



**Auditor of State  
Betty Montgomery**



CITY OF WAVERLY  
PIKE COUNTY

TABLE OF CONTENTS

| <b>TITLE</b>   | <b>PAGE</b> |
|--|-------------|
| Independent Accountants' Report .....  | 1           |
| Combined Balance Sheet - All Fund Types and Account Groups.....  | 4           |
| Combined Statement of Revenues, Expenditures, and Changes in<br>Fund Balances - All Governmental Fund Types.....                                   | 9           |
| Combined Statement of Revenues, Expenditures and Changes in Fund Balances -<br>Budget and Actual (Budget Basis) - All Governmental Fund Types..... | 10          |
| Combined Statement of Revenues, Expenses and Changes in<br>Fund Equity - Proprietary Fund Type .....   | 12          |
| Combined Statement of Revenues, Expenses and Changes in Fund Equity -<br>Budget and Actual (Budget Basis) - Proprietary Fund Type .....            | 13          |
| Combined Statement of Cash Flows - Proprietary Fund Type.....  | 14          |
| Notes to the Financial Statements .....  | 15          |
| Independent Accountants' Report on Compliance and on<br>Internal Control Required By <i>Government Auditing Standards</i> .....                    | 45          |
| Schedule of Findings.....  | 47          |
| Schedule of Prior Audit Findings .....   | 50          |

**This page intentionally left blank.**



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the City Council:

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

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Waverly, Pike County, as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

January 19, 2005

**This page intentionally left blank.**

**This page intentionally left blank.**

**CITY OF WAVERLY, OHIO**  
 Combined Balance Sheet  
 All Fund Types and Account Groups  
 December 31, 2003

|  | Governmental Fund Types |                            |                             |
|--|-------------------------|----------------------------|-----------------------------|
|  | <i>General</i>          | <i>Special<br/>Revenue</i> | <i>Capital<br/>Projects</i> |
| <b><u>Assets and Other Debits</u></b>                                |                         |                            |                             |
| <b><u>Assets</u></b>   |                         |                            |                             |
| Equity in Pooled Cash and Cash Equivalents                           | \$137,158               | \$426,724                  | \$287,336                   |
| Cash and Cash Equivalents in   |                         |                            |                             |
| Segregated Accounts  | 0                       | 0                          | 0                           |
| Restricted Cash and Cash Equivalents                                 | 0                       | 0                          | 11,905                      |
| Receivables:   |                         |                            |                             |
| Taxes  | 550,810                 | 610,267                    | 0                           |
| Accounts   | 475                     | 1,730                      | 120,000                     |
| Loans  | 0                       | 996                        | 0                           |
| Due from Other Funds   | 10,727                  | 0                          | 0                           |
| Due from Other Governments   | 133,327                 | 102,219                    | 159,706                     |
| Prepaid Items  | 3,742                   | 3,007                      | 412                         |
| Fixed Assets (Net, Where Applicable,<br>of Accumulated Depreciation) | 0                       | 0                          | 0                           |
| <b><u>Other Debits</u></b>   |                         |                            |                             |
| Amount to be Provided from<br>General Government Resources           | 0                       | 0                          | 0                           |
| <b>Total Assets and Other Debits</b>                                 | <b>\$836,239</b>        | <b>\$1,144,943</b>         | <b>\$579,359</b>            |



| Proprietary<br>Fund Type | Fiduciary<br>Fund Type | Account Groups             |                                     | Totals<br>(Memorandum<br>Only) |
|--------------------------|------------------------|----------------------------|-------------------------------------|--------------------------------|
|                          |                        | General<br>Fixed<br>Assets | General<br>Long-Term<br>Obligations |                                |
| <i>Enterprise</i>        | <i>Agency</i>          |                            |                                     |                                |
| \$689,933                | \$103                  | \$0                        | \$0                                 | \$1,541,254                    |
| 0                        | 13,366                 | 0                          | 0                                   | 13,366                         |
| 164,434                  | 0                      | 0                          | 0                                   | 176,339                        |
| 0                        | 0                      | 0                          | 0                                   | 1,161,077                      |
| 314,289                  | 0                      | 0                          | 0                                   | 436,494                        |
| 0                        | 0                      | 0                          | 0                                   | 996                            |
| 0                        | 0                      | 0                          | 0                                   | 10,727                         |
| 0                        | 0                      | 0                          | 0                                   | 395,252                        |
| 12,353                   | 0                      | 0                          | 0                                   | 19,514                         |
| 7,352,859                | 0                      | 4,357,997                  | 0                                   | 11,710,856                     |
| 0                        | 0                      | 0                          | 1,164,738                           | 1,164,738                      |
| <u>\$8,533,868</u>       | <u>\$13,469</u>        | <u>\$4,357,997</u>         | <u>\$1,164,738</u>                  | <u>\$16,630,613</u>            |

(continued)

**CITY OF WAVERLY, OHIO**  
 Combined Balance Sheet  
 All Fund Types and Account Groups  
 December 31, 2003  
 (Continued)

|  | Governmental Fund Types |                            |                             |
|--|-------------------------|----------------------------|-----------------------------|
|  | <i>General</i>          | <i>Special<br/>Revenue</i> | <i>Capital<br/>Projects</i> |
| <b><u>Liabilities, Fund Equity and Other Credits</u></b> |                         |                            |                             |
| <b><u>Liabilities</u></b>                                |                         |                            |                             |
| Accounts Payable   | \$9,130                 | \$13,870                   | \$3,578                     |
| Contracts Payable  | 5,769                   | 0                          | 107,786                     |
| Retainage Payable  | 0                       | 0                          | 11,905                      |
| Accrued Wages  | 0                       | 592                        | 0                           |
| Compensated Absences Payable                             | 1,452                   | 3,348                      | 0                           |
| Due to Other Funds                                       | 0                       | 0                          | 0                           |
| Due to Other Governments                                 | 16,838                  | 46,062                     | 0                           |
| Deferred Revenue   | 519,812                 | 693,405                    | 279,706                     |
| Undistributed Monies                                     | 0                       | 0                          | 0                           |
| Loans Payable  | 0                       | 0                          | 0                           |
| Notes Payable  | 0                       | 0                          | 0                           |
| OWDA Loans Payable                                       | 0                       | 0                          | 0                           |
| OPWC Loans Payable                                       | 0                       | 0                          | 0                           |
| Total Liabilities  | <u>553,001</u>          | <u>757,277</u>             | <u>402,975</u>              |
| <b><u>Fund Equity and Other Credits</u></b>              |                         |                            |                             |
| Investment in General Fixed Assets                       | 0                       | 0                          | 0                           |
| Contributed Capital                                      | 0                       | 0                          | 0                           |
| Retained Earnings:                                       |                         |                            |                             |
| Unreserved   | 0                       | 0                          | 0                           |
| Fund Balance:  |                         |                            |                             |
| Reserved for Encumbrances                                | 13,342                  | 85                         | 192,608                     |
| Reserved for Loans Receivable                            | 0                       | 996                        | 0                           |
| Unreserved:  |                         |                            |                             |
| Undesignated (Deficit)                                   | 269,896                 | 386,585                    | (16,224)                    |
| Total Fund Equity and Other Credits (Deficit)            | <u>283,238</u>          | <u>387,666</u>             | <u>176,384</u>              |
| Total Liabilities, Fund Equity<br>and Other Credits      | <u>\$836,239</u>        | <u>\$1,144,943</u>         | <u>\$579,359</u>            |

See Accompanying Notes to the Financial Statements

| Proprietary<br>Fund Type | Fiduciary<br>Fund Type | Account Groups             |                                     | Totals<br>(Memorandum<br>Only) |
|--------------------------|------------------------|----------------------------|-------------------------------------|--------------------------------|
|                          |                        | General<br>Fixed<br>Assets | General<br>Long-Term<br>Obligations |                                |
| <i>Enterprise</i>        | <i>Agency</i>          |                            |                                     |                                |
| \$31,192                 | \$0                    | \$0                        | \$0                                 | \$57,770                       |
| 132,312                  | 0                      | 0                          | 0                                   | 245,867                        |
| 164,434                  | 0                      | 0                          | 0                                   | 176,339                        |
| 21                       | 0                      | 0                          | 0                                   | 613                            |
| 18,095                   | 0                      | 0                          | 33,569                              | 56,464                         |
| 0                        | 10,727                 | 0                          | 0                                   | 10,727                         |
| 26,002                   | 2,639                  | 0                          | 18,372                              | 109,913                        |
| 0                        | 0                      | 0                          | 0                                   | 1,492,923                      |
| 0                        | 103                    | 0                          | 0                                   | 103                            |
| 273,825                  | 0                      | 0                          | 0                                   | 273,825                        |
| 0                        | 0                      | 0                          | 974,418                             | 974,418                        |
| 4,368,155                | 0                      | 0                          | 0                                   | 4,368,155                      |
| 127,314                  | 0                      | 0                          | 138,379                             | 265,693                        |
| <u>5,141,350</u>         | <u>13,469</u>          | <u>0</u>                   | <u>1,164,738</u>                    | <u>8,032,810</u>               |
| 0                        | 0                      | 4,357,997                  | 0                                   | 4,357,997                      |
| 295,985                  | 0                      | 0                          | 0                                   | 295,985                        |
| 3,096,533                | 0                      | 0                          | 0                                   | 3,096,533                      |
| 0                        | 0                      | 0                          | 0                                   | 206,035                        |
| 0                        | 0                      | 0                          | 0                                   | 996                            |
| 0                        | 0                      | 0                          | 0                                   | 640,257                        |
| <u>3,392,518</u>         | <u>0</u>               | <u>4,357,997</u>           | <u>0</u>                            | <u>8,597,803</u>               |
| <u>\$8,533,868</u>       | <u>\$13,469</u>        | <u>\$4,357,997</u>         | <u>\$1,164,738</u>                  | <u>\$16,630,613</u>            |

