fund Balances						
Reserved for Encumbrances	33,355	992	4,832	11,787	1,117	52,083
Reserved for Loans	-	-	-	-	1,982	1,982
Unreserved, Undesignated, Reported in:						
General Fund	893,077	-	-	-	-	893,077
Special Revenue Funds	-	32,430	54,597	-	244,865	331,892
Capital Projects Funds	-	-	-	(3,783)	23,501	19,718
Total Fund Balances	926,432	33,422	59,429	8,004	271,465	1,298,752
Total Liabilities and Fund Balances	\$ 1,667,704	\$ 209,458	\$ 607,403	\$ 11,717	\$ 458,472	\$ 2,954,754

See accompanying notes to the basic financial statements.

City of Waverly
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2006*

Total Governmental Fund Balances \$ 1,298,752

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 3,476,126

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

Taxes	31,318	
Intergovernmental	408,654	
Special Assessments	<u>10,588</u>	

Total 450,560

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

Compensated Absences Payable	(37,823)	
General Obligation Notes and Loans Payable	<u>(1,023,329)</u>	

Total (1,061,152)

Net Assets of Governmental Activities \$ 4,164,286

See accompanying notes to the basic financial statements.

City of Waverly
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General	Fire	Police	West North Street	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 1,797,314	\$ 119,813	\$ 376,046	\$ -	\$ 75,513	\$ 2,368,686
Intergovernmental	353,173	32,634	103,575	521,563	238,966	1,249,911
Interest	17,477	-	-	-	1,908	19,385
Charges for Services	-	35,085	-	-	25	35,110
Fees, License and Permits	10,005	-	300	-	-	10,305
Fines and Forfeitures	187,673	-	200	-	7,716	195,589
Other	19,716	9,902	10,623	-	63,287	103,528
<i>Total Revenues</i>	<u>2,385,358</u>	<u>197,434</u>	<u>490,744</u>	<u>521,563</u>	<u>387,415</u>	<u>3,982,514</u>
Expenditures						
Current:						
General Government:						
Legislative and Executive	1,031,055	-	-	-	36	1,031,091
Security of Persons and Property	86,933	225,229	916,922	-	53,206	1,282,290
Public Health	1,470	-	-	-	-	1,470
Community Environment	-	-	-	-	798	798
Transportation	75,000	-	-	-	481,824	556,824
Capital Outlay	-	27,041	42,334	724,785	64,658	858,818
Debt Service:						
Principal	-	672,708	90,379	-	613,921	1,377,008
Interest and Fiscal Charges	-	12,755	3,540	-	20,517	36,812
<i>Total Expenditures</i>	<u>1,194,458</u>	<u>937,733</u>	<u>1,053,175</u>	<u>724,785</u>	<u>1,234,960</u>	<u>5,145,111</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,190,900</u>	<u>(740,299)</u>	<u>(562,431)</u>	<u>(203,222)</u>	<u>(847,545)</u>	<u>(1,162,597)</u>
Other Financing Sources (Uses)						
Proceeds from Notes	-	634,963	68,919	-	543,058	1,246,940
Transfers In	-	95,000	450,000	117,000	309,831	971,831
Transfers Out	(971,831)	-	-	-	-	(971,831)
<i>Total Other Financing Sources (Uses)</i>	<u>(971,831)</u>	<u>729,963</u>	<u>518,919</u>	<u>117,000</u>	<u>852,889</u>	<u>1,246,940</u>
<i>Net Change in Fund Balances</i>	219,069	(10,336)	(43,512)	(86,222)	5,344	84,343
<i>Fund Balances Beginning of Year</i>	<u>707,363</u>	<u>43,758</u>	<u>102,941</u>	<u>94,226</u>	<u>266,121</u>	<u>1,214,409</u>
<i>Fund Balances End of Year</i>	<u>\$ 926,432</u>	<u>\$ 33,422</u>	<u>\$ 59,429</u>	<u>\$ 8,004</u>	<u>\$ 271,465</u>	<u>\$ 1,298,752</u>

See accompanying notes to the basic financial statements.

City of Waverly
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2006

Net Change in Fund Balances - Total Governmental Funds \$ 84,343

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 additions exceeded depreciation in the current period.

Capital Asset Additions	1,140,576	
Current Year Depreciation	(257,681)	
Total		882,895

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

Intergovernmental	182,212	
Other	(290)	
Taxes	(7,994)	
Total		173,928

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

1,377,008

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

(1,246,940)

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

Decrease in Compensated Absences	3,123	
Total		3,123

Net Change in Net Assets of Governmental Activities \$ 1,274,357

See accompanying notes to the basic financial statements.

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

General Fund
For the Year Ended December 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Total Revenues and Other	\$ 2,001,450	\$ 2,001,450	\$ 2,366,672	\$ 365,222
Total Expenditures and Other	<u>2,249,491</u>	<u>2,249,491</u>	<u>2,201,190</u>	<u>48,301</u>
Net Change in Fund Balance	(248,041)	(248,041)	165,482	413,523
Fund Balance at Beginning of Year	333,641	333,641	333,641	-
Prior Year Encumbrances Appropriated	<u>109,171</u>	<u>109,171</u>	<u>109,171</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 194,771</u>	<u>\$ 194,771</u>	<u>\$ 608,294</u>	<u>\$ 413,523</u>

See accompanying notes to the basic financial statements.

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

Fire Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Total Revenues and Other	\$ 229,200	\$ 262,200	\$ 926,636	\$ 664,436
Total Expenditures and Other	300,050	295,427	942,728	(647,301)
Net Change in Fund Balance	(70,850)	(33,227)	(16,092)	17,135
Fund Balance at Beginning of Year	66,227	66,227	66,227	-
Prior Year Encumbrances Appropriated	500	500	500	-
Fund Balance at End of Year	<u>\$ (4,123)</u>	<u>\$ 33,500</u>	<u>\$ 50,635</u>	<u>\$ 17,135</u>

See accompanying notes to the basic financial statements.

