



**Auditor of State
Betty Montgomery**

**CITY OF WAUSEON
FULTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Honorable Mayor and Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wauseon, Fulton County, Ohio (the City), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wauseon, Fulton County, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended December 31, 2004, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2005, 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

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control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

November 15, 2005

CITY OF WAUSEON, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2004***

Unaudited

The discussion and analysis of the City of Wauseon's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

- ❑ In total, net assets increased \$1,642,256. Net assets of governmental activities increased \$1,456,972, which represents a 12.9% increase from 2003. Net assets of business-type activities increased \$185,284 or 1.5% from 2003.
- ❑ General revenues accounted for \$4,454,462 in revenue or 55.6% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,566,197, 44.4% of total revenues of \$8,020,659.
- ❑ The City had \$4,256,538 in expenses related to governmental activities; only \$1,259,048 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$4,454,462 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$3,865,880 in revenues and other financing sources and \$3,506,515 in expenditures and other financing uses. The general fund's fund balance increased from \$1,308,831 to \$1,664,851.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

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

CITY OF WAUSEON, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2004*

Unaudited

Government-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

CITY OF WAUSEON, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2004***

Unaudited

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior year's information is not available. A comparative analysis will be provided in future years when prior year's information is available.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
	2004	2004	2004
Current and other assets	\$5,216,595	\$4,704,347	\$9,920,942
Capital assets, Net	8,135,442	11,618,261	19,753,703
Total assets	<u>13,352,037</u>	<u>16,322,608</u>	<u>29,674,645</u>
Long-term debt outstanding	206,480	1,478,327	1,684,807
Other liabilities	432,667	2,187,273	2,619,940
Total liabilities	<u>639,147</u>	<u>3,665,600</u>	<u>4,304,747</u>
Net assets			
Invested in capital assets, net of related debt	8,135,442	8,062,437	16,197,879
Restricted	2,863,475	0	2,863,475
Unrestricted	1,713,973	4,594,571	6,308,544
Total net assets	<u><u>\$12,712,890</u></u>	<u><u>\$12,657,008</u></u>	<u><u>\$25,369,898</u></u>

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CITY OF WAUSEON, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2004***

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2004:

	Governmental Activities	Business-type Activities	Total
	2004	2004	2004
Revenues			
Program revenues:			
Charges for Services and Sales	\$695,504	\$2,307,149	\$3,002,653
Operating Grants and Contributions	451,577		451,577
Capital Grants and Contributions	111,967	0	111,967
General revenues:			
Property Taxes	273,757	0	273,757
Income Taxes	3,101,484	0	3,101,484
Contributions not restricted to Specific Programs	947,023	0	947,023
Investment Earnings	46,632	0	46,632
Miscellaneous	85,566	0	85,566
Total revenues	5,713,510	2,307,149	8,020,659
Program Expenses			
Security of Persons and Property	1,666,323	0	1,666,323
Basic Utility Services	57,051	0	57,051
Leisure Time Activities	536,408	0	536,408
Community Environment	732,283	0	732,283
Transportation	601,833	0	601,833
General Government	662,640	0	662,640
Debt Service:			
Water	0	1,223,668	1,223,668
Wastewater	0	898,197	898,197
Total expenses	4,256,538	2,121,865	6,378,403
Total Change in Net Assets	1,456,972	185,284	1,642,256
Beginning Net Assets	11,255,918	12,471,724	23,727,642
Ending Net Assets	\$12,712,890	\$12,657,008	\$25,369,898

Governmental Activities

Net assets of the City's governmental activities increased \$1,456,972. Overall, revenues and expenditures remained very consistent when compared to the prior year, with revenues continuing to exceed expenditures.

The City receives an income tax, which is based on 1.5% of all salaries, wages, commissions and other compensation and on net profits earned from residents living within the City.

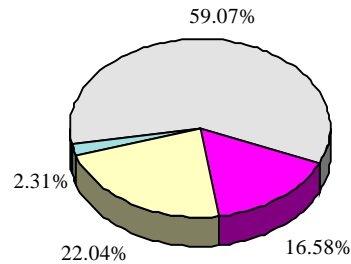
CITY OF WAUSEON, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2004**

Unaudited

Income taxes and property taxes made up 54% and 5% respectively of revenues for governmental activities for the City in fiscal year 2004. The City's reliance upon tax revenues is demonstrated by the following graph indicating 59% of total revenues from general tax revenues:

Revenue Sources	2004	Percent of Total
General Tax Revenues	\$3,375,241	59.07%
Shared Revenue	947,023	16.58%
Program Revenues	1,259,048	22.04%
General Other	132,198	2.31%
Total Revenue	\$5,713,510	100.00%



Business-Type Activities

Net assets of the business-type activities remained very stable, increasing by \$185,284. This represents just a 1.5% change from the previous year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$4,388,475, which is an increase from last year's balance of \$4,007,791. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2004 and 2003:

	Fund Balance December 31, 2004	Fund Balance December 31, 2003	Increase (Decrease)
General	\$1,664,851	\$1,308,831	\$356,020
Income Tax Capital Improvement	1,550,791	1,472,965	77,826
Other Governmental	1,172,833	1,225,995	(53,162)
Total	\$4,388,475	\$4,007,791	\$380,684

CITY OF WAUSEON, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2004**

Unaudited

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

	2004 Revenues	2003 Revenues	Increase (Decrease)
Taxes	\$2,129,476	\$1,801,271	\$328,205
Intergovernmental Revenue	852,454	657,423	195,031
Charges for Services	637,885	627,878	10,007
Licenses and Permits	15,006	15,678	(672)
Investment Earnings	27,757	40,897	(13,140)
Fines and Forfeitures	42,489	35,106	7,383
All Other Revenue	130,123	65,970	64,153
Total	\$3,835,190	\$3,244,223	\$590,967

General Fund revenues in 2004 increased approximately 18% compared to revenues in fiscal year 2003. This increase can mostly be attributed to increases in income taxes and intergovernmental revenues. The income tax increase was the result of more income tax revenue being allocated to the General Fund beginning in 2004. A large estate tax settlement caused the increase in intergovernmental revenues.

