

CITY OF DELPHOS
ALLEN COUNTY

Audit Report

For the Year Ended December 31, 2003

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants and Government Consultants



**Auditor of State
Betty Montgomery**

The Honorable Mayor and City Council
City of Delphos
608 North Canal Street
Delphos, Ohio 45833

We have reviewed the *Report of Independent Accountants* of the City of Delphos, Allen County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Delphos is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

September 12, 2006

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CITY OF DELPHOS
ALLEN COUNTY, OHIO
AUDIT REPORT
For the Year Ending December 31, 2003

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Charles E. Harris & Associates, Inc.
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REPORT OF INDEPENDENT ACCOUNTANTS

**The Honorable Mayor and City Council
City of Delphos
Allen County
Delphos, Ohio**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Delphos (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 basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

As described in Note 16 to the basic financial statements, the City adopted Governmental Accounting and Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Charles E. Harris & Associates, Inc.
May 5, 2006

City of Delphos, Ohio

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

As management of the City of Delphos, we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended December 31, 2003.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$8.4 million (net assets). Of this amount, \$3.2 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's assessed value of real and tangible personal property upon which 2003 property receipts were based, increased 8% to \$94,423,566.
- The City's income tax receipts for 2003 remained steady compared to 2002.
- The City's enterprise funds increased in net assets by 3.3% to \$5.1 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health services, conservation and recreation, economic development and transportation. The business-type activities of the City include water distribution, sewage collection and treatment, and, refuse collection.

City of Delphos, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
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Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City maintains 18 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, for the general fund and the income tax fund, which are considered to be major funds. Data from the other 16 governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its general and income tax funds. A budgetary comparison statement has been provided for the general and income tax funds to demonstrate compliance with this budget.

Proprietary Funds

The City maintains two types of Proprietary funds, Enterprise and Internal Service. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and sewage collection and treatment systems, and refuse collection. Internal Service funds account for the City's health care coverages for employees.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for all of its funds.

City of Delphos, Ohio

Management's Discussion and Analysis
For the Fiscal 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 statements because the resources of those funds are not available to support the City's own programs.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$8.4 million at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (56 percent) reflects its investment in capital assets (e.g. land, buildings, equipment, etc.); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Since this is the first year of implementing GASB 34, no comparison of 2002 is available.

	Net Assets		
	Governmental Activities <u>2003</u>	Business-type Activities <u>2003</u>	Total <u>2003</u>
Current assets	\$ 2,231,012	\$ 2,567,680	\$ 4,798,692
Noncurrent assets	<u>2,104,920</u>	<u>10,160,766</u>	<u>12,265,686</u>
Total assets	<u>4,335,932</u>	<u>12,728,446</u>	<u>17,064,378</u>
Current liabilities	587,335	158,520	745,855
Noncurrent liabilities	<u>456,752</u>	<u>7,473,673</u>	<u>7,930,425</u>
Total liabilities	<u>1,044,087</u>	<u>7,632,193</u>	<u>8,676,280</u>
Net assets:			
Invested in capital assets, net of related debt	1,898,264	2,799,991	4,698,255
Restricted	512,030	-	512,030
Unrestricted	<u>881,551</u>	<u>2,296,262</u>	<u>3,177,813</u>
Total net assets	<u>\$ 3,291,845</u>	<u>\$ 5,096,253</u>	<u>\$ 8,388,098</u>

City of Delphos, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
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The unrestricted net assets (\$3.2 million) may be used to meet the government's ongoing obligations to citizens and creditors. The City had \$.5 million in restricted net assets, which represents monies that external entities have restricted the use.

At the end of the current fiscal year, the City is able to report positive balances in both of its business-type activities net asset classifications. In the City's governmental activities, it has a positive balance in its investment in capital assets, net of related debt, and in unrestricted net assets.

Governmental Activities

Governmental activities increased the City's net assets by \$42,923, or 1.3%, thereby accounting for 19.8% of the total increase in the net assets of the City. Key elements of this increase are as follows:

Changes in Net Assets

	Governmental <u>Activites</u>	Business-type <u>Activities</u>	<u>Total</u>
Program revenues:			
Charges for services	\$ 549,083	\$ 2,539,341	\$ 3,088,424
Operating grants	10,630	130,875	141,505
Capital grants	43,203	-	43,203
General revenues:			
Taxes	2,591,876	-	2,591,876
Intergovernmental	451,302	-	451,302
Investment earnings	50,930	1,812	52,742
Other	41,561	-	41,561
Total revenues	<u>3,738,585</u>	<u>2,672,028</u>	<u>6,410,613</u>
Expenses:			
General government	346,213	-	346,213
Security of persons	2,051,387	-	2,051,387
Public Health	5,471	-	5,471
Leisure time activities	430,287	-	430,287
Community environment	2,800	-	2,800
Transportation	316,072	-	316,072
Water	-	905,893	905,893
Sewer	-	1,845,059	1,845,059
Garbage	-	294,171	294,171
Interest expense	11,417	-	11,417
Total expenses	<u>3,163,647</u>	<u>3,045,123</u>	<u>6,208,770</u>
Increase in net assets			
before transfers	574,938	(373,095)	201,843
Transfers	<u>(532,015)</u>	<u>532,015</u>	<u>-</u>
Increase in net assets	42,923	158,920	201,843
Net Assets - 1/1/2003	<u>3,248,922</u>	<u>4,937,333</u>	<u>8,186,255</u>
Net Assets - 12/31/2003	<u>\$ 3,291,845</u>	<u>\$ 5,096,253</u>	<u>\$ 8,388,098</u>

City of Delphos, Ohio

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

In future years, when prior year information is available, a comparative analysis of governmental activities data will be presented.

Business-type Activities

Business-type activities increased the City's net assets by \$158,920. The increase is due to the City's stringent monitoring of costs. In future years, when prior year information is available, a comparative analysis of business-type activities data will be presented.

Program Expenses

The statement of activities shows the cost of program services and the charges for services and grants associated with those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues. When applicable, the net cost of program services must be supported by general revenues including tax revenue, investment earnings and unrestricted grants.

	<u>Program Expenses</u>	
	2003 Total Cost <u>of Services</u>	2003 Net Cost <u>of Services</u>
Governmental Activities:		
General government	\$ 346,213	\$ (268,073)
Security of Persons & Property	2,051,387	(1,765,975)
Public Health	5,471	(5,471)
Leisure Time activities	430,287	(254,933)
Community Environment	2,800	(1,579)
Interest expense	11,417	(11,417)
Transportation	<u>316,072</u>	<u>(253,283)</u>
Total Governmental Activities	<u>3,163,647</u>	<u>(2,560,731)</u>
Business-type Activities:		
Water	905,893	(88,697)
Sewer	1,845,059	(246,802)
Garbage	<u>294,171</u>	<u>(39,408)</u>
Total Business-type Activities	<u>3,045,123</u>	<u>(374,907)</u>
Grand total	<u>\$ 6,208,770</u>	<u>\$ (2,935,638)</u>

In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

The City's reliance upon program revenues is demonstrated by the table above indicating 53% of total revenues from charges for services and program grants. The reliance on general revenues is indicated by the net cost of services column reflecting the need for \$2,935,638 of support, or 47% of needed general revenues.

City of Delphos, Ohio

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

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1.4 million, a 13.5% decrease from the prior year.

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2003 and 2002.

	<u>Fund Balance</u> <u>12/31/2003</u>	<u>Fund Balance</u> <u>12/31/2002</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 976,874	\$ 1,017,220	\$ (40,346)
Income tax	333,206	340,875	(7,669)
Other governmental	<u>118,126</u>	<u>292,782</u>	<u>(174,656)</u>
Total	<u>\$ 1,428,206</u>	<u>\$ 1,650,877</u>	<u>\$(222,671)</u>

The general fund is the chief operating fund of the City. The income tax fund is a special revenue fund that collects municipal income taxes that are used to pay an OWDA loan for the City's sewer department. At the end of the current fiscal year, unreserved fund balance of the general and income tax funds were \$910,033 and \$332,606 respectively.

