

CITY OF DELPHOS
ALLEN COUNTY

Audit Report

For the Year Ended December 31, 2004

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, 2004 through December 31, 2004. 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, 2004

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Delphos, Allen County, Ohio (the "City"), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements, referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Delphos, Allen County, Ohio, as of December 31, 2004, 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 then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated 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 on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, 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, 2004
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, 2004.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$10.6 million (net assets). Of this amount, \$2.7 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 2004 property receipts were based, increased 5% to \$99,384,035.
- The City's income tax receipts for 2004 increased 3% compared to 2003.
- The City's net assets increased \$2.2 million during the year ending December 31, 2004.

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, 2004
Unaudited

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, income tax fund and the water source fund, which are considered to be major funds. Data from the other 15 governmental funds are combined into a single, aggregated presentation.

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

Proprietary Funds

The City maintains two types of proprietary funds, enterprise and internal service funds. 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.

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.

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.

City of Delphos, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
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 a government's financial position. In the case of the City, assets exceeded liabilities by \$10.6 million at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (69.6 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.

The table below provides a summary of the City's net assets for 2004 compared to 2003:

City of Delphos, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

Net Assets

	Governmental Activites 2004	Governmental Activites 2003	Business-type Activities 2004	Business-type Activities 2003	Total 2004	Total 2003
Current assets	\$ 1,762,960	\$ 2,231,012	\$ 2,795,522	\$ 2,567,680	\$ 4,558,482	\$ 4,798,692
Noncurrent assets	<u>2,752,627</u>	<u>2,104,920</u>	<u>11,620,166</u>	<u>10,160,766</u>	<u>14,372,793</u>	<u>12,265,686</u>
Total assets	<u>4,515,587</u>	<u>4,335,932</u>	<u>14,415,688</u>	<u>12,728,446</u>	<u>18,931,275</u>	<u>17,064,378</u>
Current liabilities	724,441	587,335	196,787	271,418	921,228	858,753
Noncurrent liabilities	<u>444,328</u>	<u>456,752</u>	<u>6,926,371</u>	<u>7,360,775</u>	<u>7,370,699</u>	<u>7,817,527</u>
Total liabilities	<u>1,168,769</u>	<u>1,044,087</u>	<u>7,123,158</u>	<u>7,632,193</u>	<u>8,291,927</u>	<u>8,676,280</u>
Net assets:						
Invested in capital assets, net of related debt	2,593,925	1,898,264	4,807,578	2,799,991	7,401,503	4,698,255
Restricted	572,835	512,030	-	-	572,835	512,030
Unrestricted	<u>180,058</u>	<u>881,551</u>	<u>2,484,952</u>	<u>2,296,262</u>	<u>2,665,010</u>	<u>3,177,813</u>
Total net assets	<u>\$ 3,346,818</u>	<u>\$ 3,291,845</u>	<u>\$ 7,292,530</u>	<u>\$ 5,096,253</u>	<u>\$ 10,639,348</u>	<u>\$ 8,388,098</u>

The unrestricted net assets (\$2.7 million) may be used to meet the government's ongoing obligations to citizens and creditors. The City had \$.6 million in restricted net assets, which represents monies that external parties 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 as well as in the City's governmental activities.

The government's net assets increased by \$2,246,360 during the current fiscal year largely due to construction projects and infrastructure improvements within the City. The increase also represents the result of the cost cutting and strict monitoring of expenditures.

Governmental Activities

Governmental activities increased the City's net assets by \$54,973, or 1.7%, thereby accounting for 2.4% of the total increase in the net assets of the City. The table below shows the changes in net assets of governmental and business-type activities for fiscal year 2004 compared to 2003:

City of Delphos, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		Total	Total
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Program revenues:						
Charges for services	\$ 494,423	\$ 549,083	\$ 3,047,549	\$ 2,539,341	\$ 3,541,972	\$ 3,088,424
Operating grants	12,500	10,630	-	130,875	12,500	141,505
Capital grants	133,649	43,203	1,533,725	-	1,667,374	43,203
General revenues:						
Taxes	2,684,298	2,591,876	-	-	2,684,298	2,591,876
Intergovernmental	802,858	451,302	-	-	802,858	451,302
Investment earnings	47,541	50,930	-	1,812	47,541	52,742
Other	78,440	41,561	-	-	78,440	41,561
Total revenues	<u>4,253,709</u>	<u>3,738,585</u>	<u>4,581,274</u>	<u>2,672,028</u>	<u>8,834,983</u>	<u>6,410,613</u>
Expenses:						
General government	484,522	346,213	-	-	484,522	346,213
Security of persons	2,044,813	2,051,387	-	-	2,044,813	2,051,387
Public Health	19,493	5,471	-	-	19,493	5,471
Leisure time activities	629,552	430,287	-	-	629,552	430,287
Community environment	92,772	2,800	-	-	92,772	2,800
Transportation	310,505	316,072	-	-	310,505	316,072
Water	-	-	959,787	905,893	959,787	905,893
Sewer	-	-	1,728,099	1,845,059	1,728,099	1,845,059
Garbage	-	-	310,001	294,171	310,001	294,171
Interest expense	9,079	11,417	-	-	9,079	11,417
Total expenses	<u>3,590,736</u>	<u>3,163,647</u>	<u>2,997,887</u>	<u>3,045,123</u>	<u>6,588,623</u>	<u>6,208,770</u>
Increase in net assets before transfers	662,973	574,938	1,583,387	(373,095)	2,246,360	201,843
Transfers	<u>(608,000)</u>	<u>(532,015)</u>	<u>608,000</u>	<u>532,015</u>	<u>-</u>	<u>-</u>
Increase in net assets	54,973	42,923	2,191,387	158,920	2,246,360	201,843
Net Assets - Beg. of year	<u>3,291,845</u>	<u>3,248,922</u>	<u>5,101,143</u>	<u>4,937,333</u>	<u>8,392,988</u>	<u>8,186,255</u>
Net Assets - End of year	<u>\$ 3,346,818</u>	<u>\$ 3,291,845</u>	<u>\$ 7,292,530</u>	<u>\$ 5,096,253</u>	<u>\$ 10,639,348</u>	<u>\$ 8,388,098</u>

Governmental activities fund balance increased modestly. Income taxes increased due to the growing economy and Intergovernmental revenues increased due to additional grants received for various projects within the City.

Business-type Activities

Business-type activities increased the City's net assets by \$2,191,387. Key elements of this increase are the addition of infrastructure improvements for the Water and Sewer departments using capital grants. Also, charges for services increased due to increased customers.

City of Delphos, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

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>					
	2004 Total Cost of Services	2004 Net Cost of Services	2003 Total Cost of Services	2003 Net Cost of Services	<u>Net Change</u>	
					Total Cost of Services	Net Cost of Services
Governmental Activities:						
General government	\$ 484,522	\$ (318,094)	\$ 346,213	\$ (268,073)	\$ 830,735	\$ (586,167)
Security of Persons & Property	2,044,813	(1,676,863)	2,051,387	(1,765,975)	4,096,200	(3,442,838)
Public Health	19,493	(19,493)	5,471	(5,471)	24,964	(24,964)
Leisure Time activities	629,552	(549,010)	430,287	(254,933)	1,059,839	(803,943)
Community Environment	92,772	(67,120)	2,800	(1,579)	95,572	(68,699)
Interest expense	9,079	(9,079)	11,417	(11,417)	20,496	(20,496)
Transportation	310,505	(310,505)	316,072	(253,283)	626,577	(563,788)
Total Governmental Activities	<u>3,590,736</u>	<u>(2,950,164)</u>	<u>3,163,647</u>	<u>(2,560,731)</u>	<u>6,754,383</u>	<u>(5,510,895)</u>
Business-type Activities:						
Water	959,787	(48,281)	905,893	(88,697)	1,865,680	(136,978)
Sewer	1,728,099	1,631,737	1,845,059	(246,802)	3,573,158	1,384,935
Garbage	310,001	(69)	294,171	(39,408)	604,172	(39,477)
Total Business-type Activities	<u>2,997,887</u>	<u>1,583,387</u>	<u>3,045,123</u>	<u>(374,907)</u>	<u>6,043,010</u>	<u>1,208,480</u>
Grand total	<u>\$ 6,588,623</u>	<u>\$ (1,366,777)</u>	<u>\$ 6,208,770</u>	<u>\$ (2,935,638)</u>	<u>\$ 12,797,393</u>	<u>\$ (4,302,415)</u>

The City's reliance upon program revenues is demonstrated by the graph below indicating 80% of total revenues from charges for services and program grants. This amount is unusually high in 2004 due to the receipt of \$1,533,725 in capital grants for improvements to the City's infrastructure. The reliance on general revenues is indicated by the net cost of services column above reflecting the need for \$1,366,777 of support.