	2004 Expenditures	2003 Expenditures	Increase (Decrease)
Security of Persons and Property	\$1,635,076	\$1,581,749	\$53,327
Basic Utility Services	51,610	48,001	3,609
Leisure Time Activities	453,723	444,633	9,090
Community Environment	449,458	427,158	22,300
Transportation	245,668	273,984	(28,316)
General Government	574,803	559,831	14,972
Capital Outlay	18,607	27,171	(8,564)
Total	\$3,428,945	\$3,362,527	\$66,418

General Fund expenditures remained very stable when compared to the previous year, increasing by just 1.9%.

	2004 Other Financing Sources (Uses)	2003 Other Financing Sources (Uses)	Increase (Decrease)
Other Financing Sources	\$30,690	\$49,222	(\$18,532)
Other Financing Uses	(77,570)	(85,830)	8,260
Total	(\$46,880)	(\$36,608)	(\$10,272)

CITY OF WAUSEON, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2004*

Unaudited

Income Tax Capital Improvement Fund – The City's Income Tax Capital Improvement Fund experienced an increase in fund balance of 5%. Decreases in capital outlay expenditures contributed to this increase.

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

During the course of fiscal year 2004 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of \$3,412,200 was slightly higher than original budget estimates of \$3,341,000. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004 the City had \$19,753,703 net of accumulated depreciation invested in land, buildings, equipment and vehicles. Of this total, \$8,135,442 was related to governmental activities and \$11,618,261 to the business-type activities. The following table shows fiscal year 2004 and 2003 balances:

	Governmental Activities		Increase (Decrease)
	2004	2003	
Land	\$802,993	\$575,144	\$227,849
Buildings	3,735,470	3,602,613	132,857
Improvements Other than Buildings	1,112,234	1,037,764	74,470
Machinery and Equipment	2,849,444	2,658,870	190,574
Infrastructure	3,053,954	2,400,348	653,606
Less: Accumulated Depreciation	(3,418,653)	(2,991,245)	(427,408)
Totals	\$8,135,442	\$7,283,494	\$851,948

The primary increase occurred in infrastructure, which consisted of improvements to Glenwood Avenue.

	Business-Type Activities		Increase (Decrease)
	2004	2003	
Land	\$77,875	\$77,875	\$0
Buildings	5,057,515	5,015,921	41,594
Improvements other than Buildings	10,678,648	10,678,648	0
Machinery and Equipment	4,711,561	4,682,567	28,994
Less: Accumulated Depreciation	(8,907,338)	(8,463,349)	(443,989)
Totals	\$11,618,261	\$11,991,662	(\$373,401)

Increases in business-type capital assets can be attributed to routine purchases of computer equipment. Additional information on the City's capital assets can be found in Note 6.

CITY OF WAUSEON, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2004**

Unaudited

Debt

The following table summarizes the City's debt outstanding as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Governmental Activities:		
Compensated Absences	\$206,480	\$181,388
Total Governmental Activities	<u>206,480</u>	<u>181,388</u>
Business-Type Activities:		
Ohio Water Development Authority Loans	1,455,824	1,702,802
Compensated Absences	22,503	30,906
Total Business-Type Activities	<u>1,478,327</u>	<u>1,733,708</u>
Totals	<u>\$1,684,807</u>	<u>\$1,915,096</u>

Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total assessed value of property. At December 31, 2004, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 9.

ECONOMIC FACTORS

The City of Wauseon is the county seat of Fulton County, located in the northwest corner of Ohio, with a population of 7,100 people. The City's main source of revenue is a 1.5% income tax levied on residents of the City and nonresidents working within the City. Gross revenues from this tax have exceeded \$3 million for the last three years and are split between the General Fund and the Capital Projects Fund. Continued employment is key to the stability and growth of the City's revenue stream.

The two types of employers with the largest number of employees are manufacturing (1,600 employees) and governmental/health (1,100 employees). Building expansions at the largest manufacturer and the hospital will create new job opportunities, along with several new retail entities that are scheduled to be built and opened during 2005.

A new street is being constructed through what was previously farmland in the northeast corner of the City. This will open a whole new area for future economic development and allow the City's income tax base to grow.

