



**Auditor of State
Betty Montgomery**

**CITY OF NEW PHILADELPHIA
TUSCARAWAS COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	16
Statement of Revenues, Expenditures and Changes in Fund Balances Budget (Non-GAAP Basis) and Actual - General Fund	18
Statement of Revenues, Expenditures and Changes in Fund Balances Budget (Non-GAAP Basis) and Actual - Sanitation Fund	19
Statement of Net Assets Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds	21
Statement of Cash Flows Proprietary Funds	22
Statement of Fiduciary Net Assets Fiduciary Funds	24
Notes to the Basic Financial Statements	25
Schedule of Receipts and Expenditures of Federal Awards.....	63
Notes to the Schedule of Receipts and Expenditures of Federal Awards	64
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	65
Independent Accountants' Report on Compliance with Requirements Applicable to its Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	67
Schedule of Findings.....	69
Schedule of Prior Audit Findings.....	71

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of New Philadelphia
Tuscarawas County
150 East High Street
New Philadelphia, Ohio 44663

To the Members of City Council:

We have audited the accompanying basic financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of New Philadelphia, Tuscarawas County, Ohio, (the City) as of and for the year ended December 31, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of New Philadelphia, Tuscarawas County, Ohio, as of December 31, 2003, and the respective changes in financial position, and cash flows, where applicable, and the respective budgetary comparison for the General Fund and Sanitation Fund thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City of New Philadelphia implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2004 on our consideration of the City of New Philadelphia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

111 Second St., NW / Fourth Floor / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis as required by 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. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

September 3, 2004

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The discussion and analysis of the City of New Philadelphia's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- ❑ General Revenues accounted for \$7.9 million in revenue or 49% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$8.1 million or 51% of total revenues of \$16 million.
- ❑ Total program expenses were \$15.7 million, \$11.2 million in governmental activities and \$4.5 million in business-type activities.
- ❑ In total, net assets increased \$.4 million. Net assets of governmental activities increased \$.8, which represents a 3% increase from 2002. Net assets of business-type activities decreased \$.4 million or 3% from 2002.
- ❑ Outstanding debt increased from \$11.8 million to \$16.6 million through the issuance of new debt.

Using this Annual Financial Report

This report is designed to allow the reader to look at the financial activities of the City of New Philadelphia as a whole and is intended to allow the reader to obtain a summary view or a more detailed view of the City operations, as they prefer.

The Statement of Net Assets and the Statement of Changes in Net Assets provide information from a summary perspective showing the effects of the operations for the year 2003 and how they affected the operations of the City as a whole.

Reporting the City of New Philadelphia as a Whole

Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column. In the case of New Philadelphia, the general fund, sanitation and master capital funds are the most significant governmental funds. The water revenue and sewer revenue funds are the significant enterprise funds.

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

A question typically asked about the City's finances "How did we do financially during fiscal year 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the City as a whole, the *financial position* of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two distinct kinds of activities:

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

Reporting the City of New Philadelphia's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been safeguarded for specific activities or objectives. The City uses many funds to account for financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund, sanitation and master capital funds.

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, sanitation and master capital funds, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The City adopts an annual appropriated budget for each of its funds. A budgetary comparison statement has been provided for the general fund and each major special revenue fund to demonstrate compliance with this budget.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities (water and sewer); therefore, these statements will essentially match.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds.

The City of New Philadelphia as a Whole

Recall that the Statement of Net Assets provides the perspective of the City as a whole.

Table 1 provides a summary of the City's net assets for 2003 compared to 2002:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets						
Current and Other Assets	\$ 9,395,461	\$ 12,313,344	\$ 4,195,503	\$ 3,311,418	\$ 13,590,964	\$ 15,624,762
Capital Assets	23,954,341	20,360,219	19,349,571	15,669,138	43,303,912	36,029,357
Total Assets	<u>33,349,802</u>	<u>32,673,563</u>	<u>23,545,074</u>	<u>18,980,556</u>	<u>56,894,876</u>	<u>51,654,119</u>
Liabilities						
Long-Term Liabilities	6,338,779	6,025,954	10,201,093	5,168,146	16,539,872	11,194,100
Other Liabilities	2,932,006	3,674,589	729,077	822,058	3,661,083	4,496,647
Total Liabilities	<u>9,270,785</u>	<u>9,700,543</u>	<u>10,930,170</u>	<u>5,990,204</u>	<u>20,200,955</u>	<u>15,690,747</u>
Net Assets						
Invested in Capital Assets Net of Debt	18,428,800	14,596,085	10,985,844	5,621,306	29,414,644	20,217,391
Restricted	2,354,189	4,448,357	0	0	2,354,189	4,448,357
Unrestricted (Deficit)	3,296,028	4,289,462	1,629,060	7,369,046	4,925,088	11,658,508
Total Net Assets	<u>\$ 24,079,017</u>	<u>\$ 23,333,904</u>	<u>\$ 12,614,904</u>	<u>\$ 12,990,352</u>	<u>\$ 36,693,921</u>	<u>\$ 36,324,256</u>

Total assets increased by \$5.2 million with governmental assets increasing \$.7 million and business-type assets increasing \$4.5 million. An increase of approximately \$7.3 million in total capital assets reflects the purchase and renovation of the new city building and was the majority of the increase in governmental

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

assets. Total liabilities increased by \$4.5 million with governmental liabilities decreasing \$.4 million and business-type assets increasing \$4.9 million. The majority of this increase was the result of loans proceeds from OWDA for the waste water project in business-type activities.

Total net assets increased by \$.4 million. This number reflects a increase of \$.8 million in governmental activities and a decrease \$.4 million in the net assets of the business-type activities. Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available for governmental activities. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the City's financial status and possibly project future problems.

(Table 2)
Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
	2003	2003	2003
Revenues			
<i>Program Revenues:</i>			
Charges for Services	\$ 1,899,777	\$ 3,952,637	\$ 5,852,414
Operating Grants	2,108,382	85,580	2,193,962
Capital Grants	44,216	92,548	136,764
<i>General Revenue:</i>			
Property Taxes	2,230,532	0	2,230,532
Income Taxes	4,112,398	1,580	4,113,978
Grants and Entitlements	1,315,692	0	1,315,692
Investments	101,273	0	101,273
Other	107,893	8,378	116,271
Total Revenues	11,920,163	4,140,723	16,060,886
Program Expenses			
General Government	2,945,822	0	2,945,822
Security of Persons and Property	3,866,814	0	3,866,814
Transportation	1,424,220	0	1,424,220
Public Health Services	472,864	0	472,864
Community and Economic Development	329,204	0	329,204
Basic Utility Service	1,147,094	0	1,147,094
Leisure Time Activities	722,584	0	722,584
Interest and Fiscal Charges	266,448	0	266,448
<i>Enterprise Operations:</i>			
Water	0	2,100,740	2,100,740
Sewer	0	2,415,431	2,415,431
Total Program Expenses	11,175,050	4,516,171	15,691,221
Increase (Decrease) in Net Assets	\$ 745,113	\$ (375,448)	\$ 369,665

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Governmental Activities

The funding for the governmental activities comes from several different sources, the most significant being the municipal income tax. Other prominent sources are property taxes, grants and entitlements, and charges for services.

The City's income tax is at a rate of 1 percent. Both residents of the City and non-residents who work inside the City are subject to the income tax. However if residents work in a locality that has a municipal income tax, the City provides 100 percent credit up to 1 percent for those who pay income tax to another city. City Council could by Ordinance, choose to vary that income tax credit and create additional revenues for the City.

General revenues include grants and entitlements, such as local government funds. With the combination of property tax, income tax and intergovernmental funding all expenses in the governmental activities are funded. The City monitors its source of revenues very closely for fluctuations.

Police and fire (security of persons and property) represent the largest expense of the Governmental Activities. This expense of \$3,866,814 represents 35 percent of the total expenses. These two departments operate out of the General fund.

The City also maintains a cemetery (public health services) and a park (leisure time services) within the City. These areas had expenses of \$1,195,448 in 2003 equaling 11 percent of the total governmental services expenses.

Business-Type Activities

Business-type activities include water and sewer operations. The revenues are generated primarily from charges for services. In 2003, charges for services of \$3,952,637 accounted for 95 percent of the business-type revenues. The total expenses for the utilities were \$4,516,171, thus leaving a decrease in net assets of \$375,448 for the business-type activities.

The City's Funds

Information about the City's governmental funds begins on page 16. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$11,951,062 and expenditures of \$14,867,295. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 20. These funds are accounted for on an accrual basis. All business type funds had operating expenses of \$4,516,171 which exceeded operating revenues of \$3,961,015, by \$555,156 or 14 percent of operating revenues.

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

General Fund Budgeting Highlights

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

During the course of 2003, the City amended its general fund budget on various occasions. All recommendations for appropriation changes come to Council from the City Auditor. The Finance Committee of Council reviews them, and they make their recommendation to the Council as a whole.

For the general fund, budget basis revenue was \$5.5 million, over the original budget estimates of \$5.0 million. Of this approximate \$500,000 increase, most was attributable to increased property tax and income tax collections.

Final appropriations of \$6.4 million, were \$300,000 higher than the \$6.1 million in the original budget.

Capital Assets and Debt Administration

Capital Assets

At the end of year 2003, the City had \$43.3 million invested in land, buildings, equipment, infrastructure and vehicles. A total of \$24 million of this was for governmental activities with the remainder attributable to business-type activities. Table 3 shows fiscal year 2003 balances compared with 2002.

