



**Auditor of State
Betty Montgomery**

**SYLVANIA CITY SCHOOL DISTRICT
LUCAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

City of Sylvania
Lucas County
6730 Monroe Street
Sylvania, Ohio 43560-1948

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sylvania, Lucas County, (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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sylvania, Lucas 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 and Income Tax Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

September 9, 2004

CITY OF SYLVANIA, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2003*

Unaudited

The discussion and analysis of the City of Sylvania'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 financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2003 are as follows:

- ❑ In total, net assets increased \$590,147. Net assets of governmental activities increased \$1.4 million, which represents a 2.8% increase from 2002. Net assets of business-type activities decreased \$817,703 or 3.3% from 2002.
- ❑ General revenues accounted for \$12.4 million in revenue or 60% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for 40% of total revenues of \$20.8 million.
- ❑ The City had \$14.6 million in expenses related to governmental activities; only \$3.3 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$12.4 million were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$5.8 million in revenues and \$8.2 million in expenditures. The general fund's fund balance increased \$162,045 to \$1.3 million.
- ❑ Net assets for enterprise funds decreased by \$817,703. This decrease resulted primarily from the higher cost of bulk water purchased from the City of Toledo and sewage treatment by Lucas County.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

CITY OF SYLVANIA, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2003*

Unaudited

Government-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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 City activities. 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.

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

CITY OF SYLVANIA, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2003*

Unaudited

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 statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

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

	Governmental Activities	Business-type Activities	Total
	2003	2003	2003
Current and other assets	\$34,829,426	\$4,508,888	\$39,338,314
Capital assets, Net	32,619,384	20,134,839	52,754,223
Total assets	67,448,810	24,643,727	92,092,537
Long-term debt outstanding	12,761,212	279,273	13,040,485
Other liabilities	2,801,021	238,140	3,039,161
Total liabilities	15,562,233	517,413	16,079,646
Net assets			
Invested in capital assets, net of related debt	22,511,127	20,134,839	42,645,966
Restricted	27,257,211	0	27,257,211
Unrestricted	2,118,239	3,991,475	6,109,714
Total net assets	\$51,886,577	\$24,126,314	\$76,012,891

CITY OF SYLVANIA, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2003:

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>
Revenues			
Program revenues:			
Charges for Services and Sales	\$1,672,214	\$5,037,891	\$6,710,105
Operating Grants and Contributions	602,376	0	602,376
Capital Grants and Contributions	993,090	7,000	1,000,090
General revenues:			
Income Taxes	6,758,963	0	6,758,963
Property Taxes	1,757,205	0	1,757,205
Shared Revenues	2,749,495	0	2,749,495
Investment Earnings	392,828	85,149	477,977
Miscellaneous	828,675	0	828,675
Transfers In (Out)	<u>299,093</u>	<u>(299,093)</u>	<u>0</u>
Total revenues	<u>16,053,939</u>	<u>4,830,947</u>	<u>20,884,886</u>
Program Expenses			
Security of Persons and Property	4,564,758	0	4,564,758
Public Health and Welfare Services	243,999	0	243,999
Leisure Time Activities	1,118,789	0	1,118,789
Community Environment	536,842	0	536,842
Basic Utility Services	725,800	0	725,800
Transportation	3,063,382	0	3,063,382
General Government	3,843,263	0	3,843,263
Interest and Fiscal Charges	549,256	0	549,256
Water	0	3,061,128	3,061,128
Sewer	0	2,418,922	2,418,922
Resource Recovery	<u>0</u>	<u>168,600</u>	<u>168,600</u>
Total expenses	<u>14,646,089</u>	<u>5,648,650</u>	<u>20,294,739</u>
Total Change in Net Assets	1,407,850	(817,703)	590,147
Beginning Net Assets	<u>50,478,727</u>	<u>24,944,017</u>	<u>75,422,744</u>
Ending Net Assets	<u>\$51,886,577</u>	<u>\$24,126,314</u>	<u>\$76,012,891</u>

CITY OF SYLVANIA, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

Unaudited

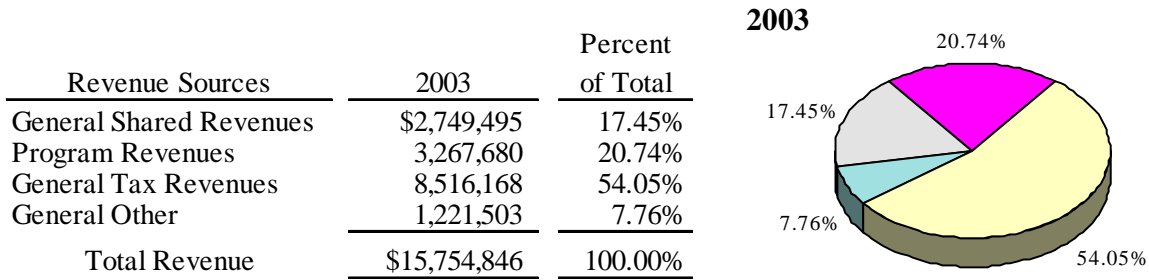
Governmental Activities

Net assets of the City's governmental activities increased by \$1,407,850. This was due primarily to capital grants received for construction projects and property tax valuations.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

The City also receives an income tax, which is based on 1.5% of all salaries, wages, commissions and other compensation earned from residents living within the City and from nonresidents for work done or services performed or rendered in the City.

Property taxes and income taxes made up 11.2% and 42.9% respectively of revenues for governmental activities for the City in fiscal year 2003. The City's reliance upon tax revenues is demonstrated by the following graph indicating 54.05% of total revenues from general tax revenues:



Business-Type Activities

Net assets of the business-type activities decreased by \$817,703. This decrease was the result of higher cost of bulk water purchased from the City of Toledo and increased sewage collection and treatment changes by Lucas County. The City used some of its fund reserves rather than increasing utility rates in 2003. Legal costs involving water and sewer annexation issues were also a factor.

CITY OF SYLVANIA, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

Unaudited

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$28,504,609, which is an increase from last year's balance of \$26,777,389. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2003 and 2002:

	Fund Balance December 31, 2003	Fund Balance December 31, 2002	Increase (Decrease)
General	\$1,319,361	\$1,157,316	\$162,045
Income Tax	1,198,139	847,346	350,793
Capital Improvement	22,841,339	21,507,338	1,334,001
Sylvania Avenue Improvement	(1,559)	7	(1,566)
Other Governmental	3,147,329	3,265,382	(118,053)
Total	\$28,504,609	\$26,777,389	\$1,727,220

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

	2003 Revenues	2002 Revenues	Increase (Decrease)
Taxes	\$2,160,042	\$2,151,476	\$8,566
Intergovernmental Revenue	1,685,915	2,085,547	(399,632)
Charges for Services	355,903	292,804	63,099
Licenses and Permits	271,849	230,520	41,329
Fines and Forfeitures	879,052	854,723	24,329
Investment Earnings	75,267	156,970	(81,703)
All Other Revenue	367,195	276,396	90,799
Total	\$5,795,223	\$6,048,436	(\$253,213)

General Fund revenues in 2003 decreased approximately 4.2% compared to revenues in fiscal year 2002. The most significant factor contributing to this decrease was a reduction in estate tax revenues and some state shared revenue.

	2003 Expenditures	2002 Expenditures	Increase (Decrease)
Security of Persons and Property	\$3,373,464	\$3,262,637	\$110,827
Public Health and Welfare Services	243,708	210,066	33,642
Leisure Time Activities	742,015	659,849	82,166
Community Environment	313,746	322,117	(8,371)
Basic Utility Services	474,729	467,035	7,694
Transportation	215,655	168,500	47,155
General Government	2,885,830	2,788,173	97,657
Total	\$8,249,147	\$7,878,377	\$370,770

CITY OF SYLVANIA, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2003**

Unaudited

General Fund expenditures increased by \$370,770 or 4.7% over the prior year mostly due to increases in other factors such as increased costs related to housing prisoners, refuse disposal, municipal court operations and legal services.