REQUESTS FOR INFORMATION

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

CITY OF WAUSEON, OHIO

Statement of Net Assets
December 31, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents	\$ 2,591,072	\$ 3,401,506	\$ 5,992,578
Investments	0	624,402	624,402
Receivables:			
Taxes	693,191	0	693,191
Accounts	32,634	241,156	273,790
Intergovernmental	924,998	0	924,998
Interest	0	164	164
Special Assessments	628	0	628
Loans	489,817	290,382	780,199
Inventory of Supplies at Cost	26,292	89,677	115,969
Prepaid Items	36,931	57,060	93,991
Restricted Assets:			
Cash and Cash Equivalents with Fiscal Agent	421,032	0	421,032
Capital Assets, Net	8,135,442	11,618,261	19,753,703
Total Assets	<u>13,352,037</u>	<u>16,322,608</u>	<u>29,674,645</u>
Liabilities:			
Accounts Payable	25,567	51,479	77,046
Accrued Wages and Benefits	124,252	26,384	150,636
Intergovernmental Payable	348	4,066	4,414
Deferred Revenue	282,500	0	282,500
Accrued Interest Payable	0	5,344	5,344
General Obligation Notes Payable	0	2,100,000	2,100,000
Noncurrent liabilities:			
Due within one year	99,864	272,617	372,481
Due in more than one year	106,616	1,205,710	1,312,326
Total Liabilities	<u>639,147</u>	<u>3,665,600</u>	<u>4,304,747</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	8,135,442	8,062,437	16,197,879
Restricted For:			
Capital Projects	1,557,211	0	1,557,211
Other Purposes	1,306,264	0	1,306,264
Unrestricted	1,713,973	4,594,571	6,308,544
Total Net Assets	<u>\$ 12,712,890</u>	<u>\$ 12,657,008</u>	<u>\$ 25,369,898</u>

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

Statement of Activities
For the Year Ended December 31, 2004

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Security of Persons and Property	\$ 1,666,323	\$ 476,540	\$ 33,292	\$ 0
Basic Utility Services	57,051	11,235	0	0
Leisure Time Activities	536,408	17,580	0	0
Community Environment	732,283	170,227	0	111,967
Transportation	601,833	0	418,285	0
General Government	662,640	19,922	0	0
Total Governmental Activities	4,256,538	695,504	451,577	111,967
Business-Type Activities:				
Water	1,223,668	1,314,203	0	0
Wastewater	898,197	992,946	0	0
Total Business-Type Activities	2,121,865	2,307,149	0	0
Totals	\$ 6,378,403	\$ 3,002,653	\$ 451,577	\$ 111,967

General Revenues

Property Taxes Levied for:
 General Purposes
 Income Tax
 Grants and Entitlements not Restricted to Specific Programs
 Investment Earnings
 Miscellaneous
Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year
Net Assets End of Year

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (1,156,491)	\$ 0	\$ (1,156,491)
(45,816)	0	(45,816)
(518,828)	0	(518,828)
(450,089)	0	(450,089)
(183,548)	0	(183,548)
(642,718)	0	(642,718)
<u>(2,997,490)</u>	<u>0</u>	<u>(2,997,490)</u>
0	90,535	90,535
<u>0</u>	<u>94,749</u>	<u>94,749</u>
0	185,284	185,284
<u>(2,997,490)</u>	<u>185,284</u>	<u>(2,812,206)</u>
273,757	0	273,757
3,101,484	0	3,101,484
947,023	0	947,023
46,632	0	46,632
85,566	0	85,566
<u>4,454,462</u>	<u>0</u>	<u>4,454,462</u>
1,456,972	185,284	1,642,256
<u>11,255,918</u>	<u>12,471,724</u>	<u>23,727,642</u>
<u>\$ 12,712,890</u>	<u>\$ 12,657,008</u>	<u>\$ 25,369,898</u>

CITY OF WAUSEON, OHIO

Balance Sheet *Governmental Funds* *December 31, 2004*

	General	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 896,800	\$ 1,400,870	\$ 293,402	\$ 2,591,072
Receivables:				
Taxes	532,595	160,596	0	693,191
Accounts	32,634	0	0	32,634
Intergovernmental	773,254	0	151,744	924,998
Special Assessments	628	0	0	628
Loans	0	0	489,817	489,817
Inventory of Supplies, at Cost	16,847	0	9,445	26,292
Prepaid Items	36,931	0	0	36,931
Restricted Assets:				
Cash and Cash Equivalents with Fiscal Agent	0	0	421,032	421,032
Total Assets	\$ 2,289,689	\$ 1,561,466	\$ 1,365,440	\$ 5,216,595
Liabilities:				
Accounts Payable	\$ 21,900	\$ 3,453	\$ 214	\$ 25,567
Accrued Wages and Benefits Payable	114,739	802	8,711	124,252
Intergovernmental Payable	348	0	0	348
Deferred Revenue	474,337	6,420	183,682	664,439
Compensated Absences Payable	13,514	0	0	13,514
Total Liabilities	624,838	10,675	192,607	828,120
Fund Balances:				
Reserved for Encumbrances	146,060	31,447	18,691	196,198
Reserved for Prepaid Items	36,931	0	0	36,931
Reserved for Supplies Inventory	16,847	0	9,445	26,292
Reserved for Loans Receivable	0	0	489,817	489,817
Undesignated, Unreserved in:				
General Fund	1,465,013	0	0	1,465,013
Special Revenue Funds	0	0	654,880	654,880
Capital Project Funds	0	1,519,344	0	1,519,344
Total Fund Balances	1,664,851	1,550,791	1,172,833	4,388,475
Total Liabilities and Fund Balances	\$ 2,289,689	\$ 1,561,466	\$ 1,365,440	\$ 5,216,595

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
December 31, 2004***

Total Governmental Fund Balances	\$ 4,388,475
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	8,135,442
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	381,939
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Compensated Absences Payable	(192,966)
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 12,712,890</u></u>