The fund balance of the City's general fund decreased by \$40,346 during the current fiscal year. This decrease represents the degree to which increases in ongoing general fund revenues have been outstripped by similar increases in ongoing general fund expenditures.

The income tax fund decreased by \$7,669 during the current fiscal year. This decrease represents the degree to which income tax receipts was less than the expenses associated with the income tax department and the debt service requirements for the OWDA debt.

The other governmental funds had a fund balance at year of \$ 118,126 or a decrease from year-end 2002 of \$292,782. There are other governmental funds that account for many special programs. The decrease in fund balance over the previous year-end demonstrates the degree by which expenditures are growing in comparison to revenues. The decrease is also represented by the improvements to the streets/roads during the year.

City of Delphos, Ohio

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

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets in the water fund at the end of the year amounted to \$269,625. Total net assets decreased \$84,844, or 9.7%, from the previous year.

Unrestricted net assets in the sewer fund at the end of the year amounted to \$2 million. Total net assets increased \$288,062 or 7.5%, from the previous year.

Unrestricted net assets in the garbage fund at the end of the year amounted to \$27,879. Total net assets decreased \$39,408, or 17.7%, from the previous year.

General Fund Budgetary Information

The City's budget is prepared in accordance with Ohio law and is based on the budgetary basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund. Original appropriations did not change significantly from the original appropriations. Final appropriations were \$2.8 million versus budgetary expenditures of \$2.8 million. The positive variance represents the concentration of management in the cost cutting measures of the City.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2003, amounts to \$12.1 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, equipment, furniture, vehicles, and infrastructure. See Note 7 to the financial statements for further information regarding capital assets.

Debt

At the end of the current fiscal year, the City had total debt outstanding of \$7,567,431. This amount excludes liabilities for compensated absences and pension obligations. This entire amount is backed by the full faith and credit of the City. Detailed information regarding long-term debt is included in Note 11 to the basic financial statements.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Delphos City Auditor's Office, 608 Canal Street, Delphos, Ohio 45833-2401.

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City of Delphos, Ohio

Statement of Net Assets

December 31, 2003

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and investments	\$ 1,277,983	\$ 2,102,240	\$ 3,380,223
Cash and cash equivalents with fiscal agents	20,000	-	20,000
Receivables:			
Property and other taxes	870,350	-	870,350
Accounts	131,992	270,445	402,437
Accrued interest	3,200	169	3,369
Internal balances	(145,110)	145,110	-
Due from other governments	21,490	-	21,490
Materials and supplies inventory	13,017	14,874	27,891
Prepaid items	38,090	34,842	72,932
Deferred charges	-	180,166	180,166
Nondepreciable capital assets	607,195	358,257	965,452
Depreciable capital assets, net	1,497,725	9,622,343	11,120,068
Total assets	<u>4,335,932</u>	<u>12,728,446</u>	<u>17,064,378</u>
<u>Liabilities:</u>			
Accounts payable	25,567	98,963	124,530
Accrued wages and benefits	46,951	20,774	67,725
Matured compensated absences payable	6,809	-	6,809
Due to other governments	6,268	26,876	33,144
Deferred revenue	495,237	-	495,237
Accrued interest payable	5,311	11,907	17,218
Claims payable	1,192	-	1,192
Long-term liabilities:			
Due within one year	122,464	567,995	690,459
Due in more than one year	334,288	6,905,678	7,239,966
Total liabilities	<u>1,044,087</u>	<u>7,632,193</u>	<u>8,676,280</u>
<u>Net assets:</u>			
Invested in capital assets, net of related debt	1,898,264	2,799,991	4,698,255
Restricted for:			
Other purposes	512,030	-	512,030
Unrestricted	881,551	2,296,262	3,177,813
Total net assets	<u>\$ 3,291,845</u>	<u>\$ 5,096,253</u>	<u>\$ 8,388,098</u>

See accompanying notes to the basic financial statements.

City of Delphos, Ohio

Statement of Activities

For the Year Ended December 31, 2003

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<u>Governmental Activities:</u>				
General government	\$ 346,213	\$ 78,140	-	-
Safety services	2,051,387	274,782	\$ 10,630	-
Public health and welfare	5,471	-	-	-
Transportation	316,072	19,586	-	\$ 43,203
Community environment	2,800	1,221	-	-
Leisure time activities	430,287	175,354	-	-
Interest and fiscal charges	11,417	-	-	-
Total governmental activities	<u>3,163,647</u>	<u>549,083</u>	<u>10,630</u>	<u>43,203</u>
<u>Business-Type Activities:</u>				
Water	905,893	817,196	-	-
Sewer	1,845,059	1,467,382	130,875	-
Garbage	294,171	254,763	-	-
Total business-type activities	<u>3,045,123</u>	<u>2,539,341</u>	<u>130,875</u>	<u>-</u>
Total primary government	<u>\$ 6,208,770</u>	<u>\$ 3,088,424</u>	<u>\$ 141,505</u>	<u>\$ 43,203</u>

General revenues:

Property taxes levied for:

General purposes

Grants and entitlements not restricted to specific programs

Investment earnings

Other

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.

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (268,073)	-	\$ (268,073)
(1,765,975)	-	(1,765,975)
(5,471)	-	(5,471)
(253,283)	-	(253,283)
(1,579)	-	(1,579)
(254,933)	-	(254,933)
(11,417)	-	(11,417)
<u>(2,560,731)</u>	<u>-</u>	<u>(2,560,731)</u>
-	\$ (88,697)	(88,697)
-	(246,802)	(246,802)
-	(39,408)	(39,408)
-	(374,907)	(374,907)
\$ (2,560,731)	(374,907)	(2,935,638)
\$ 2,591,876	-	\$ 2,591,876
451,302	-	451,302
50,930	\$ 1,812	52,742
41,561	-	41,561
(532,015)	532,015	-
<u>2,603,654</u>	<u>533,827</u>	<u>3,137,481</u>
42,923	158,920	201,843
<u>3,248,922</u>	<u>4,937,333</u>	<u>8,186,255</u>
<u>\$ 3,291,845</u>	<u>\$ 5,096,253</u>	<u>\$ 8,388,098</u>

City of Delphos, Ohio

Balance Sheet

Governmental Funds

December 31, 2003

	General	Income Tax	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in pooled cash and investments	\$ 685,244	\$ 218,104	\$ 245,477	\$ 1,148,825
Receivables:				
Property and other taxes	694,457	116,093	59,800	870,350
Accounts	131,992	-	-	131,992
Interfund	8,114	-	-	8,114
Accrued interest	3,118	-	82	3,200
Due from other governments	1,602	-	19,888	21,490
Materials and supplies inventory	1,646	-	11,371	13,017
Prepaid items	32,324	600	5,166	38,090
Total assets	<u>\$ 1,558,497</u>	<u>\$ 334,797</u>	<u>\$ 341,784</u>	<u>\$ 2,235,078</u>
<u>Liabilities:</u>				
Accounts payable	\$ 22,884	\$ 458	\$ 2,225	\$ 25,567
Interfund payable	-	-	158,114	158,114
Accrued wages and benefits	43,355	1,003	2,593	46,951
Compensated absences payable	6,256	-	553	6,809
Due to other governments	5,765	130	373	6,268
Deferred revenue	503,363	-	59,800	563,163
Total liabilities	<u>581,623</u>	<u>1,591</u>	<u>223,658</u>	<u>806,872</u>
<u>Fund balances:</u>				
Reserved for encumbrances	32,871	-	45,281	78,152
Reserved for inventory	1,646	-	11,371	13,017
Reserved for prepaid items	32,324	600	5,166	38,090
Unreserved, undesignated,				
Reported in:				
General fund	910,033	-	-	910,033
Special revenue funds	-	332,606	167,424	500,030
Capital projects fund	-	-	(111,116)	(111,116)
Total fund balances	<u>976,874</u>	<u>333,206</u>	<u>118,126</u>	<u>1,428,206</u>
Total liabilities and fund balances	<u>\$ 1,558,497</u>	<u>\$ 334,797</u>	<u>\$ 341,784</u>	<u>\$ 2,235,078</u>

See accompanying notes to the basic financial statements.

