



Dave Yost • Auditor of State

**CITY OF WATERVILLE
LUCAS COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

City of Waterville
Lucas County
25 North Second Street
Waterville, Ohio 43566-1491

To the Members of Council:

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

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

As discussed in Note 3, the City changed its method of accounting to Generally Accepted Accounting Principles in 2011.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waterville, Lucas County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The schedule of federal awards expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This is management's responsibility, and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

November 1, 2012

**CITY OF WATERVILLE
LUCAS COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

The discussion and analysis of the City of Waterville's financial performance provides an overview of the City's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2011 are as follows:

In total, the City's net assets increased 4.5 percent from the prior year; governmental activities increased almost 6 percent and business-type activities increased almost 3 percent.

Both of the City's enterprise funds had an operating income and increase in net assets for 2011.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the City of Waterville's financial position.

The statement of net assets and the statement of activities provide information about the activities of the City as a whole, presenting both an aggregate and a longer-term view of the City.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. Fund financial statements report the City's most significant funds individually and the City's non-major funds in a single column. The City's major funds are the General, Various Improvements, Water, Sewer, and Storm Sewer funds.

REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2011. These statements include all assets and liabilities using the accrual basis of accounting similar to that used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the City as a whole has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors can include changes in the City's property tax base and the condition of the City's capital assets (buildings; streets; water, sewer, storm sewer lines, etc.). These factors must be considered when assessing the overall health of the City.

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

- Governmental Activities - Most of the City's programs and services are reported here, including security of persons and property, leisure time activities, community environment, basic utility services, transportation, and general government. These services are primarily funded by property taxes and income taxes and from intergovernmental revenues, including federal and state grants and other shared revenues.

**CITY OF WATERVILLE
LUCAS COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

- Business-Type Activities - These services are provided on a charge for services basis and are intended to recover all or most of the costs of the services provided. The City's water, sewer, and storm sewer services are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the City's major funds, the General, Various Improvements, Water, Sewer, and Storm Sewer funds. While the City uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - The City's governmental funds are used to account for essentially the same programs reported as governmental activities on the government-wide financial statements. Most of the City's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at year end. These funds are reported on the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services being provided.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Enterprise Funds - The City's enterprise funds use the accrual basis of accounting, the same as that used for the business-type activities on the government-wide financial statements.

**CITY OF WATERVILLE
LUCAS COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2011 and 2010.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<u>Assets</u>						
Current and Other Assets	\$3,287,268	\$2,965,584	\$1,417,998	\$1,190,555	\$4,705,266	\$4,156,139
Capital Assets, Net	15,539,093	15,450,465	11,949,535	11,673,224	27,488,628	27,123,689
Total Assets	<u>18,826,361</u>	<u>18,416,049</u>	<u>13,367,533</u>	<u>12,863,779</u>	<u>32,193,894</u>	<u>31,279,828</u>
<u>Liabilities</u>						
Current and Other Liabilities	756,696	684,687	997,864	989,145	1,754,560	1,673,832
Long-Term Liabilities	4,327,994	4,745,449	3,287,301	3,025,522	7,615,295	7,770,971
Total Liabilities	<u>5,084,690</u>	<u>5,430,136</u>	<u>4,285,165</u>	<u>4,014,667</u>	<u>9,369,855</u>	<u>9,444,803</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	11,388,564	10,910,222	10,205,627	9,942,257	21,594,191	20,852,479
Restricted	861,629	1,019,701			861,629	1,019,701
Unrestricted (Deficit)	<u>1,491,478</u>	<u>1,055,990</u>	<u>(1,123,259)</u>	<u>(1,093,145)</u>	<u>368,219</u>	<u>(37,155)</u>
Total Net Assets	<u>\$13,741,671</u>	<u>\$12,985,913</u>	<u>\$9,082,368</u>	<u>\$8,849,112</u>	<u>\$22,824,039</u>	<u>\$21,835,025</u>

For governmental activities, there was an 11 percent increase in current and other assets primarily due to an increase in cash and cash equivalents as revenues were in excess of expenses for the year, an increase also reflected in the increase in unrestricted net assets. The increase in current and other liabilities is generally due to outstanding liabilities for contracts and retainage related on ongoing construction activities. Note the decrease in restricted net assets also related to this activity. The decrease in long-term liabilities and increase in invested in capital assets reflects the retirement of debt.

Similar to governmental activities, revenues were also in excess of expenses for business-type activities for 2011 resulting in an increase in current and other assets (cash and cash equivalents) and a modest increase in overall net assets.

Table 2 reflects the changes in net assets for 2011. Since this is the first year the City has prepared financial statements in accordance with generally accepted accounting principles, revenue and expense comparisons to 2010 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**CITY OF WATERVILLE
LUCAS COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

Table 2
Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
	2011	2011	
<u>Revenues</u>			
Program Revenues			
Charges for Services	\$412,181	\$1,941,629	\$2,353,810
Operating Grants, Contributions, and Interest	415,034		415,034
Capital Grants and Contributions	488,786		488,786
Total Program Revenues	1,316,001	1,941,629	3,257,630
General Revenue			
Property Taxes Levied for General Purposes	362,358		362,358
Property Taxes Levied for Police Pension	33,966		33,966
Municipal Income Taxes	2,608,771		2,608,771
Grants and Entitlements not Restricted to Specific Programs	447,161		447,161
Franchise Taxes	79,403		79,403
Interest	57,734		57,734
Other	80,948	247	81,195
Total General Revenues	3,670,341	247	3,670,588
Total Revenues	4,986,342	1,941,876	6,928,218
<u>Program Expenses</u>			
Security of Persons and Property			
Police	1,092,715		1,092,715
Fire	413,011		413,011
Other	77,819		77,819
Leisure Time Activities	67,938		67,938
Community Environment	146,211		146,211
Basic Utility Services	265,851		265,851
Transportation	970,734		970,734
General Government	1,014,451		1,014,451
Interest and Fiscal Charges	181,854		181,854
Water		841,465	841,465
Sewer		745,531	745,531
Storm Sewer		121,624	121,624
Total Expenses	4,230,584	1,708,620	5,939,204
Increase in Net Assets	755,758	233,256	989,014
Net Assets Beginning of Year	12,985,913	8,849,112	21,835,025
Net Assets End of Year	\$13,741,671	\$9,082,368	\$22,824,039

**CITY OF WATERVILLE
LUCAS COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
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Program revenues were 26 percent of total revenues for governmental activities and consist of various charges for services; however, are largely the result of grants and contributions for operational and capital related activities. General revenues primarily consist of property taxes, income taxes, and unrestricted state entitlements (primarily local government monies). Note that municipal income tax revenue makes up over 52 percent of the total revenue for all governmental operations. Police and fire operations are the City's largest expense, over 35 percent of the City's total expenses. The operations of City government are the next largest expense (offices of the mayor, administrator, finance director, council, and general administrative functions) accounting for 24 percent of the City's expenses. Lastly, the other significant governmental function is that of street maintenance are repair making up 23 percent of total expenses.

The City's business-type activities are almost entirely funded through charges for services.

Table 3, indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues. Comparisons to 2010 have not been made since they are not available for this year.

Table 3
Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011
Security of Persons and Property		
Police	\$1,092,715	\$1,068,919
Fire	413,011	320,144
Other	77,819	77,819
Leisure Time Activities	67,938	37,732
Community Environment	146,211	(16,207)
Basic Utility Services	265,851	44,847
Transportation	970,734	195,547
General Government	1,014,451	1,003,928
Interest and Fiscal Charges	181,854	181,854
	\$4,230,584	\$2,914,583

General revenues provided for 69 percent of the costs of providing governmental services in 2011. The City's most significant revenue source is municipal income taxes. Although dependence on municipal income taxes and, to a lesser degree, property taxes is critical to the City's operations, there are several programs which are well supported through program revenues. The costs of the leisure time activities program are partially funded through operating grants and contributions. The community environment program received operating grants through the Community Development Block Grant program. The basic utility program charges for services include the fees for trash collection. The transportation program receives charges for services in the form of permissive motor vehicle license monies. The transportation program also receives operating grants in the form of State levied motor vehicle license fees and gas taxes.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund and the Various Improvements capital projects fund. The General Fund experienced a 65 percent increase in fund balance in 2011 as revenues exceeded operating expenditures and subsidies to other funds.

**CITY OF WATERVILLE
LUCAS COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

The Various Improvements Fund has a 30 percent decrease in fund balance due to debt retirement requirements.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water, Sewer, and Storm Sewer funds.