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

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

	General	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 2,129,476	\$ 1,236,939	\$ 0	\$ 3,366,415
Intergovernmental Revenues	852,454	111,967	316,331	1,280,752
Charges for Services	637,885	0	0	637,885
Licenses and Permits	15,006	0	0	15,006
Investment Earnings	27,757	0	18,875	46,632
Fines and Forfeitures	42,489	0	2,847	45,336
All Other Revenue	130,123	0	1,186	131,309
Total Revenue	3,835,190	1,348,906	339,239	5,523,335
Expenditures:				
Current:				
Security of Persons and Property	1,635,076	0	300	1,635,376
Basic Utility Services	51,610	0	0	51,610
Leisure Time Activities	453,723	0	0	453,723
Community Environment	449,458	44,026	201,390	694,874
Transportation	245,668	0	191,962	437,630
General Government	574,803	0	0	574,803
Capital Outlay	18,607	1,228,191	0	1,246,798
Total Expenditures	3,428,945	1,272,217	393,652	5,094,814
Excess (Deficiency) of Revenues Over Expenditures	406,245	76,689	(54,413)	428,521
Other Financing Sources (Uses):				
Other Financing Sources	30,690	1,137	0	31,827
Other Financing Uses	(77,570)	0	0	(77,570)
Total Other Financing Sources (Uses)	(46,880)	1,137	0	(45,743)
Net Change in Fund Balances	359,365	77,826	(54,413)	382,778
Fund Balances at Beginning of Year	1,308,831	1,472,965	1,225,995	4,007,791
Increase (Decrease) in Inventory Reserve	(3,345)	0	1,251	(2,094)
Fund Balances End of Year	\$ 1,664,851	\$ 1,550,791	\$ 1,172,833	\$ 4,388,475

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended December 31, 2004***

Net Change in Fund Balances - Total Governmental Funds \$ 382,778

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 capital outlays exceeded depreciation in the current period.

Capital Outlay	1,294,093	
Depreciation Expense	<u>(439,279)</u>	854,814

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

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.	(2,866)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	235,918
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	(11,578)	
Change in Inventory	<u>(2,094)</u>	(13,672)

<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$ 1,456,972</u></u>
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See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 2,080,000	\$ 2,070,000	\$ 2,109,452	\$ 39,452
Intergovernmental Revenue	523,000	530,000	433,815	(96,185)
Charges for Services	606,500	626,500	621,526	(4,974)
Licenses and Permits	15,500	15,200	15,084	(116)
Investment Earnings	35,000	25,000	27,757	2,757
Fines and Forfeitures	36,000	40,500	43,771	3,271
All Other Revenues	45,000	105,000	125,681	20,681
Total Revenues	<u>3,341,000</u>	<u>3,412,200</u>	<u>3,377,086</u>	<u>(35,114)</u>
Expenditures:				
Current:				
Security of Persons and Property	1,752,230	1,750,230	1,748,786	1,444
Basic Utility Services	82,000	82,000	61,141	20,859
Leisure Time Activities	488,250	498,750	475,750	23,000
Community Environment	522,900	522,900	467,938	54,962
Transportation	256,300	264,800	265,731	(931)
General Government	663,550	658,550	625,103	33,447
Capital Outlay	43,100	28,600	20,113	8,487
Total Expenditures	<u>3,808,330</u>	<u>3,805,830</u>	<u>3,664,562</u>	<u>141,268</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(467,330)	(393,630)	(287,476)	106,154
Other Financing Sources (Uses):				
Other Financing Sources	10,000	30,000	30,690	690
Other Financing Uses	(70,000)	(85,000)	(77,570)	7,430
Total Other Financing Sources (Uses):	<u>(60,000)</u>	<u>(55,000)</u>	<u>(46,880)</u>	<u>8,120</u>
Net Change in Fund Balance	(527,330)	(448,630)	(334,356)	114,274
Fund Balance at Beginning of Year	871,151	871,151	871,151	0
Prior Year Encumbrances	192,700	192,700	192,700	0
Fund Balance at End of Year	<u>\$ 536,521</u>	<u>\$ 615,221</u>	<u>\$ 729,495</u>	<u>\$ 114,274</u>

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

**Statement of Net Assets
Proprietary Funds
December 31, 2004**

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current assets:			
Cash and Cash Equivalents	\$ 1,422,337	\$ 1,979,169	\$ 3,401,506
Investments	0	624,402	624,402
Receivables:			
Accounts	130,342	110,814	241,156
Interest	0	164	164
Loans	290,382	0	290,382
Inventory of Supplies at Cost	76,380	13,297	89,677
Prepaid Items	28,438	28,622	57,060
Total current assets	<u>1,947,879</u>	<u>2,756,468</u>	<u>4,704,347</u>
Noncurrent assets:			
Capital Assets, Net	6,636,197	4,982,064	11,618,261
Total noncurrent assets	<u>6,636,197</u>	<u>4,982,064</u>	<u>11,618,261</u>
Total assets	<u>8,584,076</u>	<u>7,738,532</u>	<u>16,322,608</u>
LIABILITIES			
Current liabilities:			
Accounts Payable	42,526	8,953	51,479
Accrued Wages and Benefits	16,045	10,339	26,384
Intergovernmental Payable	4,066	0	4,066
Accrued Interest Payable	5,344	0	5,344
General Obligation Notes Payable	2,100,000	0	2,100,000
OWDA Loans Payable - Current	11,505	255,335	266,840
Total Current Liabilities	<u>2,179,486</u>	<u>274,627</u>	<u>2,454,113</u>
Noncurrent Liabilities:			
OWDA Loans Payable	289,360	899,624	1,188,984
Compensated Absences Payable	7,950	14,553	22,503
Total noncurrent liabilities	<u>297,310</u>	<u>914,177</u>	<u>1,211,487</u>
Total Liabilities	<u>2,476,796</u>	<u>1,188,804</u>	<u>3,665,600</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,235,332	3,827,105	8,062,437
Unrestricted	1,871,948	2,722,623	4,594,571
Total Net Assets	<u>\$ 6,107,280</u>	<u>\$ 6,549,728</u>	<u>\$ 12,657,008</u>