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

Police Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Total Revenues and Other	\$ 1,074,600	\$ 1,074,600	\$ 1,004,547	\$ (70,053)
Total Expenditures and Other	910,110	910,110	1,064,859	(154,749)
Net Change in Fund Balance	164,490	164,490	(60,312)	(224,802)
Fund Balance at Beginning of Year	173,910	173,910	173,910	-
Prior Year Encumbrances Appropriated	30	30	30	-
Fund Balance at End of Year	<u>\$ 338,430</u>	<u>\$ 338,430</u>	<u>\$ 113,628</u>	<u>\$ (224,802)</u>

See accompanying notes to the basic financial statements.

City of Waverly
Statement of Net Assets
Proprietary Funds

December 31, 2006

	Water	Sewer	Total
ASSETS:			
<i>Current Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$ 104,779	\$ 83,882	\$ 188,661
Accounts Receivable	134,828	132,897	267,725
Total Current Assets	<u>239,607</u>	<u>216,779</u>	<u>456,386</u>
<i>Noncurrent Assets</i>			
Restricted Cash and Cash Equivalents	-	18,910	18,910
Non-Depreciable Capital Assets	70,000	98,691	168,691
Depreciable Capital Assets, net	<u>4,774,281</u>	<u>4,642,885</u>	<u>9,417,166</u>
Total Noncurrent Assets	<u>4,844,281</u>	<u>4,760,486</u>	<u>9,604,767</u>
Total Assets	<u>5,083,888</u>	<u>4,977,265</u>	<u>10,061,153</u>
LIABILITIES:			
<i>Current Liabilities</i>			
Accounts Payable	23,681	22,850	46,531
Accrued Wages and Benefits	5,553	3,798	9,351
Due to Other Governments	18,045	21,445	39,490
Retainage Payable	-	18,910	18,910
Loans Payable	13,696	58,859	72,555
OPWC Loans Payable	5,477	1,925	7,402
OWDA Loans Payable	<u>25,740</u>	<u>160,000</u>	<u>185,740</u>
Total Current Liabilities	92,192	287,787	379,979
<i>Noncurrent Liabilities</i>			
Long Term Liabilities:			
Loans Payable	-	271,037	271,037
OWDA Loans Payable	385,702	3,360,425	3,746,127
Compensated Absences Payable	7,386	11,842	19,228
OPWC Loans Payable	<u>79,419</u>	<u>18,287</u>	<u>97,706</u>
Total Noncurrent Liabilities	<u>472,507</u>	<u>3,661,591</u>	<u>4,134,098</u>
Total Liabilities	<u>564,699</u>	<u>3,949,378</u>	<u>4,514,077</u>
NET ASSETS:			
Invested in capital assets, net of related debt	4,302,186	871,043	5,173,229
Unrestricted	<u>217,003</u>	<u>156,844</u>	<u>373,847</u>
Total Net Assets	<u>\$ 4,519,189</u>	<u>\$ 1,027,887</u>	<u>\$ 5,547,076</u>

See accompanying notes to the basic financial statements.

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

For the Year Ended December 31, 2006

	Water	Sewer	Total
Operating Revenues			
Charges for Services	\$ 599,716	\$ 696,923	\$ 1,296,639
Other	60	20,316	20,376
Total Operating Revenues	599,776	717,239	1,317,015
Operating Expenses			
Salaries and Wages	205,765	300,233	505,998
Fringe Benefits	63,659	99,639	163,298
Contractual Services	151,439	69,015	220,454
Materials & Supplies	130,534	115,491	246,025
Other	76,204	10,693	86,897
Depreciation	151,714	127,729	279,443
Total Operating Expenses	779,315	722,800	1,502,115
Operating Income (Loss)	(179,539)	(5,561)	(185,100)
Nonoperating Revenues (Expenses)			
Interest Income	544	-	544
Intergovernmental Grants	-	81,026	81,026
Other Revenues	54,960	5,467	60,427
Interest & Fiscal Charges	(10,496)	(107,897)	(118,393)
Total Nonoperating Revenues (Expenses)	45,008	(21,404)	23,604
Changes in Net Assets	(134,531)	(26,965)	(161,496)
Net Assets at Beginning of Year - As Restated - See Note 18	4,653,720	1,054,852	5,708,572
Net Assets at End of Year	<u>\$ 4,519,189</u>	<u>\$ 1,027,887</u>	<u>\$ 5,547,076</u>

See accompanying notes to the basic financial statements.

City of Waverly
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006

	Water	Sewer	Total
<i>Increase (Decrease) in Cash and Cash Equivalents:</i>			
<i>Cash Flows from Operating Activities:</i>			
Cash Received from Customers	\$ 616,641	\$ 746,279	\$ 1,362,920
Cash Received from other sources	60	20,642	20,702
Cash Payments to Suppliers for Goods and Services	(283,270)	(276,783)	(560,053)
Cash Payments to Employees for Services and Benefits	(279,429)	(400,300)	(679,729)
Cash Payments for Other Operating Expenses	(61,359)	-	(61,359)
<i>Net Cash Provided by (Used for) Operating Activities</i>	(7,357)	89,838	82,481
<i>Cash Flows from Noncapital Financing Activities:</i>			
Other non-operating revenue	54,960	86,493	141,453
<i>Net Cash Provided by Noncapital Financing Activities</i>	54,960	86,493	141,453
<i>Cash Flows from Capital and Related Financing Activities:</i>			
Proceeds from Debt Issuance	13,696	147,656	161,352
Payments for Capital Acquisitions	-	(98,691)	(98,691)
Principal Payments	(79,767)	(366,422)	(446,189)
Interest Payments	(10,496)	(107,897)	(118,393)
<i>Net Cash Used for Capital and Related Financing Activities</i>	(76,567)	(425,354)	(501,921)
<i>Cash Flows from Investing Activities:</i>			
Interest on Investments	573	-	573
<i>Net Cash Provided by Investing Activities</i>	573	-	573
Net Increase/(Decrease) in Cash and Cash Equivalents	(28,391)	(249,023)	(277,414)
Cash and Cash Equivalents at Beginning of Year	133,170	351,815	484,985
Cash and Cash Equivalents at End of Year	<u>\$ 104,779</u>	<u>\$ 102,792</u>	<u>\$ 207,571</u>
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</i>			
Operating Income (Loss)	\$ (179,539)	\$ (5,561)	\$ (185,100)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</i>			
Depreciation	151,714	127,729	279,443
Changes in Assets and Liabilities:			
(Increase)/Decrease in Accounts Receivable	16,925	49,682	66,607
Increase/(Decrease) in Accounts Payable	13,548	(3,305)	10,243
Increase/(Decrease) in Contracts Payable	-	(85,201)	(85,201)
Increase/(Decrease) in Accrued Wages and Benefits	(627)	(1,763)	(2,390)
Increase/(Decrease) in Compensated Absences Payable	(2,674)	965	(1,709)
Increase/(Decrease) in Retainage Payable	-	6,922	6,922
Increase/(Decrease) in Due to Other Governments	(6,704)	370	(6,334)
Total Adjustments	172,182	95,399	267,581
Net Cash Provided by (Used for) Operating Activities	<u>\$ (7,357)</u>	<u>\$ 89,838</u>	<u>\$ 82,481</u>