**This page intentionally left blank.**

**CITY OF WAVERLY, OHIO**  
 Combined Statement of Revenues, Expenditures  
 And Changes in Fund Balances  
 All Governmental Fund Types  
 For the Year Ended December 31, 2003

|   | Governmental Fund Types |                            |                             | <i>Totals<br/>(Memorandum<br/>Only)</i> |
|---|-------------------------|----------------------------|-----------------------------|---|
|   | <i>General</i>          | <i>Special<br/>Revenue</i> | <i>Capital<br/>Projects</i> |   |
| <b><u>Revenues:</u></b>   |                         |                            |                             |   |
| Taxes   | \$1,058,229             | \$727,651                  | \$0                         | \$1,785,880                             |
| Revenue in Lieu of Taxes  | 0                       | 0                          | 60,000                      | 60,000                                  |
| Charges for Services  | 1,570                   | 25,938                     | 0                           | 27,508                                  |
| Fines, Licenses, and Permits  | 174,102                 | 23,844                     | 0                           | 197,946                                 |
| Intergovernmental   | 181,680                 | 223,762                    | 97,733                      | 503,175                                 |
| Interest  | 21,500                  | 2,473                      | 0                           | 23,973                                  |
| Donations   | 0                       | 0                          | 255,312                     | 255,312                                 |
| Other   | 20,988                  | 62,983                     | 53,037                      | 137,008                                 |
| Total Revenues  | <u>1,458,069</u>        | <u>1,066,651</u>           | <u>466,082</u>              | <u>2,990,802</u>                        |
| <b><u>Expenditures:</u></b>   |                         |                            |                             |   |
| Current:  |                         |                            |                             |   |
| Security of Persons and Property  | 72,794                  | 1,236,204                  | 0                           | 1,308,998                               |
| Public Health Services  | 1,470                   | 0                          | 0                           | 1,470                                   |
| Leisure Time Activities   | 4,059                   | 0                          | 0                           | 4,059                                   |
| Community Environment   | 0                       | 856                        | 0                           | 856                                     |
| Transportation  | 51,152                  | 463,988                    | 0                           | 515,140                                 |
| General Government  | 613,703                 | 84,965                     | 0                           | 698,668                                 |
| Capital Outlay  | 8,710                   | 0                          | 663,275                     | 671,985                                 |
| Debt Service:   |                         |                            |                             |   |
| Principal Retirement  | 0                       | 429,017                    | 4,500                       | 433,517                                 |
| Interest and Fiscal Charges   | 0                       | 44,816                     | 0                           | 44,816                                  |
| Total Expenditures  | <u>751,888</u>          | <u>2,259,846</u>           | <u>667,775</u>              | <u>3,679,509</u>                        |
| Excess of Revenues Over/(Under) Expenditures  | <u>706,181</u>          | <u>(1,193,195)</u>         | <u>(201,693)</u>            | <u>(688,707)</u>                        |
| <b><u>Other Financing Sources (Uses):</u></b>   |                         |                            |                             |   |
| Proceeds of OPWC Loans  | 0                       | 0                          | 139,861                     | 139,861                                 |
| Proceeds of Notes   | 0                       | 583,150                    | 391,268                     | 974,418                                 |
| Operating Transfers - In  | 0                       | 484,275                    | 95,169                      | 579,444                                 |
| Operating Transfers - Out   | (579,444)               | 0                          | 0                           | (579,444)                               |
| Total Other Financing Sources (Uses)  | <u>(579,444)</u>        | <u>1,067,425</u>           | <u>626,298</u>              | <u>1,114,279</u>                        |
| Excess of Revenues and Other Financing Sources Over/<br>(Under) Expenditures and Other Financing Uses | <u>126,737</u>          | <u>(125,770)</u>           | <u>424,605</u>              | <u>425,572</u>                          |
| Fund Balances (Deficit) at Beginning of Year - As Restated Note 22                                    | <u>156,501</u>          | <u>513,436</u>             | <u>(248,221)</u>            | <u>421,716</u>                          |
| Fund Balances (Deficit) at End of Year  | <u>\$283,238</u>        | <u>\$387,666</u>           | <u>\$176,384</u>            | <u>\$847,288</u>                        |

See Accompanying Notes to the Financial Statements

**CITY OF WAVERLY, OHIO**  
 Combined Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Budget and Actual (Budget Basis)  
 All Governmental Fund Types  
 For the Year Ended Decemebr 31, 2003

|   | General                   |                  |   | Special Revenue           |                  |   |
|---|---------------------------|------------------|---|---------------------------|------------------|---|
|   | <i>Revised<br/>Budget</i> | <i>Actual</i>    | <i>Variance<br/>Favorable<br/>(Unfavorable)</i> | <i>Revised<br/>Budget</i> | <i>Actual</i>    | <i>Variance<br/>Favorable<br/>(Unfavorable)</i> |
| <b>Revenues:</b>  |                           |                  |   |                           |                  |   |
| Taxes   | \$1,085,400               | \$994,889        | (\$90,511)                                      | \$654,450                 | \$727,651        | \$73,201  |
| Revenue in Lieu of Taxes  | 0                         | 0                | 0   | 0                         | 0                | 0   |
| Charges for Services  | 0                         | 0                | 0   | 27,850                    | 25,938           | (1,912)   |
| Fines, Licenses and Permits   | 150,000                   | 173,604          | 23,604  | 1,600                     | 23,889           | 22,289  |
| Intergovernmental   | 163,500                   | 158,260          | (5,240)   | 193,900                   | 217,053          | 23,153  |
| Interest  | 28,000                    | 20,018           | (7,982)   | 22,300                    | 2,473            | (19,827)  |
| Donations   | 0                         | 0                | 0   | 0                         | 0                | 0   |
| Other   | 2,000                     | 25,799           | 23,799  | 39,150                    | 62,628           | 23,478  |
| <b>Total Revenues</b>   | <b>1,428,900</b>          | <b>1,372,570</b> | <b>(56,330)</b>                                 | <b>939,250</b>            | <b>1,059,632</b> | <b>120,382</b>                                  |
| <b>Expenditures:</b>  |                           |                  |   |                           |                  |   |
| Current:  |                           |                  |   |                           |                  |   |
| Security of Persons and Property  | 72,654                    | 66,835           | 5,819   | 1,425,362                 | 1,275,694        | 149,668   |
| Public Health Services  | 1,470                     | 1,470            | 0   | 0                         | 0                | 0   |
| Leisure Time Activities   | 18,997                    | 17,315           | 1,682   | 0                         | 0                | 0   |
| Community Environment   | 0                         | 0                | 0   | 0                         | 856              | (856)   |
| Transportation  | 75,000                    | 51,000           | 24,000  | 524,071                   | 469,469          | 54,602  |
| General Government  | 658,749                   | 634,918          | 23,831  | 94,000                    | 84,965           | 9,035   |
| Capital Outlay  | 18,353                    | 2,941            | 15,412  | 0                         | 0                | 0   |
| Debt Service:   |                           |                  |   |                           |                  |   |
| Principal Retirement  | 0                         | 0                | 0   | 0                         | 448,544          | (448,544)                                       |
| Interest and Fiscal Charges   | 0                         | 0                | 0   | 0                         | 45,093           | (45,093)  |
| <b>Total Expenditures</b>   | <b>845,223</b>            | <b>774,479</b>   | <b>70,744</b>                                   | <b>2,043,433</b>          | <b>2,324,621</b> | <b>(281,188)</b>                                |
| Excess of Revenues Over/<br>(Under) Expenditures  | 583,677                   | 598,091          | 14,414  | (1,104,183)               | (1,264,989)      | (160,806)                                       |
| <b>Other Financing Sources (Uses):</b>  |                           |                  |   |                           |                  |   |
| Proceeds of OPWC Loans  | 0                         | 0                | 0   | 0                         | 0                | 0   |
| Proceeds of Notes   | 0                         | 0                | 0   | 0                         | 583,150          | 583,150   |
| Operating Transfers - In  | 0                         | 0                | 0   | 753,500                   | 484,275          | (269,225)                                       |
| Operating Transfers - Out   | (789,169)                 | (579,444)        | 209,725   | 0                         | 0                | 0   |
| <b>Total Other Financing Sources (Uses)</b>   | <b>(789,169)</b>          | <b>(579,444)</b> | <b>209,725</b>                                  | <b>753,500</b>            | <b>1,067,425</b> | <b>313,925</b>                                  |
| Excess of Revenues and Other<br>Financing Sources Over/(Under)<br>Expenditures and Other Financing Uses | (205,492)                 | 18,647           | 224,139   | (350,683)                 | (197,564)        | 153,119   |
| Fund Balances at Beginning of Year  | 88,962                    | 88,962           | 0   | 607,280                   | 607,280          | 0   |
| Prior Year Encumbrances Appropriated  | 10,000                    | 10,000           | 0   | 11,093                    | 11,093           | 0   |
| <b>Fund Balances (Deficit) at End of Year</b>   | <b>(\$106,530)</b>        | <b>\$117,609</b> | <b>\$224,139</b>                                | <b>\$267,690</b>          | <b>\$420,809</b> | <b>\$153,119</b>                                |