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2004

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
Operating Revenues:			
Charges for Services	\$ 1,257,827	\$ 956,138	\$ 2,213,965
Total Operating Revenues	<u>1,257,827</u>	<u>956,138</u>	<u>2,213,965</u>
Operating Expenses:			
Personal Services	495,464	347,015	842,479
Contractual Services	197,626	100,181	297,807
Materials and Supplies	198,911	116,079	314,990
Depreciation	215,209	232,471	447,680
Total Operating Expenses	<u>1,107,210</u>	<u>795,746</u>	<u>1,902,956</u>
Operating Income	150,617	160,392	311,009
Non-Operating Revenue (Expenses):			
Interest Income	20,806	36,808	57,614
Interest and Fiscal Charges	(52,167)	(97,357)	(149,524)
Loss on Sale of Capital Assets	0	(1,565)	(1,565)
Other Nonoperating Revenue	35,570	0	35,570
Other Nonoperating Expense	(64,291)	(3,529)	(67,820)
Total Non-Operating Revenues (Expenses)	<u>(60,082)</u>	<u>(65,643)</u>	<u>(125,725)</u>
Change in Net Assets	90,535	94,749	185,284
Net Assets Beginning of Year	6,016,745	6,454,979	12,471,724
Net Assets End of Year	<u>\$ 6,107,280</u>	<u>\$ 6,549,728</u>	<u>\$ 12,657,008</u>

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

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

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Totals
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$1,312,909	\$956,342	\$2,269,251
Cash Payments for Goods and Services	(443,161)	(228,552)	(671,713)
Cash Payments to Employees	(516,143)	(358,941)	(875,084)
Net Cash Provided by Operating Activities	<u>353,605</u>	<u>368,849</u>	<u>722,454</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(45,262)	(30,582)	(75,844)
Proceeds from G.O. Notes	2,100,000	0	2,100,000
Note Retirement	(2,400,000)	0	(2,400,000)
OWDA Loan Retirement	(11,125)	(235,853)	(246,978)
Interest Paid on All Debt	(50,579)	(97,357)	(147,936)
Net Cash Used for Capital and Related Financing Activities	<u>(406,966)</u>	<u>(363,792)</u>	<u>(770,758)</u>
<u>Cash Flows from Investing Activities:</u>			
Sale of Investments	0	231,111	231,111
Receipts of Interest	20,806	38,221	59,027
Net Cash Provided by Investing Activities	<u>20,806</u>	<u>269,332</u>	<u>290,138</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(32,555)	274,389	241,834
Cash and Cash Equivalents at Beginning of Year	1,454,892	1,704,780	3,159,672
Cash and Cash Equivalents at End of Year	<u>\$1,422,337</u>	<u>\$1,979,169</u>	<u>\$3,401,506</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>			
Operating Income	\$150,617	\$160,392	\$311,009
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	215,209	232,471	447,680
Miscellaneous Nonoperating Revenue	57,047	0	57,047
Miscellaneous Nonoperating Expense	(64,291)	(3,529)	(67,820)
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	(1,965)	204	(1,761)
Increase in Inventory	(8,678)	(5,336)	(14,014)
(Increase) Decrease in Prepaid Items	(739)	923	184
Increase (Decrease) in Accounts Payable	26,737	(4,350)	22,387
Decrease in Accrued Wages and Benefits	(18,200)	(6,002)	(24,202)
Increase in Intergovernmental Payable	347	0	347
Decrease in Compensated Absences	(2,479)	(5,924)	(8,403)
Total Adjustments	<u>202,988</u>	<u>208,457</u>	<u>411,445</u>
Net Cash Provided by Operating Activities	<u>\$353,605</u>	<u>\$368,849</u>	<u>\$722,454</u>

See accompanying notes to the basic financial statements

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying basic financial statements of the City present the financial position of the various fund types and the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 2004 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

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

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

1. Jointly Governed Organization

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

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

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

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

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

Income Tax Capital Improvement Fund - This fund is used to account for the financial resources used for the major capital projects undertaken by the City.

Proprietary Funds

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The enterprise funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The enterprise funds operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The City's major enterprise funds are:

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

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

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

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

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

Special assessment installments including related accrued interest, which are measurable but not available at December 31, are recorded as deferred revenue. Property taxes measurable as of December 31, 2004 but which are not intended to finance 2004 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 4.

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

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year. All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The legal level of budgetary control is at the fund, function and object level. Budgetary modifications may only be made by ordinance or resolution of the City Council.

1. Tax Budget

Prior to fiscal year 2002, the Finance Director would submit an annual tax budget for the following fiscal year to City Council by July 15 for consideration and passage. The adopted budget was submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year. Beginning in year 2002, this requirement was waived by the County Budget Commission.