The Water Fund had an operating income and a 3 percent increase in net assets in 2011. The Sewer Fund also had an operating income and a 2 percent increase in net assets. In 2011, the City increased both water and sewer rates and are currently undergoing an analysis of the rates in order to establish rates for 2013 through 2016.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January.

The City's most significant budgeted fund is the General Fund. For revenues, changes from the original budget to the final budget as well as from the final budget to actual revenues were not significant. Changes from the original budget to the final budget were not significant for expenditures; however, actual expenditures were 15 percent less than final budget amounts primarily due to conservative budgeting.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2011, was \$11,388,564 and \$10,205,627, respectively (net of accumulated depreciation and related debt). This investment in capital assets includes land and land improvements, buildings, equipment, vehicles, and infrastructure (streets and water, sewer, and storm sewer lines). For governmental activities, the additions for 2011 primarily consisted of construction in progress for the State Route 64 project. For business-type activities, additions consisted of the River Road water line and improvements to the Conrad Park water tower. There were no disposals. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

Debt - At December 31, 2011, the City had \$3,297,899 in outstanding bond anticipation notes, \$1,500,000 in general obligation bonds, \$926,425 in Ohio Public Works Commission loans, 161,665 in Ohio Water Development Authority loans, and \$2,397,750 in a long-term loan with Lucas County. Of this total outstanding debt, \$4,141,658 will be paid from business-type activities.

In addition to the debt outlined above, the City's long-term obligations also include capital leases and compensated absences. For further information regarding the City's debt, refer to Notes 16, 17, and 18 to the basic financial statements.

CURRENT ISSUES

The City continues to be challenged in 2012. The State, in order to balance its budget, reduced local government funds, phased out tangible personal property taxes earlier than originally planned, and eliminated inheritance taxes. These cuts, coupled with a sluggish economy, job losses in recent years, extremely low interest rates, and a decrease in income tax revenues, put the City in a tight financial position. While income tax revenues dropped in 2009 and 2010, there was a 5.9 percent increase in 2011 over 2010 and 2012 collections are currently on track with budget estimates. The City anticipates an approximate revenue loss of \$25,000 for 2013 and beyond due to the expiration of the estate tax and another 25 percent cut in local government funding from the State. The 2009 property revaluations effectively cut the City's property tax collection in 2010 and 2011 by \$45,500 (10.8%).

**CITY OF WATERVILLE
LUCAS COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

In order to strengthen the General Fund, the Council adopted ordinances during 2009, 2010, 2011, and 2012 that temporarily reallocated several sources of revenue. The allocation of income tax was increased over the customary allocation of 75 percent of annual receipts to the General Fund and franchise taxes were receipted into the General Fund rather than the Parks and Green Space Improvement Fund. Revenue enhancements recently enacted include an EMS fee for all patients serviced and a refuse/recycling collection fee for all residential customers.

With a concerted and successful effort by all departments to cut expenses, personnel costs were greatly reduced as the City's workforce was reduced through attrition. From May 2010 through April 2012, seven full-time employees retired with only one of those positions being replaced. Four of the retiree's had been paid from the General Fund.

The 2010 Census resulted in the "Village of Waterville" being certified as a "City" on April 29, 2011. The 2010 census put the population count at 5,523, an increase of 695 individuals from the 2000 census of 4,828. With the City status, Waterville now falls under civil service regulations along with several other minor changes; most will not be noticeable to the residents in the daily operations of providing services to the City and its' residents.

The City is currently in contract negotiations with the Ohio Patrolmen's Benevolent Association, one unit for Police Command Officers and one unit for Patrol Offices. The Public Works Technician's have certified with the State Employment Relation Board for union representation; negotiations will begin with the Teamsters Union in the near future for these employees. These three union contracts will be the first ever for the City of Waterville.

Other current issues and events in the City include the following:

- The City has received two Community Development Block Grants (\$400,000 each) for the Third Street revitalization project in the downtown area. These projects took place in 2007-2008 and 2009-2010, with final completion in 2011. Several small businesses have taken advantage of the funding for rehabilitating their facilities in our downtown area in conjunction with the City's downtown reconstruction. Having an attractive streetscape and storefronts gives our City a more welcoming appearance.
- The U.S. 24 by-pass roadway project is scheduled to open in September 2012. This state and federal funded by-pass around the City's western limits has already brought new commercial development (new Kroger store and gas station) and will undoubtedly bring additional commercial and other development within and outside the City's' borders at the by-pass intersection at State Route 64.
- The City is a contracted cooperative partner in the Lucas County Waste Water Treatment Plant which is completing upgrades that has increased the capacity of the wastewater treatment plant.
- In 2012, the City will be converting a portion of the currently outstanding bond anticipation notes, in the amount of \$956,631, into general obligation bonds in addition to refunding an existing bond issue, in the amount of \$1,425,000. It is anticipated that this refinancing will save the City approximately \$154,000; however, the actual savings will not be known until the refinancing occurs. In addition, the City will also be issuing bond anticipation notes, in the amount of \$2,920,833, which includes \$1,000,000 to engineer and construct the extension of new water and sewer lines west on State Route 64 from the corporation line to the limit of the City's water and sewer district boundary to prepare for future development at the U.S. 24 by-pass intersection at State Route 64.

**CITY OF WATERVILLE
LUCAS COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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- In 2012, the City has completed an extensive update of the Waterville Comprehensive Plan.

In 2012, the Waterville Economic Development Corporation (WEDC) has come to fruition, its membership consisting of the City of Waterville, business and business owners located in and around the City, interested private citizens, and local organizations. The WEDC is developing strategies for economic development in Waterville and working with other regional economic development organizations.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those interested in our City's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Dale Knepper, Finance Director, City of Waterville, 25 North Second Street, Waterville, Ohio 43566.

**City of Waterville
Lucas County
Statement of Net Assets
December 31, 2011**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,543,080	\$1,159,154	\$2,702,234
Accounts Receivable	80,098	221,938	302,036
Accrued Interest Receivable	17,262		17,262
Due from Other Governments	464,752		464,752
Municipal Income Taxes Receivable	655,103		655,103
Other Local Taxes Receivable	3,040		3,040
Prepaid Items	23,709	4,523	28,232
Materials and Supplies Inventory	40,771	25,895	66,666
Property Taxes Receivable	407,865		407,865
Special Assessments Receivable	51,588	6,488	58,076
Nondepreciable Capital Assets	2,649,982	33,643	2,683,625
Depreciable Capital Assets, Net	12,889,111	11,915,892	24,805,003
Total Assets	18,826,361	13,367,533	32,193,894
<u>Liabilities</u>			
Accrued Wages Payable	24,206	5,218	29,424
Accounts Payable	31,901	5,033	36,934
Contracts Payable	87,684	10,475	98,159
Due to Other Governments	120,441	22,415	142,856
Retainage Payable	61,720		61,720
Deferred Revenue	400,479		400,479
Accrued Interest Payable	30,265	9,645	39,910
Notes Payable		945,078	945,078
Long-Term Liabilities			
Due Within One Year	2,531,039	238,255	2,769,294
Due in More Than One Year	1,796,955	3,049,046	4,846,001
Total Liabilities	5,084,690	4,285,165	9,369,855
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	11,388,564	10,205,627	21,594,191
Restricted for			
Capital Projects	568,032		568,032
Other Purposes	109,919		109,919
Street Construction, Maintenance, and Repair	183,678		183,678
Unrestricted (Deficit)	1,491,478	(1,123,259)	368,219
Total Net Assets	\$13,741,671	\$9,082,368	\$22,824,039

See Accompanying Notes to the Basic Financial Statements

**City of Waterville
Lucas County
Statement of Activities
For the Year Ended December 31, 2011**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,092,715	\$15,648	\$8,148	
Fire	413,011	92,867		
Other	77,819			
Leisure Time Activities	67,938	511	29,695	
Community Environment	146,211	44,166	118,252	
Basic Utility Services	265,851	221,004		
Transportation	970,734	27,462	258,939	488,786
General Government	1,014,451	10,523		
Interest and Fiscal Charges	181,854			
Total Governmental Activities	4,230,584	412,181	415,034	488,786
<u>Business-Type Activities</u>				
Water	841,465	970,257		
Sewer	867,155	971,372		
Total Business-Type Activities	1,708,620	1,941,629		
Total	\$5,939,204	\$2,353,810	\$415,034	\$488,786

General Revenues

Property Taxes Levied for General Purposes
Property Taxes Levied Police Pension
Municipal Income Taxes
Grants and Entitlements not Restricted to Specific Programs
Franchise Taxes
Interest
Other