See Accompanying Notes to the Financial Statements

| Capital Projects          |               |   | Totals<br>(Memorandum Only) |               |   |
|---------------------------|---------------|---|-----------------------------|---------------|---|
| <i>Revised<br/>Budget</i> | <i>Actual</i> | <i>Variance<br/>Favorable<br/>(Unfavorable)</i> | <i>Revised<br/>Budget</i>   | <i>Actual</i> | <i>Variance<br/>Favorable<br/>(Unfavorable)</i> |
| \$0                       | \$0           | \$0   | \$1,739,850                 | \$1,722,540   | (\$17,310)                                      |
| 60,000                    | 60,000        | 0   | 60,000                      | 60,000        | 0   |
| 0                         | 0             | 0   | 27,850                      | 25,938        | (1,912)   |
| 0                         | 0             | 0   | 151,600                     | 197,493       | 45,893  |
| 136,655                   | 97,733        | (38,922)  | 494,055                     | 473,046       | (21,009)  |
| 0                         | 0             | 0   | 50,300                      | 22,491        | (27,809)  |
| 255,312                   | 255,312       | 0   | 255,312                     | 255,312       | 0   |
| 35,595                    | 53,037        | 17,442  | 76,745                      | 141,464       | 64,719  |
| 487,562                   | 466,082       | (21,480)  | 2,855,712                   | 2,898,284     | 42,572  |
| 0                         | 0             | 0   | 1,498,016                   | 1,342,529     | 155,487   |
| 0                         | 0             | 0   | 1,470                       | 1,470         | 0   |
| 0                         | 0             | 0   | 18,997                      | 17,315        | 1,682   |
| 0                         | 0             | 0   | 0                           | 856           | (856)   |
| 0                         | 0             | 0   | 599,071                     | 520,469       | 78,602  |
| 0                         | 0             | 0   | 752,749                     | 719,883       | 32,866  |
| 1,277,755                 | 944,331       | 333,424   | 1,296,108                   | 947,272       | 348,836   |
| 0                         | 434,500       | (434,500)                                       | 0                           | 883,044       | (883,044)                                       |
| 0                         | 0             | 0   | 0                           | 45,093        | (45,093)  |
| 1,277,755                 | 1,378,831     | (101,076)                                       | 4,166,411                   | 4,477,931     | (311,520)                                       |
| (790,193)                 | (912,749)     | (122,556)                                       | (1,310,699)                 | (1,579,647)   | (268,948)                                       |
| 107,572                   | 139,861       | 32,289  | 107,572                     | 139,861       | 32,289  |
| 0                         | 391,268       | 391,268   | 0                           | 974,418       | 974,418   |
| 297,005                   | 95,169        | (201,836)                                       | 1,050,505                   | 579,444       | (471,061)                                       |
| 0                         | 0             | 0   | (789,169)                   | (579,444)     | 209,725   |
| 404,577                   | 626,298       | 221,721   | 368,908                     | 1,114,279     | 745,371   |
| (385,616)                 | (286,451)     | 99,165  | (941,791)                   | (465,368)     | 476,423   |
| 381,595                   | 381,595       | 0   | 1,077,837                   | 1,077,837     | 0   |
| 11,489                    | 11,489        | 0   | 32,582                      | 32,582        | 0   |
| \$7,468                   | \$106,633     | \$99,165  | \$168,628                   | \$645,051     | \$476,423                                       |

**CITY OF WAVERLY, OHIO**  
 Combined Statement of Revenues, Expenses  
 And Changes in Fund Equity  
 Proprietary Fund Type  
 For the Year Ended December 31, 2003

|  | <i>Enterprise</i> |
|--|-------------------|
| <b><u>Operating Revenues:</u></b>                            |                   |
| Charges for Services   | \$1,352,644       |
| Tap-in Fees  | 27,503            |
| Other Operating Revenues                                     | 11,763            |
| Total Operating Revenues                                     | 1,391,910         |
| <b><u>Operating Expenses:</u></b>                            |                   |
| Personal Services  | 378,664           |
| Fringe Benefits  | 180,388           |
| Purchased Services   | 141,382           |
| Contractual Services   | 248,318           |
| Materials and Supplies                                       | 74,125            |
| Other Operating Expenses                                     | 30,888            |
| Depreciation   | 141,268           |
| Total Operating Expenses                                     | 1,195,033         |
| Operating Income   | 196,877           |
| <b><u>Non-Operating Revenues (Expenses):</u></b>             |                   |
| Interest Income  | 842               |
| Interest and Fiscal Charges                                  | (45,837)          |
| Total Non-Operating Revenues (Expenses)                      | (44,995)          |
| Net Income   | 151,882           |
| Retained Earnings at Beginning of Year - As Restated Note 22 | 2,944,651         |
| Retained Earnings at End of Year                             | 3,096,533         |
| Contributed Capital at Beginning and End of Year             | 295,985           |
| Total Fund Equity at End of Year                             | \$3,392,518       |

See Accompanying Notes to the Financial Statements



**CITY OF WAVERLY, OHIO**  
 Combined Statement of Revenues, Expenses and  
 Changes in Fund Equity - Budget and Actual (Budget Basis)  
 Proprietary Fund Type  
 For the Year Ended December 31, 2003

|  | Enterprise                |                         |   |
|--|---------------------------|-------------------------|---|
|  | <i>Revised<br/>Budget</i> | <i>Actual</i>           | <i>Variance<br/>Favorable<br/>(Unfavorable)</i> |
| <b><u>Revenues:</u></b>                                  |                           |                         |   |
| Charges for Services                                     | \$1,325,250               | \$1,331,274             | \$6,024   |
| Interest Income  | 1,000                     | 842                     | (158)   |
| Tap-In Fees  | 20,750                    | 27,503                  | 6,753   |
| Other Operating Revenues                                 | 70,000                    | 11,763                  | (58,237)  |
| Total Revenues   | <u>1,417,000</u>          | <u>1,371,382</u>        | <u>(45,618)</u>                                 |
| <b><u>Expenses:</u></b>                                  |                           |                         |   |
| Personal Services  | 439,798                   | 419,385                 | 20,413  |
| Fringe Benefits  | 159,118                   | 154,386                 | 4,732   |
| Purchased Services                                       | 168,424                   | 141,382                 | 27,042  |
| Contractual Services                                     | 94,354                    | 82,312                  | 12,042  |
| Materials and Supplies                                   | 99,417                    | 87,682                  | 11,735  |
| Capital Outlay   | 1,523,584                 | 1,100,780               | 422,804   |
| Other Expenses   | 32,000                    | 30,192                  | 1,808   |
| Debt Service:  |                           |                         |   |
| Principal Retirement                                     | 69,607                    | 55,406                  | 14,201  |
| Interest and Fiscal Charges                              | 45,837                    | 45,837                  | 0   |
| Total Expenses   | <u>2,632,139</u>          | <u>2,117,362</u>        | <u>514,777</u>                                  |
| Excess of Revenues Over/(Under) Expenses<br>Before Other | (1,215,139)               | (745,980)               | 469,159   |
| <b><u>Non-Operating Revenues:</u></b>                    |                           |                         |   |
| Proceeds of Loans  | 917,938                   | 899,720                 | (18,218)  |
| Total Non-Operating Revenues                             | <u>917,938</u>            | <u>899,720</u>          | <u>(18,218)</u>                                 |
| Excess of Revenues Over<br>(Under) Expenses and other    | (297,201)                 | 153,740                 | 450,941   |
| Fund Equity Beginning of Year                            | 659,868                   | 659,868                 | 0   |
| Prior Year Encumbrances Appropriated                     | <u>12,750</u>             | <u>12,750</u>           | <u>0</u>  |
| Fund Equity at End of Year                               | <u><u>\$375,417</u></u>   | <u><u>\$826,358</u></u> | <u><u>\$450,941</u></u>                         |

See Accompanying Notes to the Financial Statements

**CITY OF WAVERLY, OHIO**  
 Combined Statement of Cash Flows  
 Proprietary Fund Type  
 For the Year Ended December 31, 2003

| <b><u>Increase (Decrease) in Cash and Cash Equivalents:</u></b>                                      | <b><u>Enterprise</u></b> |
|--|--------------------------|
| <b><u>Cash Flows from Operating Activities:</u></b>  |                          |
| Cash Received from Charges for Services and Tap-In Fees  | \$1,358,777              |
| Cash Received from Other Operating Sources   | 11,763                   |
| Cash Payments to Suppliers for Goods and Services  | (476,969)                |
| Cash Payments to Employees for Services & Benefits   | (573,771)                |
| Net Cash Provided by Operating Activities  | <u>319,800</u>           |
| <b><u>Cash Flows from Capital and Related Financing Activities:</u></b>                              |                          |
| Proceeds of Loans  | 899,720                  |
| Aquisition of Capital Assets   | (937,370)                |
| Principal paid on Bonds and Notes  | (55,406)                 |
| Interest paid on Bonds and Notes   | (45,837)                 |
| Net Cash Used for Capital and Related Financing Activities   | <u>(138,893)</u>         |
| <b><u>Cash Flows from Investing Activities:</u></b>  |                          |
| Interest Income  | <u>842</u>               |
| Net Increase in Cash and Cash Equivalents  | 181,749                  |
| Cash and Cash Equivalents at Beginning of Year   | <u>672,618</u>           |
| Cash and Cash Equivalents at End of Year   | <u><u>\$854,367</u></u>  |
| <b><u>Reconciliation of Operating Income to Net</u></b>  |                          |
| <b><u>Cash Provided by Operating Activities:</u></b>   |                          |
| Operating Income   | <u>\$196,877</u>         |
| <b><u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u></b> |                          |
| Depreciation   | 141,268                  |
| <b><u>Changes in Assets and Liabilities:</u></b>   |                          |
| Increase in Accounts Receivable  | (21,370)                 |
| Increase in Prepaid Items  | (3,056)                  |
| Increase in Accrued Wages  | 21                       |
| Increase in Accounts Payable   | 20,800                   |
| Decrease in Compensated Absences Payable   | (199)                    |
| Decrease in Intergovernmental Payable  | (14,541)                 |
| Total Adjustments  | <u>122,923</u>           |
| Net Cash Provided by Operating Activities  | <u><u>\$319,800</u></u>  |

See Accompanying Notes to the Financial Statements

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY**

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

**REPORTING ENTITY**

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

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

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

The Waverly Evergreen Union Cemetery board of trustees consists of two members appointed by the City and Pee Pee Township, respectively, and one member appointed jointly. The board possesses its own contracting and budgetary authority and hires and fires personnel. The Waverly Evergreen Union Cemetery is a jointly governed organization of the City (See Note 19).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Waverly have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standard Board Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities unless they conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**A. BASIS OF PRESENTATION - FUND ACCOUNTING**

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to City functions and activities.