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

During the course of fiscal year 2003 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of \$5.7 million did not significantly change from the original budget estimates of \$6.0 million. The General Fund had an adequate fund balance to cover expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2003 the City had \$52,754,223 net of accumulated depreciation invested in land, improvements, infrastructure, buildings, machinery and equipment and construction in progress. Of this total, \$32,619,384 was related to governmental activities and \$20,134,839 to the business-type activities. The following table shows fiscal year 2003 and 2002 balances:

	Governmental Activities		Increase (Decrease)
	2003	2002	
Land	\$8,150,669	\$7,924,004	\$226,665
Land Improvements	85,106	76,769	8,337
Buildings	16,486,273	16,410,649	75,624
Improvements Other Than Buildings	614,692	623,563	(8,871)
Machinery and Equipment	4,661,514	4,596,460	65,054
Infrastructure	17,357,220	17,055,993	301,227
Less: Accumulated Depreciation	(14,736,090)	(14,039,340)	(696,750)
Totals	\$32,619,384	\$32,648,098	(\$28,714)
	Business-Type Activities		Increase (Decrease)
	2003	2002	
Land	\$18,440	\$18,440	\$0
Buildings and Improvements	567,793	567,793	0
Improvements Other Than Buildings	32,037,263	31,901,503	135,760
Machinery and Equipment	1,566,021	1,561,281	4,740
Construction in Progress	350,794	350,794	0
Less: Accumulated Depreciation	(14,405,472)	(13,646,061)	(759,411)
Totals	\$20,134,839	\$20,753,750	(\$618,911)

CITY OF SYLVANIA, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2003

Unaudited

As of December 31, 2003, the City has contractual commitments of \$583,886 for several road improvement projects. Additional information on the City's capital assets can be found in Note 9.

Debt

At December 31, 2003, the City had \$9.6 million in bonds outstanding, \$759,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2003 and 2002:

	2003	2002
Governmental Activities:		
General Obligation Bonds	\$9,449,110	\$10,150,800
Special Assessment Bonds	126,890	164,200
OPWC Loans Payable	120,445	154,057
Promissory Notes	411,812	434,072
Long-Term Note Payable	1,250,000	0
Compensated Absences	1,402,955	1,101,300
Total Governmental Activities	<u>12,761,212</u>	<u>12,004,429</u>
Business-Type Activities:		
Compensated Absences	279,273	265,612
Total Business-Type Activities	<u>279,273</u>	<u>265,612</u>
Totals	<u>\$13,040,485</u>	<u>\$12,270,041</u>

State statutes limit the amount of unvoted general obligation debt the City may issue. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions with other political subdivisions. The actual aggregate amount of the City's unvoted debt, when added to that of other political subdivisions within the respective counties in which Sylvania lies, is limited to fifteen mills. At December 31, 2003, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 12.

ECONOMIC FACTORS

The City's economic base continues to be very stable since it is based on primarily commercial and retail with little manufacturing. Several new development projects in the downtown area include a new office and hotel. Medical, education and financial interests provide a relatively predictable income source.

Wage increases averaged about 3.75 percent in 2003, however, medical insurance costs rose significantly. The City has maintained a level workforce number for over five years.

City Council has the ability to significantly increase income tax revenues by eliminating or reducing the 100% credit for taxes paid by residents to other cities in which they work. No such action is currently planned.

REQUESTS FOR INFORMATION

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 questions about this report or need additional financial information contact the Finance Department by calling 419-885-8934 or writing to City of Sylvania Finance Department, 6730 Monroe Street, Sylvania, Ohio 43560.

CITY OF SYLVANIA, OHIO

Statement of Net Assets
December 31, 2003

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents	\$ 9,101,185	\$ 876,985	\$ 9,978,170
Investments	18,046,926	2,849,481	20,896,407
Receivables:			
Taxes	3,094,338	0	3,094,338
Accounts	157,903	552,593	710,496
Intergovernmental	2,429,047	0	2,429,047
Interest	33,731	5,291	39,022
Special Assessments	362,021	0	362,021
Internal Balances	(7,335)	7,335	0
Inventory of Supplies at Cost	470,750	187,279	658,029
Prepaid Items	65,797	29,924	95,721
Investment in Joint Venture	1,074,000	0	1,074,000
Restricted Assets:			
Cash and Cash Equivalents	1,063	0	1,063
Capital Assets (net of Accumulated Depreciation):			
Property, Plant and Equipment	47,355,474	34,540,311	81,895,785
Accumulated Depreciation	(14,736,090)	(14,405,472)	(29,141,562)
Total Assets	<u>67,448,810</u>	<u>24,643,727</u>	<u>92,092,537</u>
Liabilities:			
Accounts Payable	498,206	196,478	694,684
Accrued Wages and Benefits	317,182	41,662	358,844
Deferred Revenue	1,953,084	0	1,953,084
Accrued Interest Payable	32,549	0	32,549
Noncurrent liabilities:			
Due within one year	2,171,653	19,006	2,190,659
Due in more than one year	10,589,559	260,267	10,849,826
Total Liabilities	<u>15,562,233</u>	<u>517,413</u>	<u>16,079,646</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	21,261,127	20,134,839	42,645,966
Restricted For:			
Capital Projects	24,707,593	0	24,707,593
Debt Service	275,328	0	275,328
Other Purposes	3,524,290	0	3,524,290
Unrestricted (Deficit)	2,118,239	3,991,475	4,859,714
Total Net Assets	<u>\$ 51,886,577</u>	<u>\$ 24,126,314</u>	<u>\$ 76,012,891</u>

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

Statement of Activities
For the Year Ended December 31, 2003

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Current:				
Security of Persons and Property	\$ 4,564,758	\$ 36,724	\$ 173,074	\$ 0
Public Health and Welfare Services	243,999	19,323	0	0
Leisure Time Activities	1,118,789	0	0	0
Community Environment	536,842	116,710	204,053	0
Basic Utility Services	725,800	303,481	195,784	0
Transportation	3,063,382	10,551	0	828,000
General Government	3,843,263	1,185,425	29,465	165,090
Interest and Fiscal Charges	549,256	0	0	0
Total Governmental Activities	14,646,089	1,672,214	602,376	993,090
Business-Type Activities:				
Water	3,061,128	2,842,609	0	0
Sewer	2,418,922	2,126,863	0	0
Other	168,600	68,419	0	7,000
Total Business-Type Activities	5,648,650	5,037,891	0	7,000
Totals	\$ 20,294,739	\$ 6,710,105	\$ 602,376	\$ 1,000,090

General Revenues

Property Taxes
Municipal Income Taxes
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Miscellaneous
Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (4,354,960)	\$ 0	\$ (4,354,960)
(224,676)	0	(224,676)
(1,118,789)	0	(1,118,789)
(216,079)	0	(216,079)
(226,535)	0	(226,535)
(2,224,831)	0	(2,224,831)
(2,463,283)	0	(2,463,283)
<u>(549,256)</u>	<u>0</u>	<u>(549,256)</u>
<u>(11,378,409)</u>	<u>0</u>	<u>(11,378,409)</u>
0	(218,519)	(218,519)
0	(292,059)	(292,059)
<u>0</u>	<u>(93,181)</u>	<u>(93,181)</u>
<u>0</u>	<u>(603,759)</u>	<u>(603,759)</u>
<u>\$ (11,378,409)</u>	<u>\$ (603,759)</u>	<u>\$ (11,982,168)</u>
1,757,205	0	1,757,205
6,758,963	0	6,758,963
2,749,495	0	2,749,495
392,828	85,149	477,977
828,675	0	828,675
<u>299,093</u>	<u>(299,093)</u>	<u>0</u>
<u>12,786,259</u>	<u>(213,944)</u>	<u>12,572,315</u>
1,407,850	(817,703)	590,147
<u>50,478,727</u>	<u>24,944,017</u>	<u>75,422,744</u>
<u>\$ 51,886,577</u>	<u>\$ 24,126,314</u>	<u>\$ 76,012,891</u>