Total General Revenues

Change in Net Assets

Net Assets at Beginning of Year - Restated (Note 3)

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,068,919)		(\$1,068,919)
(320,144)		(320,144)
(77,819)		(77,819)
(37,732)		(37,732)
16,207		16,207
(44,847)		(44,847)
(195,547)		(195,547)
(1,003,928)		(1,003,928)
(181,854)		(181,854)
<u>(2,914,583)</u>		<u>(2,914,583)</u>
	128,792	128,792
	104,217	104,217
	<u>233,009</u>	<u>233,009</u>
<u>(2,914,583)</u>	<u>233,009</u>	<u>(2,681,574)</u>
362,358		362,358
33,966		33,966
2,608,771		2,608,771
447,161		447,161
79,403		79,403
57,734		57,734
80,948	247	81,195
<u>3,670,341</u>	<u>247</u>	<u>3,670,588</u>
755,758	233,256	989,014
<u>12,985,913</u>	<u>8,849,112</u>	<u>21,835,025</u>
<u>\$13,741,671</u>	<u>\$9,082,368</u>	<u>\$22,824,039</u>

**City of Waterville
Lucas County
Balance Sheet
Governmental Funds
December 31, 2011**

	General	Various Improvements	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$896,837	\$401,599	\$244,644	\$1,543,080
Accounts Receivable	59,919		20,179	80,098
Accrued Interest Receivable	4,137	12,861	264	17,262
Due from Other Governments	191,521	118,252	154,979	464,752
Municipal Income Taxes Receivable	491,327	163,776		655,103
Other Local Taxes Receivable			3,040	3,040
Prepaid Items	19,047		4,662	23,709
Materials and Supplies Inventory	4,293		36,478	40,771
Property Taxes Receivable	372,886		34,979	407,865
Special Assessments Receivable		51,588		51,588
Total Assets	\$2,039,967	\$748,076	\$499,225	\$3,287,268
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accrued Wages Payable	\$22,025		\$2,181	\$24,206
Accounts Payable	24,000	6,628	1,273	31,901
Contracts Payable		87,684		87,684
Due to Other Governments	45,620		74,821	120,441
Retainage Payable		61,720		61,720
Deferred Revenue	801,867	176,922	180,704	1,159,493
Total Liabilities	893,512	332,954	258,979	1,485,445
<u>Fund Balance</u>				
Nonspendable	23,340		41,140	64,480
Restricted		415,122	167,434	582,556
Committed	35,555		31,672	67,227
Unassigned	1,087,560			1,087,560
Total Fund Balance	1,146,455	415,122	240,246	1,801,823
Total Liabilities and Fund Balance	\$2,039,967	\$748,076	\$499,225	\$3,287,268

See Accompanying Notes to the Basic Financial Statements

**City of Waterville
Lucas County
Reconciliation of Total Governmental Fund Balance
to Net Assets of Governmental Activities
December 31, 2011**

Total Governmental Fund Balance	\$1,801,823
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	15,539,093
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	42,317	
Accrued Interest Receivable	1,468	
Due from Other Governments	324,038	
Municipal Income Taxes Receivable	319,356	
Property Taxes Receivable	7,386	
Special Assessments Receivable	64,449	
	759,014	759,014

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(30,265)	
Bond Anticipation Notes Payable	(2,352,821)	
General Obligations Bonds Payable	(1,500,000)	
OPWC Loans Payable	(289,260)	
Capital Leases Payable	(8,448)	
Compensated Absences Payable	(177,465)	
	(4,358,259)	(4,358,259)

Net Assets of Governmental Activities	<u><u>\$13,741,671</u></u>
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See Accompanying Notes to the Basic Financial Statements

**City of Waterville
Lucas County
Statement of Revenues, Expenditures,
and Change in Fund Balance
Governmental Funds
For the Year Ended December 31, 2011**

	<u>General</u>	<u>Various Improvements</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>				
Property Taxes	\$364,200		\$34,142	\$398,342
Municipal Income Taxes	2,036,852	\$587,411		2,624,263
Other Local Taxes			27,462	27,462
Special Assessments		28,756		28,756
Charges for Services	313,371			313,371
Fees, Licenses, and Permits	9,108		87,347	96,455
Fines and Forfeitures	10,277		4,255	14,532
Intergovernmental	502,268	576,454	261,683	1,340,405
Interest	39,164	16,061	2,156	57,381
Other	44,284	36,466	198	80,948
Total Revenues	3,319,524	1,245,148	417,243	4,981,915
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,055,702	21,595	72,214	1,149,511
Fire	335,901	29,015		364,916
Other	72,031	5,788		77,819
Leisure Time Activities	1,900		79,217	81,117
Community Environment	5,088	141,123		146,211
Basic Utility Services	243,351	22,500		265,851
Transportation		807,289	273,941	1,081,230
General Government	949,081	49,246	117	998,444
Debt Service:				
Principal Retirement	3,576	142,334		145,910
Current Refunding		2,596,625		2,596,625
Interest and Fiscal Charges	312	157,964		158,276
Total Expenditures	2,666,942	3,973,479	425,489	7,065,910
Excess of Revenues Over (Under) Expenditures	652,582	(2,728,331)	(8,246)	(2,083,995)
<u>Other Financing Sources (Uses)</u>				
Bond Anticipation Notes Issued		2,352,821		2,352,821
Transfers In		200,000		200,000
Transfers Out	(200,000)			(200,000)
Total Other Financing Sources (Uses)	(200,000)	2,552,821		2,352,821
Change in Fund Balance	452,582	(175,510)	(8,246)	268,826
Fund Balances Beginning of Year - Restated (Note 3)	693,873	590,632	248,492	1,532,997
Fund Balance End of Year	\$1,146,455	\$415,122	\$240,246	\$1,801,823

See Accompanying Notes to the Basic Financial Statements

**City of Waterville
Lucas County
Reconciliation of Statement of Revenues, Expenditures,
and Change in Fund Balance
of Governmental Funds to Statement of Activities
For the Year Ended December 31, 2011**

Change in Fund Balance - Total Governmental Funds \$268,826

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year.

Capital Outlay- Nondepreciable Capital Assets	771,733	
Capital Outlay- Depreciable Capital Assets	92,685	
Depreciation	<u>(775,790)</u>	88,628

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

Property Taxes	(2,018)	
Municipal Income Taxes	(15,492)	
Special Assessments	15,410	
Charges for Services	3,542	
Fees, Licenses, and Permits	(7,944)	
Intergovernmental	8,587	
Interest	<u>2,342</u>	4,427

Repayment of principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities on the statement of net assets.

Bond Anticipation Notes Payable	2,596,625	
General Obligation Bonds Payable	105,000	
OPWC Loans Payable	37,334	
Capital Leases Payable	<u>3,576</u>	2,742,535

Bond anticipation note proceeds are other financing sources in governmental funds but the issuance increases long-term liabilities on the statement of net assets. (2,352,821)

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net assets. (23,578)

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 27,741

Change in Net Assets of Governmental Activities \$755,758

See Accompanying Notes to the Basic Financial Statements

**City of Waterville
Lucas County
Statement of Revenues, Expenditures,
and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$402,100	\$355,050	\$364,200	\$9,150
Municipal Income Taxes	1,922,938	1,927,156	2,015,755	88,599
Charges for Services	322,235	322,442	313,567	(8,875)
Fees, Licenses, and Permits	8,731	8,750	9,108	358
Fines and Forfeitures	7,733	7,750	8,931	1,181
Intergovernmental	447,150	448,122	514,625	66,503
Interest	41,509	41,600	36,779	(4,821)
Other	33,473	34,047	46,163	12,116
Total Revenues	3,185,869	3,144,917	3,309,128	164,211
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,275,180	1,307,375	1,058,142	249,233
Fire	389,379	399,003	338,632	60,371
Other	69,200	78,204	71,207	6,997
Leisure Time Activities	1,900	1,900	1,900	
Community Environment	18,300	11,735	5,088	6,647
Basic Utility Services	266,597	282,877	261,632	21,245
General Government	1,034,908	1,107,534	965,346	142,188
Total Expenditures	3,055,464	3,188,628	2,701,947	486,681
Excess of Revenues Over (Under) Expenditures	130,405	(43,711)	607,181	650,892
<u>Other Financing Uses</u>				
Transfers Out		(200,000)	(200,000)	
Change in Fund Balance	130,405	(243,711)	407,181	650,892
Fund Balance Beginning of Year	486,757	486,757	486,757	
Fund Balance End of Year	\$617,162	\$243,046	\$893,938	\$650,892