City of Delphos, Ohio

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

Total governmental fund balances		\$ 1,428,206
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in funds.		2,104,920
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		152,856
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		67,926
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(5,311)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Pension obligations	\$ (74,510)	
Capital lease payable	(206,656)	
Compensated absences	(175,586)	
Total		<u>(456,752)</u>
Net assets of governmental activities		<u>\$ 3,291,845</u>

See accompanying notes to the basic financial statements.

City of Delphos, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2003

	General	Income Tax	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property and other taxes	\$ 1,801,416	\$ 723,110	\$ 67,350	\$ 2,591,876
Charges for services	383,249	-	56,446	439,695
Fines, licenses, and permits	39,535	-	5,175	44,710
Intergovernmental	295,720	-	239,830	535,550
Investment income	50,211	-	719	50,930
Other	11,345	-	30,216	41,561
Total revenue	<u>2,581,476</u>	<u>723,110</u>	<u>399,736</u>	<u>3,704,322</u>
Expenditures:				
Current:				
General government	208,407	122,779	-	331,186
Safety services	1,672,409	-	363,235	2,035,644
Public health and welfare	-	-	5,471	5,471
Transportation	-	-	426,225	426,225
Community environment	-	-	2,800	2,800
Leisure time activities	369,197	-	-	369,197
Capital outlay	-	-	166,189	166,189
Debt service:				
Principal retirement	45,675	-	-	45,675
Interest and fiscal charges	12,591	-	-	12,591
Total expenditures	<u>2,308,279</u>	<u>122,779</u>	<u>963,920</u>	<u>3,394,978</u>
Excess of revenues over (under) expenditures	273,197	600,331	(564,184)	309,344
Other financing sources (uses):				
Transfers - in	-	-	389,528	389,528
Transfers - out	(313,543)	(608,000)	-	(921,543)
Total other financing sources (uses)	<u>(313,543)</u>	<u>(608,000)</u>	<u>389,528</u>	<u>(532,015)</u>
Net change in fund balance	(40,346)	(7,669)	(174,656)	(222,671)
Fund balances at beginning of year, restated	1,017,220	340,875	292,782	1,650,877
Fund balances at end of year	<u>\$ 976,874</u>	<u>\$ 333,206</u>	<u>\$ 118,126</u>	<u>\$ 1,428,206</u>

See accompanying notes to the basic financial statements.

City of Delphos, Ohio

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

Net change in fund balances - Total governmental funds \$ (222,671)

*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 capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Capital asset additions	\$ 477,013	
Depreciation expense	<u>(267,545)</u>	
Excess of capital outlay over depreciation expense		209,468

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

Net change in deferred revenues during the year	34,263
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Some items reported in the statement of activities do not require the use of current financial
resources and therefore are not reported as expenditures in governmental funds. These
activities consist of:

Increase in compensated absences	\$ (6,934)	
Increase in pension obligation	(7,609)	
Decrease in accrued interest	<u>1,174</u>	
Total additional expenditures		(13,369)

The internal service fund used by management to charge the costs of medical, prescription
drug, dental and vision claims to individual funds are not reported in the statement of
activities. Governmental fund expenditures and related internal service fund revenues
are eliminated.

(10,443)

Payment of capital lease principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement of net assets.

45,675

Change in net assets of governmental activities

\$ 42,923

See accompanying notes to the basic financial statements.

City of Delphos, Ohio

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property and other taxes	\$ 1,986,000	\$ 1,986,000	\$ 1,826,468	\$ (159,532)
Charges for services	252,000	252,000	388,402	136,402
Fines, licenses, and permits	54,000	54,000	39,078	(14,922)
Intergovernmental	292,000	292,000	388,652	96,652
Investment income	50,000	50,000	50,528	528
Other	7,000	7,000	7,146	146
Total revenue	<u>2,641,000</u>	<u>2,641,000</u>	<u>2,700,274</u>	<u>59,274</u>
<u>Expenditures:</u>				
Current:				
General government	220,000	220,000	218,988	1,012
Safety services	1,900,000	1,900,000	1,895,366	4,634
Public health and welfare	10,000	10,000	-	10,000
Leisure time activities	390,000	390,000	384,458	5,542
Total expenditures	<u>2,520,000</u>	<u>2,520,000</u>	<u>2,498,812</u>	<u>21,188</u>
Excess of revenues over (under) expenditures	121,000	121,000	201,462	80,462
<u>Other financing sources (uses):</u>				
Advances - in	-	-	270,000	270,000
Advances - out	-	-	(8,114)	(8,114)
Transfers - out	(315,000)	(315,000)	(313,543)	1,457
Total other financing sources (uses)	<u>(315,000)</u>	<u>(315,000)</u>	<u>(51,657)</u>	<u>263,343</u>
Net change in fund balance	(194,000)	(194,000)	149,805	343,805
Fund balance at beginning of year	501,138	501,138	501,138	-
Prior year encumbrances appropriated	1,430	1,430	1,430	-
Fund balance at end of year	<u>\$ 308,568</u>	<u>\$ 308,568</u>	<u>\$ 652,373</u>	<u>\$ 343,805</u>

See accompanying notes to the basic financial statements.

City of Delphos, Ohio

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Property and other taxes	<u>\$ 700,000</u>	<u>\$ 700,000</u>	<u>\$ 714,906</u>	<u>\$ 14,906</u>
<u>Expenditures:</u>				
Current:				
General government	<u>500,000</u>	<u>500,000</u>	<u>122,895</u>	<u>377,105</u>
Excess of revenues over (under) expenditures	<u>200,000</u>	<u>200,000</u>	<u>592,011</u>	<u>(362,199)</u>
<u>Other financing sources (uses):</u>				
Transfers - out	<u>(400,000)</u>	<u>(400,000)</u>	<u>(608,000)</u>	<u>(208,000)</u>
Net change in fund balance	<u>(200,000)</u>	<u>(200,000)</u>	<u>(15,989)</u>	<u>184,011</u>
Fund balance at beginning of year	<u>234,023</u>	<u>234,023</u>	<u>234,023</u>	<u>-</u>
Fund balance at end of year	<u>\$ 34,023</u>	<u>\$ 34,023</u>	<u>\$ 218,034</u>	<u>\$ 184,011</u>

See accompanying notes to the basic financial statements.

City of Delphos, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2003

	Business-Type Activities			Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Water	Sewer	Garbage		
Assets:					
Equity in pooled cash and investments	\$ 244,342	\$ 1,791,403	\$ 66,495	\$ 2,102,240	\$ 129,158
Cash and cash equivalents:					
With fiscal agent	-	-	-	-	20,000
Receivables:					
Accounts	102,594	140,005	27,846	270,445	-
Interfund	-	150,000	-	150,000	-
Accrued interest	169	-	-	169	-
Materials and supplies inventory	499	14,375	-	14,874	-
Prepaid items	18,788	14,861	1,193	34,842	-
Deferred charges	-	180,166	-	180,166	-
Land	230,193	128,064	-	358,257	-
Depreciable capital assets, net	3,413,534	6,054,369	154,440	9,622,343	-
Total assets	<u>4,010,119</u>	<u>8,473,243</u>	<u>249,974</u>	<u>12,733,336</u>	<u>149,158</u>
Liabilities:					
Accounts payable	11,647	19,661	67,655	98,963	-
Accrued wages and benefits	8,514	12,260	-	20,774	-
Compensated absences payable	53,644	59,254	-	112,898	-
Due to other governments	11,055	15,821	-	26,876	-
Accrued interest payable	11,907	-	-	11,907	-
Notes payable	2,960,000	-	-	2,960,000	-
Claims payable	-	-	-	-	1,192
OPWC loans payable	166,876	-	-	166,876	-
OWDA loans payable	-	4,233,899	-	4,233,899	-
Total liabilities	<u>3,223,643</u>	<u>4,340,895</u>	<u>67,655</u>	<u>7,632,193</u>	<u>1,192</u>
Net assets:					
Invested in capital assets, net of related debt	516,851	2,128,700	154,440	2,799,991	-
Unrestricted	269,625	2,003,648	27,879	2,301,152	147,966
Total net assets	<u>\$ 786,476</u>	<u>\$ 4,132,348</u>	<u>\$ 182,319</u>	<u>\$ 5,101,143</u>	<u>\$ 147,966</u>

Some amounts reported for business-type activities in the statement of net assets are different because the net revenue (expense) of the internal service fund are included with business-type activities.