A fund is defined as a fiscal and accounting entity with self-balancing set of accounts recording cash and other financing resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

**GOVERNMENTAL FUNDS**

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

**GENERAL FUND**

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

**SPECIAL REVENUE FUNDS**

The special revenue funds are used to account for revenues derived from specific taxes, grants, or other sources (other than amounts relating to major capital projects) whose use is restricted. The uses and limitations of each special revenue fund are specified by City ordinances or federal and state statutes.

**CAPITAL PROJECTS FUNDS**

The capital projects funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

**PROPRIETARY FUNDS**

The proprietary funds are used to account for the City's ongoing activities which are similar to those often found in the private sector. The following is the City's Proprietary Fund Type:

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**A. BASIS OF PRESENTATION - FUND ACCOUNTING** (Continued)

**ENTERPRISE FUNDS**

The enterprise funds are used to account for the City's water and sewer operations. They are financed and operated in a manner similar to private sector business enterprises where the intent 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, or where it has been decided that a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**FIDUCIARY FUNDS**

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City's only fiduciary funds are agency funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

**ACCOUNT GROUPS**

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

**GENERAL FIXED ASSETS ACCOUNT GROUP**

The General Fixed Assets Account Group is used to account for fixed assets other than those accounted for in the proprietary funds.

**GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP**

The General Long-Term Obligations Account Group is used to account for all unmatured long-term obligations of the City that are not a specific liability of the proprietary funds.

**B. BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds 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 balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**B. BASIS OF ACCOUNTING** (Continued)

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within 31 days of year-end.

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. On an accrual basis, revenue from income taxes is recognized in the year the income was earned; property taxes are recognized in the year for which the taxes are levied. (See Note 7.) Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income and other local taxes, interest on investments, intergovernmental revenues (including motor vehicle license fees, gasoline tax, and local government assistance), fines and forfeitures, and reimbursements due from federal and state funded projects for which corresponding expenditures are made.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables not collected within the available period have also been reported as deferred revenue.

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

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

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**C. BUDGETS AND BUDGETARY ACCOUNTING**

The City follows these procedures in establishing the budgetary data reported in the combined financial statements:

**TAX BUDGET**

A tax budget of estimated revenue and expenditures for all budgeted funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year. All funds, except agency funds, are legally required to be budgeted.

**ESTIMATED RESOURCES**

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews revenue estimates. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund.

On or about January 1 the certificate of estimated resources is amended to include unencumbered fund balances at December 31. Further amendments may be made during the year if the City Auditor determines that revenue to be collected will be greater than or less than the prior estimates, and the budget commission finds the revised estimates to be reasonable. The amounts set forth in the financial statements represent estimates from the amended certificate in force at the time final appropriations were passed by Council.

**APPROPRIATIONS**

A temporary appropriation measure to control expenditures may be passed on or around January 1 of each year for the period January 1 to March 31. The annual appropriation ordinance must be passed by April 1 or each year for the period January 1 to December 31. Appropriations may not exceed estimated resources as established in the amended certificate of estimated resources. Supplemental appropriations may be adopted by Council action. Amounts shown in the financial statements represent the appropriated budgeted amounts and all supplemental appropriations passed during the year. Several supplemental appropriation measures were legally enacted during 2003 by Council.

**BUDGETED LEVEL OF EXPENDITURE**

Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. For all funds, Council appropriations are budgeted to the fund level. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. The appropriations set by Council remain fixed unless amended by Council ordinance. More detailed appropriation allocations may be made by the City Auditor as long as the allocations are within Council's appropriated amount.

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**C. BUDGETS AND BUDGETARY ACCOUNTING** (Continued)

**ENCUMBRANCES**

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds, and as a note disclosure for proprietary funds.

**LAPSING OF APPROPRIATIONS**

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding calendar year and is not re-approved.

**D. CASH AND CASH EQUIVALENTS**

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

The Waverly Mayor's Court has its own checking account for the collection and distribution of court fines and forfeitures and is presented on the combined balance sheet as "Cash and Cash Equivalents In Segregated Accounts."

For purposes of the Combined Statement of Cash Flows and for presentation on the Combined Balance Sheet, investments with original maturities of three months or less, and investments from the City's cash management pool are considered to be cash equivalents.

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue credited to the General Fund, the Bridge & Street, Inter-City Highway, Permissive Tax, and Waverly South Central Special Revenue Funds and the Special Water and Passbook Savings Enterprise Funds during fiscal year 2003 amounted to \$21,500, \$193, \$188, \$924, \$1,168, \$533, \$309, respectively.

During the year 2003, the City held retainage monies for the construction of the wastewater plant expansion project. Retainage amounts at December 31, 2003 have been restricted and are presented as "Restricted Cash: Cash and Cash Equivalents" on the balance sheet.

**E. PREPAID ITEMS**

Payments made to vendors for services that will benefit periods beyond December 31, 2003 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 is reported in the year in which services are consumed.



**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**F. FIXED ASSETS**

All purchased fixed assets are valued at cost when historical records are available and estimated historical cost where no historical records exist. For certain assets, estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at their estimated fair market value on the date received. The City has established \$1,000 as the threshold for which fixed assets are to be reported.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency are capitalized at cost. The City has capitalized interest in the amount of \$114,238 on their ongoing wastewater treatment plant.

**GENERAL FIXED ASSETS**

General fixed assets (fixed assets used in governmental fund operations) are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. Assets in the General Fixed Assets Account Group are not depreciated.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized or reported, as these assets are immovable and of value only to the City.

**PROPRIETARY FUND FIXED ASSETS**

Fixed assets associated with the enterprise funds are accounted for in those funds. Depreciation is calculated using the straight-line method over the estimated useful life of each asset. The assets of the enterprise funds are depreciated on the following basis:

|   | <u>Years</u> |
|---|--------------|
| Buildings and Building Improvements             | 20-50        |
| Machinery, Equipment,<br>Furniture and Fixtures | 6-15         |
| Vehicles  | 5            |
| Sewer And Water Lines                           | 20           |

**G. COMPENSATED ABSENCES**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**G. COMPENSATED ABSENCES** (Continued)

For governmental funds, the current portion of unpaid compensated absences is the amount to be paid using available expendable resources. These amounts are recorded in the account “Compensated Absences Payable” in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the General Long-Term Obligations Account Group. In proprietary funds, the entire amount of unpaid compensated absences is reported as a fund liability.

**H. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current available expendable financial resources. Payments made more than 31 days after year-end are generally considered not to have been paid with current available financial resources. Long-term notes and loans are recognized as a liability of the General Long-Term Obligations Account Group until due. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

**I. RESERVES OF FUND EQUITY**

Reserves of fund equity indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances have been reserved for encumbrances and loans receivable.

**J. INTERFUND TRANSACTIONS**

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**K. INTERFUND ASSETS/LIABILITIES**

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as “Due from Other Funds” or “Due to Other Funds” on the balance sheet. Short-term interfund loans are classified as “Interfund Receivables” or “Interfund Payables.”

**L. CONTRIBUTED CAPITAL**

Contributed capital represents resources from other funds, other governments, and private sources provided to proprietary funds prior to 2003 that is not subject to repayment. These assets are recorded at their fair value on the date donated. After the year 2002, capital contributions from other governments and private sources are recorded as revenues and reported as retained earnings. Capital contributions from other funds are still reported as additions to contributed capital.

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**L. CONTRIBUTED CAPITAL** (Continued)

Because, prior to 1998, the City had not prepared its financial statements in accordance with accounting principles generally accepted in the United States of America, the exact amount of contributed capital pertaining to years prior to 1998 cannot be determined. Only those amounts that could be specifically identified have been classified as contributed capital in the accompanying general purpose financial statements. All other fund equity amounts pertaining to the enterprise funds have been classified as retained earnings.