See accompanying notes to the basic financial statements.

City of Waverly
Statement of Fiduciary Assets and Liabilities
Agency Funds
As of December 30, 2006

	<u>Agency</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 172
Cash and Cash Equivalents in Segregated Accounts	<u>19,432</u>
Total Assets	<u><u>\$ 19,604</u></u>
 LIABILITIES	
Due to Other Governments	\$ 19,432
Undistributed Monies	<u>172</u>
Total Liabilities	<u><u>\$ 19,604</u></u>

See accompanying notes to the basic financial statements.

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CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

REPORTING ENTITY

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The City also applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its business-type activities and enterprise funds provided they do not conflict with or contradict GASB pronouncements. Under the guidelines of GASB 20, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds.

BASIS OF PRESENTATION

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements. The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the primary government that are governmental and those that are considered business-type activities. The statement of net assets presents the financial condition of the governmental and business-type activities of the City. Interfund receivables and payables within governmental activities have been eliminated to minimize the duplicating effect on assets and liabilities within the governmental and business-type activities total columns.

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

Fund Financial Statements. During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements present financial information at a more detailed level. The governmental and enterprise fund financial statements focus on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Agency funds, which are a type of fiduciary fund, are used to account for assets held by the government as an agent for individuals, private organizations and other governments.

GOVERNMENTAL FUNDS

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

GENERAL FUND

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

FIRE FUND

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

POLICE FUND

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

WEST NORTH STREET FUND

The West North Street Fund is used to account for grants and local monies to make improvements and repairs to West North Street.

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUNDS

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

ENTERPRISE FUNDS

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

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

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

FIDUCIARY FUNDS

Fiduciary funds focus on net assets and changes in net assets. There are four categories of fiduciary funds: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City's only fiduciary funds are agency funds. The City's fiduciary fund consists only of an agency fund which is used to account for the activities of the Mayor's Court and restitution.

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

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

Government Wide Financial Statements. The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities accounts for increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Deferred/Unearned Revenue Deferred/unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. On the modified accrual basis, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, provided current financial resources are to be used. As a result, compensated absences are not recorded as expenditures or liabilities until current financial resources are required. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

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

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated Resources: The County Budget Commission reviews estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The County Budget Commission certifies its actions to the City by October 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate of estimated resources may be further amended during the year if the Auditor's Office Manager determines, and the County Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported in the budgetary statements as "original" represent the amounts in the amended official certificate of estimated resources in place at the time original appropriations were adopted. The amounts reported in the budgetary statements as "final" reflect the amounts in the final amended official certificate of estimated resources issued during 2006.

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

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

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

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

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

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

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets: Restricted assets should be reported when restrictions on asset use change the nature or normal understanding of the availability of the asset. The City has recorded restricted assets for cash held for retainage.

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000 dollars for all assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of fund capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	5 years
Buildings and Improvements	40 years
Machinery, Equipment, Furniture and Fixtures	5-7 years
Sewer and Water Lines	20 years
Vehicles	5 years
Infrastructure	10-40 years

Compensated Absences: Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Of the City's \$500,846 restricted net assets, \$0 were restricted for enabling legislation.

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

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

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

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

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)

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

The adjustments necessary to convert the results of operations for 2006 on the GAAP basis to the budget basis for the General, Fire, and Police major funds are as follows:

Net Change in Fund Balances			
	General	Fire	Police
GAAP Basis	\$219,069	(\$10,336)	(\$43,512)
Increases (Decreases) Due To:			
Revenue Accruals	(18,686)	(761)	(5,116)
Expenditure Accruals	(1,546)	(4,003)	(6,883)
Encumbrances	(33,355)	(992)	(4,801)
Budget Basis	\$165,482	(\$16,092)	(\$60,312)

NOTE 4 – DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including passbook accounts.

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

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio, its political subdivision, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);
8. Securities lending agreements in which the City lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed 5 percent of the City's total average portfolio; and
10. Bankers acceptances for a period not to exceed two hundred seventy days and in an amount not to exceed 10 percent of the City's total average portfolio.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the City Auditor or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The City's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

The City's bank balance of \$1,452,345 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner as described above.

NOTE 5 – MUNICIPAL INCOME TAX

The City levies and collects an income tax of one percent on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. During 2006, proceeds of the income tax per the statement of activities amounted to \$1,708,738. All proceeds go to the General Fund.

NOTE 6 – PROPERTY TAX

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of 2005. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes were collected in and intended to finance 2007.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006 and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2006, was \$15.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 6 – PROPERTY TAX (Continued)

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$73,029,700
Public Utility Property	3,437,510
Tangible Personal	<u>11,719,970</u>
Total Property Taxes	<u><u>\$88,187,180</u></u>

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Waverly. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006, and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2006 operations. The receivable is offset by deferred revenue.