(Table 3)
Capital Assets at December 31
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 826,576	\$ 817,256	\$ 41,899	\$ 41,899	\$ 868,475	\$ 859,155
Buildings and Building Improvements	4,909,732	3,207,485	5,899,353	1,229,358	10,809,085	4,436,843
Improvements Other Than Buildings	2,803,378	2,209,805	691,383	333,385	3,494,761	2,543,190
Machinery and Equipment	1,107,290	1,152,258	884,917	1,024,026	1,992,207	2,176,284
Furniture and Fixtures	39,787	44,625	1,028	1,028	40,815	45,653
Vehicles	1,104,592	761,286	144,307	146,447	1,248,899	907,733
Construction in Progress	0	159,429	3,859,707	4,898,973	3,859,707	5,058,402
Infrastructure	13,162,986	12,008,075	0	0	13,162,986	12,008,075
Water Lines	0	0	5,885,942	6,027,339	5,885,942	6,027,339
Sewer Lines	0	0	1,941,035	1,966,683	1,941,035	1,966,683
Totals	\$ 23,954,341	\$ 20,360,219	\$ 19,349,571	\$ 15,669,138	\$ 43,303,912	\$ 36,029,357

The \$7,274,555 increase in capital assets was attributable to additional purchases exceeding depreciation expense. Note 10 provides capital asset activity during the 2003 year.

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Debt

The outstanding debt for the City of New Philadelphia as of December 31, 2003 was \$14,990,263 with \$1,044,062 due within one year. Table 4 summarizes outstanding debt.

(Table 4)
Outstanding Debt, at December 31

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Police and Fire Pension	\$ 166,801	\$ 169,295	\$ 0	\$ 0	\$ 166,801	\$ 169,295
General Obligation Bonds	4,367,811	4,800,411	0	0	4,367,811	4,800,411
Special Assessment Bonds	237,189	274,589	0	0	237,189	274,589
ODOT Loan	192,250	0	0	0	192,250	0
Tractor Loan	16,685	0	0	0	16,685	0
OPWC Lons	0	0	320,296	90,000	320,296	90,000
OWDA Loans	0	0	9,689,231	4,901,596	9,689,231	4,901,596
<i>Total</i>	<u>\$ 4,980,736</u>	<u>\$ 5,244,295</u>	<u>\$ 10,009,527</u>	<u>\$ 4,991,596</u>	<u>\$ 14,990,263</u>	<u>\$ 10,235,891</u>

The general obligation bonds are composed of city improvement bonds, park improvement bonds and downtown improvement bonds.

The special assessment bonds consist of various construction projects, various sidewalk improvements, and various other improvements. The principal and interest for these bonds are paid from the collection of special assessments by the County Auditor from the specific property owners who primarily benefited from the projects.

Additional information concerning the City's debt can be found in Note 16 to the basic financial statements.

Current Financial Issues

The City Council of the City of New Philadelphia rezoned more than 170 acres of residential land to industrial land in November 2003. This set the groundwork needed to develop an industrial high-tech park that will be located near the regional campus of Kent State University. Extension of the city utilities to the new area is in the planning and design stages. The City administration is currently working with businesses to occupy the park and is actively pursuing alternative funding for this project through state and federal grants.

The City purchased an historic downtown building, located next door to city hall, in 2000, with plans to relocate many City offices to this new location. A nearly \$2 million renovation project on this building was completed in November 2003, allowing many City services to be conveniently housed in one location.

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

90% of an \$11 million project to upgrade the City's wastewater treatment plant was completed by the end of 2003. This project was designed to increase plant capacity by 50% and make other improvements. When all units are finally put online, there will be a significant increase in treatment efficiency and a decrease in process odors.

The plans for the future are always made keeping a careful watch on the financial condition of the City. The City of New Philadelphia is financially strong. It is the goal to keep it that way and still grow and meet the needs of the future. Even though the year 2003 was a year of economic downturn, the City of New Philadelphia showed its strength by continuing to provide services to the citizens at its highest level.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Beth Gundy, Auditor of New Philadelphia, Ohio, 150 East High Ave., Suite 19 or bgundy@newphilaoh.com.

City of New Philadelphia

Statement of Net Assets

December 31, 2003

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 3,492,750	\$ 3,240,704	6,733,454
Materials and Supplies Inventory	153,855	381,811	535,666
Accounts Receivable	229,492	572,935	802,427
Intergovernmental Receivable	1,298,829	0	1,298,829
Taxes Receivable	3,909,652	53	3,909,705
Loans Receivable	17,192	0	17,192
Special Assessments Receivable	293,691	0	293,691
Non-Depreciable Capital Assets	826,576	3,901,606	4,728,182
Depreciable Capital Assets, net	23,127,765	15,447,965	38,575,730
<i>Total Assets</i>	<u>33,349,802</u>	<u>23,545,074</u>	<u>56,894,876</u>
Liabilities			
Accounts Payable	58,749	221,302	280,051
Accrued Wages	143,207	41,010	184,217
Contracts Payable	162,557	371,378	533,935
Intergovernmental Payable	417,905	95,387	513,292
Deferred Revenue	2,149,588	0	2,149,588
Long-Term Liabilities:			
Due Within One Year	584,479	545,898	1,130,377
Due in More Than One Year	5,754,300	9,655,195	15,409,495
<i>Total Liabilities</i>	<u>9,270,785</u>	<u>10,930,170</u>	<u>20,200,955</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	18,428,800	10,985,844	29,414,644
Restricted for Debt Service	431,833	0	431,833
Restricted for Capital Outlay	662,889	0	662,889
Restricted for Other Purposes	1,259,467	0	1,259,467
Unrestricted	3,296,028	1,629,060	4,925,088
<i>Total Net Assets</i>	<u>\$ 24,079,017</u>	<u>\$ 12,614,904</u>	<u>\$ 36,693,921</u>

See accompanying notes to the basic financial statements.

This page intentionally left blank.

City of New Philadelphia
Statement of Activities
For the Year Ended December 31, 2003

	Program Revenues				Net(Expense)Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 2,945,822	\$ 1,021,596	\$ 869,385	\$ 13,604	\$ (1,041,237)	\$ 0	\$ (1,041,237)
Security of Persons and Property	3,866,814	580,713	0	23,633	(3,262,468)	0	(3,262,468)
Public Health	472,864	39,687	0	2,258	(430,919)	0	(430,919)
Leisure Time Services	722,584	68,708	0	4,308	(649,568)	0	(649,568)
Community and Economic Development	329,204	121,118	1,500	0	(206,586)	0	(206,586)
Basic Utility Services	1,147,094	33,870	108,934	0	(1,004,290)	0	(1,004,290)
Transportation	1,424,220	34,085	1,128,563	413	(261,159)	0	(261,159)
Interest and Fiscal Charges	266,448	0	0	0	(266,448)	0	(266,448)
<i>Total Governmental Activities</i>	<u>11,175,050</u>	<u>1,899,777</u>	<u>2,108,382</u>	<u>44,216</u>	<u>(7,122,675)</u>	<u>0</u>	<u>(7,122,675)</u>
Business-Type Activities:							
Sewer Revenue	2,415,431	1,868,116	85,580	25,680	0	(436,055)	(436,055)
Water Revenue	2,100,740	2,084,521	0	66,868	0	50,649	50,649
<i>Total Business-Type Activities</i>	<u>4,516,171</u>	<u>3,952,637</u>	<u>85,580</u>	<u>92,548</u>	<u>0</u>	<u>(385,406)</u>	<u>(385,406)</u>
<i>Total - Primary Government</i>	<u>\$ 15,691,221</u>	<u>\$ 5,852,414</u>	<u>\$ 2,193,962</u>	<u>\$ 136,764</u>	<u>\$ (7,122,675)</u>	<u>\$ (385,406)</u>	<u>\$ (7,508,081)</u>
General Revenues:							
Property Taxes Levied for:							
General Purposes					1,025,494	0	1,025,494
Other Purposes					1,205,038	0	1,205,038
Income Taxes Levied for:							
General Purposes					2,320,037	0	2,320,037
Other Purposes					1,792,361	1,580	1,793,941
Grants and Entitlements not Restricted to Specific Programs					1,315,692	0	1,315,692
Investment Earnings					101,273	0	101,273
Miscellaneous					107,893	8,378	116,271
<i>Total General Revenues</i>					<u>7,867,788</u>	<u>9,958</u>	<u>7,877,746</u>
<i>Change in Net Assets</i>					745,113	(375,448)	369,665
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>					<u>23,333,904</u>	<u>12,990,352</u>	<u>36,324,256</u>
<i>Net Assets End of Year</i>					<u>\$ 24,079,017</u>	<u>\$ 12,614,904</u>	<u>\$ 36,693,921</u>

See accompanying notes to the basic financial statements.

City of New Philadelphia
Balance Sheet
Governmental Funds
December 31, 2003

	General Fund	Sanitation	Master Capital	All Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 504,147	\$ 243,913	\$ 323,990	\$ 2,420,700	\$ 3,492,750
Materials and Supplies Inventory	31,794	4,657	0	117,404	153,855
Accounts Receivable	30,359	0	0	199,133	229,492
Interfund Receivable	66,000	0	0	0	66,000
Intergovernmental Receivable	546,818	51,635	13,617	686,759	1,298,829
Taxes Receivable	1,972,125	845,343	200,000	892,184	3,909,652
Loans Receivable	0	0	0	17,192	17,192
Special Assessments Receivable	0	0	0	293,691	293,691
<i>Total Assets</i>	<u>\$ 3,151,243</u>	<u>\$ 1,145,548</u>	<u>\$ 537,607</u>	<u>\$ 4,627,063</u>	<u>\$ 9,461,461</u>
Liabilities					
Accounts Payable	12,175	34,946	0	11,628	58,749
Accrued Wages	105,431	12,887	0	24,889	143,207
Contracts Payable	0	0	83,712	78,845	162,557
Intergovernmental Payable	7,499	2,000	0	3,548	13,047
Interfund Payable	0	0	0	66,000	66,000
Deferred Revenue	1,846,201	886,978	75,754	1,510,283	4,319,216
<i>Total Liabilities</i>	<u>1,971,306</u>	<u>936,811</u>	<u>159,466</u>	<u>1,695,193</u>	<u>4,762,776</u>
Fund Balances					
Reserved for Encumbrances	38,444	1,534	25,668	43,607	109,253
Reserved for Inventory	31,794	4,657	0	117,404	153,855
Reserved for Unclaimed Monies	13,330	0	0	0	13,330
Reserved for Loans Receivable	0	0	0	17,192	17,192
Unreserved, Undesignated, Reported in:					
General Fund	1,096,369	0	0	213,906	1,310,275
Special Revenue Funds	0	202,546	0	2,073,468	2,276,014
Debt Service Funds	0	0	0	174,294	174,294
Capital Projects Funds	0	0	352,473	(34,038)	318,435
Permanent Funds	0	0	0	326,037	326,037
<i>Total Fund Balances</i>	<u>1,179,937</u>	<u>208,737</u>	<u>378,141</u>	<u>2,931,870</u>	<u>4,698,685</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,151,243</u>	<u>\$ 1,145,548</u>	<u>\$ 537,607</u>	<u>\$ 4,627,063</u>	<u>\$ 9,461,461</u>

See accompanying notes to the basic financial statements.