**M. ESTIMATES**

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

**N. TOTAL COLUMNS ON GENERAL PURPOSE FINANCIAL STATEMENTS**

Total columns on the General Purpose Financial Statements Overview are captioned “Totals (Memorandum Only)” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**NOTE 3 – ACCOUNTABILITY AND COMPLIANCE**

**A. ACCOUNTABILITY**

The Second Street Improvement, Depot Street, Recreational Complex, and Green Acres Capital Projects Funds have deficit fund balances of \$246,980, \$2,848, \$57,032, \$2,540, respectively at December 31, 2003. Also, the Bridge & Street, Fire and Police Special Revenue Funds have deficit fund balances of \$39,736, \$331,736, and \$93,025, respectively, at December 31, 2003. These deficits are due to adjustments for accrued liabilities which generate expenditures that are greater than those recognized on a cash basis. The General Fund is liable for the deficit and provides operating transfers when cash is required, not when accruals occur.

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 3 – ACCOUNTABILITY AND COMPLIANCE** (Continued)

**B. COMPLIANCE**

The following funds had appropriations in excess of estimated revenues and available fund balances for the year ended December 31, 2003:

| Fund Type / Name       | Excess     |
|------------------------|------------|
| Special Revenue Funds: |            |
| Law Drug Enforcement   | (\$131)    |
| Capital Project Funds: |            |
| Naturework             | (\$52,669) |
| U S 23 Embankment      | (\$24,718) |

The following funds had expenditures plus encumbrances in excess of appropriations for the year ended December 31, 2003:

| Fund Type / Name        | Excess      |
|-------------------------|-------------|
| Special Revenue Funds:  |             |
| Bridge and Street       | (\$16,413)  |
| Fire                    | (\$312,583) |
| Police                  | (\$33,457)  |
| Emergency Siren         | (\$2,503)   |
| Capital Projects Funds: |             |
| Second Street           | (\$250,755) |
| Depot Road Improvement  | (\$18,146)  |
| Green Acres Subdivision | (\$74,120)  |
| Enterprise Funds:       |             |
| Special Water           | (\$1,166)   |

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 4 – BUDGETARY BASIS OF ACCOUNTING**

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

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis) - Proprietary Fund Type are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- (b) Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- (c) Outstanding year-end encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types or note disclosure in proprietary fund type (GAAP basis).
- (d) For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
- (e) Principal payments on debt obligations are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 4 – BUDGETARY BASIS OF ACCOUNTING** (Continued)

The adjustments necessary to convert the results of operations for 2003 on the GAAP basis to the budget basis for the governmental funds and proprietary funds are as follows:

| Excess Of Revenues And Other Financing Sources Over<br>(Under) Expenditures And Other Financing Uses<br>All Governmental Fund Types |           |                    |                     |
|---|-----------|--------------------|---------------------|
|   | General   | Special<br>Revenue | Capital<br>Projects |
| GAAP Basis  | \$126,737 | (\$125,770)        | \$424,605           |
| Increases (Decreases) Due To:   |           |                    |                     |
| Revenue Accruals  | (85,499)  | (7,019)            | 0                   |
| Expenditure Accruals  | (8,466)   | (58,859)           | (518,448)           |
| Encumbrances  | (14,125)  | (5,916)            | (192,608)           |
| Budget Basis  | \$18,647  | (\$197,564)        | (\$286,451)         |

Net Income/Excess of Revenues Over (Under) Expenses and Transfers  
Proprietary Fund Type

|                               | Enterprise |
|-------------------------------|------------|
| Net Income                    | \$151,882  |
| Increases (Decreases) Due To: |            |
| Revenue Accruals              | 878,350    |
| Expense Accruals              | (853,483)  |
| Encumbrances                  | (23,009)   |
| Budget Basis                  | \$153,740  |

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 5 – DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 5 – DEPOSITS AND INVESTMENTS** (Continued)

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; or
3. Obligations of the City.

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

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

At December 31, 2003, the carrying amount of the City's deposits was \$1,730,959 and the bank balance was \$1,778,918. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining amounts were collateralized in the amount of \$1,678,918. Although the balance was collateralized by securities held by the financial institutions' trust departments in the City's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC. The City had no investments at year-end.

**NOTE 6 – MUNICIPAL INCOME TAX**

The City levies and collects an income tax of one-half percent on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. During 2003, proceeds of the income tax amounted to \$861,976. All proceeds go to the General Fund.

**NOTE 7 – PROPERTY TAX**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2003 for real and public utility property taxes represents collections of 2002. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2004 taxes.

2003 real property taxes are levied after October 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes were collected in and intended to finance 2004.



**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 7 – PROPERTY TAX** (Continued)

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2003 public utility property taxes became a lien December 31, 2002, are levied after October 1, 2003 and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2003, was \$15.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

| <u>Category</u>         | <u>Assessed Value</u>      |
|-------------------------|----------------------------|
| Real Estate             | \$56,172,220               |
| Public Utility Property | 3,642,060                  |
| Tangible Personal       | <u>23,107,182</u>          |
| Total Property Taxes    | <u><u>\$82,921,462</u></u> |

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Waverly. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2003, and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2003 operations. The receivable is offset by deferred revenue.

**NOTE 8 – RECEIVABLES**

Receivables at December 31, 2003, consisted of taxes, accounts, interfund, loans, due from other funds, and intergovernmental receivables arising from grants, entitlements or shared revenues. All receivables are considered fully collectible.

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

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 8 – RECEIVABLES** (Continued)

A summary of the principal items of intergovernmental receivables follows:

| <u>Fund Type / Fund</u>                | <u>Amount</u>    |
|--|------------------|
| General Fund                           |                  |
| Estate Tax                             | \$37,848         |
| Local Government                       | 91,985           |
| Homestead, Rollback, and Exemption     | 3,494            |
| Total General Fund                     | <u>133,327</u>   |
| Special Revenue Funds:                 |                  |
| Bridge and Street Fund                 |                  |
| Gasoline Excise Tax                    | 11,521           |
| Cents Per Gallon Tax                   | 28,660           |
| Motor Vehicle License Tax              | 21,044           |
| Homestead, Rollback, and Exemption     | 3,691            |
| Total Bridge and Street Fund           | <u>64,916</u>    |
| Inter-City Highway Fund                |                  |
| Gasoline Excise Tax                    | 934              |
| Cents Per Gallon Tax                   | 2,324            |
| Motor Vehicle License Tax              | 4,921            |
| Total Inter-City Highway Fund          | <u>8,179</u>     |
| City Permissive Fund                   |                  |
| Permissive Motor Vehicle License Taxes | 1,598            |
| Permissive Reimbursement               | 5,332            |
| Total Permissive Fund                  | <u>6,930</u>     |
| Fire                                   |                  |
| Homestead, Rollback, and Exemption     | 5,347            |
| Total Fire Fund                        | <u>5,347</u>     |
| Police                                 |                  |
| Homestead, Rollback, and Exemption     | 16,847           |
| Total Police Fund                      | <u>16,847</u>    |
| Total Special Revenue Funds            | <u>\$102,219</u> |

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 8 – RECEIVABLES** (Continued)

| <u>Fund Type / Fund</u>   | <u>Amount</u>    |
|---|------------------|
| Ford Avenue Reconstruction Fund<br>Ohio Public Works Commission Grant | 159,706          |
| Total Capital Projects Funds  | 159,706          |
| Total Intergovernmental Receivables                                   | <u>\$395,252</u> |

**NOTE 9 - FIXED ASSETS**

**A. GENERAL FIXED ASSETS**

Changes in general fixed assets during 2003 were as follows:

| <u>Asset Category</u>                           | <u>Balance as of<br/>12/31/2002</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance as of<br/>12/31/2003</u> |
|---|-------------------------------------|------------------|------------------|-------------------------------------|
| Land and Improvements                           | \$1,215,723                         | \$1,000          | \$0              | \$1,216,723                         |
| Building and<br>Building Improvements           | 1,008,345                           | 0                | 0                | 1,008,345                           |
| Machinery, Equipment,<br>Furniture and Fixtures | 705,896                             | 62,857           | 0                | 768,753                             |
| Vehicles  | 858,016                             | 19,985           | 0                | 878,001                             |
| Construction in Progress                        | 132,408                             | 353,767          | 0                | 486,175                             |
| Total General Fixed Assets                      | <u>\$3,920,388</u>                  | <u>\$437,609</u> | <u>\$0</u>       | <u>\$4,357,997</u>                  |

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 9 - FIXED ASSETS** (Continued)

**B. FUND FIXED ASSETS**

All fund fixed assets relate to the water and sewer enterprise funds. The balances as of December 31, 2003, were as follows:

| <u>Asset Category</u>  | <u>Water</u>           | <u>Sewer</u>           | <u>Balance as of<br/>12/31/2003</u> |
|--|------------------------|------------------------|-------------------------------------|
| Land and Improvements  | \$133,893              | \$15,278               | \$149,171                           |
| Building and   |                        |                        |                                     |
| Building Improvements  | 1,158,044              | 267,080                | 1,425,124                           |
| Machinery, Equipment,  |                        |                        |                                     |
| Furniture and Fixtures   | 515,203                | 139,840                | 655,043                             |
| Vehicles   | 13,295                 | 86,104                 | 99,399                              |
| Sewer and Water Lines  | 1,308,799              | 3,063,829              | 4,372,628                           |
| Construction in Progress   | <u>0</u>               | <u>4,547,878</u>       | <u>4,547,878</u>                    |
| <br>Total  | <br>3,129,234          | <br>8,120,009          | <br>11,249,243                      |
| <br>Less: Accumulated Depreciation                               | <br><u>(946,682)</u>   | <br><u>(2,949,702)</u> | <br><u>(3,896,384)</u>              |
| <br>Total Fund Fixed Assets (net of<br>Accumulated Depreciation) | <br><u>\$2,182,552</u> | <br><u>\$5,170,307</u> | <br><u>\$7,352,859</u>              |

**NOTE 10 - DEFINED BENEFIT PENSION PLANS**

**A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**

All employees of the City participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans:

The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan.