NOTE 7 – RECEIVABLES

Receivables at December 31, 2006, consisted of taxes, accounts, special assessments, loans, and intergovernmental receivables arising from grants, entitlements or shared revenues. All receivables are considered fully collectible.

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 7 – RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables follows:

<u>Fund/Description of Receivable</u>	<u>Amount</u>
General Fund	
Local Government	\$ 110,419
Homestead, Rollback, and Exemption	<u>6,005</u>
Total General Fund	<u>116,424</u>
Fire Major Special Revenue Fund	
Homestead, Rollback, and Exemption	<u>4,166</u>
Total Fire Major Special Revenue Fund	<u>4,166</u>
Police Major Special Revenue Fund	
Homestead, Rollback, and Exemption	<u>16,170</u>
Total Police Major Special Revenue Fund	<u>16,170</u>
Bridge and Street Non-major Special Revenue Fund	
Gasoline Excise Tax	34,398
Cents Per Gallon Tax	19,075
Motor Vehicle License Tax	12,168
Homestead, Rollback, and Exemption	<u>5,396</u>
Total Bridge and Street Fund	<u>71,037</u>
Inter-City Highway Non-major Special Revenue Fund	
Gasoline Excise Tax	3,980
Cents Per Gallon Tax	2,121
Motor Vehicle License Tax	<u>1,352</u>
Total Inter-City Highway Fund	<u>7,453</u>
City Permissive Non-major Special Revenue Fund	
Permissive Motor vehicle License Taxes	<u>1,526</u>
Total Permissive Fund	<u>1,526</u>
Total Nonmajor Special Revenue Funds	<u>80,016</u>
Total Governmental Activities	<u><u>\$ 216,776</u></u>

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	Beginning Balance 12/31/2005*	Additions	Deletions	Ending Balance 12/31/2006
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 239,268	\$ -	\$ -	\$ 239,268
Construction in Progress	-	913,986	-	913,986
Total Capital Assets, Not Being Depreciated	<u>239,268</u>	<u>913,986</u>	<u>-</u>	<u>1,153,254</u>
Capital Assets Being Depreciated				
Land Improvements	540,085	-	-	540,085
Buildings and Improvements	1,183,552	-	-	1,183,552
Furniture and Equipment	2,044,157	21,595	-	2,065,752
Vehicles	-	204,995	-	204,995
Infrastructure	<u>527,424</u>	<u>-</u>	<u>-</u>	<u>527,424</u>
Total Capital Assets Being Depreciated	4,295,218	226,590	-	4,521,808
Less Accumulated Depreciation				
Land Improvements	(183,870)	(51,696)	-	(235,566)
Buildings and Improvements	(367,657)	(6,193)	-	(373,850)
Furniture and Equipment	(1,310,614)	(147,050)	-	(1,457,664)
Vehicles	-	-	-	-
Infrastructure	<u>(79,114)</u>	<u>(52,742)</u>	<u>-</u>	<u>(131,856)</u>
Total Accumulated Depreciation	(1,941,255)	(257,681)	-	(2,198,936)
Total Capital Assets Being Depreciated, Net	<u>2,353,963</u>	<u>(31,091)</u>	<u>-</u>	<u>2,322,872</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,593,231</u>	<u>\$ 882,895</u>	<u>\$ -</u>	<u>\$ 3,476,126</u>

* As restated – See Note 18

Depreciation expense was charged to governmental functions as follows:

General Government:	
Legislative and Executive	\$65,237
Security of Persons & Property	106,356
Transportation	<u>86,088</u>
Total Depreciation Expense	<u>\$257,681</u>

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 8 – CAPITAL ASSETS (Continued)

	Ending Balance <u>12/31/2005*</u>	Additions	Deletions	Ending Balance <u>12/31/2006</u>
<u>Business Type Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 70,000	\$ -	\$ -	\$ 70,000
Construction in Progress	-	98,691	-	98,691
Total Capital Assets, Not Being Depreciated	<u>70,000</u>	<u>98,691</u>	<u>-</u>	<u>168,691</u>
Capital Assets Being Depreciated				
Land Improvements	196,783	-	-	196,783
Buildings and Improvements	11,596,347	-	-	11,596,347
Mechanical Equipment	351,050	-	-	351,050
Infrastructure	4,372,628	-	-	4,372,628
Total Capital Assets Being Depreciated	<u>16,516,808</u>	<u>-</u>	<u>-</u>	<u>16,516,808</u>
Less Accumulated Depreciation				
Land Improvements	(119,017)	(9,678)	-	(128,695)
Buildings and Improvements	(2,381,565)	(239,076)	-	(2,620,641)
Mechanical Equipment	(162,413)	(24,705)	-	(187,118)
Infrastructure	(4,157,204)	(5,984)	-	(4,163,188)
Total Accumulated Depreciation	<u>(6,820,199)</u>	<u>(279,443)</u>	<u>-</u>	<u>(7,099,642)</u>
Total Capital Assets Being Depreciated, Net	<u>9,696,609</u>	<u>(279,443)</u>	<u>-</u>	<u>9,417,166</u>
Business Type Activities Capital Assets, Net	<u>\$ 9,766,609</u>	<u>\$ (180,752)</u>	<u>\$ -</u>	<u>\$ 9,585,857</u>

* As restated – See Note 18

NOTE 9 – DEFINED BENEFIT PENSION PLANS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

All employees (other than those covered by other defined benefit pension plans) of the City participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2006, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan.

The 2006 member contribution rates for City employees were 9.0% and the employer contribution rate was 13.70% of covered payroll.

The City's contributions to OPERS for the years ended December 31, 2006, 2005, and 2004, were \$158,663, \$167,765, and \$160,058, respectively. 74% has been contributed for 2006 and 100% for years 2005 and 2004; \$41,494 representing the unpaid contribution for 2006 is recorded as a liability within the respective funds.