CITY OF SYLVANIA, OHIO

**Balance Sheet
Governmental Funds
December 31, 2003**

	General	Income Tax	Capital Improvement	Sylvania Avenue Improvement	Other Governmental Funds	Total Governmental Funds
Assets:						
Cash and Cash Equivalents	\$ 264,369	\$ 600,092	\$ 5,260,338	\$ 7	\$ 2,972,701	\$ 9,097,507
Investments	449,940	0	17,596,986	0	0	18,046,926
Taxes	1,365,427	717,351	178,397	0	833,163	3,094,338
Accounts	138,402	0	0	0	19,501	157,903
Intergovernmental	1,059,179	0	78,000	828,000	463,868	2,429,047
Interest	835	0	32,673	0	223	33,731
Special Assessments	0	0	0	0	362,021	362,021
Inventory of Supplies, at Cost	210,830	0	0	0	213,861	424,691
Prepaid Items	52,220	0	0	0	13,577	65,797
Restricted Assets:						
Cash and Cash Equivalents	0	0	0	0	1,063	1,063
Total Assets	\$ 3,541,202	\$ 1,317,443	\$ 23,146,394	\$ 828,007	\$ 4,879,978	\$ 33,713,024
Liabilities:						
Accounts Payable	198,815	1,811	169,290	1,566	120,926	492,408
Accrued Wages and Benefits Payable	197,352	8,678	0	0	106,854	312,884
Deferred Revenue	1,799,536	108,815	135,765	828,000	1,502,142	4,374,258
Compensated Absences Payable	26,138	0	0	0	2,727	28,865
Total Liabilities	2,221,841	119,304	305,055	829,566	1,732,649	5,208,415
Fund Balances:						
Reserved for Encumbrances	60,140	2,725	573,581	0	313,289	949,735
Reserved for Prepaid Items	52,220	13,814	0	0	13,577	79,611
Reserved for Supplies Inventory	210,830	0	0	0	213,861	424,691
Reserved for Endowments	0	0	0	0	1,063	1,063
Undesignated/Unreserved in:						
General Fund	996,171	0	0	0	0	996,171
Special Revenue Funds	0	1,181,600	0	0	1,830,497	3,012,097
Debt Service Funds		0	0	0	155,266	155,266
Capital Projects Funds	0	0	22,267,758	(1,559)	619,776	22,885,975
Total Fund Balances	1,319,361	1,198,139	22,841,339	(1,559)	3,147,329	28,504,609
Total Liabilities and Funds Balances	\$ 3,541,202	\$ 1,317,443	\$ 23,146,394	\$ 828,007	\$ 4,879,978	\$ 33,713,024

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
December 31, 2003***

Total Governmental Fund Balances	\$ 28,504,609
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	32,591,273
The government's explicit, measurable equity interest in a joint venture is not a financial asset to the government, therefore it is not reported in the governmental funds. However, the government is required to report the equity interest as an asset in connection with governmental activities in the government-wide statement of net assets.	1,074,000
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	2,421,174
Internal service funds are used by management to charge the costs of services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	23,677
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(12,728,156)
<i>Net Assets of Governmental Funds</i>	<u>\$ 51,886,577</u>

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

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

	General	Income Tax	Capital Improvement	Sylvania Avenue Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:						
Property Taxes	\$ 1,031,119	\$ 0	\$ 0	\$ 0	\$ 721,944	\$ 1,753,063
Municipal Income Taxes	1,128,923	4,575,890	1,137,378	0	0	6,842,191
Intergovernmental Revenues	1,685,915	1,698	7,557	0	1,343,934	3,039,104
Charges for Services	355,903	0	0	0	0	355,903
Licenses, Permits and Fees	271,849	0	0	0	0	271,849
Investment Earnings	75,267	0	361,041	0	6,338	442,646
Special Assessments	0	0	0	0	688,660	688,660
Fines and Forfeitures	879,052	0	0	0	236,281	1,115,333
All Other Revenue	367,195	97	105,090	0	286,115	758,497
Total Revenue	5,795,223	4,577,685	1,611,066	0	3,283,272	15,267,246
Expenditures:						
Current:						
Security of Persons and Property	3,373,464	0	0	0	732,684	4,106,148
Public Health and Welfare Services	243,708	0	0	0	0	243,708
Leisure Time Activities	742,015	0	0	0	0	742,015
Community Environment	313,746	0	0	0	210,273	524,019
Basic Utility Services	474,729	0	0	0	225,957	700,686
Transportation	215,655	0	0	0	1,004,885	1,220,540
General Government	2,885,830	630,892	0	0	44,603	3,561,325
Capital Outlay	0	0	2,406,770	18,644	146,225	2,571,639
Debt Service:						
Principal Retirement	0	0	55,872	0	739,000	794,872
Interest and Fiscal Charges	0	0	26,565	0	512,164	538,729
Total Expenditures	8,249,147	630,892	2,489,207	18,644	3,615,791	15,003,681
Excess (Deficiency) of Revenues Over Expenditures	(2,453,924)	3,946,793	(878,141)	(18,644)	(332,519)	263,565
Other Financing Sources (Uses):						
General Obligation Notes Issued	0	0	1,250,000	0	0	1,250,000
Transfers In	2,825,295	0	2,608,515	17,078	721,663	6,172,551
Transfers Out	(238,838)	(3,596,000)	(1,646,373)	0	(568,137)	(6,049,348)
Total Other Financing Sources (Uses)	2,586,457	(3,596,000)	2,212,142	17,078	153,526	1,373,203
Net Change in Fund Balances	132,533	350,793	1,334,001	(1,566)	(178,993)	1,636,768
Fund Balances at Beginning of Year	1,157,316	847,346	21,507,338	7	3,265,382	26,777,389
Increase in Inventory Reserve	29,512	0	0	0	60,940	90,452
Fund Balances End of Year	\$ 1,319,361	\$ 1,198,139	\$ 22,841,339	\$ (1,559)	\$ 3,147,329	\$ 28,504,609

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

Reconciliation Of The Statement Of Revenues, Expenditures And Changes In Fund Balances Of Governmental Funds To The Statement Of Activities For The Fiscal Year Ended December 31, 2003

Net Change in Fund Balances - Total Governmental Funds \$ 1,636,768

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 outlay exceeded depreciation in the current period. 170,488

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets net of proceeds received. (198,822)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 487,600

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. (455,128)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (10,527)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (208,853)

The internal service funds, which are used by management to charge the costs of services to individual funds, are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities. (13,676)

Change in Net Assets of Governmental Activities \$ 1,407,850

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2003**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 1,055,000	\$ 1,055,000	\$ 1,031,119	\$ (23,881)
Municipal Income Taxes	1,110,000	1,110,000	1,096,006	(13,994)
Intergovernmental Revenue	1,822,700	1,669,700	1,582,382	(87,318)
Charges for Services	364,600	363,600	355,903	(7,697)
Licenses, Permits and Fees	294,250	292,250	285,609	(6,641)
Investment Earnings	262,000	62,000	75,792	13,792
Fines and Forfeitures	907,000	807,000	877,485	70,485
All Other Revenues	244,800	299,800	374,611	74,811
Total Revenues	6,060,350	5,659,350	5,678,907	19,557
Expenditures:				
Current:				
Security of Persons and Property	3,496,580	3,415,395	3,381,085	34,310
Public Health and Welfare Services	207,679	267,929	262,298	5,631
Leisure Time Activities	670,850	744,150	736,861	7,289
Community Environment	348,987	316,017	311,747	4,270
Basic Utility Services	493,710	499,710	493,431	6,279
Transportation	187,365	213,465	194,209	19,256
General Government	3,033,021	3,082,159	2,937,318	144,841
Total Expenditures	8,438,192	8,538,825	8,316,949	221,876
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,377,842)	(2,879,475)	(2,638,042)	241,433
Other Financing Sources (Uses):				
Transfers In	2,525,295	2,825,295	2,825,295	0
Transfers Out	(279,115)	(247,115)	(238,838)	8,277
Total Other Financing Sources (Uses):	2,246,180	2,578,180	2,586,457	8,277
Net Change In Fund Balance	(131,662)	(301,295)	(51,585)	249,710
Fund Balance at Beginning of Year	461,573	461,573	461,573	0
Prior Year Encumbrances	131,665	131,665	131,665	0
Fund Balance at End of Year	\$ 461,576	\$ 291,943	\$ 541,653	\$ 249,710

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Income Tax Fund - Special Revenue Fund
For the Year Ended December 31, 2003**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Municipal Income Taxes	\$ 4,674,000	\$ 4,474,000	\$ 4,437,054	\$ (36,946)
Intergovernmental Revenue	1,700	1,700	1,698	(2)
All Other Revenues	0	100	97	(3)
Total Revenues	4,675,700	4,475,800	4,438,849	(36,951)
Expenditures:				
Current:				
General Government	521,555	622,825	620,795	2,030
Total Expenditures	521,555	622,825	620,795	2,030
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,154,145	3,852,975	3,818,054	(34,921)
Other Financing Sources (Uses):				
Transfers Out	(3,996,000)	(3,996,000)	(3,596,000)	400,000
Total Other Financing Sources (Uses):	(3,996,000)	(3,996,000)	(3,596,000)	400,000
Net Change In Fund Balance	158,145	(143,025)	222,054	365,079
Fund Balance at Beginning of Year	363,704	363,704	363,704	0
Prior Year Encumbrances	11,300	11,300	11,300	0
Fund Balance at End of Year	\$ 533,149	\$ 231,979	\$ 597,058	\$ 365,079