See Accompanying Notes to the Basic Financial Statements

**City of Waterville
Lucas County**

**Statement of Fund Net Assets
Enterprise Funds
December 31, 2011**

	Water	Sewer	Total Enterprise Funds
<u>Assets</u>			
<u>Current Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$366,267	\$792,887	\$1,159,154
Accounts Receivable	101,594	120,344	221,938
Prepaid Items	1,848	2,675	4,523
Materials and Supplies Inventory	22,082	3,813	25,895
Special Assessments Receivable		1,176	1,176
Total Current Assets	<u>491,791</u>	<u>920,895</u>	<u>1,412,686</u>
<u>Non-Current Assets</u>			
Special Assessments Receivable		5,312	5,312
Nondepreciable Capital Assets	14,200	19,443	33,643
Depreciable Capital Assets, Net	5,071,652	6,844,240	11,915,892
Total Non-Current Assets	<u>5,085,852</u>	<u>6,868,995</u>	<u>11,954,847</u>
Total Assets	<u>5,577,643</u>	<u>7,789,890</u>	<u>13,367,533</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accrued Wages Payable	2,607	2,611	5,218
Accounts Payable	2,203	2,830	5,033
Contracts Payable	10,016	459	10,475
Due to Other Governments	18,059	4,356	22,415
Accrued Interest Payable	4,186	5,459	9,645
Notes Payable	410,212	534,866	945,078
OPWC Loans Payable	24,570	37,767	62,337
OWDA Loans Payable	36,892		36,892
Due to Lucas County		122,383	122,383
Compensated Absences Payable	7,912	8,731	16,643
Total Current Liabilities	<u>516,657</u>	<u>719,462</u>	<u>1,236,119</u>
<u>Non-Current Liabilities</u>			
OPWC Loans Payable	265,021	309,807	574,828
OWDA Loans Payable	80,382	44,391	124,773
Due to Lucas County	372,909	1,902,458	2,275,367
Compensated Absences Payable	38,327	35,751	74,078
Total Non-Current Liabilities	<u>756,639</u>	<u>2,292,407</u>	<u>3,049,046</u>
Total Liabilities	<u>1,273,296</u>	<u>3,011,869</u>	<u>4,285,165</u>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	4,268,775	5,936,852	10,205,627
Unrestricted (Deficit)	35,572	(1,158,831)	(1,123,259)
Total Net Assets	<u>\$4,304,347</u>	<u>\$4,778,021</u>	<u>\$9,082,368</u>

See Accompanying Notes to the Basic Financial Statements

**City of Waterville
Lucas County
Statement of Revenues, Expenses,
and Change in Fund Net Assets
Enterprise Funds
For the Year Ended December 31, 2011**

	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise Funds</u>
<u>Operating Revenues</u>			
Charges for Services	\$970,257	\$971,372	\$1,941,629
Other	130	117	247
Total Operating Revenues	<u>970,387</u>	<u>971,489</u>	<u>1,941,876</u>
<u>Operating Expenses</u>			
Personal Services	220,527	244,416	464,943
Contractual Services	419,334	204,989	624,323
Materials and Supplies		65,177	65,177
Depreciation	170,924	239,157	410,081
Other	5,943	2,853	8,796
Total Operating Expenses	<u>816,728</u>	<u>756,592</u>	<u>1,573,320</u>
Operating Income	153,659	214,897	368,556
<u>Non-Operating Expenses</u>			
Interest Expense	<u>(24,737)</u>	<u>(110,563)</u>	<u>(135,300)</u>
Change in Net Assets	128,922	104,334	233,256
Net Assets Beginning of Year - Restated (Note 3)	<u>4,175,425</u>	<u>4,673,687</u>	<u>8,849,112</u>
Net Assets End of Year	<u><u>\$4,304,347</u></u>	<u><u>\$4,778,021</u></u>	<u><u>\$9,082,368</u></u>

See Accompanying Notes to the Basic Financial Statements

**City of Waterville
Lucas County
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2011**

	Water	Sewer	Total Enterprise Funds
Increases (Decreases) in Cash and Cash Equivalents			
<u>Cash Flows from Operating Activities</u>			
Cash Received from Customers	\$974,029	\$968,133	\$1,942,162
Cash Received from Other Revenues	278	266	544
Cash Payments for Personal Services	(210,481)	(279,210)	(489,691)
Cash Payments for Contractual Services	(408,699)	(204,964)	(613,663)
Cash Payments to Vendors	(25,939)	(68,903)	(94,842)
Cash Payments for Other Expenses	(5,943)	(2,853)	(8,796)
Net Cash Provided by Operating Activities	<u>323,245</u>	<u>412,469</u>	<u>735,714</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Principal Paid on Bond Anticipation Notes	(390,147)	(571,097)	(961,244)
Principal Paid on OPWC Loans	(21,434)	(37,706)	(59,140)
Principal Paid on OWDA Loans	(34,853)	(2,356)	(37,209)
Principal Paid to Lucas County		(117,189)	(117,189)
Interest Paid on Bond Anticipation Notes	(11,652)	(17,078)	(28,730)
Interest Paid on OPWC Loans		(1,069)	(1,069)
Interest Paid on OWDA Loans	(8,899)	(1,684)	(10,583)
Interest Paid to Lucas County		(85,273)	(85,273)
Bond Anticipation Notes Issued	410,212	534,866	945,078
OPWC Loans Issued	125,456		125,456
Lucas County Loans Issued	372,909		372,909
Acquisition of Capital Assets	(676,376)		(676,376)
Net Cash Used for Capital and Related Financing Activities	<u>(234,784)</u>	<u>(298,586)</u>	<u>(533,370)</u>
Net Increase in Cash and Cash Equivalents	88,461	113,883	202,344
Cash and Cash Equivalents Beginning of Year	<u>277,806</u>	<u>679,004</u>	<u>956,810</u>
Cash and Cash Equivalents End of Year	<u>\$366,267</u>	<u>\$792,887</u>	<u>\$1,159,154</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>			
Operating Income	\$153,659	\$214,897	\$368,556
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u>			
Depreciation	170,924	239,157	410,081
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	3,515	(4,449)	(934)
Decrease in Due from Other Governments	405	149	554
(Increase) Decrease in Prepaid Items	114	(148)	(34)
Increase in Materials and Supplies Inventory	(22,082)	(3,813)	(25,895)
Decrease in Special Assessments Receivable		1,210	1,210
Increase (Decrease) in Accrued Wages Payable	8	(720)	(712)
Decrease in Accounts Payable	(8,110)	(199)	(8,309)
Increase in Contracts Payable		459	459
Increase in Due to Other Governments	13,607	179	13,786
Increase (Decrease) in Compensated Absences Payable	11,205	(34,253)	(23,048)
Net Cash Provided by Operating Activities	<u>\$323,245</u>	<u>\$412,469</u>	<u>\$735,714</u>

See Accompanying Notes to the Basic Financial Statements

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**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 1 - DESCRIPTION OF THE CITY OF WATERVILLE AND THE REPORTING ENTITY

A. The City

The City of Waterville (City) is a charter municipal corporation with the charter adopted by the electors on May 3, 1966. Waterville became a village in 1831 and was incorporated as a city on April 29, 2011. The City may exercise all powers of home rule granted under Article XVIII, Section 3, of the Ohio Constitution not in conflict with applicable general laws in Ohio.

The City operates under a council-administrator form of government. Legislative power is vested in a six member council and a Mayor, each elected to a four-year term. The Council is responsible for appointing a full-time Municipal Administrator.

The City of Waterville is divided into various departments and financial management and control systems. Services provided include police protection, a volunteer fire department, parks and recreation, street maintenance and repair, and water, sewer, and storm sewer services as well as a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Municipal Administrator through administrative and managerial requirements and procedures.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City of Waterville consists of all funds, departments, boards, and agencies that are not legally separate from the City.

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 may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Waterville in 2011.

The City participates in an insurance pool, the Ohio Government Risk Management Plan, which is presented in Note 21 to the basic financial statements.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Waterville have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental 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 Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The City does not apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its business-type activities or to its enterprise funds. Following are the more significant of the City's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities.

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

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the City are reported in two categories, governmental and proprietary.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds.

General Fund - The General Fund accounts 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 general laws of Ohio.

Various Improvements - The Various Improvements capital projects fund accounts for income tax receipts, note proceeds, and grant monies used for construction projects or to acquire capital equipment.