B. OHIO POLICE AND FIRE PENSION FUND

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

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5% and 24%, respectively for police officers and firefighters. The City's contributions to the OP&F for the years ended December 31, 2006, 2005, and 2004 were \$103,320, \$92,284, and \$116,788, respectively. 75% has been contributed for 2006 and 100% for years 2005 and 2004; \$26,202 representing the unpaid contribution for 2006 is recorded as a liability within the respective funds.

C. SOCIAL SECURITY SYSTEM

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 10 – POSTEMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

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

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

A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, the rate was 13.70% of covered payroll; 4.5% was used to fund health care for 2006.

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

Summary of Assumptions:

Actuarial Review - The assumptions and calculations below were based on OPERS' latest Actuarial Reviews performed as of December 31, 2005.

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

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

Investment Return – The investment assumption rate for 2006 was 6.5%.

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

Health Care – Health care cost were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 6% for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 10 – POSTEMPLOYMENT BENEFITS (Continued)

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

1. The number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,214 for 2006. The number of active contributing participants for both plans used in the December 31, 2005 (the latest information available) actuarial valuation was 358,804.
2. The employer contributions that were used to fund postemployment benefits were \$52,121 for 2006.
3. \$11.1 billion represents the actuarial value of OPERS' net assets available for OPEBs at December 31, 2005 (the latest information available).
4. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively.

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

B. OHIO POLICE AND FIRE PENSION FUND

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen whether or not the child is attending school or under the age of twenty two if attending school full-time or on a two thirds basis. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll.

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

Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors had monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2005, (the latest information available) was 13,922 for Police and 10,537 for Firefighters. The City's actual contributions for 2006 that were used to fund postemployment benefits were \$32,511 for Police and \$6,922 for Firefighters. The Fund's total health care expenses for the year ended December 31, 2005 were \$108,039,449, which was net of member contributions \$55,271,881.

NOTE 11 – EMPLOYEE BENEFITS

A. DEFERRED COMPENSATION PLAN

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 11 – EMPLOYEE BENEFITS (Continued)

B. COMPENSATED ABSENCES

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

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

C. INSURANCE BENEFITS

The City provides life insurance through Fort Dearborn Life and health insurance through Medical Mutual of Ohio. Dental insurance is provided through Guardian and vision insurance through Vision Service Plan of Ohio.

NOTE 12 – INTERFUND TRANSACTIONS

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payment become due, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers made during the year ended December 31, 2006, were as follows:

<u>Fund Type / Fund</u>	<u>Transfers Out</u>	<u>Transfers In</u>
Major Funds:		
General	\$ 971,831	\$ -
Fire	-	95,000
Police	-	450,000
West North Street	-	117,000
Nonmajor Special Revenue Funds:		
Bridge and Street	-	220,000
Nonmajor Capital Projects Funds:		
Bridge and Street	-	60,000
Depot Str. Improvement	-	1,333
Recreational Complex	-	19,500
West North	-	-
Green Acres	-	8,998
Total Nonmajor Capital Projects	<u>-</u>	<u>89,831</u>
Total All Funds	<u>\$ 971,831</u>	<u>\$ 971,831</u>

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2006, was as follows:

Issue	Balance 12/31/05	Issued	Retired	Balance 12/31/06	Due in One Year
Compensated Absences	\$ 20,937	\$ 19,228	\$ 20,937	\$ 19,228	\$ -
2001 - 2% OWDA Wastewater Treatment Plant Bonds	3,683,220	-	162,795	3,520,425	160,000
1999 - 12% Synagro Loan Dewatering Facility	216,286	-	34,046	182,240	38,131
2005/2006 - 3%/3% Sewer Flush Truck	167,656	147,656	167,656	147,656	20,728
1997 - 0% OPWC Wastewater Treatment Plant Bonds	22,137	-	1,925	20,212	1,925
2001 - 2% OWDA Elevated Tank & Line Treatment Plant Bonds	436,675	-	25,233	411,442	25,740
2005/2006 - 3.75%/3.75% Waterline Extension	22,015	-	22,015	-	-
2001 - 0% OPWC Elevated Tank & Line Treatment Plant Bonds	90,373	-	5,477	84,896	5,477
2005/2006 - 2.75%/2.75% Water Sludge Lagoon Cleaning	27,042	13,696	27,042	13,696	13,696
Total Enterprise	\$ 4,686,341	\$ 180,580	\$ 467,126	\$ 4,399,795	\$ 265,697
Compensated Absences	\$ 40,946	\$ 37,823	\$ 40,946	\$ 37,823	\$ 528
2006 - 3.75% Dump Truck	-	32,061	-	32,061	5,985
2002 - 0% OPWC Green Acres Paving & Drainage Project	67,497	-	9,000	58,497	9,000
2003 - 0% OPWC Depot Street Reconstruction	47,594	-	2,644	44,950	2,644
2003 - 4.352% - Purchase Mower/Tractor (2002)	6,528	-	6,528	-	-
2005/2006 - 4.004%/4.0% - Pride Road (2002)	300,805	252,837	300,805	252,837	49,889
2005 - 4.054% Fire Truck (1998)	345,650	-	345,650	-	-
2006 -4.05% Fire Truck (1998)	-	634,963	327,058	307,905	38,553
2003 - 3.912% Backhoe (2001)	9,929	-	9,929	-	-
2005/2006 - 3.912%/3.9% Police Dept. Renovations (2002)	90,379	68,919	90,379	68,919	22,283
2005/2006 - 3.5%/2.75% Completion of Bristol Park	285,015	258,160	285,015	258,160	27,401
Total Governmental Activities Long Term	\$ 1,194,343	\$ 1,284,763	\$ 1,417,954	\$ 1,061,152	\$ 156,283

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

The City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$6,945,578 with an unvoted debt margin of \$88,187 at December 31, 2006.