City of New Philadelphia
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2003*

Total Governmental Fund Balances \$ 4,698,685

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

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds. 23,954,341

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

Property Taxes	146,803
Income Tax	788,007
Intergovernmental	871,271
Charges for Services	<u>363,547</u>

Total 2,169,628

Intergovernmental payable includes contractually required
 pension contributions not expected to be paid with
 expendable available financial resources and therefore
 not reported in the funds. (404,858)

Long-term liabilities are not due and payable in the current
 period and therefore are not reported in the funds:

General Obligation Bonds	(4,367,810)
Special Assessment Bonds	(237,189)
Loan Payable	(16,685)
ODOT Loan	(192,250)
Capital Leases	(711,606)
Police and Fire Pension	(166,801)
Compensated Absences	<u>(646,438)</u>

Total (6,338,779)

Net Assets of Governmental Activities \$ 24,079,017

See accompanying notes to the basic financial statements.

City of New Philadelphia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2003

	General Fund	Sanitation	Master Capital	All Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$ 1,060,225	\$ 849,277	\$ 0	\$ 397,497	\$ 2,306,999
Income Taxes	2,075,802	0	585,876	1,074,282	3,735,960
Special Assessments	0	0	0	60,562	60,562
Charges for Services	212,291	33,870	0	326,297	572,458
Licenses and Permits	16,095	0	4,836	84,949	105,880
Fines and Forfeitures	465,637	0	0	687,662	1,153,299
Intergovernmental	1,314,026	109,425	869,382	1,455,127	3,747,960
Interest	87,070	0	0	14,203	101,273
Rent	11,196	0	0	27,505	38,701
Contributions and Donations	44,216	0	0	0	44,216
Other	39,056	19	44,079	600	83,754
<i>Total Revenues</i>	<u>5,325,614</u>	<u>992,591</u>	<u>1,504,173</u>	<u>4,128,684</u>	<u>11,951,062</u>
Expenditures					
General Government	1,604,927	0	0	4,632	1,609,559
Municipal Court	0	0	0	640,528	640,528
Security of Persons and Property	2,831,301	0	0	789,162	3,620,463
Public Health	268,238	0	0	189,674	457,912
Leisure Time Services	516,064	0	0	1,622	517,686
Community and Economic Development	0	0	0	329,204	329,204
Basic Utility Services	0	1,048,539	0	0	1,048,539
Transportation	51,053	0	0	1,082,719	1,133,772
Capital Outlay	378,196	0	2,212,235	2,095,070	4,685,501
Debt Service:					
Principal Retirements	11,655	0	36,091	509,937	557,683
Interest and Fiscal Charges	9,734	0	15,657	241,057	266,448
<i>Total Expenditures</i>	<u>5,671,168</u>	<u>1,048,539</u>	<u>2,263,983</u>	<u>5,883,605</u>	<u>14,867,295</u>
<i>Excess of Revenues Over(Under) Expenditures</i>	<u>(345,554)</u>	<u>(55,948)</u>	<u>(759,810)</u>	<u>(1,754,921)</u>	<u>(2,916,233)</u>
Other Financing Sources and Uses					
Transfers In	0	0	0	75,048	75,048
Proceeds of Loans	0	0	197,250	16,685	213,935
Proceeds from Sale of Capital Assets	42,355	0	0	0	42,355
Inception of Capital Lease	10,136	0	0	0	10,136
Transfers Out	(75,048)	0	0	0	(75,048)
<i>Total Other Financing Sources and Uses</i>	<u>(22,557)</u>	<u>0</u>	<u>197,250</u>	<u>91,733</u>	<u>266,426</u>
<i>Net Change in Fund Balance</i>	(368,111)	(55,948)	(562,560)	(1,663,188)	(2,649,807)
<i>Fund Balance at Beginning of Year (Restated see note 3)</i>	1,553,417	262,531	940,701	4,701,175	7,457,824
Increase (Decrease) in Reserve for Inventory	(5,369)	2,154	0	(106,117)	(109,332)
<i>Fund Balance at End of Year</i>	<u>\$ 1,179,937</u>	<u>\$ 208,737</u>	<u>\$ 378,141</u>	<u>\$ 2,931,870</u>	<u>\$ 4,698,685</u>

See accompanying notes to the basic financial statements.

City of New Philadelphia
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
December 31, 2003*

Net Change in Fund Balances - Total Governmental Funds \$ (2,649,807)

*Amounts reported for governmental activities in the
statement of activities are different because*

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

Capital Asset Additions	4,685,501	
Current Year Depreciation	<u>(1,073,163)</u>	
Total		3,612,338

Governmental funds only report the disposal of capital assets to the
extent proceeds are received from the sale. In the statement
of activities, a gain or loss is reported for each disposal. (18,216)

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

Delinquent Property Taxes	(76,468)	
Income Tax	376,438	
Intergovernmental	(323,885)	
Charges for Services	<u>(31,123)</u>	
Total		(55,038)

Repayment of bond principal, capital lease payments and loans
are an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement
of net assets. 557,683

Other financing sources in the governmental funds that increase
long-term liabilities in the statement of net assets are not
reported as revenues in the statement of activities. (224,071)

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

Compensated Absences	(77,057)	
Pension Obligations	(291,387)	
Change in Inventory	<u>(109,332)</u>	
Total		<u>(477,776)</u>

Change in Net Assets of Governmental Activities \$ 745,113

See accompanying notes to the basic financial statements.

City of New Philadelphia
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2003

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$ 1,001,835	\$ 1,078,643	\$ 1,060,225	\$ (18,418)
Income Taxes	1,877,590	2,167,893	2,068,311	(99,582)
Charges for Services	192,716	230,081	212,291	(17,790)
Licenses and Permits	14,611	13,726	16,095	2,369
Fines and Forfeitures	429,287	489,056	472,893	(16,163)
Intergovernmental	1,260,903	1,251,210	1,388,983	137,773
Interest	79,042	101,675	87,070	(14,605)
Rent	10,183	10,167	11,217	1,050
Contributions and Donations	40,138	40,263	44,216	3,953
Other	33,945	32,536	37,393	4,857
<i>Total Revenues</i>	<u>4,940,250</u>	<u>5,415,250</u>	<u>5,398,694</u>	<u>(16,556)</u>
Expenditures				
General Government	2,335,030	1,838,595	1,714,664	123,931
Security of Persons and Property	2,818,922	3,010,545	2,895,077	115,468
Public Health	280,749	298,712	278,714	19,998
Leisure Time Services	514,252	554,010	528,872	25,138
Transportation	702	72,554	56,598	15,956
Capital Outlay	0	448,203	379,816	68,387
Debt Service:				
Principal Retirements	11,655	11,655	11,655	0
Interest and Fiscal Charges	9,734	9,734	9,734	0
<i>Total Expenditures</i>	<u>5,971,044</u>	<u>6,244,008</u>	<u>5,875,130</u>	<u>368,878</u>
Excess of Revenues Over(Under) Expenditures	<u>(609,843)</u>	<u>(828,758)</u>	<u>(476,436)</u>	<u>352,322</u>
Other Financing Sources and Uses				
Proceeds from Sale of Capital Assets	42,355	42,200	42,355	155
Inception of Capital Lease	0	0	10,136	10,136
Transfers Out	(76,500)	(85,500)	(75,048)	10,452
Advances Out	0	(66,000)	(66,000)	0
Other Financing Uses	0	(625)	(625)	0
<i>Total Other Financing Sources and Uses</i>	<u>(34,145)</u>	<u>(109,925)</u>	<u>(89,182)</u>	<u>20,743</u>
Net Change in Fund Balance	(643,988)	(938,683)	(565,618)	373,065
Fund Balance at Beginning of Year	846,183	846,183	846,183	0
Prior Year Encumbrances Appropriated	178,771	178,771	178,771	0
Fund Balance at End of Year	<u>\$ 380,966</u>	<u>\$ 86,271</u>	<u>\$ 459,336</u>	<u>\$ 373,065</u>

See accompanying notes to the basic financial statements.