The other governmental funds of the City account for grants and other resources whose use is restricted, committed, or assigned for a particular purpose.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, change in net assets, financial position, and cash flows.

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

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

Sewer Fund - The Sewer Fund accounts for the provision of sanitary and storm sewer service to residential and commercial users within the City.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

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. The statement of revenues, expenditures, and change in fund balance reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the fund financial statements for governmental funds.

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

Revenues 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 the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means 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 thirty-one days after year end.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from income taxes is recognized in the year in which the income is earned. 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: income taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle registration fees), grants, and interest.

Deferred Revenues

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at December 31, 2011, but were levied to finance 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. 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.

E. Budgetary Process

All funds are required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources and the appropriations ordinance, both of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount City Council may appropriate. The appropriations ordinance is City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by City Council. The legal level of control has been established by City Council at the fund, department, and object level for all funds.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources requested by the City prior to year end.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by City Council during the year.

F. Cash and Investments

To improve cash management, cash received by the City is pooled and invested. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During 2011, the City's investments included nonnegotiable certificates of deposit, federal agency securities, and STAR Ohio. Nonnegotiable certificates of deposit are reported at cost. Investments are reported at fair value, which is based on quoted market price. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share, which is the price the investment could be sold for on December 31, 2011.

Interest earnings are allocated to City funds according to State statutes or grant requirements. Interest revenue credited to the General Fund during 2011 was \$39,164, which includes \$20,911 assigned from other City funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2011, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of expendable supplies held for consumption.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column on the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. The City reports all infrastructure, including that acquired prior to 1980.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20-40 years
Buildings and Improvements	35-100 years
Furniture, Fixtures, and Equipment	5-40 years
Vehicles	5-30 years
Streets	40 years
Water, Sewer, and Storm Sewer Lines	50-65 years

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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 the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in City policies. The City records a liability for accumulated unused sick leave for all employees with ten or more years of service.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise funds are reported on the enterprise fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes, general obligation bonds, long-term loans, and capital leases are recognized as liabilities on the fund financial statements when due.

L. Net Assets

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

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

Restricted - The restricted classification includes amounts restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinance).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for purposes specified by the legislation.

Committed - The committed classification includes amounts that can be used only for the specific purposes determined by a formal action (ordinance or resolution) of City Council. The committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council or by a City official delegated that authority by ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

N. Operating Revenues and Expenses

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

O. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

P. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS

For the year ended December 31, 2011, the City of Waterville has presented for the first time basic financial statements in accordance with generally accepted accounting principles. In conjunction with this presentation, the City has changed its basis of accounting from the cash basis of accounting to government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds.

This change required that certain adjustments be recorded to the January 1, 2011, fund balances/net assets as previously recorded to reflect the prior year's effect of adopting these new accounting principles.

The transition from cash fund balance for governmental funds is as follows:

	General	Various Improvements	Other Governmental	Total Governmental Funds
Cash Fund Balance December 31, 2010	\$486,757	\$316,773	\$317,521	\$1,121,051
Basis of Accounting Adjustments:				
Cash and Cash Equivalents	(765)			(765)
Accounts Receivable	56,873		19,321	76,194
Accrued Interest Receivable	7,417	8,351	559	16,327
Due from Other Governments	257,299	281,748	125,179	664,226
Municipal Income Taxes Receivable	491,895	138,739		630,634
Other Local Taxes Receivable			3,177	3,177
Prepaid Items	18,190		4,754	22,944
Property Taxes Receivable	361,754		33,864	395,618
Special Assessments Receivable		36,178		36,178
Accrued Wages Payable	(23,115)		(2,124)	(25,239)
Accounts Payable	(52,951)	(4,316)	(2,361)	(59,628)
Contracts Payable		(58,068)		(58,068)
Due to Other Governments	(45,434)		(92,839)	(138,273)
Retainage Payable		(10,578)		(10,578)
Deferred Revenue	(864,047)	(118,195)	(158,559)	(1,140,801)
Fund Balance January 1, 2011	<u>\$693,873</u>	<u>\$590,632</u>	<u>\$248,492</u>	<u>\$1,532,997</u>

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS (continued)

The transition from governmental fund balance to net assets of governmental activities is as follows:

	<u>General</u>	<u>Various Improvements</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Fund Balance December 31, 2010	\$693,873	\$590,632	\$248,492	\$1,532,997
Accounts Receivable				46,719
Accrued Interest Receivable				3,636
Due from Other Governments				315,451
Municipal Income Taxes Receivable				334,848
Property Taxes Receivable				9,404
Special Assessments Receivable				44,529
Nondepreciable Capital Assets				1,878,249
Depreciable Capital Assets				29,166,390
Accumulated Depreciation				(15,594,174)
Accrued Interest Payable				(6,687)
Notes Payable				(2,596,625)
General Obligation Bonds Payable				(1,605,000)
OPWC Loans Payable				(326,594)
Capital Leases Payable				(12,024)
Compensated Absences Payable				(205,206)
Governmental Activities Net Asset January 1, 2011				<u>\$12,985,913</u>

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS (continued)

The transition from cash fund balance to net assets of business-type activities is as follows:

	Water	Sewer	Total Business-Type Activities
Cash Fund Balance December 31, 2010	\$277,806	\$679,004	\$956,810
Accounts Receivable	105,109	115,895	221,004
Due from Other Governments	405	149	554
Prepaid Items	1,962	2,527	4,489
Special Assessments Receivable		7,698	7,698
Nondepreciable Capital Assets	24,165	19,443	43,608
Depreciable Capital Assets	7,679,249	11,407,854	19,087,103
Accumulated Depreciation	(3,133,030)	(4,324,457)	(7,457,487)
Accrued Wages Payable	(2,599)	(3,331)	(5,930)
Accounts Payable	(10,313)	(3,029)	(13,342)
Due to Other Governments	(4,452)	(4,177)	(8,629)
Notes Payable	(390,147)	(571,097)	(961,244)
OPWC Loans Payable	(185,569)	(385,280)	(570,849)
OWDA Loans Payable	(152,127)	(46,747)	(198,874)
Due to Lucas County		(2,142,030)	(2,142,030)
Compensated Absences Payable	(35,034)	(78,735)	(113,769)
Net Assets January 1, 2011	<u>\$4,175,425</u>	<u>\$4,673,687</u>	<u>\$8,849,112</u>

NOTE 4 - COMPLIANCE

The Police Pension special revenue fund had expenditures in excess of appropriations in the other services account, in the amount of \$525, for the year ended December 31, 2011. The Finance Director will monitor expenditures to ensure they are within amounts appropriated.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than restricted, committed, or assigned fund balance (GAAP basis).

Adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis are as follows:

Change in Fund Balance	
GAAP Basis	\$452,582
<u>Increases (Decreases) Due To</u>	
Revenue Accruals:	
Accrued 2010, Received in Cash 2011	311,191
Accrued 2011, Not Yet Received in Cash	(317,923)
Expenditure Accruals:	
Accrued 2010, Paid in Cash 2011	(121,500)
Accrued 2011, Not Yet Paid in Cash	91,645
Cash Adjustments:	
Unrecorded Activity 2010	(765)
Unrecorded Activity 2011	(2,899)
Prepaid Items	(857)
Materials and Supplies Inventory	(4,293)
Budget Basis	\$407,181

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 6 - 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 the City 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 or deposit 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 Treasurer 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 bills, bonds, notes, 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 obligation or security 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;
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);
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,325,986 of the City's bank balance of \$2,243,021 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of December 31, 2011, the City had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Mortgage Corporation Notes	\$100,557	3/28/13
Federal Home Loan Mortgage Corporation Notes	200,538	12/28/15
Federal Home Loan Mortgage Corporation Notes	201,728	6/29/16
Star Ohio	6,438	57 days
Total Investments	<u>\$509,261</u>	

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the City.