(4,890)

Net assets of business-type activities

\$ 5,096,253

See accompanying notes to the basic financial statements.

City of Delphos, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended December 31, 2003

	Business-Type Activities			Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Water	Sewer	Garbage		
Operating revenues:					
Charges for services	\$ 816,770	\$ 1,466,848	\$ 254,763	\$ 2,538,381	\$ 158,846
Other	426	534	-	960	-
Total operating revenue	<u>817,196</u>	<u>1,467,382</u>	<u>254,763</u>	<u>2,539,341</u>	<u>158,846</u>
Operating expenses:					
Personal services	396,858	537,034	-	933,892	-
Contractual services	174,673	421,063	273,233	868,969	-
Travel transportation	938	8,643	-	9,581	-
Supplies and materials	28,260	152,454	3,491	184,205	-
Claims	-	-	-	-	174,178
Other operating costs	-	11,943	-	11,943	-
Depreciation	162,543	270,864	17,447	450,854	-
Total operating expenses	<u>763,272</u>	<u>1,402,001</u>	<u>294,171</u>	<u>2,459,444</u>	<u>174,178</u>
Operating income (loss)	53,924	65,381	(39,408)	79,897	(15,332)
Non-operating revenues (expenses):					
Intergovernmental	-	130,875	-	130,875	-
Interest	1,812	-	-	1,812	-
Interest and fiscal charges	(140,580)	(440,209)	-	(580,789)	-
Total non-operating revenues (expenses)	<u>(138,768)</u>	<u>(309,334)</u>	<u>-</u>	<u>(448,102)</u>	<u>-</u>
Income (loss) before transfers	(84,844)	(243,953)	(39,408)	(368,205)	(15,332)
Transfers in	-	708,000	-	708,000	-
Transfers out	-	(175,985)	-	(175,985)	-
Change in net assets	(84,844)	288,062	(39,408)	163,810	(15,332)
Net assets at beginning of year	<u>871,320</u>	<u>3,844,286</u>	<u>221,727</u>	<u>4,937,333</u>	<u>163,298</u>
Net assets at end of year	<u>\$ 786,476</u>	<u>\$ 4,132,348</u>	<u>\$ 182,319</u>	<u>\$ 5,101,143</u>	<u>\$ 147,966</u>

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of the internal service fund are included with business-type activities.

Change in net assets per above statement	\$ 163,810
Business-type activities share of the internal service funds loss	(4,890)
Change in net assets of business-type activities	<u>\$ 158,920</u>

See accompanying notes to the basic financial statements.

City of Delphos, Ohio

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2003

	Business-Type Activities			Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Water	Sewer	Garbage		
Cash flows from operating activities:					
Cash received from customers	\$ 992,939	\$ 1,732,774	\$ 305,009	\$ 3,030,722	\$ -
Cash received from other funds	-	-	-	-	158,846
Cash payments for employee services and benefits	(388,217)	(515,756)	-	(903,973)	-
Cash payments to suppliers for goods and services	(203,131)	(642,940)	(277,413)	(1,123,484)	(3,017)
Other	534	534	-	1,068	-
Claims	-	-	-	-	(202,853)
Net cash provided by (used for) operating activities	402,125	574,612	27,596	1,004,333	(47,024)
Cash flows from noncapital financing activities:					
Transfers from other funds	-	532,015	-	532,015	-
Operating grants	-	130,875	-	130,875	-
Net cash provided by noncapital financing activities	-	662,890	-	662,890	-
Cash flows from capital and related financing activities:					
Interest paid on debt	(140,580)	(229,975)	-	(370,555)	-
Principal retirement	(147,843)	(367,088)	-	(514,931)	-
Acquisition of capital assets	(75,000)	(130,000)	(67,764)	(272,764)	-
Net cash provided by (used for) for capital and related financing activities	(363,423)	(727,063)	(67,764)	(1,158,250)	-
Cash flows from investing activities:					
Investment income	2,165	-	-	2,165	-
Net cash provided by investing activities	2,165	-	-	2,165	-
Net increase (decrease) in cash and cash equivalents	40,867	510,439	(40,168)	511,138	(47,024)
Cash and cash equivalents at beginning of year	203,475	1,280,964	106,663	1,591,102	196,182
Cash and cash equivalents at end of year	\$ 244,342	\$ 1,791,403	\$ 66,495	\$ 2,102,240	\$ 149,158
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 53,924	\$ 65,381	\$ (39,408)	\$ 79,897	\$ (15,332)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	162,543	270,864	17,447	450,854	-
Change in assets and liabilities:					
(Increase) decrease in assets:					
Accounts receivable	176,169	265,926	50,246	492,341	-
Materials and supplies inventory	255	166	-	421	-
Prepaid items	(8,546)	(1,628)	(942)	(11,116)	-
Increase (decrease) in liabilities:					
Accounts payable	(8,743)	(47,509)	253	(55,999)	-
Claims payable	-	-	-	-	(31,692)
Accrued wages and benefits	9,512	(7,994)	-	1,518	-
Compensated absences	8,062	14,234	-	22,296	-
Due to other governments	8,949	15,172	-	24,121	-
Net cash provided by (used for) operating activities	\$ 402,125	\$ 574,612	\$ 27,596	\$ 1,004,333	\$ (47,024)

See accompanying notes to the basic financial statements.

City of Delphos, Ohio
Statement of Fiduciary Net Asset
Fiduciary Funds
December 31, 2003

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and investments	<u>\$ 1,465</u>
Total assets	<u><u>1,465</u></u>
<u>Liabilities:</u>	
Accounts payable	<u>1,465</u>
Total liabilities	<u><u>\$ 1,465</u></u>

See accompanying notes to the basic financial statements.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 1 – Description of the City

The City of Delphos (the City) is a home rule municipal corporation established under the laws of the State of Ohio, which operates under the laws of the State of Ohio. The City operates under a part-time Mayor/Council and full-time City Safety/Service Director form of government. The Mayor and Council are elected.

Note 2 – Summary of Significant Accounting Policies

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to government units. The Governmental Accounting Standard Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standard Board (“FASB”) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the City’s accounting policies are described below.

A. Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all agencies, departments and organizations making up the City of Delphos and its potential component units consistent with Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity."

The primary government comprises all activities and services which are not legally separate for the City. The City provides various services including public safety (police and fire), highways and streets, parks and recreation, public improvements, community development (planning and zoning), water and sewers, sanitation, and general administrative and legislative services. The operation of each of these activities is directly controlled by Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

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

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

B. Basis of Presentation

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

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The activity of the internal service fund is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the single business-type activity of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. The policy of the City is to not allocate indirect expenses to the functions in the statement of activities. Program revenues include charges paid by recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenue, 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 – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

C. Fund Accounting

The City accounting system is organized and operated on the basis of funds. The operation of each fund is accounted for within a set of self-balancing accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Funds are classified into three categories: governmental, proprietary, and fiduciary.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The following are the City’s major governmental funds:

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

Income Tax Fund This fund is used to account for the City’s municipal income tax collections.

Proprietary Funds – Proprietary funds are used to account for the City’s ongoing organizations and activities which are similar to those found in the private sector. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this approach, the focus is upon the determination of net income, financial position and cash flows. Proprietary funds are classified either enterprise or internal service:

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

Sanitary Sewer Fund This fund accounts for the receipt of funds from sewer service to the residents of the City, and to account for expenditures in regards to sewer service and capital improvement of these services.

Water Fund This fund accounts for the receipts and expenditures of the Water Fund.