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

**Statement of Net Assets
Proprietary Funds
December 31, 2003**

	Business-Type Activities Enterprise Funds			Total	Governmental Activities - Internal Service Funds
	Water	Sewer	Other		
ASSETS					
Current assets:					
Cash and Cash Equivalents	\$ 362,398	\$ 505,602	\$ 8,985	\$ 876,985	\$ 3,678
Investments	1,189,683	1,659,798	0	2,849,481	0
Accounts receivable (net of allow for uncollectibles)	316,388	184,825	51,380	552,593	0
Interest receivable	2,209	3,082	0	5,291	0
Inventory of Supplies at Cost	138,967	48,312	0	187,279	46,059
Prepaid Items	14,746	15,178	0	29,924	0
Total current assets	<u>2,024,391</u>	<u>2,416,797</u>	<u>60,365</u>	<u>4,501,553</u>	<u>49,737</u>
Noncurrent assets:					
Capital assets:					
Property, Plant and Equipment	10,603,248	23,611,365	325,698	34,540,311	92,592
Less accumulated depreciation	(4,090,083)	(10,056,553)	(258,836)	(14,405,472)	(64,481)
Total capital assets (net of accumulated depr)	<u>6,513,165</u>	<u>13,554,812</u>	<u>66,862</u>	<u>20,134,839</u>	<u>28,111</u>
Total noncurrent assets	<u>6,513,165</u>	<u>13,554,812</u>	<u>66,862</u>	<u>20,134,839</u>	<u>28,111</u>
Total assets	<u>8,537,556</u>	<u>15,971,609</u>	<u>127,227</u>	<u>24,636,392</u>	<u>77,848</u>
LIABILITIES					
Current liabilities:					
Accounts Payable	154,340	39,628	2,510	196,478	5,798
Accrued Wages and Benefits	20,078	20,017	1,567	41,662	4,298
Total Current Liabilities	<u>174,418</u>	<u>59,645</u>	<u>4,077</u>	<u>238,140</u>	<u>10,096</u>
Noncurrent Liabilities:					
Compensated Absences Payable	207,632	71,641	0	279,273	36,740
Total noncurrent liabilities	<u>207,632</u>	<u>71,641</u>	<u>0</u>	<u>279,273</u>	<u>36,740</u>
Total Liabilities	<u>382,050</u>	<u>131,286</u>	<u>4,077</u>	<u>517,413</u>	<u>46,836</u>
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	6,513,165	13,554,812	66,862	20,134,839	28,111
Unrestricted	<u>1,642,341</u>	<u>2,285,511</u>	<u>56,288</u>	<u>3,984,140</u>	<u>2,901</u>
Total Net Assets	<u>\$ 8,155,506</u>	<u>\$ 15,840,323</u>	<u>\$ 123,150</u>	<u>\$ 24,118,979</u>	<u>\$ 31,012</u>
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.				7,335	
Net Assets of Business-type Activities				<u>\$ 24,126,314</u>	

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

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

	Business-Type Activities Enterprise Funds			Total	Governmental Activities - Internal Service Funds
	Water	Sewer	Other		
Operating Revenues:					
Charges for Services	\$ 2,775,341	\$ 2,047,603	\$ 64,919	\$ 4,887,863	\$ 42,907
Other Operating Revenues	67,268	79,260	3,500	150,028	0
Total Operating Revenues	<u>2,842,609</u>	<u>2,126,863</u>	<u>68,419</u>	<u>5,037,891</u>	<u>42,907</u>
Operating Expenses:					
Personal Services	679,609	657,032	80,171	1,416,812	144,217
Materials and Supplies	105,772	111,853	19,701	237,326	74,316
Contractual Services	2,028,615	1,153,641	39,315	3,221,571	7,740
Depreciation	247,317	496,318	29,335	772,970	6,417
Total Operating Expenses	<u>3,061,313</u>	<u>2,418,844</u>	<u>168,522</u>	<u>5,648,679</u>	<u>232,690</u>
Operating Loss	(218,704)	(291,981)	(100,103)	(610,788)	(189,783)
Non-Operating Revenue (Expenses):					
Interest Income	19,889	65,260	0	85,149	0
Capital Contributions	0	0	7,000	7,000	0
Other Nonoperating Revenue	0	0	0	0	246
Total Non-Operating Revenues (Expenses)	<u>19,889</u>	<u>65,260</u>	<u>7,000</u>	<u>92,149</u>	<u>246</u>
Loss Before Transfers	(198,815)	(226,721)	(93,103)	(518,639)	(189,537)
Transfers:					
Transfers In	0	0	70,000	70,000	175,890
Transfers Out	(172,046)	(197,047)	0	(369,093)	0
Total Transfers	<u>172,046</u>	<u>197,047</u>	<u>(70,000)</u>	<u>299,093</u>	<u>(175,890)</u>
Change in Net Assets	(370,861)	(423,768)	(23,103)	(817,732)	(13,647)
Net Assets Beginning of Year	<u>8,526,367</u>	<u>16,264,091</u>	<u>146,253</u>	<u>24,936,711</u>	<u>44,659</u>
Net Assets End of Year	<u>\$ 8,155,506</u>	<u>\$ 15,840,323</u>	<u>\$ 123,150</u>	<u>\$ 24,118,979</u>	<u>\$ 31,012</u>
Change in Net Assets - Total Enterprise Funds				(817,732)	
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.				29	
Change in Net Assets - Business-type Activities				<u>\$ (817,703)</u>	

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

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

	Business-Type Activities Enterprise Funds				Governmental Activities
	Water	Sewer	Other	Totals	Internal Service Funds
<u>Cash Flows from Operating Activities:</u>					
Cash Received from Customers	\$2,923,809	\$2,179,769	\$65,095	\$5,168,673	\$43,153
Cash Payments for Goods and Services	(2,206,327)	(1,343,588)	(58,968)	(3,608,883)	(76,784)
Cash Payments to Employees	(664,083)	(648,407)	(79,810)	(1,392,300)	(139,274)
Net Cash Provided (Used) by Operating Activities	<u>53,399</u>	<u>187,774</u>	<u>(73,683)</u>	<u>167,490</u>	<u>(172,905)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>					
Transfers In from Other Funds	0	0	70,000	70,000	175,890
Transfers Out to Other Funds	(172,046)	(197,047)	0	(369,093)	0
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(172,046)</u>	<u>(197,047)</u>	<u>70,000</u>	<u>(299,093)</u>	<u>175,890</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Intergovernmental Grants	0	0	7,000	7,000	0
Acquisition and Construction of Assets	(70,660)	(103,288)	0	(173,948)	(6,038)
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(70,660)</u>	<u>(103,288)</u>	<u>7,000</u>	<u>(166,948)</u>	<u>(6,038)</u>
<u>Cash Flows from Investing Activities:</u>					
Sale (Purchase) of Investments	144,001	54,507	0	198,508	0
Receipts of Interest	25,589	72,457	0	98,046	0
Net Cash Provided by Investing Activities	<u>169,590</u>	<u>126,964</u>	<u>0</u>	<u>296,554</u>	<u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(19,717)	14,403	3,317	(1,997)	(3,053)
Cash and Cash Equivalents at Beginning of Year	382,115	491,199	5,668	878,982	6,731
Cash and Cash Equivalents at End of Year	<u>\$362,398</u>	<u>\$505,602</u>	<u>\$8,985</u>	<u>\$876,985</u>	<u>\$3,678</u>
<u>Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities:</u>					
Operating Loss	(\$218,704)	(\$291,981)	(\$100,103)	(\$610,788)	(\$189,783)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:					
Miscellaneous Nonoperating Income	0	0	0	0	246
Depreciation Expense	247,317	496,318	29,335	772,970	6,417
Changes in Assets and Liabilities:					
Decrease (Increase) in Accounts Receivable	81,200	52,906	(3,324)	130,782	0
Decrease (Increase) in Inventory	(26,225)	(321)	0	(26,546)	6,423
Decrease (Increase) in Prepaid Items	(2,866)	(2,016)	0	(4,882)	1,297
Increase (Decrease) in Accounts Payable	(42,227)	(75,149)	48	(117,328)	(2,325)
Increase in Accrued Wages and Benefits	4,728	4,532	361	9,621	1,332
Increase in Compensated Absences	10,176	3,485	0	13,661	3,488
Total Adjustments	<u>272,103</u>	<u>479,755</u>	<u>26,420</u>	<u>778,278</u>	<u>16,878</u>
Net Cash Provided (Used) by Operating Activities	<u>\$53,399</u>	<u>\$187,774</u>	<u>(\$73,683)</u>	<u>\$167,490</u>	<u>(\$172,905)</u>

Schedule of Noncash Investing, Capital and Financing Activities:

As of December 31, 2003, the Water and Sewer Funds had outstanding liabilities of \$11,667 and \$11,667, respectively, for the purchase of certain capital assets.