City of New Philadelphia
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Sanitation Fund
For the Year Ended December 31, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property Taxes	\$ 816,354	\$ 819,500	\$ 849,277	\$ 29,777
Charges for Services	32,557	35,000	33,870	(1,130)
Intergovernmental	95,571	90,000	99,425	9,425
Other	18	0	19	19
Total Revenues	<u>944,500</u>	<u>944,500</u>	<u>982,591</u>	<u>38,091</u>
Expenditures				
Basic Utility Services	<u>1,084,262</u>	<u>1,115,565</u>	<u>1,082,459</u>	<u>33,106</u>
Total Expenditures	<u>1,084,262</u>	<u>1,115,565</u>	<u>1,082,459</u>	<u>33,106</u>
Excess of Revenues Over (Under) Expenditures	<u>(139,762)</u>	<u>(171,065)</u>	<u>(99,868)</u>	<u>71,197</u>
Net Change in Fund Balance	(59,262)	(171,065)	(99,868)	71,197
Fund Balance at Beginning of Year	286,487	286,487	286,487	0
Prior Year Encumbrances Appropriated	<u>31,303</u>	<u>31,303</u>	<u>31,303</u>	<u>0</u>
Fund Balance (Deficit) at End of Year	<u>\$ 258,528</u>	<u>\$ 146,725</u>	<u>\$ 217,922</u>	<u>\$ 71,197</u>

See accompanying notes to the basic financial statements.

City of New Philadelphia
Statement of Fund Net Assets
Proprietary Funds
December 31, 2003

	Enterprise Funds		
	Water	Sewer	Totals
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,831,121	\$ 1,409,583	\$ 3,240,704
Materials and Supplies Inventory	328,780	53,031	381,811
Accounts Receivable	296,822	276,113	572,935
Taxes Receivable	53	0	53
<i>Total Current Assets</i>	<u>2,456,776</u>	<u>1,738,727</u>	<u>4,195,503</u>
<i>Non-Current Assets:</i>			
Non-Depreciable Capital Assets	6,845	3,894,761	3,901,606
Depreciable Capital Assets, net	8,224,115	7,223,850	15,447,965
<i>Total Non-Current Assets</i>	<u>8,230,960</u>	<u>11,118,611</u>	<u>19,349,571</u>
<i>Total Assets</i>	<u>10,687,736</u>	<u>12,857,338</u>	<u>23,545,074</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	125,841	95,461	221,302
Accrued Wages	24,554	16,456	41,010
Contracts Payable	26,333	345,045	371,378
Intergovernmental Payable	55,969	39,418	95,387
<i>Total Current Liabilities</i>	<u>232,697</u>	<u>496,380</u>	<u>729,077</u>
<i>Long-Term Liabilities:</i>			
Due Within One Year	0	545,898	545,898
Due in More Than One Year	119,167	9,536,028	9,655,195
<i>Total Long-Term Liabilities</i>	<u>119,167</u>	<u>10,081,926</u>	<u>10,201,093</u>
<i>Total Liabilities</i>	<u>351,864</u>	<u>10,578,306</u>	<u>10,930,170</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	8,230,960	2,754,884	10,985,844
Unrestricted	2,104,912	(475,852)	1,629,060
<i>Total Net Assets</i>	<u>\$ 10,335,872</u>	<u>\$ 2,279,032</u>	<u>\$ 12,614,904</u>

See accompanying notes to the basic financial statements.

City of New Philadelphia
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2003

	Enterprise Funds		
	Water	Sewer	Totals
Operating Revenue			
Charges for Services	\$ 2,084,521	\$ 1,868,116	\$ 3,952,637
Other	8,378	0	8,378
<i>Total Operating Revenues</i>	<u>2,092,899</u>	<u>1,868,116</u>	<u>3,961,015</u>
Operating Expenses			
Salaries and Wages	734,521	517,109	1,251,630
Fringe Benefits	281,443	182,035	463,478
Contractual Services	333,781	1,345,151	1,678,932
Materials and Supplies	329,950	84,646	414,596
Depreciation	421,045	286,490	707,535
<i>Total Operating Expenses</i>	<u>2,100,740</u>	<u>2,415,431</u>	<u>4,516,171</u>
<i>Operating (Loss)</i>	<u>(7,841)</u>	<u>(547,315)</u>	<u>(555,156)</u>
Non-Operating Revenues			
Intergovernmental	0	85,580	85,580
Municipal Income Taxes	1,580	0	1,580
<i>Total Non-Operating Revenues</i>	<u>1,580</u>	<u>85,580</u>	<u>87,160</u>
<i>(Loss) Before Contributions</i>	(6,261)	(461,735)	(467,996)
Capital Contributions	66,868	25,680	92,548
<i>Change in Net Assets</i>	60,607	(436,055)	(375,448)
<i>Net Assets at Beginning of Year (Restated - See Note 3)</i>	<u>10,275,265</u>	<u>2,715,087</u>	<u>12,990,352</u>
<i>Net Assets at End of Year</i>	<u>\$ 10,335,872</u>	<u>\$ 2,279,032</u>	<u>\$ 12,614,904</u>

See accompanying notes to the basic financial statements.

City of New Philadelphia
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003

	Enterprise Funds		
	Water	Sewer	Totals
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 2,096,928	\$ 1,835,641	\$ 3,932,569
Cash Payments to Suppliers for Goods and Services	(289,978)	(92,562)	(382,540)
Cash Payments to Employees	(970,169)	(691,913)	(1,662,082)
Cash Payments for Contractual Services	(307,984)	(1,628,609)	(1,936,593)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>528,797</u>	<u>(577,443)</u>	<u>(48,646)</u>
Cash Flows from Noncapital Financing Activities			
Tax Receipts	2,158	0	2,158
Intergovernmental Receipts	0	85,580	85,580
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>2,158</u>	<u>85,580</u>	<u>87,738</u>
Cash Flows from Capital and Related Financing Activities			
Proceeds from Loans	0	5,027,931	5,027,931
Acquisition of Capital Assets	(445,626)	(3,799,686)	(4,245,312)
Principal Payments on Debt	0	(10,000)	(10,000)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(445,626)</u>	<u>1,218,245</u>	<u>772,619</u>
<i>Net Increase in Cash and Cash Equivalents</i>	85,329	726,382	811,711
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>1,745,792</u>	<u>683,201</u>	<u>2,428,993</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 1,831,121</u>	<u>\$ 1,409,583</u>	<u>\$ 3,240,704</u>

(continued)

City of New Philadelphia
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003

	Enterprise Funds		
	Water	Sewer	Totals
Reconciliation of Operating loss to Net Cash Provided by (Used for) Operating Activities			
Operating (Loss)	\$ (7,841)	\$ (547,315)	(555,156)
Adjustments:			
Depreciation	421,045	286,490	707,535
(Increase) Decrease in Assets:			
Accounts Receivable	4,029	(32,475)	(28,446)
Materials and Supplies Inventory	(28,603)	(15,903)	(44,506)
Increase (Decrease) in Liabilities:			
Accounts Payable	68,039	30,381	98,420
Contracts Payable	26,333	(305,852)	(279,519)
Accrued Wages	6,491	4,187	10,678
Compensated Absences Payable	23,007	(7,991)	15,016
Intergovernmental Payable	16,297	11,035	27,332
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$ 528,797</u>	<u>\$ (577,443)</u>	<u>\$ (48,646)</u>

Noncash Capital Financing Activities:

During 2003, capital assets were donated by developers to the water and sewer enterprise funds in the amount of \$66,868 and \$25,680 respectively.

See accompanying notes to the basic financial statements.

City of New Philadelphia
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2003

	<u>Agency Fund</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 115,682
Cash and Cash Equivalents in Segregated Accounts	204,260
Accounts Receivable	<u>3,762</u>
<i>Total Assets</i>	<u><u>323,704</u></u>
Liabilities	
Undistributed Monies	<u>323,704</u>
<i>Total Liabilities</i>	<u><u>\$ 323,704</u></u>

See accompanying notes to the basic financial statements.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1: REPORTING ENTITY

The City of New Philadelphia (the “City”) is a municipal corporation, established under the laws of the State of Ohio. The City operates under a Council-Mayor form of government. The Mayor, Council, Auditor, Treasurer and Law Director are elected.

In evaluating how to define the City for financial reporting purposes, management has considered all agencies, departments, and organizations making up the City (the primary government) and its potential component units consistent with Government Accounting Standards Board Statements No. 14, “The Financial Reporting Entity” and No. 39, “Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14”.

The City provides various services including police and fire protection, emergency medical, water and sewer services, parks and recreation, planning, zoning, street maintenance and repair, refuse collection and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

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 levying of taxes or the issuance of debt. The City does not have any component units.

New Philadelphia Airport and New Philadelphia City School District have been excluded from the accompanying basic financial statements. Both are legally separate from the City. Neither imposes a financial burden nor provides a financial benefit to the City. The City cannot significantly influence the operations of these entities.

The City is associated with certain organizations which are defined as Jointly Governed Organizations. These organizations are presented in the notes to the basic financial statements (See Note 18). These organizations are:

Community Improvement Corporation of Tuscarawas County
Tuscarawas County Regional Planning Commission
Southeastern Ohio Narcotics Team (S.E.N.T.)
Ohio Mid-Eastern Governments Association (OMEGA)
Tax Incentive Review Council (TIRC)

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local 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 proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB pronouncements and Interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The most significant of the City's accounting policies are described below.

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements 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, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

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

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Fiduciary funds are reported by type.

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. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically 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 purposes 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.

Sanitation Special Revenue Fund The sanitation special revenue fund is used to account for revenues generated from charges for sanitation services, provided to residential and commercial users of the City.

Master Capital Capital Projects Fund The master capital capital projects fund is used to account for the capital projects and expenditures of the governmental funds.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position, and cash flows. The following is the City's proprietary fund type:

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 sewer and water funds are the City's major enterprise funds.

Sewer Fund – The sewer fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Water Fund – The water fund accounts for the provision of water service to the residents and commercial users located within the City.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for court collections that are distributed to various other City funds.

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.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary fund 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. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7.) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On 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 to be both measurable and available at fiscal year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and entitlements, and rentals.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Pooled Cash and Cash Equivalents

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

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating certificates of deposit and repurchase agreements, which are reported at cost.

During 2003, investments were limited to overnight repurchase agreements and interest in STAROhio, (the State Treasury Asset Reserve of Ohio).