The federal agency securities carry a rating of AAA by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The City has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

The City places no limit on the amount of its interim monies it may invest in a particular security. The City's investment in Federal Home Loan Mortgage Corporation notes represents 98.7 percent of the City's investment portfolio.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2011, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; property taxes; and special assessments. All receivables are expected to be collected within one year, except as noted. Municipal income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Special assessments receivable, in the amount of \$58,514, will not be received within one year. At December 31, 2011, the amount of delinquent special assessments was \$1,712.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Fund	
General Fund	
Homestead and Rollback	\$26,884
Estate Tax	89
Local Government	162,327
Lucas County Sherriff	483
City of Maumee	1,738
Total General Fund	191,521
Various Improvements	
Downtown Revitalization Grant	118,252
Total Major Funds	309,773
Nonmajor Funds	
Street Maintenance	
Gasoline Tax	93,057
Motor Vehicle License Tax	18,969
Total Street Maintenance	112,026
	(continued)

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 7 - RECEIVABLES (continued)

	Amount
Governmental Activities	
Nonmajor Funds (continued)	
State Highway	
Gasoline Tax	\$7,545
Motor Vehicle License Tax	1,538
Total State Highway	9,083
Parks and Green Space Improvement	
Ohio Department of Natural Resources	27,645
Permissive Tax	
Permissive Tax	3,450
Police Pension	
Homestead and Rollback	2,520
Enforcement and Education	
City of Maumee	50
Law Enforcement FOJ Trust	
City of Maumee	205
Total Nonmajor Funds	154,979
Total Governmental Activities	\$464,752

NOTE 8 - MUNICIPAL INCOME TAXES

The City levies and collects an income tax of 2 percent based 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 75 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. Income tax revenue was credited to the General Fund (1.56 percent) and to the Various Improvements capital projects fund (.44 percent) for 2011.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Real property tax revenues received in 2011 represent the collection of 2010 taxes. Real property taxes received in 2011 were levied after October 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2011 represent the collection of 2010 taxes. Public utility real and tangible personal property taxes received in 2011 became a lien on December 31, 2009, were levied after October 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City Waterville. The County Auditor periodically remits to the City its portion of the taxes collected.

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of December 31, 2011, and for which there was an enforceable legal claim. In governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while the remainder of the receivable has been deferred.

The full tax rate for all City operations for the year ended December 31, 2011, was \$3.50 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2011 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Agricultural/Residential	\$113,987,020
Commercial/Industrial	13,081,800
Public Utility Real	16,800
Public Utility Personal	2,137,220
Total	<u><u>\$129,222,840</u></u>

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$1,813,362			\$1,813,362
Construction in Progress	64,887	\$771,733		836,620
Total Nondepreciable Capital Assets	1,878,249	771,733		2,649,982
Depreciable Capital Assets				
Land Improvements	103,953	22,881		126,834
Buildings and Improvements	1,286,294			1,286,294
Furniture, Fixtures, and Equipment	728,928			728,928
Vehicles	2,193,348	69,804		2,263,152
Streets	24,853,867			24,853,867
Total Depreciable Capital Assets	29,166,390	92,685		29,259,075
Less Accumulated Depreciation for				
Land Improvements	(75,613)	(4,099)		(79,712)
Buildings and Improvements	(135,684)	(14,079)		(149,763)
Furniture, Fixtures, and Equipment	(440,049)	(34,286)		(474,335)
Vehicles	(968,415)	(101,973)		(1,070,388)
Streets	(13,974,413)	(621,353)		(14,595,766)
Total Accumulated Depreciation	(15,594,174)	(775,790)		(16,369,964)
Total Depreciable Capital Assets, Net	13,572,216	(683,105)		12,889,111
Governmental Activities Capital Assets, Net	\$15,450,465	\$88,628		\$15,539,093
	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$33,643			\$33,643
Construction in Progress	9,965	\$246,683	(\$256,648)	
Total Nondepreciable Capital Assets	43,608	246,683	(256,648)	33,643
Depreciable Capital Assets				
Buildings and Improvements	140,768			140,768
Furniture, Fixtures, and Equipment	1,423,686	256,648		1,680,334
Vehicles	225,689			225,689
Water, Sewer, and Storm Sewer Lines	17,296,960	439,709		17,736,669
Total Depreciable Capital Assets	19,087,103	696,357		19,783,460

(continued)

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 10 - CAPITAL ASSETS (continued)

	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011
Business-Type Activities: (continued)				
Less Accumulated Depreciation for				
Buildings and Improvements	(\$55,228)	(\$2,022)		(\$57,250)
Furniture, Fixtures, and Equipment	(846,041)	(47,063)		(893,104)
Vehicles	(137,903)	(15,045)		(152,948)
Water, Sewer, and Storm Sewer Lines	(6,418,315)	(345,951)		(6,764,266)
Total Accumulated Depreciation	(7,457,487)	(410,081)		(7,867,568)
Total Depreciable Capital Assets, Net	11,629,616	286,276		11,915,892
Business-Type Activities Capital Assets, Net	\$11,673,224	\$532,959	(\$256,648)	\$11,949,535

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$20,078
Security of Persons and Property - Fire	71,500
Leisure Time Activities	9,702
Transportation	659,183
General Government	15,327
Total Depreciation Expense - Governmental Activities	<u>\$775,790</u>

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2011, the City contracted with the Ohio Government Risk Management Plan, an insurance purchasing pool, for the following coverage:

Type of Coverage	Coverage	Deductible
Blanket Building and Personal Property	\$8,999,295	\$1,000
Special Property	1,125,947	1,000
General Liability		
Occurrence	5,000,000	0
Aggregate	7,000,000	0
Employer's Liability		
Occurrence	5,000,000	0
Aggregate	5,000,000	0

(continued)

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 11 - RISK MANAGEMENT (continued)

Type of Coverage	Coverage	Deductible
Employee Benefits		
Occurrence	\$5,000,000	\$0
Aggregate	7,000,000	0
Public Officials Liability		
Occurrence	5,000,000	2,500
Aggregate	7,000,000	2,500
Law Enforcement Liability		
Occurrence	5,000,000	2,500
Aggregate	7,000,000	2,500
Auto Liability	5,000,000	0
Builders Risk	500,000	0

There has been no significant reduction in insurance coverage from 2010, and no insurance settlement has exceeded insurance coverage during the last three years.

Worker's compensation is provided by the State of Ohio. The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

NOTE 12 - CONTRACTUAL COMMITMENTS

At December 31, 2011, the City had contractual commitments as follows:

Company	Project	Amount Remaining on Contract
Crestline Paving and Excavation	State Route 64 Intersection Improvement	\$68,921
Debbie Hanna Consultant	Downtown Revitalization	1,570
Poggemeyer Design Group	Downtown Revitalization	7,220
Proudfoot Associates	Pray Boulevard	9,557
The Mannik & Smith Group Incorporated	State Route 64 Intersection Improvement	7,831
The Mannik & Smith Group Incorporated	2011 Comprehensive Planning	3,060

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional plan benefit. Member contributions, the investment of which is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2011, members in state and local classifications contributed 10 percent of covered payroll. For 2011, member and employer contribution rates were consistent across all three plans.

The City's 2011 contribution rate was 14 percent. The portion of the City's contribution used to fund pension benefits is net of postemployment health care benefits. The portion of the City's contribution allocated to health care for members in the traditional plan was 4 percent for 2011. The portion of the employer contribution allocated to health care for members in the combined plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2011, 2010, and 2009 was \$88,490, \$88,749, and \$84,793, respectively. For 2011, 99 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. Contributions to the member-directed plan for 2011 were \$1,401 made by the City and \$1,001 made by the plan members.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

B. Ohio Police and Fire Pension Fund

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

Funding Policy - The Ohio Revised Code requires plan members to contribute 10 percent of their annual covered salary while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters. The OPF pension fund is authorized by the Ohio Revised Code to allocate a portion of the employer contribution to retiree health care benefits. For 2011, the portion of the City's contribution used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contribution to OPF for police and firefighters pension was \$86,462 and \$10,535 for the year ended December 31, 2011, \$82,325 and \$10,235, for the year ended December 31, 2010, and \$93,773 and \$11,197, for the year ended December 31, 2009. For 2011, 98 percent has been contributed for both police and firefighters with the balance for each being reported as intergovernmental payable. The full amount has been contributed for 2010 and 2009.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health care plan for qualifying members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan includes a medical plan, a prescription drug program, and Medicare Part B premium reimbursement.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 14 - POSTEMPLOYMENT BENEFITS (continued)

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The postemployment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed 14 percent of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code.

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of the employer contribution allocated to health care for members in the traditional plan was 4 percent for 2011. The portion of the employer contribution allocated to health care for members in the combined plan was 6.05 percent for 2011.

The OPERS retirement board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment health care plan.