Garbage/Refuse Fund This fund accounts for the receipts and expenditures of the Refuse fund.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

Health Insurance Reserve Fund This fund accounts for revenues of the healthcare premium and the expenditures sent to the City’s third party administrator to cover health insurance claims incurred by employees of the City.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Fiduciary Funds – Fiduciary funds reporting focuses on net assets and changes in net assets. The City’s only fiduciary fund is the Agency Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement if results of operations. The City’s agency fund accounts for unclaimed dollars.

D. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in the total net assets.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the resources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Agency funds do not report a measurement focus as they do not report operations.

E. Basis of Accounting

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

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

City of Delphos, Ohio
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Non-exchange transactions, in which the City receives value without directly giving equal value in return, including income taxes, estate taxes, motel-hotel taxes, property taxes, estate taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes, estate taxes, and motel-hotel taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from the non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, interest, federal and state grants and subsidies, state-levied locally shared taxes (including motor vehicle license fees and gasoline taxes), fees and rentals.

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

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

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

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

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

F. Budgetary Data

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 with the legal restriction that the appropriations cannot exceed estimated resources as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. Even though annual budgets are legally adopted, proprietary budgetary statements have not been presented since they are not required under GAAP.

City of Delphos, Ohio
Notes to the Basic Financial Statements
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All disbursements require appropriation authority. The legal level of budgetary control is at the fund level with the exception of the general fund, which is at the department level. Any budgetary modifications at this level may only be made by ordinance of the City Council.

Advances in and Advances out are not required to be budgeted, since they represent a temporary cash advance and are intended to be repaid.

Tax Budget - During the first Council meeting in July, the City Finance Director presents the annual operating 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.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized property taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the first and final amended official certificate of estimated resources issued during 2003.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund level with the exception of the general fund, which is at the department level. The appropriation ordinance may be amended during the year as new information becomes available. Total fund appropriations may not exceed current estimated resources as certified. The allocation of appropriations among departments within a fund, with the exception of the general fund, may be modified during the year by management. Appropriations among departments within the general fund may be modified during the year only by ordinance of Council. During the year, several supplemental appropriation measures were passed. However, none were significant in amount. The budget figures which appear in the statement of budgetary comparisons represent the first and final appropriation amounts, including all amendments and modifications.

Encumbrances - Encumbrances outstanding at year end represent the estimated amount of expenditures that will ultimately result if unperformed contracts in process (for example, purchase orders and contracted services) are completed. On a GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent year expenditures in the governmental funds.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

G. *Cash and Cash Equivalents*

Cash balances of City Funds are pooled in a central bank account. Monies for all funds, are maintained in this account or temporarily used to purchase short-term investments to provide improved cash management. Individual fund integrity is maintained through City records. Investments are stated at amortized cost or fair value. Each fund type's share of the pool is presented on the balance sheet in the account Equity in Pooled Cash and Cash Equivalents. For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, funds included within the City's cash management pool and investments with original maturities of three months or less are considered to be cash and cash equivalents.

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" the City records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit) which are reported at cost. The City allocates interest among various funds based upon applicable legal and administrative requirements. See Note 5, "Deposits and Investments."

Interest allocation is determined by the Ohio Constitution, State Statues, debt indentures and local ordinances. Under these provisions, City funds required to, but which do not necessarily, receive interest allocations are the general fund, street fund, state highway fund, permissive license tax fund and water fund. Interest earned during 2003 amount to \$52,742.

H. *Materials and Supplies Inventory*

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

On the fund financial statements, inventories of governmental funds are stated at cost, on the first-in, first-out basis. Cost of inventory items are recorded as expenditures in the governmental fund types when purchased. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

I. *Prepaid Items*

Payments made to vendors for services that will benefit periods beyond December 31, 2003 are recorded as prepaid items by 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.

City of Delphos, Ohio
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For the Year Ended December 31, 2003

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Capital assets were initially determined at December 31, 1990 by assigning original acquisition costs when such information was available. In cases where information supporting original costs was not practicably determinable, estimated historical costs were developed. For certain capital assets, the estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated capital assets are recorded at their fair market values as of the date received. The City is phasing in the reporting of infrastructure such as roads, guardrails, bridges, water lines, sewer lines and storm water drainage. The City has reported infrastructure acquired during the current year. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Interest incurred during the construction of capital assets is capitalized for business-type activities. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2003, interest costs incurred on construction projects were not material.

All reported capital assets are depreciated except for land and construction in progress. Depreciation is determined by allocating the cost of capital assets over the estimated useful lives of the assets on a straight-line basis. The estimated useful lives are as follows:

<u>Asset Class</u>	<u>Governmental and Business-Type Activities Estimated Useful Life</u>
<i>Buildings</i>	<i>20 years</i>
<i>Equipment and Furniture</i>	<i>5-15 years</i>
<i>Improvements</i>	<i>15 years</i>
<i>Infrastructure</i>	<i>50 years</i>
<i>Vehicles</i>	<i>5-10 years</i>

K. Compensated Absences

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

City of Delphos, Ohio
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In accordance with the provision of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if 1) employees' rights to receive compensation are attributable to services already rendered; and 2) it is probable that the City will compensate the employees for the benefits through paid time off or some other means. A liability for sick leave is based on the sick leave accumulated at December 31, 2003. Sick leave benefits are accrued as a liability using the vesting method. An accrual for sick leave is made when it is expected to be liquidated with available financial resources and is recorded as an expenditure and fund liability of the governmental fund that will pay it.

The entire compensated absences liability is reported on the government-wide statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability in the fund financial statements when due.

M. Interfund Transactions

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

During the normal course of operations, the City has numerous transactions between funds. Transfers represent movement of resources from a fund receiving revenue to a fund through which those resources will be expended and are recorded as other financing sources (uses) in the governmental funds and as transfers in proprietary funds. Interfund transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the City are treated similarly when involving other funds of the City.

City of Delphos, Ohio
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Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund receivable/interfund payable” for the current portion of interfund loans or advances to/from other funds for the non-current portion of interfund loans. These amounts are eliminated in the Statement of Net Assets, except for any residual balances outstanding between the governmental activities and business-type activities, which are reported in the government-wide financial statements as “internal balances”.

Long-term advances between funds, as reported in the governmental fund financial statements, are often offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

N. Fund Balance Reserves and Designations

Reserved or designated fund balances indicate that portion of fund balance, which is not available for current appropriation or use. The unreserved or undesignated portions of fund balance reflected in the governmental funds are available for use within the specific purposes of funds. The City reports amounts representing encumbrances outstanding, inventory and prepaid items in the governmental funds.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for the Water, Sewer, Garbage and Insurance funds. Operating expenses are necessary costs incurred to provide the goods and services that is primary activity of the fund.

P. Capital Contributions

Capital contributions in statement of activities and proprietary fund financial statements arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Q. 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 accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or law or regulations of other governments.

R. Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

City of Delphos, Ohio
Notes to the Basic Financial Statements
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S. Extraordinary and Special Items

Extraordinary items are transactions and events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

Note 3 - Budgetary Basis of Accounting

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

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures for all funds (budget) rather than as a reservation of fund balance for governmental fund types (GAAP).
4. Proceeds and principal payments on short-term note obligations are reported on the operating statement (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the governmental major funds.

<i>Net Change in Fund Balance</i>		
	<u>General</u>	<u>Income Tax</u>
<i>GAAP Basis</i>	\$ (40,346)	\$ (7,669)
<i>Revenue accruals</i>	196,365	(8,204)
<i>Expenditure accruals</i>	(39,085)	(1,804)
<i>Encumbrances (Budget Basis) outstanding at year end</i>	<u>32,871</u>	<u>1,688</u>
<i>Budget Basis</i>	<u>\$ 149,805</u>	<u>\$ (15,989)</u>

Note 4 – Accountability and Compliance

The Water Fund had expenditures plus encumbrances in excess of appropriations at the legal of level of control in the amount of \$94,368 contrary to Ohio Rev. Code Section 5705.41 (B).