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.

City of Delphos, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

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 \$869,744, a 39.1% decrease from the prior year.

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2004 and 2003.

	Fund Balance 12/31/2004	Fund Balance 12/31/2003	Increase (Decrease)
General	\$ 914,221	\$ 976,874	\$ (62,653)
Income tax	352,283	333,206	19,077
Water source	(506,091)	38,634	(544,725)
Other governmental	109,331	79,492	29,839
Total	<u>\$ 869,744</u>	<u>\$ 1,428,206</u>	<u>\$ (558,462)</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. The water source fund is a capital projects fund. At the end of the current fiscal year, unreserved fund balance of the general was \$862,637, while the total fund balance was \$914,221. The income tax fund had an unreserved fund balance of \$351,458 and total fund balance of \$352,283. The water source fund had an unreserved fund balance of (\$506,392).

The fund balance of the City's general fund decreased by \$62,653 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 fund balance of the income tax fund increased by \$19,077 during the current fiscal year. This increase represents the degree to which income tax receipts was more than the expenses associated with the income tax department and the debt service requirements for the OWDA debt.

The fund balance of the water source fund decreased by \$544,725 during the current fiscal year. This decrease represents the required repayment of an interfund advance during the year.

The other governmental funds had a fund balance at year of \$109,331 or an increase from the prior year of \$79,492. There are other governmental funds that account for many special programs. The increase in fund balance over the previous year-end demonstrates the degree by which revenues are growing in comparison to expenditures.

City of Delphos, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
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 \$228,888. Total net assets decreased \$45,437, or 5.8%, from the previous year.

Unrestricted net assets in the sewer fund at the end of the year amounted to \$2.2 million. Total net assets increased \$2,244,814 or 54.3%, from the previous year.

Unrestricted net assets in the garbage fund at the end of the year amounted to \$46,176. Total net assets increased \$850, or .5%, 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 \$3.1 million versus budgetary expenditures of \$3.2 million. \$540,000 of the total budgetary expenditures are for advances, which are not required to be budgeted.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2004 amounts to \$14.2 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, equipment, furniture, vehicles, and infrastructure. For more information on capital assets, see Note 6 to the financial statements.

Debt

At the end of the current fiscal year, the City had total debt outstanding of \$6,971,290, which includes capital leases and bonds and loans payable. This entire amount is backed by the full faith and credit of the City. Detailed information regarding long-term debt is included in Note 10 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.

City of Delphos, Ohio

Statement of Net Assets

December 31, 2004

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and investments	\$ 783,607	\$ 2,318,367	\$ 3,101,974
Cash and cash equivalents with fiscal agents	20,000	-	20,000
Receivables:			
Property and other taxes	834,691	-	834,691
Accounts	134,767	293,914	428,681
Accrued interest	3,542	45	3,587
Internal balances	(141,160)	141,160	-
Due from other governments	80,710	-	80,710
Materials and supplies inventory	10,442	14,575	25,017
Prepaid items	36,361	27,461	63,822
Deferred charges	-	165,152	165,152
Nondepreciable capital assets	1,385,573	358,257	1,743,830
Depreciable capital assets, net	1,367,054	11,096,757	12,463,811
Total assets	<u>4,515,587</u>	<u>14,415,688</u>	<u>18,931,275</u>
<u>Liabilities:</u>			
Accounts payable	92,727	153,617	246,344
Accrued wages and benefits	57,274	26,675	83,949
Matured compensated absences payable	5,011	-	5,011
Due to other governments	63,646	5,034	68,680
Deferred revenue	500,718	-	500,718
Accrued interest payable	4,078	11,461	15,539
Claims payable	987	-	987
Long-term liabilities:			
Due within one year	115,638	596,293	711,931
Due in more than one year	328,690	6,330,078	6,658,768
Total liabilities	<u>1,168,769</u>	<u>7,123,158</u>	<u>8,291,927</u>
<u>Net assets:</u>			
Invested in capital assets, net of related debt	2,593,925	4,807,578	7,401,503
Restricted for:			
Other purposes	572,835	-	572,835
Unrestricted	180,058	2,484,952	2,665,010
Total net assets	<u>\$ 3,346,818</u>	<u>\$ 7,292,530</u>	<u>\$ 10,639,348</u>

See accompanying notes to the basic financial statements.