The Member-Director Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions best over five years at 20% per year). Under the Member-Directed Plan member accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earning thereon.

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

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 10 – DEFINED BENEFIT PENSION PLANS** (Continued)

**A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM** (Continued)

OPERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. The Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, member and employer contributions rates were consistent across all three plans (TP, MD, and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. The employee contribution rates are 8.5% for employees other than law enforcement and public safety. The Law enforcement classification consists of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The 2003 employer contribution rate for local government employer units was 13.55% of covered payroll. For both law enforcement and public safety, the employer rate was 16.70% of covered payroll.

The City's contributions to the PERS of Ohio for the years ending December 31, 2003, 2002, and 2001 were \$143,309, \$93,149, and \$113,854 respectively. These contributions were equal to the required contributions for each of the years.

**B. OHIO POLICE AND FIRE PENSION FUND**

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

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5% and 24%, respectively for police officers and firefighters. The City's contributions to the OP&F for the years ended December 31, 2003, 2002, and 2001 were \$109,873, \$56,574, and \$59,817, respectively, equal to the required contributions for each year.

**C. SOCIAL SECURITY SYSTEM**

Effective July 1, 1991, all employees not otherwise covered by the Ohio Public Employees Retirement System of Ohio (OPERS) or the Ohio Police and Fire Pension Fund (OP&F) have an option to choose Social Security. As of December 31, 2003, sixteen members of the fire department, five members of the City Council, and the City Auditor have elected Social Security. The Council's liability is 6.2 percent of wages paid.

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 11 – POSTEMPLOYMENT BENEFITS**

**A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**

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

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

In order to qualify for post-retirement health care coverage, age and service retirees must have 1 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement and public safety with separate employee contribution rates and benefits. The 2003 employer contribution rate for local government employer units was 13.55% of covered payroll, and 5% was used to fund health care for the year. For both the public safety and law enforcement divisions, the 2003 employer rate was 16.70%, and 5% was used to fund health care. The Ohio Revised Code provides the statutory authority to require public employers to fund post retirement health care through their contributions to OPERS.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

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

The investment assumption rate for 2002 was 8.00%.

An annual increase of 4.00% 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 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health care costs were assumed to increase 4.00% annually.

The portion of the 2003 employer contribution rate that was used to fund health care for the year 2003 for local government employer was \$46,427, 5% of covered payroll.

OPEBs are advance-funded on an actuarially determined basis. The number of active contributing participants was 364,881. \$10.0 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002. The actuarially accrued liability and the unfunded actuarial liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 11 – POSTEMPLOYMENT BENEFITS** (Continued)

**A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM** (Continued)

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "Acliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Accounts.

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "AChoices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

**B. OHIO POLICE AND FIRE PENSION FUND**

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

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

Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2002 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors had monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2002, (the latest information available) was 13,527 for Police and 10,396 for Firefighters. The City's actual contributions for 2002 that were used to fund postemployment benefits was \$41,069 for Police and \$7,528 for Firefighters. The Fund's total health care expenses for the year ended December 31, 2002 were \$141,028,006, which was net of member contributions \$12,623,875.

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**NOTE 12 – EMPLOYEE BENEFITS**

**A. DEFERRED COMPENSATION PLAN**

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

**B. COMPENSATED ABSENCES**

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

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

Unpaid compensated absences of \$4,800 at December 31, 2003, were reported as an accrued liability in the governmental funds. The balance of the liability is reported in the General Long-Term Obligations Account Group in the amount of \$33,569 at December 31, 2003. The liability for compensated absences in the proprietary funds at December 31, 2003, was \$18,095, with \$2,834 representing the current liability and \$15,261 the noncurrent portion of accrued benefits.

**C. INSURANCE BENEFITS**

The City provides life insurance through Anthem Blue Shield and health insurance through United Health Care. Dental insurance is provided through Guardian and vision insurance through Vision Service Plan of Ohio.



**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS**

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2003, was as follows:

| Types / Issues                               | Restated<br>Balance<br>12/31/2002 | Issued             | Retired          | Balance<br>12/31/2003 |
|--|-----------------------------------|--------------------|------------------|-----------------------|
| <i><u>Enterprise Fund Obligations:</u></i>   |                                   |                    |                  |                       |
| OWDA Elevated Water Storage                  |                                   |                    |                  |                       |
| Tank Loan 2001 2.0%                          | \$509,431                         | \$0                | \$23,771         | \$485,660             |
| OWDA Wastewater Treatment                    |                                   |                    |                  |                       |
| Plant Loan 2001 2.2%                         | 2,982,775                         | 899,720            | 0                | 3,882,495             |
| Total OWDA Loans                             | 3,492,206                         | 899,720            | 23,771           | 4,368,155             |
| OPWC Wastewater Treatment                    |                                   |                    |                  |                       |
| Plant Loans 1997 0%                          | 27,912                            | 0                  | 1,925            | 25,987                |
| OPWC Elevated Water Storage                  |                                   |                    |                  |                       |
| Tank Loan 2001 0%                            | 106,804                           | 0                  | 5,477            | 101,327               |
| Total OPWC Loans                             | 134,716                           | 0                  | 7,402            | 127,314               |
| Synagro Loan                                 | 298,058                           | 0                  | 24,233           | 273,825               |
| <i>Total Enterprise Fund Obligations</i>     | <u>\$3,924,980</u>                | <u>\$899,720</u>   | <u>\$55,406</u>  | <u>\$4,769,294</u>    |
| <i><u>General Long-Term Obligations:</u></i> |                                   |                    |                  |                       |
| Fire Truck Note 1998 4.0%                    | \$242,011                         | \$0                | \$242,011        | \$0                   |
| Emergency Truck Note 2003 4.05%              | 0                                 | 408,523            | 0                | 408,523               |
| Bridge and Street Mower Note                 |                                   |                    |                  |                       |
| 2003 4.352%                                  | 0                                 | 15,363             | 0                | 15,363                |
| Backhoe Note 2001 5.2%                       | 37,006                            | 28,415             | 37,006           | 28,415                |
| Police Department Renovations Note           |                                   |                    |                  |                       |
| 2003 3.912%                                  | 0                                 | 130,849            | 0                | 130,849               |
| Second Street Improvements Note              |                                   |                    |                  |                       |
| 2004 4.004%                                  | 0                                 | 391,268            | 0                | 391,268               |
| Police Department Renovations Note           |                                   |                    |                  |                       |
| 2002 3.90%                                   | 150,000                           | 0                  | 150,000          | 0                     |
| Total Notes                                  | 429,017                           | 974,418            | 429,017          | 974,418               |
| OPWC Green Acres Paving and                  |                                   |                    |                  |                       |
| Drainage Loan 2002 0%                        | 3,018                             | 86,979             | 4,500            | 85,497                |
| OPWC Depot Street Reconstruction             |                                   |                    |                  |                       |
| Loan 2003 0%                                 | 0                                 | 52,882             | 0                | 52,882                |
| Total OPWC Loans                             | 3,018                             | 139,861            | 4,500            | 138,379               |
| Compensated Absences                         | 44,166                            | 0                  | 10,597           | 33,569                |
| Pension Obligation                           | 48,702                            | 18,372             | 48,702           | 18,372                |
| <i>Total General Long-Term Obligations</i>   | <u>\$524,903</u>                  | <u>\$1,132,651</u> | <u>\$492,816</u> | <u>\$1,164,738</u>    |

The City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$7,732,335 with an unvoted debt margin of \$3,586,261 at December 31, 2003.

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

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

Annual debt service requirements to maturity for Enterprise Fund Obligations including interest of \$235,812 are:

| Year      | OWDA Elevated<br>Water Storage<br>Tank<br>Loans | OPWC<br>Wastewater<br>Treatment Plant<br>Loans | OPWC Elevated<br>Water Storage<br>Tank<br>Loans | Synagro Loan     | Totals             |
|-----------|---|--|---|------------------|--------------------|
| 2004      | \$33,841  | \$1,925  | \$5,478   | \$60,000         | \$101,244          |
| 2005      | 33,841  | 1,925  | 5,478   | 60,000           | 101,244            |
| 2006      | 33,841  | 1,925  | 5,478   | 60,000           | 101,244            |
| 2007      | 33,841  | 1,925  | 5,478   | 60,000           | 101,244            |
| 2008      | 33,841  | 1,925  | 5,478   | 60,000           | 101,244            |
| 2009-2013 | 169,205   | 9,625  | 27,390  | 120,000          | 326,220            |
| 2014-2018 | 169,205   | 6,737  | 27,390  | 0                | 203,332            |
| 2019-2022 | 67,682  | 0  | 19,157  | 0                | 86,839             |
| Total     | <u>\$575,297</u>                                | <u>\$25,987</u>                                | <u>\$101,327</u>                                | <u>\$420,000</u> | <u>\$1,122,611</u> |

Annual debt service requirements to maturity for General Long Term-Obligations not including the one year maturity notes are:

| Year      | OPWC Depot<br>Street<br>Reconstruction<br>Loan | OPWC Green Acres<br>Paving and Drainage<br>Loan | Total            |
|-----------|--|---|------------------|
| 2004      | \$2,644  | \$9,000   | \$11,644         |
| 2005      | 2,644  | 9,000   | 11,644           |
| 2006      | 2,644  | 9,000   | 11,644           |
| 2007      | 2,644  | 9,000   | 11,644           |
| 2008      | 2,644  | 9,000   | 11,644           |
| 2009-2013 | 13,220   | 40,497  | 53,717           |
| 2014-2018 | 13,220   | 0   | 13,220           |
| 2019-2022 | <u>13,222</u>                                  | <u>0</u>  | <u>13,222</u>    |
| Total     | <u>\$52,882</u>                                | <u>\$85,497</u>                                 | <u>\$138,379</u> |

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

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

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

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

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

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

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

The Synagro Dewatering Facility Loan was issued in the amount of \$339,013 for the construction of a Dewatering Facility. The loan will be paid from the Sewer Fund. (See Restatement Note 22)

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

The Fire Truck Note was issued on May 16, 2003 and was issued for the purpose of purchasing a new fire truck and refinancing the note from a previously purchased fire truck. This note will mature on May 15, 2004 and will be paid from the Fire Special Revenue Fund.