2. Estimated Resources

Prior to October 1, the City accepts, by formal resolution, the tax rates, as determined by the County Budget Commission, and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2004.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

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

4. Encumbrances

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

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

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

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

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

	<u>Net Change in Fund Balance</u>
	<u>General Fund</u>
GAAP Basis (as reported)	\$359,365
Increase (Decrease):	
Accrued Revenues at December 31, 2004 received during 2005	(864,774)
Accrued Revenues at December 31, 2003 received during 2004	406,670
Accrued Expenditures at December 31, 2004 paid during 2005	150,501
Accrued Expenditures at December 31, 2003 paid during 2004	(219,777)
2003 Prepays for 2004	37,894
2004 Prepays for 2005	(36,931)
Outstanding Encumbrances	<u>(167,304)</u>
Budget Basis	<u>(\$334,356)</u>

F. Cash and Cash Equivalents

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

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

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

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

H. Inventory

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

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

J. Capital Assets and Depreciation

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

1. Property, Plant and Equipment - Governmental Activities

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

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets and Depreciation (Continued)

2. Property, Plant and Equipment – Business Type Activities

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

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

3. Depreciation

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

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

K. Long-Term Obligations

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

Obligation	Fund
Ohio Water Development Authority Loan	Water Fund, Wastewater Fund
Compensated Absences	General Fund, Street Construction, Maintenance and Repair Fund, Water Fund, Wastewater Fund

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences

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

All full-time City employees earn sick leave at the rate of 1.25 days per calendar month of active service. Unused sick time may be accumulated until retirement. Police department employees with a minimum of ten years of service with the City are paid one-quarter of the accumulated sick time upon retirement to a maximum of 60 days wages. All other employees with a minimum of ten years of service with the City are paid one-quarter of the accumulated sick time upon retirement to a maximum of 57 days wages. Monetary compensation for accumulated unused vacation and/or sick leave is the hourly rate of compensation of the employee at the time of separation.

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

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

M. Net Assets

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

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

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Pensions

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

O. Interfund Activity

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

P. Reservations of Fund Balance

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

Q. Operating Revenues and Expenses

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. The City had no special or extraordinary items to report during fiscal year 2004.

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2004, the City has implemented GASB Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*”; GASB Statement No. 37, “*Basic Financial Statements for State and Local Governments: Omnibus*”; GASB Statement No. 38, “*Certain Financial Statement Note Disclosures*”; and GASB Interpretation No. 6, “*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement.*” At December 31, 2003, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38, or Interpretation No. 6.

GASB 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City’s programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2003 caused by the conversion to the accrual basis of accounting.

B. Restatement of Fund Balance/Retained Earnings

The changes to the beginning fund balance, as well as the transition from fund balance to net assets of the governmental activities and the business-type activities are as follows:

	General	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Activities
Fund Balance December 31, 2003	\$1,308,831	\$1,472,965	\$1,158,330	\$3,940,126
Adjustments to Fund Structure:				
Reclassified fund from Expendable Trust				
Fund to Special Revenue Funds	0	0	67,665	67,665
Adjusted Fund Balance	<u>1,308,831</u>	<u>1,472,965</u>	<u>1,225,995</u>	<u>4,007,791</u>
GASB 34 Adjustments:				
Capital Assets				7,283,494
Long-Term Liabilities				(181,388)
Long-Term (Deferred) Assets				146,021
Net Assets, December 31, 2003				<u>\$11,255,918</u>

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE (Continued)

B. Restatement of Fund Balance/Retained Earnings (Continued)

	<u>Water</u>	<u>Wastewater</u>	<u>Total Business-Type Activities</u>
Fund Balance December 31, 2003	\$5,080,787	\$4,017,793	\$9,098,580
GASB 34 Adjustments:			
Contributed Capital	935,958	2,437,186	3,373,144
Adjusted Fund Balance	<u>6,016,745</u>	<u>4,017,793</u>	<u>12,471,724</u>
Net Assets, December 31, 2003			<u><u>\$12,471,724</u></u>

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

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

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

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

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

- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," collateral held in single financial institution collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

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

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

Deposits:

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

Investments:

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

A. Deposits

At year end, the carrying amount of the City's deposits was \$5,570,228 and the bank balance was \$5,632,337. Federal depository insurance covered \$300,000 of the bank balance, deposits of \$3,213,674 were classified as Category 2, and the remaining deposits of \$2,118,663 were classified as Category 3. The City also had cash with fiscal agent in the amount of \$337,601, which was related to the Community Development Block Grant Economic Development Revolving Loan Fund. This cash with fiscal agent is classified as Category 2. In addition, the City also had cash with fiscal agent in the amount of \$83,431, which was related to permissive tax monies held and secured by Fulton County. The City also had petty cash in the amount of \$4,350.

B. Investments

The City's investments at December 31, 2004 were as follows:

<u>Non-Categorized Investments</u>	<u>Category 2</u>	<u>Fair Value</u>	<u>Reported Amount</u>
Repurchase Agreement	N/A	\$418,000	\$418,000
 <u>Categorized Investments</u>			
Federal Home Loan Mortgage Corporation	200,334	200,334	200,334
Federal Home Loan Bank	224,338	224,338	224,338
Federal National Mortgage Association	199,730	199,730	199,730
Total Categorized Investments	624,402	624,402	624,402
Total Investments	\$624,402	\$1,042,402	\$1,042,402

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

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

C. Reconciliation of Cash, Cash Equivalents and Investments

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

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

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Combined Balance Sheet	\$6,413,610	\$624,402
Cash with Fiscal Agent	(83,431)	
Petty Cash	(4,350)	
Investments:		
Repurchase Agreement	(418,000)	418,000
Per GASB Statement No. 3	<u>\$5,907,829</u>	<u>\$1,042,402</u>

NOTE 4 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2004 were levied after October 1, 2003 on assessed values as of January 1, 2003 the lien date. Assessed values for real property are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made in the third year following reappraisal. The last reappraisal was completed during 2003. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder payable by July 20.