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

	OPWC Loans		2001 - OWDA Elevated Tank			1999 Synagro		2006 Loans	
	Principal		Principal	Interest	Principal	Interest	Principal	Interest	
2007	\$ 7,402	\$	25,740	\$ 8,101	\$ 38,131	\$ 21,869	\$ 161,352	\$ 4,806	
2008	7,402		26,257	7,583	42,707	17,293	-	-	
2009	7,402		26,785	7,056	47,832	12,168	-	-	
2010	7,402		27,324	6,518	53,570	6,429	-	-	
2011	7,402		27,873	5,968	-	-	-	-	
2012-2016	37,010		147,945	21,207	-	-	-	-	
2017-2021	28,347		129,518	5,894	-	-	-	-	
2022-2024	2,741		-	-	-	-	-	-	
	<u>\$ 105,108</u>	<u>\$</u>	<u>411,442</u>	<u>\$ 62,327</u>	<u>\$ 182,240</u>	<u>\$ 57,759</u>	<u>\$ 161,352</u>	<u>\$ 4,806</u>	

Annual debt service requirements to maturity for Governmental Activities are:

	OPWC Loans		2006 Loans	
	Principal		Principal	Interest
2007	\$ 11,644	\$	919,882	\$ 33,573
2008	11,644		-	-
2009	11,644		-	-
2010	11,644		-	-
2011	11,644		-	-
2012-2016	26,720		-	-
2017-2021	13,220		-	-
2022-2024	5,287		-	-
	<u>\$ 103,447</u>	<u>\$</u>	<u>919,882</u>	<u>\$ 33,573</u>

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

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

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

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

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

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

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

The Flush Truck note was issued on June 28, 2006 in the amount of \$147,656 and was for the purpose of purchasing a Pump Truck. This note will mature on June 28, 2007 and will be paid from the Sewer Fund.

The Water Sludge Lagoon Cleaning note was issued on April 28, 2006 in the amount of \$13,696 and was for the purpose of sludge removal. This note will mature on April 28, 2007 and will be paid from the Water Fund.

The Bristol Park note was issued on April 29, 2005 in the amount of \$285,015 and was to complete the Bristol Park project. On April 19, 2006, the city paid \$26,855 against the \$285,015 note and refinanced the remaining \$258,160 into a new note dated April 20, 2006. This note will mature on April 29, 2007 and will be paid from the Bristol Park Capital Project Fund.

The Fire Truck note was issued for the purpose of purchasing a new fire truck and refinancing the note from a previously purchased fire truck. On April 13, 2006 the note was issued in the amount of \$327,058 and matured on October 10, 2006. On September 27, 2006, the note was issued in the amount of \$307,905. This note will mature on March 27, 2007 and will be paid from the Fire Special Revenue Fund.

The Backhoe note was issued on February 22, 2005 in the amount of \$9,929 for the purpose of purchasing a backhoe. This note matured on February 22, 2006 and was paid from the Bridge & Street Non-major Special Revenue Fund. This note is secured by the backhoe purchased with the proceeds of the note.

The Second Street Improvements Note was issued on November 8, 2006 in the amount of \$252,837 and was used to construct Pride Drive. The note will mature on November 8, 2007 and will be paid from the Second Street Improvements Fund.

The Bridge & Street Mower note was issued on August 23, 2005 in the amount of \$6,528 and was issued to purchase a mower for the Bridge & Street Department. The note matured on August 23, 2006 and was paid from the Bridge & Street Non-major Special Revenue Fund.

The Police Department renovations note was issued on January 4, 2006 in the amount of \$68,919 and is being used to renovate the police department building. The note will mature on January 4, 2007 and will be paid from the Police Major Special Revenue Fund.

The Dump Truck note was issued on June 27, 2006 in the amount of \$32,061 and was issued for the purchase of a dump truck. The note will mature on June 27, 2007 and will be paid from the Bridge & Street Fund.

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

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 14 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the City contracted with The Public Entities Pool of Ohio for all property and fleet insurance, liability insurance, and inland marine coverage as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$21,763,200
Miscellaneous Property and Inland Marine Coverage (\$1,000 deductible)	810,365
Electronic Data Processing Equip Coverage (\$1,000 deductible)	48,171
Automobile Vehicle Liability (\$0 deductible)	2,000,000
Uninsured/Under Insured Motorists Per Occurrence	100,000
Medical Expenses	1,000
Wrongful Acts Coverage (\$2,500 deductible)	2,000,000
General Liability	
Per occurrence	2,000,000
Employee Benefits (\$1,000 deductible)	100,000
Medical Expense (other than auto)	5,000
Law Enforcement Liability (\$2,000 deductible)	
Per occurrence	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

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

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

NOTE 15 – CONTRACTUAL COMMITMENTS

Outstanding contractual commitments at December 31, 2006, consist of the following:

Vendor	Project	Contract Amount	Amount Expended	Balance at 12/31/2006
KC Landscaping	West North Street	\$ 24,750	\$ 2,000	\$ 22,750

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 16 – JOINTLY GOVERNED ORGANIZATION

WAVERLY EVERGREEN UNION CEMETERY

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

NOTE 17 – CONTINGENT LIABILITIES

A. LITIGATION

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

B. FEDERAL AND STATE GRANTS

For the period January 1, 2006 to December 31, 2006, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE 18 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

For the fiscal year 2006, the City implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

Restatement of Fund Balances: The City had an appraisal of capital assets conducted during fiscal year 2006. As a result, capital assets and related accumulated depreciation have been restated accordingly. Due to an accounting error, deferred revenue was adjusted in the Governmental Activities. These adjustments had the following affect on beginning net asset balances:

	Governmental Activities	Water	Sewer	Total Business-Type Activities
Net Assets as of December 31, 2005	\$ 2,646,272	\$ 2,408,502	\$ 1,013,894	\$ 3,422,396
Capital Assets	37,954	2,245,218	40,958	2,286,176
Deferred Revenue	205,703	-	-	-
Net Assets as of January 1, 2006	<u>\$ 2,889,929</u>	<u>\$ 4,653,720</u>	<u>\$ 1,054,852</u>	<u>\$ 5,708,572</u>

CITY OF WAVERLY, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 19 – COMPLIANCE

Ohio Revised Code Section 5705.41(B)

At December 31, 2006, total disbursements plus encumbrances exceeded total appropriations in the following funds:

Special Revenue Funds:	
Fire Fund	\$ (647,301)
Police Fund	(154,749)
Bridge and Street Fund	(8,819)
Capital Projects Funds:	
Recreational Complex Fund	(267,744)
Enterprise Funds:	
Sewer Fund	(55,796)

Ohio Rev. Code Section 5705.39

At December 31, 2006, appropriations exceeded total estimated resources in the following funds:

Capital Projects Funds:	
West North Street Fund	\$ 535,055

The City intends to monitor budgetary activity more closely to prevent the above type of situations from occurring again.