The Backhoe Note was issued on February 24, 2003 for the purpose of purchasing a backhoe. This note will mature on February 24, 2004 and will be paid from the Bridge and Street Special Revenue Fund. This note is secured by the backhoe purchased with the proceeds of the note.

The Second Street Improvements Note was issued on November 10, 2003 and was used to construct Pride Road. The note will mature on November 9, 2004 and will be paid from the Second Street Improvements Fund.

The Bridge and Street Mower Note was issued on August 26, 2003 and was used to purchase a mower for the Bridge and Street Department. The note will mature on August 30, 2004 and will be paid from the Bridge and Street Fund.

The Police Department Renovations Note was issued on January 2, 2003 and is being used to renovate the police department building. The note will mature on January 2, 2004 and will be paid from the Police Special Revenue Fund.

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

**NOTE 14 – NOTE OBLIGATIONS**

**NOTES PAID FROM GOVERNMENTAL FUNDS**

A summary of the note transactions for the year ended December 31, 2003 follows:

| Types / Issues                  | Balance<br><u>12/31/2002</u> | Issued     | Retired          | Balance<br><u>12/31/2003</u> |
|---------------------------------|------------------------------|------------|------------------|------------------------------|
| Special Revenue Funds:          |                              |            |                  |                              |
| Bridge and Street Mower Note    |                              |            |                  |                              |
| 2003 4.352%                     | \$19,527                     | \$0        | \$19,527         | \$0                          |
| Capital Projects Fund:          |                              |            |                  |                              |
| Second Street Improvements Note |                              |            |                  |                              |
| 2003 4.004%                     | 430,000                      | 0          | 430,000          | 0                            |
| <i>Total Note Obligations</i>   | <u>\$449,527</u>             | <u>\$0</u> | <u>\$449,527</u> | <u>\$0</u>                   |

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**NOTE 14 – NOTE OBLIGATIONS (Continued)**

The Bridge and Street Mower Note was issued on August 30, 2002 and was used to purchase a mower for the Bridge and Street Department. The note matured on August 30, 2003 and was refinanced during 2003. The new note is reported in the General Long-Term Obligations Account Group.

The Second Street Improvements Note was issued on November 26, 2002 and was used to construct Pride Road. The note will mature on November 15, 2003 and was refinanced during 2003. The new note is reported in the General Long-Term Obligations Account Group.

**NOTE 15 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the City contracted with The Public Entities Pool of Ohio for all property and fleet insurance, liability insurance, and inland marine coverage as follows:

|  |              |
|--|--------------|
| Building and Contents-replacement cost (\$1,000 deductible)            | \$20,839,623 |
| Miscellaneous Property and Inland Marine Coverage (\$1,000 deductible) | 496,922      |
| Electronic Data Processing Equip Coverage (\$1,000 deductible)         | 3,471        |
| Automobile Vehicle Liability (\$500/1,000 deductible)                  | 2,206,021    |
| Bodily Injury per occurrence   | 1,000,000    |
| Uninsured/Under Insured Motorists Per Occurrence                       | 100,000      |
| Medical Expenses   | 1,000        |
| Total per year   | 1,000,000    |
| Wrongful Acts Coverage (\$2,500 deductible)                            | 1,000,000    |
| General Liability  |              |
| Per occurrence   | 1,000,000    |
| Employee Benefits (\$1,000 deductible)                                 | 100,000      |
| Medical Expense (other than auto)                                      | 5,000        |
| Total per year   | 1,000,000    |
| Law Enforcement Liability (\$2,000 deductible)                         |              |
| Per occurrence   | 1,000,000    |

Settled claims have not exceeded this commercial coverage in any of the past three years. The City changed insurance provider's from various companies to the Public Entities Pool of Ohio in 2003.

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

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

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**NOTE 16 – SEGMENT INFORMATION - ENTERPRISE FUNDS**

The City maintains two enterprise funds which are intended to be self-supporting through user fees charged for services to the public. The water and sewer funds account for the City’s water and sewer services provided to its residents. Financial segment information as of and for the year ended December 31, 2003, is presented below:

|   | <u>Water</u> | <u>Sewer</u> | <u>Totals</u> |
|---|--------------|--------------|---------------|
| Operating Revenues                            | \$575,434    | \$816,476    | \$1,391,910   |
| Depreciation Expense                          | 84,149       | 57,119       | 141,268       |
| Operating Income                              | (8,895)      | 205,772      | 196,877       |
| Net Non-Operating Revenues (Expenses)         | (9,228)      | (35,767)     | (44,995)      |
| Net Income                                    | (18,123)     | 170,005      | 151,882       |
| Net Working Capital                           | 240,580      | 568,373      | 808,953       |
| Property, Plant, and Equipment Additions      | 43,526       | 738,557      | 782,083       |
| Total Assets                                  | 2,461,292    | 6,072,576    | 8,533,868     |
| Loans and Other Long-Term Liabilities         |              |              |               |
| Payable From Revenues                         | 586,987      | 4,182,307    | 4,769,294     |
| Total Retained Earnings                       | 1,540,160    | 1,556,373    | 3,096,533     |
| Encumbrances Outstanding at December 31, 2002 | \$22,485     | \$5,524      | \$28,009      |

**NOTE 17 – INTERFUND TRANSACTIONS**

Interfund balances at December 31, 2003, consist of the following individual fund receivables and payables:

| <u>Fund Type / Fund</u> | <u>Due From<br/>Other Funds</u> | <u>Due To<br/>Other Funds</u> |
|-------------------------|---------------------------------|-------------------------------|
| General Fund            | \$10,727                        | \$0                           |
| Agency Fund:            |                                 |                               |
| Mayor's Court           | 0                               | 10,727                        |
| Total All Funds         | <u>\$10,727</u>                 | <u>\$10,727</u>               |

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**NOTE 18 – CONTRACTUAL COMMITMENT**

Outstanding contractual commitments at December 31, 2003, consist of the following:

| Vendor                                 | Project                                    | Contract<br>Amount | Amount<br>Expended | Balance at<br>12/31/2003 |
|--|--|--------------------|--------------------|--------------------------|
| BBS Corporation                        | Second Street Connector                    | \$138,100          | \$77,096           | \$61,004                 |
| BBS Corporation                        | Wastewater Treatment Plant<br>Improvements | 315,000            | 250,307            | 64,693                   |
| George Igel & Company                  | Second Street Connector                    | 445,800            | 444,700            | 1,100                    |
| Jones & Henry                          | Green Acres Improvements                   | 50,800             | 48,260             | 2,540                    |
| PAE & Associates                       | Wastewater Treatment Plant<br>Improvements | 3,240,977          | 3,143,582          | 97,395                   |
| Purdom, Kaskey &<br>Associates         | Armbruster / Bristol Park                  | 85,500             | 83,209             | 2,291                    |
| Purdom, Kaskey &<br>Associates         | Ford Avenue                                | 62,320             | 24,769             | 37,551                   |
| Foil Inc.                              | Ford Avenue                                | 172,922            | 0                  | 172,922                  |
| Souther Ohio Trenching<br>& Excavating | Green Acres Improvements                   | 86,322             | 56,666             | 29,656                   |
| Ingle-Barr Inc.                        | Armbruster / Bristol Park                  | 465,595            | 318,107            | 147,488                  |
| Q.O.B. Electric                        | Wastewater Treatment Plant<br>Improvements | 505,547            | 479,575            | 25,972                   |
| Total                                  |  | <u>\$5,568,883</u> | <u>\$4,926,271</u> | <u>\$642,612</u>         |

**NOTE 19 – JOINTLY GOVERNED ORGANIZATION**

**WAVERLY EVERGREEN UNION CEMETERY**

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

**NOTE 20 – CONTINGENT LIABILITIES**

**A. LITIGATION**

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

**B. FEDERAL AND STATE GRANTS**

For the period January 1, 2003 to December 31, 2003, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

**CITY OF WAVERLY  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)**

**NOTE 21 – SUBSEQUENT EVENTS**

On October 21, 2003 the City Council approved to increase the city income tax by ½% to a full 1%. The increase will become effective January 1, 2004.

On June 29, 2004, the City issued a \$187,045 Pump Truck Note Maturing June 29, 2005 with a 3.00% interest rate.

On April 30, 2004, the City issued a \$285,015 Bristol Park Completion Note maturing April 30, 2005 with a 3.50% interest rate.

On April 28, 2004, the City issued a \$40,015 Sludge Lagoons Cleaning Note maturing April 28, 2005 with a 2.75% interest rate.