Note 5 – Deposits and Investments

The City Treasurer and Treasury Investment Board are responsible for selecting depositories and investing funds.

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

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

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

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

Interim monies may be invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;

City of Delphos, Ohio
Notes to the Basic Financial Statements
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4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits - At year-end, the carrying amount of the City's deposits was \$3,401,384 and the bank balance was \$3,550,025. Of the bank balance, only \$100,000 was covered by federal depository insurance and \$3,450,025 was uninsured, but collateralized using financial institution securities not in the City's name.

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

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

	<i>Cash and Cash Equivalents/</i>	
	<u><i>Deposits</i></u>	<u><i>Investments</i></u>
<i>GASB Statement No. 9</i>	\$ 1,401,688	\$ 2,000,000
<i>Cash on hand</i>	(304)	-
<i>Certificate of deposit over 90 days</i>	<u>2,000,000</u>	<u>(2,000,000)</u>
<i>GASB Statement No. 3</i>	<u>\$ 3,401,384</u>	<u>\$ -</u>

City of Delphos, 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, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2001. Real property taxes are payable annually or semi annually. The first payment is due January 20, with the remainder 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 April 30 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. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30; with the remainder payable by September 20. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2002 was \$6.75 per \$1,000 of assessed valuation.

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 year preceding the tax collection year, the lien date. Certain public tangible personal property currently is 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. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate applied to real property for both counties for the fiscal year ended December 31, 2002, was \$6.75 per \$1,000 of assessed value. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$4.13 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$5.03 per \$1,000 of assessed valuation for all other real property. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

	<i>Assessed Value</i>	<i>Assessed Value</i>
	<u><i>Allen County</i></u>	<u><i>Van Wert County</i></u>
<i>Real property</i>	\$ 47,587,350	\$ 27,056,710
<i>Public utility personal property</i>	1,524,940	615,910
<i>Tangible personal property</i>	<u>12,408,386</u>	<u>5,230,270</u>
<i>Total assessed value</i>	<u>\$ 61,520,676</u>	<u>\$ 32,902,890</u>

City of Delphos, Ohio
Notes to the Basic Financial Statements
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B. Income Taxes

The City levies an income tax of one and one half percent on all income earned within the City as well as incomes of City residents earned outside the City. Residents are granted a 75% credit on income earned and taxed by another Ohio municipality. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

The City allocates income tax revenues to the general and income tax funds. Tax receipts amounted to \$2,165,891 in 2003. The income tax is to be divided 67% to the general fund and 33% to the income tax fund with any expenses of the income tax process to be charged to the income tax fund and the remainder to be transferred to the sewer fund for sewer system improvements.

Note 7 – Capital Assets

The capital asset balances of the governmental activities have been restated due to a change in the capitalization threshold, and accumulated depreciation (See Note 2 for details).

<u>Governmental Activities</u>	<u>Balance 1/1/2003</u>	<u>Adjustments</u>	<u>Restated Balance 1/1/2003</u>
<i>Land</i>	\$ 398,899	\$ (4)	\$ 398,895
<i>Buildings</i>	1,020,103	(159,874)	860,229
<i>Equipment and furniture</i>	501,520	508,826	1,010,346
<i>Land improvement</i>	865,846	(140,922)	724,924
<i>Vehicles</i>	1,322,613	172,001	1,494,614
<i>Less: Accumulated depreciation</i>	<u>(2,074,809)</u>	<u>(518,747)</u>	<u>(2,593,556)</u>
<i>Total</i>	<u>\$ 2,034,172</u>	<u>\$ (138,720)</u>	<u>\$ 1,895,452</u>

Governmental activities capital asset activity for the year-end December 31, 2003 was as follows:

City of Delphos, Ohio
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<u>Governmental activities</u>	<u>Balance</u> <u>12/31/2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2003</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 398,895	\$ -	\$ -	\$ 398,895
Construction in progress	<u>-</u>	<u>208,300</u>	<u>-</u>	<u>208,300</u>
Total capital assets, not being depreciated	<u>398,895</u>	<u>208,300</u>	<u>-</u>	<u>607,195</u>
<i>Capital assets, being depreciated:</i>				
Buildings	860,229	-	-	860,229
Equipment and furniture	1,010,346	37,353	-	1,047,699
Land improvement	724,924	19,014	-	743,938
Vehicles	<u>1,494,614</u>	<u>212,346</u>	<u>-</u>	<u>1,706,960</u>
Total capital assets, being depreciated	4,090,113	268,713	-	4,358,826
Less accumulated depreciation:	<u>(2,593,556)</u>	<u>(267,545)</u>	<u>-</u>	<u>(2,861,101)</u>
Total capital assets being depreciated, net	<u>1,496,557</u>	<u>1,168</u>	<u>-</u>	<u>1,497,725</u>
Governmental activities capital assets, net	<u>\$ 1,895,452</u>	<u>\$ 209,468</u>	<u>\$ -</u>	<u>\$ 2,104,920</u>

Depreciation expense was charged to the functions/programs of the governmental activities as follows:

<u>Depreciation Expense:</u>	
General government	\$ 11,330
Safety services	144,506
Leisure time activities	80,210
Transportation	<u>31,499</u>
Total depreciation expense	<u>\$ 267,545</u>

The business-type activities capital asset activity for the year-end December 31, 2003 was as follows:

City of Delphos, Ohio
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<u>Business-type activities</u>	<u>Balance</u> <u>12/31/2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2003</u>
<i>Capital assets, not being depreciated:</i>				
<i>Land</i>	\$ 358,257	\$ -	\$ -	\$ 358,257
 <i>Capital assets, being depreciated:</i>				
<i>Buildings</i>	116,340	-	-	116,340
<i>Vehicles</i>	585,096	67,764	-	652,860
<i>Equipment and furniture</i>	816,262	205,000	-	1,021,262
<i>Infrastructure</i>	<u>21,861,018</u>	<u>-</u>	<u>-</u>	<u>21,861,018</u>
<i>Total capital assets, being depreciated</i>	23,378,716	272,764	-	23,651,480
 <i>Less accumulated depreciation:</i>	 <u>(13,578,283)</u>	 <u>(450,854)</u>	 <u>-</u>	 <u>(14,029,137)</u>
 <i>Total capital assets being depreciated, net</i>	 <u>9,800,433</u>	 <u>(178,090)</u>	 <u>-</u>	 <u>9,622,343</u>
<i>Business-type activities capital assets, net</i>	<u>\$ 10,158,690</u>	<u>\$ (178,090)</u>	<u>\$ -</u>	<u>\$ 9,980,600</u>

Note 8 - Receivables

Receivables at December 31, 2003 primarily consisted of taxes, accounts (billings for user charged services), intergovernmental receivables, entitlement or shared revenues. All receivables are considered fully collectible.

A summary of the principal items of governmental activities intergovernmental receivables follows:

<u>Revenue description</u>	<u>Amount</u>
<i>Gasoline tax</i>	\$ 17,784
<i>Motor vehicle tax</i>	3,225
<i>Permissive sales tax</i>	<u>481</u>
<i>Total</i>	<u>\$ 21,490</u>

Note 9 - 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.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

A. Self Insurance Program

The City established a medical self-insurance fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the medical self-insurance fund provides coverage for up to a maximum of \$22,500 for each individual, with a \$1,000,000 aggregate over the employee's life. The City purchased commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Excess costs are paid by stop-loss insurance coverage. The City does not anticipate to be responsible for any costs that exceed the stop-loss insurance coverage. Settlement claims have not exceeded coverage in the aggregate for the past three years.

All funds of the City participate in the program and make payments to the medical self-insurance fund based on actuarial estimates of the amounts needed to pay prior and current-year claims. This plan provides a medical plan with a \$200 single and a \$400 family deductible for all employees. The City utilizes a third party administrator, MCA Administrators to review all claims which are then paid by the City. The cost to the City for the third party administrator is \$23.65 per employee per month. The City purchases stop-loss coverage at a cost of \$43.49 for single, \$105.28 for family per month. The liability for unpaid claims costs reported in the fund at December 31, 2003 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Term life insurance is provided to all full-time employees in the amount of \$10,000. The self insurance program was terminated in April 2003 and the City has implemented a premium based insurance program.