During 2003 the fair value of investments decreased by \$1,014 and \$1,415 in the Water and Sewer Funds respectively.

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

Statement of Net Assets
Fiduciary Fund
December 31, 2003

	<u>Agency</u>
Assets:	
Cash and Cash Equivalents	\$ 48,610
Total Assets	<u>48,610</u>
Liabilities:	
Due to Others	<u>48,610</u>
Total Liabilities	<u>48,610</u>
Net Assets:	
Unrestricted	<u>0</u>
Total Net Assets	<u><u>\$ 0</u></u>

See accompanying notes to the basic financial statements

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sylvania, Ohio (the "City") is a home-rule municipal corporation created under the laws of the State of Ohio. The City operates under its own Charter. The current Charter which provides for a Council/Mayor form of government, was adopted in 1961 and has been amended 3 times (1968, 1984, 1985).

The accompanying basic financial statements of the City present the financial position of the various fund types, the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 2003 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

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

Based on the foregoing, there are no potential component units that meet the criteria imposed by GASB Statement No. 14 to be included in the City's reporting entity. The reporting entity of the City includes all funds, agencies, boards and commissions that are part of the primary government, which includes the following services: public safety, highways and streets, sanitation, cemetery, health and social services, culture and recreation, public improvements, planning and zoning and general administrative services. In addition, the City owns the water distribution and wastewater collection systems and a resource recovery operation which are reported as enterprise funds. Water treatment services are provided by the City of Toledo. Wastewater treatment services are provided by Lucas County.

1. Joint Venture with Equity Interest

Community Center:

The City is a participant with the Township of Sylvania in a joint venture to enhance the programs and services available to senior citizen residents in the City and the Township. The City and the Township have agreed to jointly pay to construct a community center under the authority of Ohio Revised Code Section 173.11. The original agreement is for the City to bear (40) percent of the construction costs and the Township to bear (60) percent of the construction costs, resulting in a 40/60 split in equity interest between the two. The community center is managed by Sylvania Community Services Center, Inc. (SCS), an Ohio nonprofit corporation. See Note 16 "Joint Venture."

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

2. Jointly Governed Organization

Sylvania Area Joint Recreation District:

The City in conjunction with the Sylvania Township Trustees and the Sylvania City School District formed the Sylvania Area Joint Recreation District (the "SAJRD") under the authority of Ohio Revised Code Section 755.14 (C). The SAJRD Board of Trustees is composed of twelve members, four of whom are appointed by each of the three separate governmental entities identified above. Funding for the SAJRD is provided by a voter approved tax levy on all real property located within Sylvania Township. Taxes are collected by the County Auditor and remitted to the SAJRD Board of Trustees. The SAJRD is fiscally independent of the City and the SAJRD's financial statements have not been included within the City's reporting entity.

The SAJRD operates the City-owned Tam O'Shanter ice skating complex under an agreement with the City. The terms of the agreement require the SAJRD to pay the City an annual amount equal to the City's debt service on the ice skating complex and reimbursement of any building improvements made to the facility by the City. The total amount received by the City in 2003 from the SAJRD was \$204,552 for debt service.

B. Basis of Presentation - Fund Accounting

The accounting policies and financial reporting practices of the City conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies:

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

Governmental Funds

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

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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

Income Tax Fund - This fund is used to account for the collections of the municipal income tax as required by City Ordinance.

Capital Improvement Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Sylvania Avenue Improvement Fund - This fund is used to account for revenues and expenditures designated for the capital improvements made to Sylvania Avenue.

Proprietary Funds

All proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, whereby the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's major enterprise funds are:

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

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

Internal Service Funds - These funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary 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 therefore not available to support the City's own programs. The agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operation. These funds operate on an accrual basis of accounting.

C. Basis of Presentation – Financial Statements

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

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

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

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

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

are provided to the City on a reimbursement basis. Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, interest on investments, state levied locally shared taxes (including motor vehicle license fees and local government assistance). Income taxes other than those withheld by employers, licenses, permits, charges for service and other miscellaneous revenues are recorded as revenue when received in cash because generally this revenue is not measurable until received.

Special assessment installments which are measurable, but not available at December 31, are recorded as deferred revenue. Property taxes measurable as of December 31, 2003, but which are not intended to finance 2003 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 6.

Pursuant to GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*," the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds and fiduciary funds. Revenues are recognized when they are earned and expenses recognized when incurred. Government-Wide Statements are also prepared using the accrual basis of accounting.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental and expendable trust funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

1. Tax Budget

By July 15, the Mayor submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure.

On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the previous year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified by the county budget commission. The allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of City Council. The Finance Director is authorized to transfer appropriations between objects of expenditure budgeted within the same function, so long as total appropriations for each function do not exceed the amount approved by Council. During the year, several supplemental appropriations were necessary to budget for capital improvements, vehicle purchases, community service programs, and various incidental expenditures. The supplemental appropriations increased year end appropriations by approximately 11% over the appropriation ordinance approved in December, 2002. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual—General Fund" and in the "Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual—Income Tax Fund" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

4. Encumbrances

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

5. Lapsing of Appropriations

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

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. On the budgetary basis investment earnings are recognized when realized, whereas on a GAAP basis unrealized gains and losses are recognized when investments are adjusted to fair value.

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

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

	Net Change In Fund Balance	
	General Fund	Income Tax Fund
GAAP Basis (as reported)	\$132,533	\$350,793
Increase (Decrease):		
Accrued Revenues at December 31, 2003 received during 2004	(763,923)	(608,536)
Accrued Revenues at December 31, 2002 received during 2003	647,607	469,700
Accrued Expenditures at December 31, 2003 paid during 2004	422,305	10,489
Accrued Expenditures at December 31, 2002 paid during 2003	(411,745)	(8,968)
2002 Prepays for 2003	46,898	11,610
2003 Prepays for 2004	(52,220)	0
Outstanding Encumbrances	(73,040)	(3,034)
Budget Basis	(\$51,585)	\$222,054

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, the State Treasury Asset Reserve (STAR Ohio), and investments with original maturities of less than three months. The STAR Ohio is considered an investment for purposes of GASB Statement No. 3, but it is reported as a cash equivalent in the basic financial statements because it is a highly liquid instrument which is readily convertible to cash. The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' share of equity in pooled certificates of deposit are considered to be cash equivalents. See Note 5, "Cash, Cash Equivalents and Investments."

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. The City allocates interest among certain funds based upon the fund's cash balance at the date of investment. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit) which are reported at cost, which approximates fair value. All investment income, including changes in the fair value of investments, are recognized as revenue in the operating statements. Fair value is determined by quoted market prices. During fiscal year 2003, investments were limited to STAR Ohio, United States Treasury Notes, Sylvania Township Notes and the Toledo Community Foundation, Inc. Mutual Funds. See Note 5, "Cash, Cash Equivalents and Investments."

The City has invested funds in the STAR Ohio during 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2003.

H. Inventory

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

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

J. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$500.