**NOTE 22 –NEW ACCOUNTING PRONOUNCEMENTS AND RESTATEMENT OF PRIOR YEAR FUND BALANCE/RETAINED EARNINGS**

***New Accounting Pronouncement*** The Governmental Accounting Standards Board has issued GASB Statement No. 34, Basic Financial Statements and Management’s Discussion and Analysis – For State and Local Governments. The phase-in period of this accounting principle will require the City to implement the change for the year ended December 31, 2004. The City is preparing for this change in accounting principle, but has elected not to early implement it for fiscal year 2003.

***Restatement of Fund Balances*** In the prior year, interfund activity was misstated in the General Fund and the Police Special Revenue Fund. Accounting errors were noted in the Capital Project Funds for retainage and due from other governments. A loan with the Synagro Co. was omitted in previous years causing the restatement of the Enterprise Funds. Accumulated Depreciation also contributed to the restatement of the Enterprise Funds. These restatements had the following effect on Balances/Retained Earnings as it was previously reported as of December 31, 2002:

|  | General   | Special<br>Revenue | Capital<br>Projects | Enterprise  |
|--|-----------|--------------------|---------------------|-------------|
| Balance/Retained Earnings at<br>December 31, 2002        | \$266,501 | \$407,046          | \$(259,841)         | \$3,337,291 |
| Restatement Amount                                       | (110,000) | 106,390            | 11,620              | (392,640)   |
| Adjusted Balance/Retained<br>Earnings at January 1, 2003 | \$156,501 | \$513,436          | \$(248,221)         | \$2,944,651 |

**This page intentionally left blank.**





**Auditor of State  
Betty Montgomery**

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

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

To the City Council:

We have audited the accompanying general purpose financial statements of the City of Waverly, Pike County, Ohio (the City), as of and for the year ended December 31, 2003, and have issued our report thereon dated January 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2003-001 through 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated January 19, 2005.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be 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 the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2003-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the City in a separate letter dated January 19, 2005.

This report is intended solely for the information and use of management and the City Council, and is not intended to be, and should not be used by 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

January 19, 2005

**CITY OF WAVERLY  
PIKE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003**

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

**FINDING NUMBER 2003-001**

**Finding for Recovery – Repaid Under Audit**

Ohio Rev. Code Section 2949.091 states that the court, in which any person is convicted of or pleads guilty to any offense other than a traffic offense that is not a moving violation, shall impose the sum of fifteen dollars as costs in the case in addition to any other court costs that the court is required by law to impose upon the offender. All such moneys collected during a month shall be transmitted on or before the twentieth day of the following month by the clerk of the court to the treasurer of state and deposited by the treasurer of state into the general revenue fund. The court shall not waive the payment of the additional fifteen dollars court costs, unless the court determines that the offender is indigent and waives the payment of all court costs imposed upon the indigent offender.

Prior to September 26, 2003 the court costs noted above were \$11; however, they were raised to \$15 effective September 26, 2003, as a result of House Bill 95. The Mayor's Court was not aware the court costs had increased so it did not raise the court fee at any time during the audit period.

From September 26, 2003 to December 31, 2003, the Mayor's Court issued 461 tickets for which they only collected the \$11 fee. Based on the change House Bill 95 made to Ohio Revised Code Section 2949.091(A)(1), the Mayor's Court should have collected an additional \$1,844 that is due to the State of Ohio to be deposited by the Treasurer of State into the General Revenue Fund.

In accordance to the foregoing facts and pursuant to the Ohio Rev. Code Section 117.28, we hereby issue a Finding for Recovery against Mayor William A. Kelly and The Cincinnati Insurance Company, his bonding company, jointly and severally, in the amount of \$1,844 for public monies due but not collected, in favor of the State of Ohio, General Revenue Fund. The finding was paid by the City of Waverly from its General Fund on December 31, 2004 on check number 25444 for \$3,572. This check also included payment of \$1,728 for 432 tickets issued between January 1, 2004 and April 30, 2004 for which they only collected the \$11 fee.

**FINDING NUMBER 2003-002**

**Noncompliance Citation**

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

**CITY OF WAVERLY  
PIKE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003  
(Continued)**

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

**FINDING NUMBER 2003-002 (Continued)**

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

At December 31, 2003, appropriations exceeded total estimated resources in the following funds:

|                                | Total<br>Appropriations | Total<br>Estimated<br>Resources | Variance | % Variance |
|--------------------------------|-------------------------|---------------------------------|----------|------------|
| <u>Special Revenue Funds:</u>  |                         |                                 |          |            |
| Law Drug Enforcement Fund      | \$5,000                 | \$4,869                         | \$131    | 3%         |
| <u>Capital Projects Funds:</u> |                         |                                 |          |            |
| Nature Works Park Fund         | \$111,534               | \$58,865                        | \$52,669 | 89%        |
| US 23 Embankment Fund          | \$26,718                | \$2,000                         | \$24,718 | 1,236%     |

We recommend that appropriations for a fund only be made for an amount equal to or less than the fund's estimated resources.

**FINDING NUMBER 2003-003**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(B) provides that no subdivision or taxing unit is to expend money unless it has been appropriated.

At December 31, 2003 total disbursements plus encumbrances exceeded total appropriations in the following funds:

|                                | Total<br>Appropriations | Total<br>Disbursements | Variance    | % Variance |
|--------------------------------|-------------------------|------------------------|-------------|------------|
| <u>Special Revenue Funds:</u>  |                         |                        |             |            |
| Bridge and Street Fund         | \$ 509,555              | \$525,968              | (\$16,413)  | 3%         |
| Fire Fund                      | \$289,012               | \$601,595              | (\$312,583) | 108%       |
| Police Fund                    | \$1,041,689             | \$1,075,146            | (\$33,457)  | 3%         |
| Emergency Siren Fund           | \$2,000                 | \$4,503                | (\$4,503)   | 125%       |
| <u>Capital Projects Funds:</u> |                         |                        |             |            |
| Second Street Fund             | \$246,210               | \$496,965              | (\$250,755) | 102%       |
| Depot Road Improvement Fund    | \$112,299               | \$130,445              | (\$18,146)  | 16%        |
| Green Acres Subdivision Fund   | \$147,439               | \$221,559              | (\$74,120)  | 50%        |
| <u>Enterprise Funds:</u>       |                         |                        |             |            |
| Special Water Fund             | \$15,000                | \$16,166               | (\$1,166)   | 8%         |

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

**CITY OF WAVERLY  
PIKE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003  
(Continued)**

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

**FINDING NUMBER 2003-004**

**Material Weakness**

The City of Waverly did not have a comprehensive inventory listing of all of its fixed assets. As a result, there was no detail of individual assets purchased, the cost of the assets, location, date of acquisition, etc. It was noted that there was a partial listing maintained by the GAAP conversion company for the Enterprise Fund Fixed Assets. However, this list was incomplete. There was no detailed listing of General Fixed Assets reported in the General Fixed Asset Account Group. Depreciation was calculated and reported by the City based on the partial listing maintained by the GAAP conversion company. As a result, the depreciation calculations by the City were understated.

The lack of an adequate fixed asset accounting system is a weakness in the City's accounting system that could result in material errors to the financial statements. For example, since the City only had a partial listing of Enterprise Fund Fixed Assets, the depreciation reported by the City was not calculated properly. Further, since the City did not maintain a detailed listing of its General Fixed Assets, any disposals of General Fixed Assets could not be properly recorded since there would be no way to determine the original cost of the asset that the City sold or otherwise disposed. The City will experience further difficulties when it begins reporting in accordance with the new reporting model under GASB 34.

We recommend the City perform or contract for a complete physical inventory of all of its fixed assets. We further recommend the City either develop or acquire a central fixed assets tracking system. All of the assets of the City should be given a unique ID number. ID tags containing the asset's ID number should be placed on each asset. The system should include a description of the asset, the date purchased, cost, and should calculate and keep track of accumulated depreciation for each of the assets. Further, the system should include the fund(s) from which the asset was purchased and function(s) or program(s) for which the asset is used. This could enhance the City's ability to track assets purchased with federal grant monies and would enable the City to obtain the information necessary for reporting in accordance with the new reporting model under GASB Statement 34. Such a system would enhance the City's ability to properly report the fixed assets and would also enhance physical security and control over the assets. Since the City currently has no comprehensive listing of fixed assets, the City should perform or contract for the performance of a physical inventory of all of its fixed assets.

**CITY OF WAVERLY  
PIKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2003**

| Finding Number | Finding Summary  | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain:</b></i> |
|----------------|--|------------------|---|
| 2002-001       | Ohio Rev. Code Section 1905.02 – Computer fees be paid into a separate Computer Fund.                      | Yes              |   |
| 2002-002       | Ohio Rev. Code Section 5705.39 - appropriations exceeded estimated resources in several funds.             | No               | Not Corrected:<br><br>Reissued as Finding 2003-002.   |
| 2002-003       | Ohio Rev. Code Section 5705.41(B) – expenditures exceeded appropriations in several funds.                 | No               | Not Corrected:<br><br>Reissued as Finding 2003-003.   |
| 2002-004       | Ohio Rev. Code Section 5705.41(D) – certify the availability of funds prior to to incurring obligations.   | Yes              |   |
| 2002-005       | Ohio Rev. Code Section 5705.10 – Negative fund balances.   | No               | Not Corrected:<br><br>Reissued as Management Letter citation.   |
| 2002-006       | City Council seek alternative ways of financing obligations, or cut costs in the General and Police funds. | Yes              |   |



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**CITY OF WAVERLY**

**PIKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 10, 2005**