The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2011, 2010, and 2009 was \$35,956, \$51,386, and \$62,601, respectively. For 2011, 99 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS retirement board on September 9, 2004, was effective January 1, 2007. Member and employer contributions rates increased on January 1 of each year from 2006 to 2008. Rates for public safety and law enforcement employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

B. Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OPF) sponsored healthcare program, a cost-sharing, multiple-employer defined postemployment healthcare plan administered by OPF. OPF provides healthcare benefits including coverage for medical, prescription drug, dental, vision, Medicare Part B Premium, and long-term care to retirees, qualifying benefit recipients, and their eligible dependents.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 14 - POSTEMPLOYMENT BENEFITS (continued)

OPF provides access to postretirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. The healthcare coverage provided by OPF meets the definition of an Other Postemployment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OPF to provide OPEB benefits. Authority for the OPF Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required by the Ohio Revised Code to contribute to the pension plan at rates expressed as a percentage of payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively. Active members do not make contributions to the OPEB Plan.

OPF maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B premium reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan under the authority granted by the Ohio Revised Code to the OPF Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2011, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contribution allocated to the healthcare plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OPF Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contribution to OPF which was allocated to fund postemployment health care benefits for police and firefighters was \$45,774 and \$4,122 for the year ended December 31, 2011, \$43,584 and \$4,005 for the year ended December 31, 2010, and \$49,645 and \$4,381 for the year ended December 31, 2009. For 2011, 98 percent has been contributed for both police and firefighters with the balance for each being reported as intergovernmental payable. The full amount has been contributed for 2010 and 2009.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 15 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws.

City employees earn vacation at varying rates depending on length of service. Current policy credits vacation leave on each biweekly pay period. Employees are paid for 100 percent of accumulated unused vacation leave upon termination.

Upon retirement, full-time employees with ten or more years of service, who were hired before August 8, 1983, are entitled to receive all of their accrued but unused sick leave up to a maximum of nine hundred sixty hours. Full-time employees with ten or more years of service, who were hired after August 8, 1983 are entitled to receive one-fourth of the value of their unused sick leave up to a maximum of two hundred forty hours.

NOTE 16 - NOTES PAYABLE

The City's note transactions for the year ended December 31, 2011, were as follows:

	Interest Rate	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011
<u>Business-Type Activities</u>					
General Obligation Bond Anticipation Notes					
Enterprise Funds					
2010 Water Improvements	3%	\$390,147		\$390,147	
2011 Water Improvements	2.5		\$410,212		\$410,212
2010 Wastewater Improvements	3	571,097		571,097	
2011 Wastewater Improvements	2.5		534,866		534,866
Total Bond Anticipation Notes		961,244	945,078	961,244	945,078

According to Ohio law, notes can be issued in anticipation of bond proceeds and levies or for up to 50 percent of anticipated revenue collections. The liability for all notes is presented in the fund receiving the proceeds. All of the City's bond anticipation notes are backed by the full faith and credit of the City of Waterville.

The bond anticipation notes in the Water enterprise fund, in the amount of \$410,212, were issued on August 4, 2011, to retire notes previously issued and additional resources to improve water lines and water towers. The notes mature on August 2, 2012.

The bond anticipation notes in the Sewer enterprise fund, in the amount of \$534,866, were issued on August 4, 2011, to partially retire notes previously issued to improve sanitary sewer lines. The notes mature on August 2, 2012.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2011, was as follows:

	Interest Rate	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Due Within One Year
<u>Governmental Activities</u>						
Bond Anticipation Notes						
2010 Various Purpose	3%	\$2,596,625		\$2,596,625		
2011 Various Purpose	2.5		\$2,352,821		\$2,352,821	\$2,352,821
Total Bond Anticipation Notes		2,596,625	2,352,821	2,596,625	2,352,821	2,352,821
General Obligation Bonds						
1990 Building Improvements	7.5	30,000		30,000		
2002 Various Purpose (Original Amount \$2,100,000)	4	1,575,000		75,000	1,500,000	75,000
Total General Obligation Bonds		1,605,000		105,000	1,500,000	75,000
<u>OPWC Loans</u>						
1999 OPWC Loans Payable (Original Amount \$157,946)	0	67,127		7,897	59,230	7,897
2001 OPWC Loans Payable (Original Amount \$73,700)	0	3,685		3,685		
2003 OPWC Loans Payable (Original Amount \$134,399)	0	40,320		13,440	26,880	13,440
2008 OPWC Loans Payable (Original Amount \$246,242)	0	215,462		12,312	203,150	12,312
Total OPWC Loans		326,594		37,334	289,260	33,649
Other Long-Term Obligations						
Capital Leases Payable		12,024		3,576	8,448	3,685
Compensated Absences Payable		205,206	11,214	38,955	177,465	65,884
Total Other Long-Term Obligations		217,230	11,214	42,531	185,913	69,569
Total Governmental Activities		\$4,745,449	\$2,364,035	\$2,781,490	\$4,327,994	\$2,531,039

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Due Within One Year
<u>Business-Type Activities</u>						
<u>OPWC Loans</u>						
1992 OPWC Loans Payable (Original Amount \$294,000)	0%	\$29,400		\$14,700	\$14,700	\$14,700
1999 OPWC Loans Payable (Original Amount \$128,489)	0	54,608		6,424	48,184	6,424
2004 OPWC Loans Payable (Original Amount \$57,585)	0	40,310		2,879	37,431	2,879
2005 OPWC Loans Payable (Original Amount \$150,689)	0	67,810		15,069	52,741	15,069
2006 OPWC Loans Payable (Original Amount \$129,202)	.01	108,412		6,075	102,337	6,136
2009 OPWC Loans Payable (Original Amount \$127,307)	0	117,759		6,365	111,394	6,365
2010 OPWC Loans Payable (Original Amount \$152,550)	0	152,550		7,628	144,922	7,628
2011 OPWC Loans Payable (Original Amount \$125,456)	0		\$125,456		125,456	3,136
Total OPWC Loans		<u>570,849</u>	<u>125,456</u>	<u>59,140</u>	<u>637,165</u>	<u>62,337</u>
<u>OWDA Loans</u>						
1995 OWDA Loans Payable (Original Amount \$508,000)	5.85	152,127		34,853	117,274	36,892
2010 OWDA Loans Payable (Original Amount \$172,380)	2.75	46,747		2,356	44,391	
Total OWDA Loans		<u>198,874</u>		<u>37,209</u>	<u>161,665</u>	<u>36,892</u>
<u>Other Long-Term Obligations</u>						
Due to Lucas County		2,142,030	372,909	117,189	2,397,750	122,383
Compensated Absences Payable		113,769		23,048	90,721	16,643
Total Other Long-Term Obligations		<u>2,255,799</u>	<u>372,909</u>	<u>140,237</u>	<u>2,488,471</u>	<u>139,026</u>
Total Business-Type Activities		<u>\$3,025,522</u>	<u>\$498,365</u>	<u>\$236,586</u>	<u>\$3,287,301</u>	<u>\$238,255</u>

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

Bond Anticipation Notes

On August 4, 2011, the City issued bond anticipation notes, in the amount of \$2,352,821 to partially retire notes previously issued in 2010 for various purposes. The notes have an interest rate of 2.5 percent and mature on August 2, 2012. The notes will be paid from the Various Improvements capital projects fund.

General Obligation Bonds

On October 19, 1990, the City issued \$600,000 in unvoted Building Improvements bonds to construct a municipal building and a maintenance facility. The bonds were issued for a twenty-year period. The bonds were fully retired in 2011.

On March 1, 2002, the City issued \$2,100,000 in unvoted general obligation bonds to retire bond anticipation notes previously issued for various purposes and to remodel the City's old fire station to serve as a community center. The bonds were issued for a twenty-five year period, with final maturity in 2026. The bonds are being retired through the Various Improvements capital projects fund.

The term bonds maturing on December 1, 2026, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the City. The mandatory redemption is to occur on December 1 in each of the years 2013 through 2025 (with the balance of \$135,000 to be paid at stated maturity on December 1, 2026), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2013	\$75,000
2014	75,000
2015	80,000
2016	85,000
2017	90,000
2018	95,000
2019	95,000
2020	100,000
2021	105,000
2022	115,000
2023	120,000
2024	125,000
2025	130,000

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

The serial bonds maturing on or after December 1, 2012, are subject to optional redemption prior to maturity, either in whole or in part, in inverse order of maturity, in integral multiples of \$5,000, at 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

Capital Leases Payable

Capital lease obligations will be paid from the fund that maintains custody of the related asset.

Compensated Absences

The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, the Street Maintenance special revenue fund, and the Water and Sewer enterprise funds.

OPWC Loans Payable

The City has entered into loan agreements with the Ohio Public Works Commission for various street related and water and sewer related projects. With the exception of Dutch Road lift station, the loans are interest free. The loans will be paid from resources of the Various Improvements capital projects fund and the Water and Sewer enterprise funds.