1. Property, Plant and Equipment - Governmental Activities

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

CITY OF SYLVANIA, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2003***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets and Depreciation (Continued)

2. Property, Plant and Equipment – Business Type Activities

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

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

3. Depreciation

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

<u>Description</u>	<u>Governmental and Business-Type Activities Estimated Lives (in years)</u>
Buildings	40
Improvements other than Buildings	50
Infrastructure	10-100
Machinery, Equipment, Furniture and Fixtures	5 - 20

CITY OF SYLVANIA, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2003***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Long-Term Obligations

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

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	General Obligation Debt Service Fund
Special Assessment Bonds (with governmental commitment)	Special Assessment Debt Service Fund
Ohio Public Works Commission Loan Payable	Capital Improvement Fund
Promissory Notes Payable	Capital Improvement Fund
Compensated Absences	General Fund Street Construction, Maintenance and Repair Fund Income Tax Fund Water Fund Sewer Fund City Garage Fund

L. Compensated Absences

Employees of the City earn vacation leave at various rates within limits specified under collective bargaining agreements or under statute. Vacation earned in a calendar year must be used during the following year. Vacation time cannot carry over into the subsequent year, unless written permission is granted from the Mayor. At termination or retirement, employees are paid at their full rate for 100% of their unused vacation leave.

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees expected to become eligible to receive such payments in the future.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences (Continued)

For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account. Compensated absences are expensed in the proprietary funds when earned and the related liability is reported within the fund.

M. Net Assets

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

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

N. Pensions

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

O. Interfund Activity

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

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for inventories of supplies and materials, prepaid items, endowments and encumbered amounts which have not been accrued at year end.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Operating Revenues and Expenses

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

S. 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 Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2003.

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

A. Changes in Accounting Principles

For fiscal year 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 Statement.*” At December 31, 2002, there was no effect on fund balance as a result of implementing GASB Statements 36, 37 and 38, or Interpretation No. 6.

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

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

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

A. Changes in Accounting Principles (Continued)

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the accrual basis of accounting.

B. Restatement of Fund Balances

During the year ended December 31, 2003, it was determined that deferred revenue in the Special Assessment Debt Service Fund was misstated. Also during 2003, it was determined that there was an error in the recording of accumulated depreciation for the enterprise funds. These resulted in a restatement of the beginning fund balances. The changes to the beginning fund balances, as well as the transition from fund balance to net assets of the governmental activities and the business-type activities are as follows:

	<u>General</u>	<u>Income Tax</u>	<u>Capital Improvement</u>	<u>Sylvania Avenue Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Activities</u>
Fund Balance December 31, 2002	\$1,128,146	\$847,346	\$21,507,338	\$7	\$3,125,286	\$26,608,123
Adjustments to Fund Structure:						
Reclassified fund from Expendable Trust						
Fund to General Fund	29,170	0	0	0	0	29,170
Reclassified fund from Expendable Trust						
Fund to Special Revenue Funds	0	0	0	0	207,033	207,033
Reclassified fund from Non-Expendable Trust						
Fund to Permanent Fund	0	0	0	0	1,063	1,063
Prior Period Adjustment:						
Correction of Accounting Error	0	0	0	0	(68,000)	(68,000)
Adjusted Fund Balance	<u>1,157,316</u>	<u>847,346</u>	<u>21,507,338</u>	<u>7</u>	<u>3,265,382</u>	<u>26,777,389</u>
GASB 34 Adjustments:						
Capital Assets						32,619,607
Equity Interest						1,074,000
Internal Service Fund						37,353
Long-Term Liabilities						(11,963,196)
Long-Term (Deferred) Assets						<u>1,933,574</u>
Net Assets, December 31, 2002						<u>\$50,478,727</u>

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

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

B. Restatement of Fund Balances (Continued)

	Water	Sewer	Other	Total Business-Type Activities
Fund Balance December 31, 2002	\$2,715,094	\$864,765	\$28,331	\$3,608,190
Prior Period Adjustment:				
Restate Capital Assets	12,379	(13,689)	(88,367)	(89,677)
Contributed Capital	5,798,894	15,413,015	206,289	21,418,198
Adjusted Fund Balance	8,526,367	16,264,091	146,253	24,936,711
GASB 34 Adjustments:				
Internal Service Fund				7,306
Net Assets, December 31, 2002				\$24,944,017

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets of governmental funds as reported in the government-wide statement of net assets. The following is a detailed listing of those reconciling items that are net adjustments or a combination of several transactions:

Other long-term assets not available to pay for current-period expenditures:

Delinquent Income Tax Revenue	\$162,755
Delinquent Property Tax Revenue	68,311
Shared Revenues	1,796,598
Interest Revenues	31,489
Special Assessment Revenue	362,021
	\$2,421,174

Long-Term liabilities not reported in the funds:

General Obligation Bonds Payable	(\$9,449,110)
Special Assessment Bonds Payable	(126,890)
OPWC Loans Payable	(120,445)
Promissory Notes Payable	(411,812)
Long-Term Note Payable	(1,250,000)
Accrued Interest on Long-Term Debt	(32,549)
Compensated Absences Payable	(1,337,350)
	(\$12,728,156)

CITY OF SYLVANIA, OHIO

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2003*

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government – wide statement of activities. The following is a detailed listing of those reconciling items that are net adjustments or a combination of several transactions:

Amount by which depreciation exceeded capital outlay in the current period:

Capital Outlay	\$1,155,758
Depreciation Expense	<u>(985,270)</u>
	\$170,488

Governmental revenues not reported in the funds:

Decrease in Delinquent Income Tax Revenue	(\$83,228)
Increase in Delinquent Property Tax	4,142
Increase in Shared Revenue	621,025
Decrease in Interest Revenue	(49,818)
Decrease in Special Assessment Revenue	<u>(4,521)</u>
	\$487,600

Expenses not requiring the use of current financial resources:

Increase in Compensated Absences Payable	(\$299,305)
Increase in supplies inventory	<u>90,452</u>
	(\$208,853)

NOTE 4 - COMPLIANCE AND ACCOUNTABILITY

Fiscal Officer Compliance - The Finance Director did not encumber all expenditures at the point when the contract was entered into or when orders for goods or services were incurred. The City is working to remedy this situation in the future.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classification of funds held by the City into three categories:

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

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

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

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

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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

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

Deposits:

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

Investments:

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

A. Deposits

At year end the carrying amount of the City's deposits was \$8,573,006 and the bank balance was \$8,775,182. The Federal Deposit Insurance Corporation (FDIC) covered \$500,000 of the bank balance. All remaining deposits were classified as Category 2. In addition, the City had \$2,150 cash on hand.

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments

The City's investments at December 31, 2003 are summarized below:

<u>Categorized Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
United States Treasury Notes	\$0	\$13,243,615	\$0	\$13,243,615	\$13,243,615
Sylvania Township Notes	1,095,000	0	0	1,095,000	1,095,000
Total Categorized Investments	<u>1,095,000</u>	<u>13,243,615</u>	<u>0</u>	<u>14,338,615</u>	<u>14,338,615</u>
<u>Non-Categorized Investments</u>					
STAR Ohio	0	0	7,981,309	7,981,309	7,981,309
Toledo Community Foundation, Inc. (mutual fund)	0	0	29,170	29,170	29,170
Total Non-Categorized Investments	<u>0</u>	<u>0</u>	<u>8,010,479</u>	<u>8,010,479</u>	<u>8,010,479</u>
Total Investments	<u>\$1,095,000</u>	<u>\$13,243,615</u>	<u>\$8,010,479</u>	<u>\$22,349,094</u>	<u>\$22,349,094</u>

The Toledo Community Foundation, Inc. Mutual Funds and Star Ohio are classified as non-categorized investments because they are not evidenced by securities in physical or book entry form.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Combined Balance Sheet	\$10,027,843	\$20,896,407
Certificates of Deposit (with maturities of more than 3 months)	6,557,792	(6,557,792)
Investments:		
STAR Ohio	(7,981,309)	7,981,309
Toledo Community Foundation, Inc.	(29,170)	29,170
Per GASB Statement No. 3	<u>\$8,575,156</u>	<u>\$22,349,094</u>

* Includes Restricted Cash and Cash Equivalents and Petty Cash

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 6 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2003 were levied after October 1, 2002 on assessed values as of January 1, 2002, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be reappraised every six years, and equalization adjustments are made in the third year following reappraisal. The last revaluation was completed in 2000 and the equalization adjustment was completed in 2003. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Sylvania. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2003 was \$5.10 per \$1,000 of assessed value. The assessed value upon which the 2003 receipts were based was \$390,647,060. This amount constitutes \$366,784,780 in real property assessed value, \$6,280,620 in public utility assessed value and \$17,581,660 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is .510% (5.10 mills) of assessed value.