<u>Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2002	\$ 37,241	318,230	(322,587)	\$ 32,884
2003	\$ 32,884	174,178	(205,870)	\$ 1,192

B. Other Insurance Coverage

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

<u>Company</u>	<u>Type of Coverage</u>	<u>Amounts</u>	<u>Deductible</u>
Hartford Penco	Law enforcement	\$ 1,000,000	\$ 5,000
Hartford Penco	Public officials	\$ 1,000,000	\$ 10,000
Penco Midwest	Faithful performance		\$ 500
P&C of Hartford	Vehicle insurance	\$ 500,000	\$ 1,000/\$250
Erie Insurance Company	Auditor bond	\$ 90,000	None
Erie Insurance Company	Deputy auditor bond	\$ 90,000	None
United States Fidelity and Guaranty Company	Treasurer bond	\$ 100,000	None
Erie Insurance Company	Income tax adm. Bond	\$ 90,000	None
Penco Midwest	General liability	\$ 2,000,000	\$ 1,000

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The City pays the state Workers Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

There has not been a significant reduction in commercial coverage from the prior year and settled claims have not exceeded coverage in any of the last three years.

Note 10 - Capital Lease

In 2002, the City entered into a lease agreement for financing the acquisition of capital equipment. This lease qualifies as a capital lease for accounting purposes (title transfers at the end of the lease term) and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception.

The following is a schedule of future minimum lease payments under this capital lease and the present value of the net minimum lease payments at December 31, 2003:

<i>Year Ending December 31,</i>	<i>Amount</i>
2004	\$ 58,266
2005	58,266
2006	58,266
2007	58,266
<i>Total minimum lease payments</i>	<i>233,064</i>
<i>Less: amount representing interest</i>	<i>(26,408)</i>
<i>Present value of minimum lease payments</i>	<u><u>\$ 206,656</u></u>

Note 11 - Long-Term Obligations

The City's long-term obligations at year-end and a schedule of current year activity follows:

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

	<u>1/1/2003</u>	<u>Addition</u>	<u>Deletion</u>	<u>12/31/2003</u>	<u>One Year</u>
<u>Governmental activities:</u>					
Capital lease obligation	\$ 252,331	\$ -	\$ (45,675)	\$ 206,656	\$ 47,954
Pension obligation	66,901	74,510	(66,901)	74,510	74,510
Compensated absences	<u>194,282</u>	<u>22,233</u>	<u>(40,929)</u>	<u>175,586</u>	<u>-</u>
Total governmental activities					
long-term liabilities	<u>\$ 513,514</u>	<u>\$ 96,743</u>	<u>\$ (153,505)</u>	<u>\$ 456,752</u>	<u>\$ 122,464</u>
<u>Business-type activities:</u>					
Water plant improvement notes, 3.25%	\$ 3,095,000	\$ -	\$ (135,000)	\$ 2,960,000	\$ 145,000
OWDA loan, 9.72%	806,861	-	(132,908)	673,953	145,827
OWDA loan, 4.35%	3,794,126	-	(234,180)	3,559,946	244,478
1992 OPWC loan, 0%	49,523	-	(4,952)	44,571	4,952
2000 OPWC loan, 0%	130,196	-	(7,891)	122,305	7,891
Compensated absences	<u>90,638</u>	<u>43,829</u>	<u>(21,569)</u>	<u>112,898</u>	<u>19,847</u>
Total business-type activities					
long-term liabilities	<u>\$ 7,966,344</u>	<u>\$ 43,829</u>	<u>\$ (536,500)</u>	<u>\$ 7,473,673</u>	<u>\$ 567,995</u>

The Ohio Water Development Authority (O.W.D.A.) loans were for mandated wastewater construction and sewer improvement projects. Income taxes and revenue of the facilities have been pledged to repay the debt.

The Ohio Public Works Commission (O.P.W.C.) loan is for the repairs of the elevated water standpipe. The work began in 1992 and was completed in 1993. The full amount of loan was \$99,045. The City water system revenue will be used for the principal repayment.

The second Ohio Public Works Commission (O.P.W.C.) loan is for the construction of an elevated water tank. Construction started and completed in 2000. The full amount of the loan was \$157,813. The City water system revenue will be used for the principal repayment.

The water plant improvement notes are for improvements to the south water plant. The City water system revenue will be used for the principal repayment.

On August 31, 1995, the City defeased sewer system mortgage revenue bonds by placing the proceeds of OWDA Water Pollution Control Loan Fund Refinancing Agreement in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and the liability for the defeased bonds are not included in the City's financial statements. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$300,278. This difference, reported in the accompanying financial statements as deferred charges and is being charged to operations through the year 2015 using the straight line method. At December 31, 2003 the remaining balance to be amortized is \$180,166.

The OWDA Water Pollution Control Loan Fund Refinancing Agreement pledges wastewater fund income to pay debt service. In addition, special provisions exist regarding redemptions of principal, and maintenance, operation, insurance and condemnation of the project facilities.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Principal and interest requirements to retire long-term debt obligations outstanding at December 31, 2003 are as follows:

		<i>OPWC</i>	<i>OWDA</i>	
	<i>Notes</i>	<i>loans</i>	<i>loans</i>	<i>Total</i>
2004	\$ 279,588	\$ 12,842	\$ 608,036	900,466
2005	279,588	12,842	608,036	900,466
2006	279,588	12,842	608,036	900,466
2007	279,588	12,842	608,036	900,466
2008	279,588	12,842	396,705	689,135
2009-2013	1,397,940	59,261	1,983,527	3,440,728
2014-2018	1,397,705	39,450	595,060	2,032,215
2019	-	3,955	-	3,955
	<u>\$ 4,193,585</u>	<u>\$ 166,876</u>	<u>\$ 5,407,436</u>	<u>\$ 9,767,897</u>

Note 12 - Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave liabilities are derived from negotiated agreements and State laws. Employees earn vacation and sick leave at different rates which are also affected by length of service. Vacation can be carried over at different rates depending on the department and only with the Mayor's approval. The carry over vacation must be taken by February 28 of the following year. Sick leave accrual is continuous, without limit. Overtime worked is always paid to employees on the paycheck for the period in which it was worked.

Upon retirement, an employee can be paid for one half of their accumulated hours of sick leave up to 960 hours, except fire department employees, who are paid for one half of their accumulated sick leave up to 1,196 hours. Upon retirement, termination, or death of the employee, accrued vacation is paid for time the employees have earned but not used.

As of December 31, 2003, the liability for unpaid compensated absences was \$295,293 for the entire City.

Note 13 - Defined Benefit Pension Plans

A. *Ohio Public Employees Retirement System*

All City full-time employees, other than Police and Firemen, participate in the Ohio Public Employees Retirement System (OPERS) which is administered by the Ohio Public Employees Retirement Board. OPERS administers three separate pension plans. The Traditional Pension Plan (TP) is a cost-sharing multiple-employer defined benefit pension plan. The Member-Direct Plan (MD) is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five year at 20% per year). Under the Member-Direct Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The Combined Plan (CO) is a cost-sharing multiple-employer defined pension plan. Under the Combined Plan, employer

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

contribution are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement and disability benefits, survivor and death benefits and annual cost of living adjustments to Traditional Plan and Combined Plan members and beneficiaries. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio, 43215-4642, or by calling (614) 466-2085 or 1-800-222-PERS (7377).

Plan members are required to contribute 8.5% of their annual covered salary to fund pension obligations and the City is required to contribute 13.55%. The City's required contributions to OPERS for the years ended December 31, 2003, 2002, and 2001 were \$177,819, \$168,903, and \$156,350 respectively. The full amount has been contributed for 2002 and 2001, and 73% has been contributed for 2003. \$24,364 representing the unpaid contribution for 2003 is recorded as a liability within the governmental activities on the government-wide statements.