Ohio Revised Code section 5705.36(A)(2)

Contrary to this section, actual receipts exceeded estimated receipts in the West North Street Fund, Recreational Complex Fund, Fire Fund, and Sewer Fund. These unanticipated receipts were subsequently expended without obtaining an amended certificate of estimate resources.



Mary Taylor, CPA

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 Waverly
Pike County
201 West North Street
Waverly, Ohio 45690

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waverly, Pike County, Ohio (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 18, 2008, wherein we noted there was a lack of sufficient competent evidential matter to gain the necessary assurances regarding the accuracy, completeness, existence and valuation of the Capital Assets reported in the Governmental Activities, Business-Type Activities, and the Water Fund and Sewer Fund for the year ended December 31, 2006. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2006-005 through 2006-007.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding number 2006-007 is also a material weakness.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated January 18, 2008.

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2006-001 through 2006-005.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated January 18, 2008.

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



Mary Taylor, CPA
Auditor of State

January 18, 2008

**CITY OF WAVERLY
PIKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006**

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

FINDING NUMBER 2006-001

Noncompliance Citation

Ohio Rev. Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Rev. Code Section 5705.36(A)(3) provides that an increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Ohio Rev. Code Section 5705.36(A)(4) provides that a reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

As of December 31, 2006, the following funds had significant actual revenue that exceeded estimated revenue:

Fund	Estimated Receipts	Actual Receipts	Variance
West North Street	\$207,000	\$638,563	\$431,563
Recreational Complex	37,244	309,820	272,576
Fire	262,200	926,636	664,436
Sewer	941,366	1,040,415	99,049

These funds also had expenditures that exceeded estimated resources:

Fund	Estimated Resources	Actual Expenditures	Variance
West North Street	\$188,545	\$746,876	\$558,331
Recreational Complex	38,500	306,244	267,744
Fire	328,427	942,728	614,301
Sewer	1,132,328	1,266,651	134,323

This indicates that an amended certificate of estimated resources should have been obtained before the unanticipated revenue was expended.

We recommend the City Auditor obtain an increased amended certificate of estimated resources when it is determined by him that revenue to be collected will be greater than the amount in the official certificate of estimated resources and the excess is intended to be appropriated and expended.

FINDING NUMBER 2006-002

Noncompliance Citation

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

**CITY OF WAVERLY
PIKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006
(Continued)**

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

FINDING NUMBER 2006-002 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.39 (Continued)

At December 31, 2006, appropriations exceeded total estimated resources in the following funds:

	Total Appropriations	Total Estimated Resources	Variance
West North Street Fund	\$723,600	\$188,545	\$535,055

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

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

FINDING NUMBER 2006-003

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated.

At December 31, 2006 total expenditures plus encumbrances exceeded total appropriations in the following funds:

	Total Appropriations	Total Expenditures	\$ Variance
Bridge and Street Fund	\$496,760	\$505,579	(\$8,819)
Fire Fund	295,427	942,728	(647,301)
Police Fund	910,110	1,064,859	(154,749)
Recreational Complex Fund	38,500	306,244	(267,744)
Sewer Fund	1,210,855	1,266,651	(55,796)

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

FINDING NUMBER 2006-004

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

CITY OF WAVERLY
PIKE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006
(Continued)

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

FINDING NUMBER 2006-004 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

2. Blanket Certificate – Fiscal officers may prepare so-called "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation account.

The City Auditor did not certify the availability of funds prior to making commitments for 61% of the disbursements tested for 2006. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the City uses exceptions noted above, prior certification is not only required by statute but also is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend that the City Auditor certify that funds are or will be available prior to obligations by the City. When prior certification is not possible, "then and now" certification should be used.

**CITY OF WAVERLY
PIKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006
(Continued)**

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

FINDING NUMBER 2006-004 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

We recommend the City officials and employees obtain the Auditor's certification of the availability of funds prior to the commitment being incurred. We also recommend the City Council establish an amount by resolution limiting the dollar value at which "blanket certificates" can be certified if they decide to use "blanket certificate". In addition to blanket certificates, the most convenient certification method is to use purchase orders that include the certification language Section 5704.41(D) requires to authorize disbursements. The City Auditor should sign the certification at the time the City incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The City Auditor should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

FINDING NUMBER 2006-005

Noncompliance Citation/Significant Deficiency

Ohio Admin. Code Section 117-2-02(C)(1) states that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

For several funds throughout 2006, estimated revenue and appropriations recorded in the accounting system did not agree to estimated revenue on the original certificate of estimated resources plus amended certificates or appropriations on the original appropriation resolution plus amended appropriations throughout the year, respectively, as follows:

Fund	Estimated Revenues Per Official Certificate	Estimated Revenues Posted to Accounting System	Variance
General	\$2,001,450	\$2,459,454	\$458,004
Bridge & Street	502,846	572,538	69,692
Fire	262,200	345,932	83,732
Police	1,074,600	1,184,778	110,178
West North Street	207,000	977,000	770,000
Recreational Complex	37,244	38,500	1,256
Water	700,000	743,294	43,294
Sewer	941,366	986,306	44,940

Fund	Approved Appropriations	Appropriations Posted to Accounting System	Variance
Fire	\$295,427	\$300,050	\$4,623
Recreational Complex	38,500	34,500	4,000

This caused the estimated revenue on the Revenue Report and appropriations on the Expense Report to not be a reliable resource for management to monitor and compare to actual revenue and actual disbursements in order to determine if an amended certificate of estimated resources would be necessary to obtain or amended appropriations approved.