CITY OF SYLVANIA, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2003***

NOTE 6 - TAXES (Continued)

B. Income Tax

The City levies a tax of 1.5% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2003 consisted of taxes, intergovernmental receivables, special assessments, accounts receivable and interest.

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CITY OF SYLVANIA, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2003***

NOTE 8 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2003:

Fund	Transfer In	Transfer Out
General Fund	\$2,825,295	\$238,838
Special Revenue Funds:		
Street Construction, Maintenance and Repair Fund	389,622	0
City Permissive Tax Fund	0	225,124
State Highway Improvement Fund	0	44,498
City Services Fund	25,000	0
Income Tax Fund	0	3,596,000
Federal Equitable Sharing Account Fund	873	0
Total Special Revenue Funds	<u>415,495</u>	<u>3,865,622</u>
Debt Service Fund:		
General Obligation Debt Service Fund	306,168	0
Capital Projects Funds:		
Capital Improvement Fund	2,608,515	1,646,373
Court Capital Improvement Fund	0	90,000
Special Assessment Improvement Fund	0	208,488
McCord Road Project Fund	0	27
Monroe Corridor Traffic Signals Fund	17,078	0
Total Capital Projects Funds	<u>2,625,593</u>	<u>1,944,888</u>
Enterprise Funds:		
Water Fund	0	172,046
Sewer Fund	0	197,047
Other	70,000	0
Total Enterprise Funds	<u>70,000</u>	<u>369,093</u>
Internal Service Fund:		
City Garage Fund	175,890	0
Totals	<u>\$6,418,441</u>	<u>\$6,418,441</u>

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 9 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2003:

<i>Historical Cost:</i>	Restated			December 31,
Class	December 31, 2002	Additions	Deletions	2003
<i>Capital assets not being depreciated:</i>				
Land	\$7,924,004	\$279,915	(\$53,250)	\$8,150,669
<i>Capital assets being depreciated:</i>				
Land Improvements	76,769	8,337	0	85,106
Buildings	16,410,649	75,624	0	16,486,273
Improvements Other than Buildings	623,563	3,649	(12,520)	614,692
Machinery and Equipment	4,596,460	409,419	(344,365)	4,661,514
Infrastructure	17,055,993	441,050	(139,823)	17,357,220
Total Cost	<u>\$46,687,438</u>	<u>\$1,217,994</u>	<u>(\$549,958)</u>	<u>\$47,355,474</u>
 <i>Accumulated Depreciation:</i>				
Class	Restated December 31, 2002	Additions	Deletions	December 31, 2003
Land Improvements	(\$21,422)	(\$5,395)	\$0	(\$26,817)
Buildings	(4,090,188)	(352,540)	0	(4,442,728)
Improvements Other than Buildings	(10,155)	(319)	10,433	(41)
Machinery and Equipment	(2,605,804)	(445,154)	273,332	(2,777,626)
Infrastructure	(7,311,771)	(254,802)	77,695	(7,488,878)
Total Depreciation	<u>(\$14,039,340)</u>	<u>(\$1,058,210) *</u>	<u>\$361,460</u>	<u>(\$14,736,090)</u>
<i>Net Value:</i>	<u>\$32,648,098</u>			<u>\$32,619,384</u>

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$115,386
Public Health and Welfare Services	291
Leisure Time Activities	291,140
Community Environment	8,192
Transportation	449,130
General Government	194,071
Total Depreciation Expense	<u>\$1,058,210</u>

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 9 - CAPITAL ASSETS (continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2003:

<i>Historical Cost:</i>	December 31,			December 31,
Class	2002	Additions	Deletions	2003
<i>Capital assets not being depreciated:</i>				
Land	\$18,440	\$0	\$0	\$18,440
Construction in Progress	350,794	0	0	350,794
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	567,793	0	0	567,793
Improvements Other Than Buildings	31,901,503	135,760	0	32,037,263
Machinery and Equipment	1,561,281	19,469	(14,729)	1,566,021
Total Cost	<u>\$34,399,811</u>	<u>\$155,229</u>	<u>(\$14,729)</u>	<u>\$34,540,311</u>
 <i>Accumulated Depreciation:</i>				
	Restated			
	December 31,			December 31,
Class	2002	Additions	Deletions	2003
Buildings and Improvements	(\$409,502)	(\$12,277)	\$0	(\$421,779)
Improvements Other Than Buildings	(12,297,206)	(635,271)	0	(12,932,477)
Machinery and Equipment	(939,353)	(125,422)	13,559	(1,051,216)
Total Depreciation	<u>(\$13,646,061)</u>	<u>(\$772,970)</u>	<u>\$13,559</u>	<u>(\$14,405,472)</u>
 <i>Net Value:</i>	 <u>\$20,753,750</u>	 <u>(\$617,741)</u>	 <u>(\$1,170)</u>	 <u>\$20,134,839</u>

NOTE 10 – DEFINED BENEFIT PENSION PLANS

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

A. Ohio Public Employees Retirement System (the "Ohio PERS")

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

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

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

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

plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2003 employer contribution rate for local government employer units was 13.55%, of covered payroll, 8.55% to fund the pension and 5.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2003, 2002 and 2001 were \$597,104, \$568,570 and \$545,581, respectively, which were equal to the required contributions for each year.

The Ohio PERS provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2003 employer contribution rate (identified above) that was used to fund health care for the year 2003 was 5.0% of covered payroll which amounted to \$220,334.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

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

approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2002 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 364,881. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2002 is \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

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

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

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% for police officers. The City's contributions to the OP&F Fund for the years ending December 31, 2003, 2002 and 2001 were \$379,106, \$373,543 and \$372,018, which were equal to the required contributions for each year.

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

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Continued)

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

The portion of the 2003 covered payroll that was used to fund postemployment health care benefits was \$150,670 representing 7.75% of covered payroll for police. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2002, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,527 for police and 10,396 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2002 were \$141,028,006, which was net of member contributions of \$12,623,875.

NOTE 11 – COMPENSATED ABSENCES

All City employees earn vacation at varying rates based upon length of service. Vacation time can not be carried over from one year to the next without approval from the Mayor.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

At December 31, 2003, the City's accumulated, unpaid compensated absences amounted to \$1,682,228, of which \$1,402,955 is recorded as a liability of the Governmental Activities and \$279,273 is recorded as a liability of the Business-Type Activities.

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CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 12 - LONG-TERM DEBT

Long-term debt and other long-term obligations of the City at December 31, 2003 were as follows:

			Balance December 31, 2002	Additions	(Reductions)	Balance December 31, 2003	Amount Due Within One Year
Governmental Activities:							
Ohio Public Works Commission Loans:							
0.000%	Monroe/Erie Street Improvements	1996	\$56,000	\$0	(\$14,000)	\$42,000	\$14,000
0.000%	Brint Road Extension	1997	98,057	0	(19,612)	78,445	19,612
Total Ohio Public Works Commission Loans			154,057	0	(33,612)	120,445	33,612
General Obligation Bonds:							
7.000%	Maintenance Building Bonds	1986	315,000	0	(35,000)	280,000	35,000
7.000%	Recreational Facilities	1986	225,000	0	(25,000)	200,000	25,000
6.375%	Capital Improvement	1987	35,700	0	(7,140)	28,560	7,140
6.375%	Harroun Road Improvement	1987	200,000	0	(40,000)	160,000	40,000
5.304%	Recreational Facility	1993	1,340,000	0	(90,000)	1,250,000	95,000
6.850%	Street Improvement	1994	93,600	0	(46,800)	46,800	46,800
4.700%	Municipal Building Improvement	1997					
	Recreational Facilities		1,680,000	0	(195,000)	1,485,000	200,000
4.250%	Street Improvement	1998	2,151,500	0	(122,750)	2,028,750	132,750
3.000%	Senior Center/Field House	2002	4,110,000	0	(140,000)	3,970,000	140,000
Total General Obligation Bonds			10,150,800	0	(701,690)	9,449,110	721,690
Special Assessment Bonds:							
(with governmental commitment)							
6.375%	Capital Improvement	1987	34,300	0	(6,860)	27,440	6,860
6.850%	Street Improvement	1994	26,400	0	(13,200)	13,200	13,200
4.250%	Street Improvement	1998	103,500	0	(17,250)	86,250	17,250
Total Special Assessment Bonds (with governmental commitment)			164,200	0	(37,310)	126,890	37,310
Long-Term Note:							
1.400%	Street Improvement		0	1,250,000	0	1,250,000	1,250,000
Promissory Notes Payable:							
6.500%	Howard Property	1995	434,072	0	(22,260)	411,812	23,707
Compensated Absences			1,101,300	1,402,955	(1,101,300)	1,402,955	105,334
Total Governmental Activities Long-Term Debt			\$12,004,429	\$2,652,955	(\$1,896,172)	\$12,761,212	\$2,171,653
Business-Type Activities:							
Compensated Absences			\$265,612	\$279,273	(\$265,612)	\$279,273	\$19,006
Total Business-Type Long-Term Debt			\$265,612	\$279,273	(\$265,612)	\$279,273	\$19,006

The principal amount of the City's special assessment debt outstanding at December 31, 2003, \$126,890, is general obligation debt (backed by the full faith and credit of the City) that is being retired with the proceeds from special assessments levied against benefited property owners. The City is obligated to repay the debt irrespective of the amount of special assessments collected from property owners. The fund balance of \$12,754 in the Special Assessment Debt Service Fund at December 31, 2003 is reserved for the retirement of outstanding special assessment bonds. Delinquent special assessments at year end were \$5,672.