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2003.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2003 amounted to \$87,070, which includes \$77,989 assigned from other City funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City's treasury. See Note 6, Deposits and Investments.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Materials and Supplies Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies.

G. Capital Assets

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

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

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets, except for land and construction-in-progress, are depreciated. 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. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	30-40 Years	30-40 Years
Improvements Other Than Buildings	10-50 Years	10-50 Years
Equipment and Machinery	10-30 Years	10-30 Years
Infrastructure	42-50 Years	42-50 Years
Furniture and Fixtures	10-30 Years	20 Years
Vehicles	10 Years	10 Years

The City's infrastructure consists of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, sewer systems, and water systems. For 2003, the City reported infrastructure in governmental activities for the first time.

H. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. These amounts are eliminated in the governmental columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

On fund financial statements, long-term interfund loans reported as "due to/from other funds," are equally offset by a fund balance reserve account which indicate that they do not constitute "available expendable financial resources" even though it is a component of net current assets. Repayment is expected to be made within a reasonable time.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary 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, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds, capital leases, and long-term loans are recognized as a liability on the government fund financial statements when due.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Net Assets

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

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

L. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies inventory, long-term loans receivable and unclaimed monies.

M. Operating Revenues and Expenses

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

N. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, of grants or outside contributions of resources restricted to capital acquisition and construction.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Interfund Activity

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

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

Q. Estimates

The preparation of 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.

R. Budgetary Data

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each department in the general fund and at the object level for all other funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

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 City Auditor. 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 amended certificate of estimated resources in effect at the time the final appropriations were enacted by Council.

The appropriations resolution 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 appropriation resolution 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 Council during the year.

**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND
BALANCES/NET ASSETS**

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

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City's programs for governmental activities and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the accrual basis of accounting and the reclassification of funds based on the guidance provided in GASB Statement No. 34.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCES/NET ASSETS (Continued)

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The City restated the capital asset balance at January 1, 2003 to include accumulated depreciation of \$7,078,852, along with infrastructure in the amount of \$18,831,730 less accumulated depreciation of \$6,823,655 which is reflected in the capital asset amount of \$20,360,219 shown below.

Restatement of Fund Balance The restatements for GASB Statement No. 34 and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Sanitation	Master Capital	Aggregate Nonmajor	Total
Fund Balances, 12/31/02	\$ 1,553,417	\$ 262,531	\$ 940,701	\$ 4,701,175	\$ 7,457,824
GASB 34 Adjustments:					
Capital Assets					20,360,219
Compensated Absences					(569,380)
Pension Obligations					(113,471)
Long-Term (Deferred) Assets					2,224,666
Long-Term Liabilities					(6,025,954)
Governmental Activities Net Assets, 12/31/02					\$ 23,333,904

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND
BALANCES/NET ASSETS (Continued)**

Prior Period Adjustments In 2003, the City modified the useful lives of certain capital assets. As a result, the accumulated depreciation amounts in the water and sewer funds decreased by \$14,953 and increased by \$239,490, respectively, at December 31, 2002. In the prior year, the balance of an Ohio Water Development Authority (OWDA) loan was understated by \$12,921 in the sewer fund.

In addition, a 2003 OWDA loan in the amount of \$649,235 was incorrectly classified as an intergovernmental receivable at December 31, 2002 in the sewer fund. This correction of an error decreased the sewer revenue net income as previously reported by (\$649,235) from \$728,350 to \$79,115.

To correct these, the beginning net asset balances have been restated as follows:

	Previously Stated Balance <u>12/31/2002</u>	<u>Adjustments</u>	Restated Balance <u>1/1/2003</u>
Business-Type Activities:			
Water Fund	\$ 10,260,312	\$ 14,953	\$ 10,275,265
Sewer Fund	<u>3,616,733</u>	<u>(901,646)</u>	<u>2,715,087</u>
Total Business-Type Activities	<u>\$ 13,877,045</u>	<u>\$ (886,693)</u>	<u>\$ 12,990,352</u>

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 4: ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

Fund balances at December 31, 2003 included the following individual fund deficits:

	<u>Deficit</u>
Non-Major Funds:	
OPWC	\$ 47,719
Municipal Complex	59,815
Cemetery	<u>32,508</u>
	<u>\$ 140,042</u>

The deficits in those funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

B. Compliance

The City was in violation of Ohio Revised Code Section 5705.41 D for not always obtaining prior certification before obligating City funds.

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 basis), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund and the sanitation major special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditure/expenses (budget) rather than as a reservation of fund balance (GAAP).

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 5: BUDGETARY BASIS OF ACCOUNTING (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and the sanitation major special revenue fund.

Net Change in Fund Balance

	General	Sanitation
GAAP Basis	\$ (368,111)	\$ (55,948)
Revenue accruals	73,080	(10,000)
Expenditure accruals	(225,776)	(7,929)
Encumbrances	(44,811)	(25,991)
Budget Basis	\$ (565,618)	\$ (99,868)

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 that Council has identified as not required for use within the current two-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.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

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. Interim monies may be invested in the following obligations provided they mature or are redeemable within two years from the date of purchase:

1. United States Treasury Notes, Bills, Bonds, Notes, or any other obligation or security issued by the United States or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and;
6. The State Treasury Asset Reserve (STAR Ohio).

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.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

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

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

Cash on hand: At year-end, the carrying amount of the City's cash on hand was \$300.

Deposits. At year-end, the carrying amount of the City's deposits was \$5,526,097, and the bank balance was \$5,811,744. Of the bank balance:

1. \$400,000 was covered by federal depository insurance.
2. \$5,278,551 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
3. \$133,193 was uncollateralized and uninsured. Although the pledging bank has an investment and securities pool used to collateralize all public deposits which are held in the financial institutions name, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

Investments. GASB Statement No. 3, "Deposits with Financial Institutions (including Repurchase Agreements), and Revenue Repurchase Agreements," requires the City to categorize investments to give an indication of the level of custodial credit risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

	<u>Category 2</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Repurchase Agreement	\$ 433,709	\$ 433,709	\$ 433,709
STAR Ohio	<u>0</u>	<u>1,093,290</u>	<u>1,093,290</u>
Total Investments	<u>\$ 433,709</u>	<u>\$ 1,526,999</u>	<u>\$ 1,526,999</u>

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Cash equivalents are defined as investments with original maturities of three months or less.

A reconciliation between the classification of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 7,053,396	\$ 0
Investments which are part of a cash management pool:		
Repurchase Agreement	(433,709)	433,709
STAR Ohio	(1,093,290)	1,093,290
Cash on Hand	<u>(300)</u>	<u>0</u>
GASB Statement No. 3	<u>\$ 5,526,097</u>	<u>\$ 1,526,999</u>

NOTE 7: PROPERTY TAXES

Property taxes include amounts levied against all real and public property, and tangible personal (used in business) property located in the City. Real property taxes were levied after October 1, 2002, on the assessed value as of January 1, 2002, the lien date, and were collected in 2003. Assessed values are established by the State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes received in 2003 attached as a lien on December 31, 2002, were levied after October 1, 2002, and are collected with real property taxes. Public utility property taxes were assessed on tangible personal property at 88% of the true value. 2003 tangible personal property taxes were levied after October 1, 2002, on the value listed as of December 31, 2002, and were collected in 2003. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2003 taxes were collected was \$330,797,950. Real estate represented 81% (\$269,181,900) of this total, public utility tangible personal property represented 3% (\$8,641,140) and general tangible personal property represented 16% (\$52,974,910). The full tax rate for all City operations applied to taxable property for the year ended December 31, 2003, was \$9.62 per \$1,000 assessed valuation.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 7: PROPERTY TAXES (Continued)

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

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

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility, and tangible personal property taxes which became measurable as of December 31, 2003 and for which there is an enforceable legal claim. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and a revenue, while on a modified accrual basis the revenue is deferred.

NOTE 8: RECEIVABLES

Receivables at December 31, 2003 consisted of taxes, accounts (billed and unbilled user charged services), special assessments, loans (community development block grant monies loaned to local businesses) and intergovernmental receivables arising from grants, entitlements and shared revenues. Taxes, accounts, special assessments, loans and intergovernmental receivables are deemed collectible in full.

Special assessments expected to be collected in more than one year amount to \$233,451 in the downtown improvement bond retirement fund. At December 31, 2003 the amount of the delinquent special assessments was \$2,364.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 8: RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities:	
Local government tax	\$ 446,938
Hotel tax	4,970
State local government tax	40,864
Homestead and Rollback	122,179
Other	6,034
Gasoline tax	183,226
Motor vehicle license tax and fees	130,656
Joint Solid Waste District	47,265
Community Housing Improvement Program (CHIP) Grant	188,309
Community Development Block Grant	5,419
USDOT Federal Highway Administration	9,536
Ohio Department of Transportation	4,081
Federal Aviation Administration	<u>109,352</u>
 Total	 <u>\$1,298,829</u>

NOTE 9: INCOME TAX

The City levies a municipal income tax of 1.0% on gross salaries, wages and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. Residents of the City are granted a credit up to 1.0% for taxes paid to other municipalities.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. The street lighting special revenue fund and the debt service fund receive an allocation from the income tax that is established annually by Council. The balance is allocated 58% to the general fund and 20% to the master capital improvement capital projects fund, 14% to the street maintenance and repair special revenue fund, 6% to the police and fire pension special revenue fund, and 2% to the cemetery special revenue fund.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 10: CAPITAL ASSETS

A summary of changes in capital assets during 2003 follows:

	Restated Balance <u>12/31/2002</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2003</u>
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 817,256	\$ 9,320	\$ 0	\$ 826,576
Construction in progress	159,429	0	(159,429)	0
<i>Total Capital Assets Not Being Depreciated</i>	<u>976,685</u>	<u>9,320</u>	<u>(159,429)</u>	<u>826,576</u>
<i>Capital Assets, Being Depreciated:</i>				
Buildings and building improvements	5,398,419	1,836,521	0	7,234,940
Improvements other than buildings	3,169,327	701,721	0	3,871,048
Machinery and equipment	2,842,299	172,338	(78,568)	2,936,069
Furniture and fixtures	110,091	0	0	110,091
Vehicles	2,934,175	553,521	(111,577)	3,376,119
Infrastructure	18,831,730	1,661,309	0	20,493,039
<i>Total Capital Assets, Being Depreciated</i>	<u>33,286,041</u>	<u>4,925,410</u>	<u>(190,145)</u>	<u>38,021,306</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and building improvements	(2,190,934)	(134,274)	0	(2,325,208)
Improvements other than buildings	(959,522)	(108,148)	0	(1,067,670)
Machinery and equipment	(1,690,041)	(161,078)	22,340	(1,828,779)
Furniture and fixtures	(65,466)	(4,838)	0	(70,304)
Vehicles	(2,172,889)	(158,427)	59,789	(2,271,527)
Infrastructure	(6,823,655)	(506,398)	0	(7,330,053)
<i>Total Accumulated Depreciation</i>	<u>(13,902,507)</u>	<u>(1,073,163) *</u>	<u>82,129</u>	<u>(14,893,541)</u>
<i>Total capital assets being depreciated, net</i>	<u>19,383,534</u>	<u>3,852,247</u>	<u>(108,016)</u>	<u>23,127,765</u>
<i>Total Governmental Activity Capital Assets, Net</i>	<u>\$ 20,360,219</u>	<u>\$ 3,861,567</u>	<u>\$ (267,445)</u>	<u>\$ 23,954,341</u>

*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 590,007
Basic Utility Services	66,794
Leisure Time Services	180,680
Security of Persons and Property	113,606
Transportation	<u>122,076</u>
 Total	 <u>\$ 1,073,163</u>

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 10: CAPITAL ASSETS (Continued)

	Restated Balance <u>12/31/2002</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2003</u>
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 41,899	\$ 0	\$ 0	\$ 41,899
Construction in progress	<u>4,898,973</u>	<u>3,859,707</u>	<u>(4,898,973)</u>	<u>3,859,707</u>
<i>Total Capital Assets Not Being Depreciated</i>	4,940,872	3,859,707	(4,898,973)	3,901,606
<i>Capital Assets, Being Depreciated:</i>				
Buildings	3,923,505	4,898,973	0	8,822,478
Improvements other than buildings	462,249	381,637	0	843,886
Machinery and equipment	3,946,201	0	0	3,946,201
Furniture and fixtures	20,554	0	0	20,554
Vehicles	674,484	30,000	0	704,484
Sewer lines	3,853,418	25,680	0	3,879,098
Water lines	<u>10,954,415</u>	<u>90,944</u>	<u>0</u>	<u>11,045,359</u>
<i>Total Capital Assets, Being Depreciated</i>	<u>23,834,826</u>	<u>5,427,234</u>	<u>0</u>	<u>29,262,060</u>
<i>Less Accumulated Depreciation:</i>				
Buildings	(2,694,147)	(228,978)	0	(2,923,125)
Improvements other than buildings	(128,864)	(23,639)	0	(152,503)
Machinery and equipment	(2,922,175)	(139,109)	0	(3,061,284)
Furniture and fixtures	(19,526)	0	0	(19,526)
Vehicles	(528,037)	(32,140)	0	(560,177)
Sewer lines	(1,886,735)	(51,328)	0	(1,938,063)
Water lines	<u>(4,927,076)</u>	<u>(232,341)</u>	<u>0</u>	<u>(5,159,417)</u>
<i>Total Accumulated Depreciation</i>	<u>(13,106,560)</u>	<u>(707,535)</u>	<u>0</u>	<u>(13,814,095)</u>
<i>Total capital assets being depreciated, net</i>	<u>10,728,266</u>	<u>4,719,699</u>	<u>0</u>	<u>15,447,965</u>
<i>Total Business-Type Capital Assets, Net</i>	<u>\$15,669,138</u>	<u>\$ 8,579,406</u>	<u>\$(4,898,973)</u>	<u>\$ 19,349,571</u>

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

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 2003, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Scottsdale Indemnity Co.	Public Officials Liability	\$ 5,000
	Law Enforcement Liability	5,000
	Building and personal property	1,000
	Boiler and machinery	1,000
	Commercial inland marine	1,000
Westfield	Commercial auto	\$250 comprehensive \$1,000 collision
Scottsdale Indemnity Co.	General Liability	None

There has been no reduction in coverage from the prior year. Settled claims did not exceed coverage in any of the last three years.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs to provide coverage to employees for job related injuries.

NOTE 12: DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 12: DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 8.5% of their annual covered salary to fund pension obligations. The City pays 4.5% of the 8.5% employee contribution as an additional benefit to certain employees in the AFSCME Union and Municipal Court. The City is required to contribute 13.55%. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2003, 2002 and 2001 were \$617,099, \$587,216 and \$568,510, respectively. The full amount has been contributed for 2002 and 2001. 76.3% has been contributed for 2003 with the remainder being presented as "intergovernmental payable" in the statement of net assets.

B. Ohio Police and Fire Pension Fund

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

Police and firefighters are required to contribute 10% of their annual covered salary to fund pension obligations and the City is required to contribute 19.5% for police and 24.0% for firefighters. Contributions are authorized by state statute. The City's contributions to the OP&F for police and firefighters were \$191,995 and \$254,414 for the year ended December 31, 2003, \$174,831 and \$238,626 for 2002, and \$166,971 and \$230,604 for 2001. The full amount has been contributed for 2002 and 2001 and 77.7% and 77.3%, respectively, has been contributed for 2003 with the remainder being presented as "intergovernmental payable" in the government activities column of the statement of net assets.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 2003, the unfunded liability of the City was \$166,801, payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is presented as "Police and Fire Pension Payable" in the governmental activities column of the statement of net assets.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 13: POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by state statute. The 2003 employer contribution rate was 13.55% of covered payroll; 5.00% was the portion that was used to fund health care for 2003.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

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

The number of active contributing participants was 364,881. The City's actual contributions for 2003, which were used to fund postemployment benefits were \$227,710. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002 (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 13: POSTEMPLOYMENT BENEFITS (Continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$76,222 for police and \$82,176 for fire. The OP&F's total health care expenses for the year ended December 31, 2002 (the latest information available) were \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002 was 13,527 for police and 10,396 for firefighters.

NOTE 14: OTHER EMPLOYEE BENEFITS

A. Additional Insurance

The City contracts with AultCare for major medical insurance for all full-time employees, Vision Service Plan for vision insurance for all full-time employees, and AFSCME Care Plan for full-time AFSCME union employees. The City pays total monthly premiums of \$185.90 single major medical, \$427.00 family major medical, \$2.07 single eye care, \$4.67 family eye care, and \$26 dental insurance premiums. Effective March 1, 2003, City employees are required to pay \$15 single and \$25 family per month for major medical insurance, with the remainder being paid by the City. These premiums are paid from the same funds that pay the employees' salaries.

The City provides life insurance and accidental death and dismemberment insurance to all full-time employees through American United Life.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 14: OTHER EMPLOYEE BENEFITS (Continued)

B. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Employees earn two to six weeks of vacation per year, depending upon length of service. Vacation accumulation is limited to one year. All accumulated unused vacation time is paid upon termination of employment.

Employees earn sick leave at the rate of 4.6 hours for every 80 hours worked for city employees and police officers, and at a rate of 6.44 hours for every 112 hours of service for firefighters. Sick leave accumulation is limited based on years of service and is paid upon retirement. As of December 31, 2003, the total liability for unpaid compensated absences was \$838,003.

NOTE 15: CAPITALIZED LEASES - LESSEE DISCLOSURE

In 2003, the City entered into a new lease for the acquisition of one copy machine. In prior years the City entered into capitalized leases for the acquisition of two copy machines, a fire truck, and three generators. All 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.

The assets acquired by the leases have been capitalized in the governmental activities in the amounts of \$510,745 and \$378,000, respectively, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded and is reduced for each required principal payment.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 15: CAPITALIZED 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, 2003:

	Fire Equipment	Income Tax Copier	Generators	Municipal Court Copier	Auditor's Office Copier	Total
2004	\$ 53,328	\$ 1,506	\$ 56,453	\$ 6,370	\$ 2,340	\$ 119,997
2005	53,328	1,507	56,452	6,371	2,340	119,998
2006	53,328	1,506	56,453	6,372	2,340	119,999
2007	53,329	0	56,452	0	2,340	112,121
2008	53,329	0	56,453	0	195	109,977
2009-2012	213,312	0	62,091	0	0	275,403
	<u>479,954</u>	<u>4,519</u>	<u>344,354</u>	<u>19,113</u>	<u>9,555</u>	<u>857,495</u>
Less: amount representing interest	<u>(89,160)</u>	<u>(543)</u>	<u>(53,266)</u>	<u>(2,046)</u>	<u>(874)</u>	<u>(145,889)</u>
Present value of minimum lease payments	<u>\$ 390,794</u>	<u>\$ 3,976</u>	<u>\$ 291,088</u>	<u>\$ 17,067</u>	<u>\$ 8,681</u>	<u>\$ 711,606</u>

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 16: LONG-TERM OBLIGATIONS

Changes in the long-term obligations of the City during 2003 were as follows:

	Outstanding 1/1/2003	Additions	(Reductions)	Outstanding 12/31/2003	Amounts Due In One Year
Business-Type Activity:					
Obligations:					
1991 Ohio Public Works Commission (OPWC) loan - sewer repair - 0%	\$ 90,000	\$ 0	\$ (10,000)	\$ 80,000	\$ 10,000
2001 Ohio Water Development Authority (OWDA) loan - sewer plant expansion and upgrade - 3.2%	4,901,596	2,711,984	0	7,613,580	405,361
2003 Ohio Public Works Commission (OPWC) loan - waste water treatment plant improvements - 0%	0	240,296	0	240,296	17,500
2003 Ohio Water Development Authority (OWDA) loan - waste water treatment plant improvements - 3.53%	0	429,851	0	429,851	30,747
2002 Ohio Water Development Authority (OWDA) loan - bass lake project - 0%	0	1,645,800	0	1,645,800	82,290
Compensated absences	176,550	15,016	0	191,566	0
Total business-type activity obligations	<u>5,168,146</u>	<u>5,042,947</u>	<u>(10,000)</u>	<u>10,201,093</u>	<u>545,898</u>
Governmental Activities:					
General long-term obligations:					
General Obligation Bonds:					
2002 City Improvement Bonds - 2.30%-5.00%	3,560,000	0	(250,000)	3,310,000	255,000
2002 Park Improvements Bonds - 3.60%-5.50%	1,110,000	0	(165,000)	945,000	175,000
1990 Downtown Improvement Bonds - 6.1%-7.25%	130,411	0	(17,600)	112,811	19,339
Total General Obligation Bonds	<u>4,800,411</u>	<u>0</u>	<u>(432,600)</u>	<u>4,367,811</u>	<u>449,339</u>
Special Assessment Bond - 6.1%-7.25%	274,589	0	(37,400)	237,189	40,661
State Infrastructure Bank (ODOT) loan - street resurfacing - 0%-3%	0	197,250	(5,000)	192,250	0
Tractor	0	16,685	0	16,685	5,562
Capital leases:					
1997 Copier lease	875	0	(875)	0	0
2000 Generators	327,179	0	(36,091)	291,088	41,517
2001 Copier lease	22,782	0	(5,715)	17,067	5,268
2002 Fire equipment	425,731	0	(34,937)	390,794	36,446
2002 Copier lease	5,092	0	(1,116)	3,976	1,215
2003 Copier lease	0	10,136	(1,455)	8,681	1,869
Compensated absences	569,380	77,057	0	646,437	0
Police and Fire Pension payable	169,295	0	(2,494)	166,801	2,602
Total General Long-Term Obligations	<u>6,595,334</u>	<u>301,128</u>	<u>(557,683)</u>	<u>6,338,779</u>	<u>584,479</u>
Totals	<u>\$ 11,763,480</u>	<u>\$ 5,344,075</u>	<u>\$ (567,683)</u>	<u>\$ 16,539,872</u>	<u>\$ 1,130,377</u>

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 16: LONG-TERM OBLIGATIONS (Continued)

The Ohio Public Works Commission (OPWC) loan and the Ohio Water Development Authority (OWDA) loan will be paid from charges for services revenue in the sewer fund. The general obligation bonds are being paid from property taxes and income tax. The special assessment bond will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The City is acting in an agent capacity for the property owners. The note payable will be paid from cable franchise fee revenue. Compensated absences reported in the "compensated absences payable" account and pension contribution reported in the "intergovernmental payable" account will both be paid from general operating revenues of the fund from which the employees' salaries are paid. Capital leases are paid from revenues of the general fund. The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue fund.

The City's overall legal debt margin was \$13,173,377 at December 31, 2003.

In 2002, the City entered into an agreement with the Ohio Water Development Authority (OWDA) for a large sewer plant expansion and upgrade project. The total amount authorized for this loan was \$8,263,204, and as of December 31, 2003, the City had drawn \$7,613,580. The City will begin repaying the loan in 2004. The amortization schedule is based upon the repayment of the entire authorized amount of the loan.

In 2002, the City was awarded a new loan from the Ohio Water Development Authority in the amount of \$1,645,800. The proceeds of this loan are being used to protect wetlands for a Bass Lake project in Geauga County. The City entered into this loan agreement in exchange for a drastically reduced interest rate on other OWDA debt. As of December 31, 2003, the City had drawn down all of the proceeds of this loan.

The City was awarded a new loan from the Ohio Public Works Commission in the amount of \$350,000. The proceeds of this loan are being used for improvements to the waste water treatment plant. As of December 31, 2003, the City had drawn down \$240,296 of this loan. The city expects to draw down the remaining portion of the loan in 2004. Therefore, the debt schedule reflects the repayment schedule for the entire award amount.

The City was awarded a new loan from the Ohio Water Development Authority in the amount of \$875,008. The proceeds of this loan are being used for improvements to the waste water treatment plant. As of December 31, 2003, the City had drawn down \$429,851 of this loan. The City expects to draw down the remaining portion of the loan in 2004. Therefore, the debt schedule reflects the repayment schedule for the entire award amount.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 16: LONG-TERM OBLIGATIONS (Continued)

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from both voted and unvoted general property taxes levied on all taxable property located within the City. Tax monies will be received in and the debt will be retired from the debt service funds.

Special assessment bonds are payable from the proceeds of assessments against the specific property owners who primarily benefited from the project. Special assessment monies will be received in and the debt will be retired from the downtown improvement debt service fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

The City was awarded a new loan from the State Infrastructure Bank, Ohio Department of Transportation (ODOT) in the amount of \$197,250. The proceeds of this loan are being used for street resurfacing. The loan has a 0% interest rate for 2003 and 2004. In 2005 and future years, the interest rate is 3%. In 2005, interest in the amount of \$5,811 is accrued. The debt schedule reflects this accrued interest.

The City entered into a loan for \$16,685 for a tractor to be used by the street department. This liability will be paid from the street maintenance and repair fund.

The police and fire pension liability will be paid from taxes receipted in the police and fire pension special revenue fund.

The annual requirements to retire governmental activities debt are as follows:

	General Obligation Bonds		Special Assessment Bonds		Police and Fire Pension	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 449,339	\$ 191,275	\$ 40,661	\$ 17,196	\$ 2,602	\$ 7,062
2005	455,951	175,789	44,049	14,248	2,713	6,950
2006	472,562	158,708	47,438	11,055	2,829	6,835
2007	494,174	139,697	50,826	7,616	2,951	6,712
2008	510,785	118,479	54,215	3,931	3,078	6,585
2009-2013	625,000	421,653	0	0	17,491	30,825
2014-2018	790,000	261,720	0	0	21,584	26,732
2019-2023	570,000	57,500	0	0	26,635	21,681
2024-2028	0	0	0	0	32,867	15,448
2029-2033	0	0	0	0	40,559	7,757
2034-2038	0	0	0	0	13,492	568
	<u>\$ 4,367,811</u>	<u>\$ 1,524,821</u>	<u>\$ 237,189</u>	<u>\$ 54,046</u>	<u>\$ 166,801</u>	<u>\$ 137,155</u>

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 16: LONG-TERM OBLIGATIONS (Continued)

	Ohio Department of Transportation		Tractor Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 0	\$ 0	\$ 5,562	\$ 0	\$ 498,164	\$ 215,533
2005	0	5,811	5,562	0	508,275	202,798
2006	45,938	5,590	5,561	0	574,328	182,188
2007	47,326	4,159	0	0	595,277	158,184
2008	48,756	2,685	0	0	616,834	131,680
2009-2013	50,230	1,167	0	0	692,721	453,645
2014-2018	0	0	0	0	811,584	288,452
2019-2023	0	0	0	0	596,635	79,181
2024-2028	0	0	0	0	32,867	15,448
2029-2033	0	0	0	0	40,559	7,757
2034-2038	0	0	0	0	13,492	568
	<u>\$ 192,250</u>	<u>\$ 19,412</u>	<u>\$ 16,685</u>	<u>\$ 0</u>	<u>\$ 4,980,736</u>	<u>\$ 1,735,434</u>

The annual requirements to retire business-type activities debt are as follows:

	Ohio Public Works Commission		Ohio Water Development Authority		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 27,500	\$ 0	\$ 518,399	\$ 46,943	\$ 545,899	\$ 46,943
2005	27,500	0	520,305	45,036	547,805	45,036
2006	27,500	0	522,251	43,090	549,751	43,090
2007	27,500	0	524,240	41,101	551,740	41,101
2008	27,500	0	526,272	39,069	553,772	39,069
2009-2013	117,500	0	2,663,471	163,234	2,780,971	163,234
2014-2018	87,500	0	2,721,717	104,989	2,809,217	104,989
2019-2023	87,500	0	2,787,358	39,348	2,874,858	39,348
	<u>\$ 430,000</u>	<u>\$ 0</u>	<u>\$ 10,784,013</u>	<u>\$ 522,810</u>	<u>\$ 11,214,013</u>	<u>\$ 522,810</u>

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 17: CONTRACTUAL COMMITMENTS

As of December 31, 2003, the City had contractual commitments for the following projects:

	<u>Contractual Commitment</u>	<u>Expended</u>	<u>Balance 12/31/2003</u>
W. E. Quicksall - Various engineering contracts	\$ 518,625	\$ 355,850	\$ 162,775
Raeder Construction - remodeling	921,801	870,332	51,469
Triner Excavating - CDBG FY02	73,600	66,331	7,269
RD Zande & Associates - airport improvements	166,840	67,186	99,654
Northern Valley Contractors - WWTP upgrade	7,116,783	6,769,528	347,255
Stanley Miller - WWTP upgrade	371,119	323,400	47,719
T & T Maintenance - Water storage tank rehabilitation	269,127	242,794	26,333
Trispan Corp. - South Broadway paving	1,407,152	1,393,535	13,617
M. P. Dory Co. - fence at airport	76,911	69,220	7,691
Soehnen Plumbing - Muni bldg. renovation	104,564	101,110	3,454
Metal Masters - mechanical at muni building	370,626	355,361	15,265
Wood Electric - electrical at muni building	255,507	234,596	20,911
S.S. Sprinkler - sprinkler at muni building	34,900	33,150	1,750
	<u>\$ 11,687,555</u>	<u>\$ 10,882,393</u>	<u>\$ 805,162</u>
Totals			