**CITY OF WAVERLY
PIKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-005 (Continued)

**Noncompliance Citation/Significant Deficiency - Ohio Admin. Code Section 117-2-02(C)(1)
(Continued)**

We recommend the City Auditor's Office Manager reconcile each amended certificate of estimated resources to the accounting system (Estimated Revenue in the Revenue Report) and each amended appropriation to the accounting system (Appropriations in the Expense Report) to ensure that they are in agreement.

FINDING NUMBER 2006-006

Significant Deficiency

Sound financial reporting is the responsibility of the City Auditor and City Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustment or reclassification:

- Note debt of \$32,061 was issued for a dump truck for the Bridge & Street Department but the activity was reported in the Water Fund on the financial statements.
- The liability for the City's 4th quarter pension obligation of \$41,494 was not reported on the financial statements.
- Interest payments of \$81,026 made on behalf of the City by the Ohio Public Works Commission to the Ohio Water Development Authority were incorrectly recorded as other revenue instead of intergovernmental revenue.
- Wastewater Treatment Plant Bond principal of \$160,000 that was due in less than one year was reported as due in more than one year.
- Intergovernmental revenues of \$287,439 were incorrectly recorded as Tax revenues.
- Property taxes receivable and deferred revenue were overstated by \$155,000 due to local government revenues being included in their calculation.
- Intergovernmental receivable was overstated by \$73,912, intergovernmental revenue was overstated by \$17,958, and deferred revenue was overstated by \$55,954 due to incorrect calculations and the use of a 60 day available period when the City's available period was 31 days.

To ensure the City's financial statements and notes to the statements are complete and accurate, the City should adopt policies and procedures, including a final review of the statements and notes by the City Auditor and City Council, to identify and correct errors and omissions.

FINDING NUMBER 2006-007

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring adequate security of assets and records as well as verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

**CITY OF WAVERLY
PIKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-007 (Continued)

Material Weakness (Continued)

Prior to 2004, the City did not have a comprehensive listing of all of its capital assets detailing individual assets purchased, the cost of the assets, location, date of acquisition, etc. During the preparation of the 2004 financial statements, the City obtained a Capital Assets Inventory System and developed a listing of the City's Capital Assets.

Audit testing revealed that this listing was developed by the department heads with each listing the assets their department had, along with estimates of the values and acquisition dates. There was no supporting documentation for the estimated values and acquisition dates. Also, there were significant variances between the audited December 31, 2003 amounts and the restated beginning January 1, 2004 amounts due to the City using estimates in preparing its Capital Assets Inventory System listing in 2004. Testing further revealed that the amounts reported for 2004 and 2005 Capital Assets additions were also estimates of values.

During 2006, the City contracted with an appraisal firm to perform an appraisal of the City's capital assets. The values included in the appraisal report were primarily based on information provided by the City which consisted mostly of estimates of values and acquisition dates which were tested and determined to be inaccurate, or at least unsupported, in the audit of the City's 2004 and 2005 financial statements. We also noted several of the City's capital assets, including Water Department items and fire trucks, that were excluded from the appraisal prepared during 2006, even though the Governmental Activities Capital Assets were restated by an increase of \$37,954 and the Business-Type Activities Capital Assets were restated by an increase of \$2,286,176. In addition, the appraisal noted \$0 for Vehicles in Governmental Activities at January 1, 2006 which is incorrect and removed the Vehicles category altogether in the Business-Type Activities.

Using estimated information, rather than vouchers listing account codes from which the assets were purchased, to record asset additions does not enable the City to identify the fund and function from which the asset was purchased. GASB 34 requires such information be available to properly record information such as the loss on the disposal of assets, depreciation, etc.

We were unable to find documents to support the amounts included in the appraisal as noted above and based on the issues described above, we could not effectively gain the necessary assurances regarding the accuracy, completeness, existence and valuation of the City's Capital Assets.

The City estimated the value of many capital assets. The City should have records to support the valuation of material capital assets. The City should record additions and deletions when the transactions occur. When an asset is purchased and has been received, the City Auditor or his designee should complete a fixed asset addition form and attach a copy of the invoice for payment to it. The Auditor's Office should assign a tag for the asset and ensure that the tag is affixed to the appropriate asset. The City Auditor or his designee should record the tag number on the asset addition form. The City Auditor should then file the form in a separate file for asset additions. If this process is used throughout the year, the City Auditor can then use the file with the addition forms to prepare the annual update to be sent to the appraisal firm. When an asset is disposed of, the City Auditor or his designee should complete an asset disposal form. The City Auditor or his designee should remove the asset inventory tag from the asset and attach it to the disposal form to ensure that the appropriate asset is removed from the inventory listing. The City Auditor should maintain the disposal forms in a separate file.

**CITY OF WAVERLY
PIKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006
(Continued)**

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p>

FINDING NUMBER 2006-007 (Continued)

Material Weakness (Continued)

The City Auditor can then use this file at the end of the year to send the necessary information for the annual inventory update to the appraisal firm. Such processes would enable the City to ensure that the amounts reported for capital assets are appropriately recorded and that the asset inventory is accurate for both reporting and insurance purposes. The City Auditor and the appraisal firm should adjust the values on the capital assets reports to agree to the actual amounts expended for the assets and maintain the documentation to support these values.

Official's Response:

We did not receive a response from Officials to the findings reported above.

**CITY OF WAVERLY
PIKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Ohio Rev. Code Section 5705.41(B) - Expenditures exceeded appropriations	No	Not Corrected - Reissued as Finding Number 2006-003
2005-002	Ohio Rev. Code Section 5705.41(D)(1) - Not certifying the availability of funds prior to obligation	No	Not Corrected - Reissued as Finding Number 2006-004
2005-003	No comprehensive Capital Assets listing.	No	Not Corrected - Reissued as Finding Number 2006-007



Mary Taylor, CPA
Auditor of State

CITY OF WAVERLY

PIKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 15, 2008**