CITY OF SYLVANIA, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2003**

NOTE 12 - LONG-TERM DEBT (Continued)

A. Principal and Interest Requirements

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2003, follows:

Years	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2004	\$721,690	\$463,669	\$37,310	\$6,362
2005	699,890	429,251	24,110	4,288
2006	729,890	396,414	24,110	3,117
2007	759,890	361,667	24,110	1,938
2008	702,750	325,079	17,250	759
2009-2013	2,820,000	1,138,884	0	0
2014-2018	1,880,000	503,005	0	0
2019-2022	1,135,000	146,163	0	0
Totals	<u>\$9,449,110</u>	<u>\$3,764,132</u>	<u>\$126,890</u>	<u>\$16,464</u>

Years	OPWC Loans Payable		Promissory Notes Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$33,612	\$0	\$23,707	\$26,768	\$816,319	\$496,799
2005	33,612	0	25,248	25,227	782,860	458,766
2006	33,612	0	26,889	23,586	814,501	423,117
2007	19,609	0	28,637	21,838	832,246	385,443
2008	0	0	30,499	19,976	750,499	345,814
2009-2013	0	0	184,935	67,440	3,004,935	1,206,324
2014-2018	0	0	91,897	9,054	1,971,897	512,059
2019-2022	0	0	0	0	1,135,000	146,163
Totals	<u>\$120,445</u>	<u>\$0</u>	<u>\$411,812</u>	<u>\$193,889</u>	<u>\$10,108,257</u>	<u>\$3,974,485</u>

B. Defeasance of General Obligation Debt

On May 25, 1995, the City sold Sylvania Pacesetter Park for \$1,465,710 to the Sylvania Area Joint Recreation District (SAJRD) to defease \$1,350,000 of outstanding bonds with an interest rate of 6.705%. The principal amount outstanding on the defeased bonds at December 31, 2003 was \$805,000. The entire amount of proceeds from the sale of Pacesetter Park was transferred to an irrevocable trust. The trustee was directed to hold \$44,410 in cash in the escrow fund and to use the remaining \$1,421,300 to purchase United States Treasury Securities - State and Local Government Series (SLGS). The cash deposit combined with anticipated earnings from the SLGS were determined to be sufficient to pay, when due, the remaining debt service payments. As a result, the old bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

B. Defeasance of General Obligation Debt (Continued)

In December 1997, the City defeased \$1,965,000 of General Obligation Bonds for Municipal Building Improvements dated May 1, 1990 (the "1990 Bonds") through the issuance of \$2,205,000 of General Obligation Bonds for Municipal Building Improvements (the "1997 Bonds"). The net proceeds of the 1997 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$1,270,000 at December 31, 2003 are not included in the City's outstanding debt since the City has in-substance satisfied its obligations through the advance refunding.

C. Notes Payable

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than those principal maturities required if the bonds had been issued at the expiration of the initial five year period.

NOTE 13 - 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. The City has contracted with various private carriers for the provision of property damage, general liability, automotive damage, public officials liability, police liability, boiler and machinery damage/loss, umbrella liability, and crime and employee dishonesty. Deductible levels for the various policies have been selected so as not to expose the City to excessive "first dollars" loss in the case of a claim. Deductibles range between \$250 and \$500 per loss for property damage. In the professional liability areas, no deductible exceeds \$10,000.

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 13 - RISK MANAGEMENT (Continued)

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

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 14 - CONSTRUCTION COMMITMENTS

As of December 31, 2003, the City had the following commitments with respect to capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Jeffrey-Alexa Road Improvement	\$480,359	September 2004
Sleepy Hollow Phase I Road Improvement	88,292	September 2004
Erie Street Improvements	1,713	July 2004
Storm Water Management Program	9,047	December 2004
River Center Park	1,100	May 2004
Maplewood/School Drive Project	3,375	August 2004
Total	<u>\$583,886</u>	

NOTE 15 - CONTINGENCIES

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

CITY OF SYLVANIA, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2003

NOTE 16 - JOINT VENTURE

Community Center - The City is a participant with the Township of Sylvania in a joint venture to enhance the programs and services available to senior citizen residents in the City and the Township. The City and the Township have agreed to jointly pay to construct a community center under the authority of Ohio Revised Code Section 173.11. The original agreement is for the City to bear (40) percent of the construction costs and the Township to bear (60) percent of the construction costs, resulting in a 40/60 split in equity interest between the two. The community center is managed by Sylvania Community Services Center, Inc. (SCS), an Ohio nonprofit corporation. During 2002 the City issued \$4,110,000 in General Obligation Bonds, \$740,000 of which were used to help in the construction of the community center. The City also donated \$334,000 worth of land towards the construction of the community center. The issuance of the general obligation bonds along with the donated land total \$1,074,000 worth of equity interest that the City has in the community center. In addition to the (40) percent equity interest that the City owns in the community center, the City also has an option to purchase on or after January 1, 2022, the Township's equity interest in the community center.

NOTE 17 – SUBSEQUENT EVENT

In March 2004, the City Council authorized the issuance of General Obligation (Limited Tax) Street Improvement Bonds in the amount of \$5,300,000. The bonds were issued to pay costs of improving streets and drainage systems as part of a six year residential street improvement program and to retire an outstanding note in the amount of \$1,250,000 due to mature in April 2004.



**Auditor of State
Betty Montgomery**

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

City of Sylvania
Lucas County
6730 Monroe Street
Sylvania, Ohio 43560-1948

To the City Council:

We have audited the financial statements of City of the Sylvania (the City) as of and for the year ended December 31, 2003, and have issued our report thereon dated September 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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

City of Sylvania
Lucas County
Independent Accountants' Report on Compliance and on Internal
Control Required by *Government Auditing Standards*
Page 2

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. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of City in a separate letter dated September 9, 2004.

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

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

Betty Montgomery
Auditor of State

September 9, 2004

**CITY OF SYLVANIA
LUCAS COUNTY**

SCHEDULE OF FINDINGS
DECEMBER 31, 2003

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

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

There are several exceptions to the standard requirement stated above: including: “then and now” certificates, blanket certificates and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

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

2. Amounts of less than \$1,000 (which was increased to \$3,000 on April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

Fiscal officers may prepare so-called “blanket” certificates not exceeding \$5,000 against any specific line item account over a period not exceeding 3 months or running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Effective September 26, 2003, the \$5,000 limit on the issuance of purchase orders and the requirement that purchase orders not extend beyond three months have been removed from the law. Effective September 26, 2003, purchase orders may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

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

The City did not properly certify the availability of funds prior to purchase commitment for 37 percent of expenditures tested in 2003. There were several “blanket” purchase orders identified which were either outstanding beyond the end of the fiscal year or exceeded 3 months. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

We recommend the City certify purchases to which § 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language § 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification prior to the City incurring a commitment, and only when the requirements of § 5705.41(D) are satisfied. The fiscal officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

**CITY OF SYLVANIA
LUCAS COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Revised Code § 5705.41(D), Certification procedures not being followed per Ohio Revised Code	No	Not corrected. Reissued as finding 2003-001.



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

CITY OF SYLVANIA

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 18, 2004**