OWDA Loans Payable

The City has entered into loan agreements with the Ohio Water Development Authority for construction of a water line and a sanitary sewer project. The loans will be paid from resources of the Water and Sewer enterprise funds.

The OPWC and OWDA loans for water and sewer projects are to be paid from the gross revenues of the Water and Sewer enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the loans are expected to require less than 100 percent of these net revenues in future years. The total principal and interest remaining to be paid on the OPWC and OWDA loans, for which amortization schedules are available, are \$645,560 and \$131,256, respectively. Principal and interest paid for the current year and net revenues were \$65,186 and \$324,583 for the Water enterprise fund and \$42,815 and \$454,054 for the Sewer enterprise fund.

Due to Lucas County

In 1973, the City entered into an agreement with the Lucas County Commissioners to provide for the use of the Maumee River Wastewater Treatment Plant with the City paying a portion of the construction cost to Lucas County over a 40 year period. In 1996, the plant was expanded and the City agreed to pay a portion of expansion costs based on the City's quarterly consumption rate. In 2007, the plant again expanded. The City agreed to pay 13.33 percent of these improvement costs to Lucas County over a 20 year period. In 2010, the plant was once again expanded and the City agreed to pay a portion of the expansion costs based on the City's quarterly consumption rate. As of December 31, 2011, the expansion is still ongoing.

In 2011, the City entered into an agreement with Lucas County to pay for their portion of the North River Road water line. As of December 31, 2011, this project is still ongoing.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

The City's legal debt margin was \$11,215,577 at December 31, 2011.

The sanitary sewer project funded by an OWDA loan and the North River Road water line funded by Lucas County have not been completed. An amortization schedule for the repayment of these loans will not be available until the projects are completed and, therefore, are not included in the following schedule.

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

Year	General Obligation Bonds		OPWC Loans
	Principal	Interest	Principal
2012	\$75,000	\$75,038	\$33,649
2013	75,000	71,963	33,650
2014	75,000	68,175	20,209
2015	80,000	64,388	20,209
2016	85,000	60,348	20,209
2017-2021	485,000	233,059	81,305
2022-2026	625,000	97,211	61,561
2027-2028			18,468
Total	<u>\$1,500,000</u>	<u>\$670,182</u>	<u>\$289,260</u>

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011, from the business-type activities were as follows:

Year	OPWC Loans		OWDA Loans		Due to Lucas County
	Principal	Interest	Principal	Interest	Principal
2012	\$62,337	\$1,008	\$36,892	\$6,861	\$122,383
2013	50,833	948	39,050	4,702	127,837
2014	50,897	884	41,332	2,419	133,568
2015	43,424	822			139,583
2016	35,953	759			100,737
2017-2021	164,685	2,819			470,770
2022-2026	144,549	1,137			549,959
2027-2031	81,335	18			380,004
2032	3,152				
Total	<u>\$637,165</u>	<u>\$8,395</u>	<u>\$117,274</u>	<u>\$13,982</u>	<u>\$2,024,841</u>

NOTE 18 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for the governmental funds. Principal payments in 2011 were \$3,576 for governmental funds.

	Governmental Activities
Equipment	\$18,032
Less Accumulated Depreciation	(7,212)
Total	<u>\$10,820</u>

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 18 - CAPITAL LEASES - LESSEE DISCLOSURE (continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2011.

Year	Governmental Activities	
	Principal	Interest
2012	\$3,685	\$203
2013	3,797	91
2014	966	5
Total	\$8,448	\$299

NOTE 19 - FUND BALANCE

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

Fund Balance	General	Various Improvements	Other Governmental	Total Governmental Funds
Nonspendable for:				
Prepaid Items	\$19,047		\$4,662	\$23,709
Materials and Supplies Inventory	4,293		36,478	40,771
Total Nonspendable	23,340		41,140	64,480
Restricted for:				
Community Television			3,178	3,178
Permanent Improvements		\$415,122		415,122
Police Department Operations			14,103	14,103
Street Construction and Maintenance			150,153	150,153
Total Restricted		415,122	167,434	582,556

(continued)

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 19 - FUND BALANCE (continued)

Fund Balance	General	Various Improvements	Other Governmental	Total Governmental Funds
Committed for:				
Parks and Green Space Improvement			\$31,672	\$31,672
Future Severance Payments	\$35,555			35,555
Total Committed	35,555		31,672	67,227
Unassigned	1,087,560			1,087,560
Total Fund Balance	\$1,146,455	\$415,122	\$240,246	\$1,801,823

NOTE 20 - INTERFUND TRANSFERS

During 2011, the General Fund made transfers to the Various Improvements capital projects fund, in the amount of \$200,000, as debt payments became due.

NOTE 21 - INSURANCE POOL

The City participates in the Ohio Government Risk Management Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The plan's business and affairs are conducted by an eleven member board consisting of public officials selected from the membership. Financial information can be obtained from Ohio Government Risk Management Plan, 420 Madison Avenue, Toledo, Ohio 43204.

NOTE 22 - CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grants

For the period January 1, 2011, to December 31, 2011, 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 disallowances, if any, would be immaterial.

NOTE 23 – SUBSEQUENT EVENT

In August 2012, the City of Waterville refunded Series 2002 Bonds in the amount of \$1,425,000 replacing the bonds with new bonds at a lower interest rate. Also, in August 2012 the City of Waterville added Bond Anticipation Notes in the amount of \$956,631.

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**CITY OF WATERVILLE
LUCAS COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2011**

FEDERAL GRANTOR	Federal	Project	Disbursements
<i>Pass Through Grantor</i>	CFDA	Number	
Program Title	Number	Number	Number
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant - States Program			
Comprehensive Downtown Revitalization Program	14.228	C-T-09-280-1	\$114,811
UNITED STATES DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction Cluster			
Waterville-Monclova Road Intersection Improvement	20.205	PID 86631	<u>603,548</u>
TOTAL FEDERAL AWARDS EXPENDITURES			<u><u>\$718,359</u></u>

The accompanying notes are an integral part of this schedule.

**CITY OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the City of Waterville's (the City's) federal award programs' disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

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

City of Waterville
Lucas County
25 North Second Street
Waterville, Ohio 43566-1491

To the Members of Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Waterville, Lucas County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 1, 2012, wherein we noted the City changes its basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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www.ohioauditor.gov

City of Waterville
Lucas County
Independents Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standard*
Page 2

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated November 1, 2012.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

November 1, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

City of Waterville
Lucas County
25 North Second Street
Waterville, Ohio 43566-1491

To the Members of Council:

Compliance

We have audited the compliance of the City of Waterville, Lucas County, Ohio (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the City's major federal program for the year ended December 31, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the City's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with these requirements.

In our opinion, the City of Waterville, Lucas County, Ohio complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2011-001.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City's response to the finding we identified is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management, City Council, others within the City, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

November 1, 2012

**CITY OF WATERVILLE
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Highway Planning and Construction – CFDA # 20.205.
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

Noncompliance Citation

Finding Number	2011-001
CFDA Title and Number	Community Development Black Grant CFDA 14.228 and Highway Planning and Construction CFDA 20.205
Federal Award Year	2011
Federal Agency	U.S. Department of Housing and Urban Development and U.S. Department of Transportation
Pass-Through Agency	Ohio Department of Development and Ohio Department of Transportation

OMB Circular A-133 § .200, Audits of States, Local Governments and Non-Profit Organizations,, requires Non-Federal entities that expend \$500,000 or more in a year in Federal awards to have a single or program-specific audit conducted for that year in accordance with the provisions of **OMB Circular A-133**.

OMB Circular A-133 § .320 requires the audit to be completed and the data collection form and reporting package to be submitted within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit.

The City expended greater than \$500,000 in Federal awards during fiscal year 2011 and did not have a single audit or a program-specific audit conducted to meet the nine month deadline.

Officials' Response:

The City's management feels they took all the steps necessary to assure the completion of their report in a timely manner. Management also feels the audit schedule was not in their control and that auditors should have arrived earlier.

Auditor of State's Conclusion:

The Schedule of Federal Awards Expenditures was not received by the auditors until September 13, 2012. This Schedule is necessary for major program determination in accordance with OMB Circular A-133 § .520.

**CITY OF WATERVILLE
LUCAS COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
DECEMBER 31, 2011**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2011-001	Require specific completion dates for Federal Single Audits be included in future Audit Engagement letters.	January1, 2013	Dale Knepper

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CITY OF WATERVILLE

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 4, 2012