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

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

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 4 - TAXES (Continued)

A. Property Taxes (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Wauseon. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2004 was \$2.20 per \$1,000 of assessed value. The assessed value upon which the 2004 levy was based was \$127,069,439. This amount constitutes \$106,458,470 in real property assessed value, \$3,729,020 in public utility assessed value and \$16,881,949 in tangible personal property assessed value.

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

B. Income Tax

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

NOTE 5 - RECEIVABLES

Receivables at December 31, 2004 consisted of taxes, accounts receivable, special assessments, interest, loans receivable and intergovernmental receivables arising from shared revenues. All receivables other than those offset by deferred revenues are considered collectible in full.

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 6 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2004:

<i>Historical Cost:</i>	Restated			December 31,
Class	December 31, 2003	Additions	Deletions	2004
<i>Capital assets not being depreciated:</i>				
Land	\$575,144	\$227,849	\$0	\$802,993
<i>Capital assets being depreciated:</i>				
Buildings	3,602,613	132,857	0	3,735,470
Improvements Other than Buildings	1,037,764	74,470	0	1,112,234
Machinery and Equipment	2,658,870	205,311	(14,737)	2,849,444
Infrastructure	2,400,348	653,606	0	3,053,954
Subtotal	<u>9,699,595</u>	<u>1,066,244</u>	<u>(14,737)</u>	<u>10,751,102</u>
Total Cost	<u>\$10,274,739</u>	<u>\$1,294,093</u>	<u>(\$14,737)</u>	<u>\$11,554,095</u>
 <i>Accumulated Depreciation:</i>				
Class	Restated December 31, 2003	Additions	Deletions	December 31, 2004
Buildings	(\$1,211,595)	(\$110,199)	\$0	(\$1,321,794)
Improvements Other than Buildings	(81,326)	(33,399)	0	(114,725)
Machinery and Equipment	(1,623,857)	(204,062)	11,871	(1,816,048)
Infrastructure	(74,467)	(91,619)	0	(166,086)
Total Accumulated Depreciation	<u>(\$2,991,245)</u>	<u>(\$439,279) *</u>	<u>\$11,871</u>	<u>(\$3,418,653)</u>
 <i>Net Value:</i>	 <u>\$7,283,494</u>			 <u>\$8,135,442</u>

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$33,913
Basic Utility Services	1,586
Leisure Time Activity	83,036
Community Environment	33,715
Transportation	173,156
General Government	113,873
Total Depreciation Expense	<u>\$439,279</u>

Under GASB Statement No. 34, the City is not required to retroactively report infrastructure assets. Only infrastructure capital assets acquired or constructed in 2003 and 2004 are reflected in the basic financial statements for the fiscal year ended December 31, 2004.

The City has changed its capitalization threshold from \$300 to \$1,000 for assets acquired starting in 2004. The change had no material effect on the beginning net capital asset balance.

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 6 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2004:

Historical Cost:

Class	December 31, 2003	Additions	Deletions	December 31, 2004
<i>Capital assets not being depreciated:</i>				
Land	\$77,875	\$0	\$0	\$77,875
<i>Capital assets being depreciated:</i>				
Buildings	5,015,921	41,594	0	5,057,515
Improvements other than Improvements	10,678,648	0	0	10,678,648
Machinery and Equipment	4,682,567	34,250	(5,256)	4,711,561
	<u>20,377,136</u>	<u>75,844</u>	<u>(5,256)</u>	<u>20,447,724</u>
Total Cost	<u>\$20,455,011</u>	<u>\$75,844</u>	<u>(\$5,256)</u>	<u>\$20,525,599</u>

Accumulated Depreciation:

Class	December 31, 2003	Additions	Deletions	December 31, 2004
Buildings	(\$2,635,837)	(\$137,380)	\$0	(\$2,773,217)
Improvements other than Improvements	(1,973,859)	(226,401)	0	(2,200,260)
Machinery and Equipment	(3,853,653)	(83,899)	3,691	(3,933,861)
Total Accumulated Depreciation	<u>(\$8,463,349)</u>	<u>(\$447,680)</u>	<u>\$3,691</u>	<u>(\$8,907,338)</u>
Net Value:	<u>\$11,991,662</u>			<u>\$11,618,261</u>

NOTE 7 – DEFINED BENEFIT PENSION PLANS

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

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

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, “Accounting for Pensions by State and Local Government Employers.”

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

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

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2004, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2004 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.55% to fund the pension and 4.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2004, 2003 and 2002 were \$249,084, \$239,147 and \$234,482, respectively, which were equal to the required contributions for each year.

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2004 employer contribution rate (identified above) that was used to fund health care for the year 2004 was 4.0% of covered payroll which amounted to \$73,530.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

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

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System’s latest actuarial review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2003 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 369,885. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2003 is \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures Ohio PERS’ health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

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

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

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% for police officers. The City's contributions to the OP&F Fund for the years ending December 31, 2004, 2003 and 2002 were \$108,724, \$109,305 and \$102,007, which were equal to the required contributions for each year.

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

The portion of the 2004 covered payroll that was used to fund postemployment health care benefits was \$43,210 representing 7.75% of covered payroll for police. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2003, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,662 for police and 10,474 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2003 were \$150,853,148, which was net of member contributions of \$17,207,506.