B. Police and Firemen's Disability and Pension

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

Police and firefighters are required to contribute 10% of their annual covered salary to fund pension obligations, while the City is required to contribute 19.5% for police and 24% for firefighters to fund pension obligations. Contributions are authorized by State statute. The City's contributions to the PFDPF for police and firefighters were \$185,679 for the year ended December 31, 2003, \$178,636 for 2002 and \$165,250 for 2001. The full amount has been contributed for 2002 and 2001 and 73% has been contributed for 2003. \$50,146 representing the unpaid contribution for 2003 is reported as a liability within governmental activities on the government-wide statements.

Note 14 - Postemployment Benefits

A. Ohio Public Employees Retirement System

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) - a defined contribution plan; and the Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 employer contribution rate for local government employer units was 13.55% of covered payroll, of which 5% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority to require public employers to fund post retirement health care through their contributions to OPERS.

The assumptions and calculations below were based on the System's latest actuarial review performed as of December 31, 2003. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2003 was 8%. An annual increase of 4%, 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% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4% annually.

OPEBs are advance-funded on an actuarially determined basis. At year-end 2003, the number of active contributing participants in the Traditional and Combined Plans totaled 364,881. The rates stated above are the actuarially determined contribution requirements for OPERS. The portion of employer contributions that were used to fund post employment benefits was \$65,615.

\$10.0 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2003. 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.

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

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

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

B. Police and Firemen's Disability Pension Fund

The Ohio Police and Fire Pension Fund (the "OP&F") provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll. The Ohio Revised Code provides the statutory authority allowing OP&F Board of Trustees to provide health care coverage to all eligible individuals.

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

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$57,750 for police and firefighters. The number of participants eligible to receive health care benefits as of December 31, 2002 (the latest information available) was 13,527 for police and 10,396 for firefighters. The fund's total health care expenses for the year ending December 31, 2002 (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875.

Note 15 – Contingencies

The City of Delphos may be a party to legal proceedings seeking damages. The City management is of the opinion that the ultimate disposition of the claims and legal proceedings will not have material effect, if any, on the financial condition of the City.

Note 16 – Change in Accounting Principles and Restatement of Fund Balance/Net Assets

During the year ending December 31, 2002, the City recorded \$165,300 of revenue incorrectly to the general fund. To correct the entries, the City has adjusted the beginning fund balances to reflect the correct beginning fund balances. The City also reclassified the transactions of the income tax fund to a special revenue. The following funds have been adjusted as follows:

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

	<u>General</u>	<u>Income Tax</u>	<u>All other Governmental Funds</u>	<u>Fiduciary- Expendable Trust Fund</u>
<i>Fund balance at December 31, 2002</i>	\$ 1,182,520	\$ -	\$ 127,482	340,875
<i>Restatement</i>	<u>(165,300)</u>	<u>340,875</u>	<u>165,300</u>	<u>(340,875)</u>
<i>Fund balance at January 1, 2003</i>	<u>\$ 1,017,220</u>	<u>\$ 340,875</u>	<u>\$ 292,782</u>	<u>\$ -</u>

During a prior year, the City advance refunded debt resulting in a difference between the reacquisition price and the net carrying amount of the old debt. This difference was not being reflected on the financial statements. Due to this, the net assets were restated to reflect the deferred charges and will be amortized throughout the remaining life of the new loan.

	<u>Business-Type Activities</u>
<i>Net assets at December 31, 2002</i>	\$ 4,742,153
<i>Restatement</i>	<u>195,180</u>
<i>Net assets at January 1, 2003</i>	<u>\$ 4,937,333</u>

For 2003, the City has implemented GASB Statement No. 34 “Basic Financial Statements – and Management’s Discussion and Analysis – for Statement and Local Government” and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.” They also implemented GASB No.37, ”Basic Financial Statements for State and Local Governments: Omnibus”, GASB No.38, “Certain Financial Statement Note Disclosures.” At December 31, 2002, there was no effect on fund balances as a result of implementing GASB Statements No.37 and 38.

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. Non-major funds are presented in total in one column.

The government-wide financial statements split the City’s programs between business-type and governmental activities. 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.

These restatements had the following effects on fund balance of the major and non-major funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the government activities is also presented.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

	<u>General</u>	<u>Income Tax</u>	<u>Other Governmental funds</u>	<u>Total</u>
<i>Fund balances,</i>				
December 31, 2002	\$ 1,017,220	\$ 340,875	\$ 292,782	\$ 1,650,877
<i>Implementation of GASB Interpretation No. 6:</i>				
Compensated absences	<u>183,564</u>	-	-	<u>183,564</u>
<i>Adjusted fund balances,</i>				
December 31, 2002	<u>\$ 1,200,784</u>	<u>\$ 340,875</u>	<u>\$ 292,782</u>	1,834,441
 <i><u>GASB Statement No. 34 Adjustments:</u></i>				
Capital assets				1,895,452
Long-term liabilities				(513,514)
Long-term (deferred) assets				<u>32,543</u>
<i>Governmental activities net assets, December 31, 2002</i>				<u><u>\$ 3,248,922</u></u>

The financial statements also required a correction to the General Fund budgetary fund balance from the prior audit. The change is as follows:

	<u>General Fund</u>
<i>Budgetary fund balance 12/31/02</i>	\$ 753,029
<i>Restatement</i>	<u>(251,891)</u>
<i>Budgetary fund balance 1/1/03</i>	<u><u>\$ 501,138</u></u>

Note 17 – Transfers

Interfund transfers for the year ended December 31, 2003 consisted of the following, as reported on the fund financial statements:

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Funds:		
General	\$0	\$313,543
Income Tax	\$0	\$608,000
Nonmajor Governmental Funds	\$389,528	\$0
Major Proprietary Funds:		
Sewer Fund	\$708,000	\$175,985

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization. Transfers are also used to close out grants in any funds, including special revenue funds, that are no longer required. Transfers can also be made to pay enterprise fund debt from the debt service funds, or to pay water and sewer construction costs from the capital projects funds. All transfers were made in accordance with the Ohio Revised Code.

Note 18 – Interfund Payables/Receivables

The interfund receivables/payables consisted of the following at December 31, 2003, as reported on the fund financial statements:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Fund:		
General	\$8,114	\$0
Non-major Governmental Funds	\$0	\$158,114
Major Proprietary Fund:		
Sewer Fund	\$150,000	\$0

The primary purpose of the interfund balances is to cover infrastructure construction costs in the water and sewer departments where revenues were not received by December 31. These interfund balances will be repaid once the anticipated revenues are received.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members
of City Council
City of Delphos
Delphos, Ohio

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Delphos as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 5, 2006. The City implemented Governmental Accounting Standards Board Statement No. 34 and Interpretation No. 6. 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.

Internal Controls 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 an opinion on the internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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 other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated May 5, 2006.

Compliance and Other Matters

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 agreements and other matters, 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 Schedule of Findings as item 2003-CDAC-01.

We also noted certain immaterial instances of noncompliance that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated May 5, 2006.

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

Charles E. Harris & Associates, Inc.

May 5, 2006

CITY OF DELPHOS
ALLEN COUNTY
December 31, 2003

SCHEDULE OF FINDINGS

FINDING NUMBER 2003-CDAC-01

Ohio Revised Code Section 5705.41 (B) states that no subdivision or taxing authority shall make any expenditure of money unless it has been appropriated as provided in such chapter.

During the year ended December 31, 2003, the following fund's expenditures plus encumbrances exceeded total appropriations:

Enterprise Fund

Water Fund (\$94,368)

The City should monitor appropriations versus expenditures plus encumbrances to help avoid overspending. Management agrees and will monitor budgetary activity.

**CITY OF DELPHOS
ALLEN COUNTY**

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

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2002-CDAC-01	Ohio Rev. Code 5705.41(B), Total expenditures plus encumbrances in excess of appropriations at the legal level of control	No	Repeated as 2003- CDAC-01



**Auditor of State
Betty Montgomery**

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CITY OF DELPHOS

ALLEN 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
SEPTEMBER 26, 2006**