NOTE 18: JOINTLY GOVERNED ORGANIZATIONS

A. Community Improvement Corporation of Tuscarawas County

The City is associated with the Community Improvement Corporation (“Corporation”) of Tuscarawas County as a Jointly Governed Organization. The Corporation is operated by Tuscarawas County, New Philadelphia, Dover, Uhrichsville, Dennison, Strasburg, Sugarcreek and Gnadenhutten. It is controlled by 30 trustees consisting of the three County Commissioners, the mayor of each participating city or village and eighteen self-elected trustees. The board exercises total control over the operation of the corporation including budgeting, appropriating, contracting and designating management. Each participant’s degree of control is limited to its representation on the board. In 2003, no monies were paid by the City.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 18: JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Tuscarawas County Regional Planning Commission

The City is also associated with the Tuscarawas County Regional Planning Commission (“Commission”) as a Jointly Governed Organization. The Commission is a statutorily created political subdivision of the State. The Commission is jointly governed among Tuscarawas County, municipalities and townships. Of the 74 members, the City appoints one. Each member’s control over the operation of the Commission is limited to its representation on the board. The Commission makes studies, maps, plans, recommendations and reports concerning the physical, environmental, social, economic, and governmental characteristics, functions and social, economic and governmental characteristics, functions and services of the county. In 2003, the City contributed \$1,499, which represents 16.95% of total contributions.

C. Southeastern Ohio Narcotics Team (S.E.N.T.)

The City is also associated with the Southeastern Ohio Narcotics Team (S.E.N.T.), as a Jointly Governed Organization. S.E.N.T. is a multi-jurisdictional drug task force with the primary goal of combating major narcotic traffickers in Belmont, Carroll, Guernsey, Harrison, Monroe and Tuscarawas counties. It is jointly governed among the participating counties and cities. A grant is received from the State of Ohio of which the participating entities must match 25%. Of the 16 members, the City appoints one. Each member’s control over the operation of S.E.N.T. is limited to its representation on the board. In 2003, the City contributed \$5,117, which represents 12% of total contributions.

D. Ohio Mid-Eastern Governments Association (OMEGA)

The Ohio-Mid Eastern Governments Association (OMEGA) is a ten county regional council of governments comprised of Belmont, Carroll, Coshocton, Columbiana, Guernsey, Harrison, Holmes, Jefferson, Muskingum and Tuscarawas counties. OMEGA was formed to aid and assist the participating counties and political subdivisions within the counties in the application for Appalachian Regional Commission and Economic Development grant monies. OMEGA is governed by a sixteen member executive board comprised of members appointed from each participating county and cities within each county. City membership is voluntary. The mayor of the City of New Philadelphia serves as the City’s representative on the board. The board has total control over budgeting, personnel, and financial matters. Each member currently pays a per capita membership fee based upon the most recent United States census. During 2003, OMEGA received \$2,217 from the City of New Philadelphia for an annual fee. The continued existence of OMEGA is not dependent on the City’s continued participation and no equity interest exists. OMEGA has no outstanding debts.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 18: JOINTLY GOVERNED ORGANIZATIONS (Continued)

E. Tax Incentive Revenue Council (TIRC)

The Tax Incentive Revenue Council is an inter-jurisdictional body created to review and evaluate the performance of each Enterprise Zone Agreement. This body is advisory in nature only and cannot directly impact an existing Enterprise Zone Agreement. The TIRC is charged to annually review each Enterprise Zone Agreement and determine whether or not the business(es) has/have complied with the terms and conditions of the agreement. Upon review, the TIRC is to make a formal recommendation to the local government(s) in party to the Enterprise Zone Agreement. ORC Section 5709.85 sets forth the composition of TIRC. The council is jointly governed among Tuscarawas County, municipalities, townships and school districts within the county-designated Enterprise Zone. In 2003, no monies were paid by the City.

NOTE 19: CONTINGENCIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2003.

B. Litigation

The City is a party to several legal proceedings. City management is of the opinion that ultimate disposition of these proceedings will not have a material effect, if any, on the financial condition of the City.

This page intentionally left blank.

CITY OF NEW PHILADELPHIA
TUSCARAWAS COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Grant Number	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
<i>Passed through Ohio Department of Development:</i>				
Community Development Block Grants	A-F-01-154-1	14.228	\$ 15,604	\$ 1,107
Community Development Block Grants	A-F-02-154-1	14.228	86,581	84,261
HOME Investment Partnerships Program	A-C-02-154-2	14.239	<u>289,346</u>	<u>282,695</u>
Total U.S. Department of Housing and Urban Development			391,531	368,063
U.S. DEPARTMENT OF JUSTICE				
<i>Direct:</i>				
FY2003 Bulletproof Vest Partnership Program	N/A	16.607	4,467	4,467
U.S. DEPARTMENT OF HOMELAND SECURITY				
<i>Passed through the Ohio Department of Public Safety - Ohio Emergency Management Agency:</i>				
U.S Fire Administration 2003 Assistance to Firefighters Program	EMW-2002-FG-14143	97.044	35,034	35,034
U.S. DEPARTMENT OF FEDERAL AVIATION ADMINISTRATION				
<i>Direct:</i>				
Airport Improvement Program	N/A	20.106	89,764	89,764
Airport Improvement Program	N/A	20.106	<u>160,690</u>	<u>165,190</u>
Total U.S. Department of Federal Aviation Administration			250,454	254,954
U.S. DEPARTMENT OF TRANSPORTATION				
<i>Passed through the Ohio Department of Transportation:</i>				
Highway Planning and Construction	18809-10204	20.205	234,763	234,763
Bridge Rehabilitation-S. Broadway project	N/A	20.205	<u>561,712</u>	<u>561,712</u>
Total U.S. Department of Transportation			<u>796,475</u>	<u>796,475</u>
TOTAL			<u>\$ 1,477,961</u>	<u>\$ 1,458,993</u>

See accompanying notes to the Schedule of Receipts and Expenditures of Federal Awards.

**CITY OF NEW PHILADELPHIA
TUSCARAWAS COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2003**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (Schedule) is a summary of the activity of the city's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – REVOLVING LOAN PROGRAM

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households and to eligible persons, and to rehabilitate homes. The U.S. Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money is recorded as an expenditure on the accompanying Schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as expenditures on the Schedule.

These loans are collateralized by mortgages on the property and by promissory notes. In addition, all revolving loans funds are secured by personal guarantees, to the greatest extent possible. At December 31, 2003, there were no loans outstanding.

Note C – U.S. DEPARTMENT OF HOMELAND SECURITY FEDERAL AWARDS

The Federal Homeland Security Act of 2002 established the Department of Homeland Security (the Department) to consolidate functions of other Federal agencies related to homeland security. Effective January 24, 2003, the Department began to administer certain Federal awards the County previously received from other Federal agencies. The accompanying Federal Awards Expenditure Schedule reports all such 2003 award amounts under the Department's Catalog of Federal Domestic Assistance (CFDA) numbers. The purposes and compliance requirement of these programs has not changed. A comparison of the former Federal agencies and CFDA numbers the City reported in its 2002 Federal Awards Expenditure Schedule compared with the Department's CFDA numbers reported in the 2003 Schedule follows:

<u>Previous Federal Agency</u>	<u>CFDA No. used in 2002</u>	<u>Homeland Security CFDA No. used for 2003</u>
Federal Emergency Management	83.554	97.044



**Auditor of State
Betty Montgomery**

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

City of New Philadelphia
Tuscarawas County
150 East High Street
New Philadelphia, Ohio 44663

To the Members of City Council:

We have audited the basic financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of New Philadelphia, Tuscarawas County, Ohio, (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 3, 2004 in which we noted the City adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2003-001.

In addition, we noted another immaterial instance of noncompliance that we have reported to the City's management in a separate letter dated September 3, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

111 Second St., NW / Fourth Floor / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the City's management in a separate letter dated September 3, 2004.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

September 3, 2004



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

City of New Philadelphia
Tuscarawas County
150 East High Street
New Philadelphia, Ohio 44663

To the Members of City Council:

Compliance

We have audited the compliance of the City of New Philadelphia, Tuscarawas 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 are applicable to its major federal program for the year ended December 31, 2003. The City's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with 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 have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

September 3, 2004

**CITY OF NEW PHILADELPHIA
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions 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?	No
(d)(1)(vii)	Major Programs (list):	Highway Planning and Construction Cluster - 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?	Yes

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

FINDING NUMBER 2003-001

Ohio Rev. Code Section 5705.41(D), states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and other orders for expenditure lacking prior certification should be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two “exceptions” to the above requirements:

1. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the Auditor’s certificate that both at the time that the contract or order was made and at the time she is completing her certification that a sufficient sum was appropriated and free of any previous encumbrances, City Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
2. If the amount involved is less than \$1,000 (which increased to \$3,000 on April 7, 2003), the Auditor may authorize it to be paid without the affirmation of City Council upon completion of the then and now certificate, provided the expenditure is otherwise lawful.

The Auditor failed to certify the availability of funds for 46% of transactions tested. Neither of the two exceptions noted above were utilized for the items found to be in noncompliance. Prior to entering into purchase commitments, the Auditor should either certify that funds are available for expenditure or use the exceptions noted above, as applicable.

3. FINDINGS FOR FEDERAL AWARDS

None.

**CITY OF NEW PHILADELPHIA
TUSCARAWAS COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2002-001	Material Weakness – Monthly bank reconciliations were not performed.	Yes	The City Treasurer performed monthly reconciliations in 2003.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF NEW PHILADELPHIA

TUSCARAWAS 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
OCTOBER 7, 2004**