CITY OF WAUSEON, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2004**

NOTE 8 - NOTES PAYABLE

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

	Balance December 31, 2003	Issued (Retired)	Balance December 31, 2004
Enterprise Bond Anticipation Notes:			
1.680% Waterworks System Improvement	\$2,400,000	(\$2,400,000)	\$0
2.580% Waterworks System Improvement	0	2,100,000	2,100,000
Total Enterprise Bond Anticipation Notes	\$2,400,000	(\$300,000)	\$2,100,000

NOTE 9 - LONG-TERM OBLIGATIONS

Activity in Long-Term Obligations in 2004 was as follows:

Interest Rate	Purpose	Maturity Date	Balance December 31, 2003	Additions	Deductions	Balance December 31, 2004	Amount Due Within One Year	
Governmental Activities:								
	Compensated Absences		\$181,388	\$206,480	(\$181,388)	\$206,480	\$99,864	
	Total Governmental Activities		181,388	206,480	(181,388)	206,480	99,864	
Business-Type Activities:								
Ohio Water Development Authority Loans:								
8.26%	Wastewater Treatment Plant	2009	1,390,812	0	(235,853)	1,154,959	255,335	
3.39%	Tedrow Water Supply Improvements	2024	311,990	0	(11,125)	300,865	11,505	
	Total Ohio Water Development Authority Loans		1,702,802	0	(246,978)	1,455,824	266,840	
	Compensated Absences		30,906	22,503	(30,906)	22,503	5,777	
	Total Business-Type Activities		1,733,708	22,503	(277,884)	1,478,327	272,617	
	Total Other Long-Term Obligations		\$1,915,096	\$228,983	(\$459,272)	\$1,684,807	\$372,481	

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

The City's total debt margin was approximately \$13,342,291 at December 31, 2004. The Ohio Revised Code provides that the net debt of a municipal corporation, when approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxable value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. The City has no debt within the 5.5% unvoted debt limitation or the 10.5% overall debt limitation.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004 are as follows:

Years	OWDA Loans		
	Principal	Interest	Totals
2005	\$266,839	\$105,503	\$372,342
2006	288,324	84,018	372,342
2007	311,563	60,779	372,342
2008	336,664	36,037	372,701
2009	13,161	8,447	21,608
2010-2014	72,870	35,170	108,040
2015-2019	86,206	21,833	108,039
2020-2023	80,197	6,235	86,432
Totals	<u>\$1,455,824</u>	<u>\$358,022</u>	<u>\$1,813,846</u>

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

NOTE 10 - 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 2004, the City participated in the Public Entities Pool of Ohio (PEP), established as a risk sharing self insurance pool for the purpose of enabling the subscribing political subdivisions to obtain liability insurance and providing a formalized, jointly administered self-insurance program for its members. PEP is a corporation governed by a seven member board of directors, consisting of representatives elected by the 230 participating governments.

CITY OF WAUSEON, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2004

NOTE 10 - RISK MANAGEMENT (Continued)

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

<u>Coverage</u>		
Legal Liability	\$3,000,000	per occurrence
Automobile Liability	3,000,000	per occurrence
Law Enforcement	3,000,000/5,000	per occurrence
Wrongful Acts	3,000,000/5,000	per occurrence
Property	19,992,200/1,000	per occurrence
Boiler and Machinery	28,290,500/1,000	per occurrence
Automobile Physical Damage	1,462,290/250-1,000	per occurrence

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

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

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 11 - CONTINGENCIES

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

NOTE 12 – RAW WATERLINE COST SHARING AGREEMENT

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



**Auditor of State
Betty Montgomery**

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

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

To the Honorable Mayor and Members of Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wauseon (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 15, 2005 in which we noted the City adopted Government Accounting Standards Board Statement 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the City's management dated November 15, 2005, we reported another matter involving internal control over financial reporting which we did not deem a reportable condition.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

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

Betty Montgomery
Auditor of State

November 15, 2005

**CITY OF WAUSEON
FULTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2004-001

Reportable Condition - Capital Assets Records

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

- The City has no formal written capital asset policy in place.
- As a matter of practice assets are not physically confirmed for existence against the asset records available.
- The following deficiencies were noted in testing the capital asset records:
 - The capitalization threshold was increased to \$1,000. However, assets reported prior to 2004 that did not meet this threshold were not removed from the beginning capital asset balance.
 - For the following categories, net acquisition costs reported on the Statement of Net Assets could not be verified to a specific asset on the capital asset records by the following amounts: Equipment (\$110,253), Buildings (\$116,261) and improvements other than buildings (\$17,600).
 - Asset tag numbers are not being utilized
 - Deleted items are not removed from the listing.
 - Location, descriptions and year of acquisition for assets on the listings are inadequate.
 - Assets are not being categorized correctly

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

- A capital asset policy needs to be prepared to include the following:
 - Process to making additions, deletions, and transfers to capital asset records.
 - Establishment of the useful life of the asset.
 - Depreciation method to use (i.e. straight line).
 - Establishment of a capitalization threshold amount.
 - Any other information the City considers necessary.
- Departments should be provided a list of the asset records and perform a physical inspection as to their existence. The finance department should be notified on any discrepancies found during this inspection.
- The City's capital asset subsidiary record should at a minimum show:
 - Date of acquisition
 - Acquisition costs
 - Tag Numbers and location
 - Adequate description of the asset (i.e. Serial numbers, model numbers)
 - Useful life of the asset
 - Annual and accumulated depreciation
 - Current assets under the capitalization threshold, all deleted assets and corresponding depreciation for those assets should be removed.



**Auditor of State
Betty Montgomery**

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CITY OF WAUSEON

FULTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 27, 2005**