City of Delphos, Ohio

Statement of Activities

For the Year Ended December 31, 2004

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<u>Governmental Activities:</u>				
General government	\$ 484,522	\$ 32,779	\$ -	\$ 133,649
Safety services	2,044,813	367,950	-	-
Public health and welfare	19,493	-	-	-
Transportation	310,505	-	-	-
Community environment	92,772	13,152	12,500	-
Leisure time activities	629,552	80,542	-	-
Interest and fiscal charges	9,079	-	-	-
Total governmental activities	<u>3,590,736</u>	<u>494,423</u>	<u>12,500</u>	<u>133,649</u>
<u>Business-Type Activities:</u>				
Water	959,787	911,506	-	-
Sewer	1,728,099	1,826,111	-	1,533,725
Garbage	310,001	309,932	-	-
Total business-type activities	<u>2,997,887</u>	<u>3,047,549</u>	<u>-</u>	<u>1,533,725</u>
Total primary government	<u>\$ 6,588,623</u>	<u>\$ 3,541,972</u>	<u>\$ 12,500</u>	<u>\$ 1,667,374</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
\$ (318,094)	\$ -	\$ (318,094)
(1,676,863)	-	(1,676,863)
(19,493)	-	(19,493)
(310,505)	-	(310,505)
(67,120)	-	(67,120)
(549,010)	-	(549,010)
(9,079)	-	(9,079)
<u>(2,950,164)</u>	<u>-</u>	<u>(2,950,164)</u>
-	(48,281)	(48,281)
-	1,631,737	1,631,737
-	(69)	(69)
<u>-</u>	<u>1,583,387</u>	<u>1,583,387</u>
\$ (2,950,164)	1,583,387	(1,366,777)
2,684,298	-	2,684,298
802,858	-	802,858
47,541	-	47,541
78,440	-	78,440
<u>(608,000)</u>	<u>608,000</u>	<u>-</u>
<u>3,005,137</u>	<u>608,000</u>	<u>3,613,137</u>
54,973	2,191,387	2,246,360
<u>3,291,845</u>	<u>5,101,143</u>	<u>8,392,988</u>
<u>\$ 3,346,818</u>	<u>\$ 7,292,530</u>	<u>\$ 10,639,348</u>

City of Delphos, Ohio

Balance Sheet

Governmental Funds

December 31, 2004

	General	Income Tax	Water Source	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents	\$ 120,504	\$ 244,316	\$ 33,909	\$ 285,067	\$ 683,796
Receivables:					
Property and other taxes	660,086	110,643	-	63,962	834,691
Accounts	134,767	-	-	-	134,767
Interfund	540,000	-	-	-	540,000
Accrued interest	3,353	-	-	189	3,542
Due from other governments	56,709	-	-	24,001	80,710
Materials and supplies inventory	1,261	-	-	9,181	10,442
Prepaid items	30,332	367	-	5,662	36,361
Total assets	<u>\$ 1,547,012</u>	<u>\$ 355,326</u>	<u>\$ 33,909</u>	<u>\$ 388,062</u>	<u>\$ 2,324,309</u>
Liabilities:					
Accounts payable	\$ 74,058	\$ 1,399	\$ -	\$ 17,270	\$ 92,727
Interfund payable	-	-	540,000	150,000	690,000
Accrued wages and benefits	52,046	1,276	-	3,952	57,274
Compensated absences payable	4,642	128	-	241	5,011
Due to other governments	20,100	240	-	43,306	63,646
Deferred revenue	481,945	-	-	63,962	545,907
Total liabilities	<u>632,791</u>	<u>3,043</u>	<u>540,000</u>	<u>278,731</u>	<u>1,454,565</u>
Fund balances:					
Reserved for encumbrances	19,991	458	300	2,315	23,064
Reserved for inventory	1,261	-	-	9,181	10,442
Reserved for prepaid items	30,332	367	-	5,662	36,361
Unreserved, undesignated, Reported in:					
General fund	862,637	-	-	-	862,637
Special revenue funds	-	351,458	-	223,689	575,147
Capital projects fund	-	-	(506,391)	(131,516)	(637,907)
Total fund balances	<u>914,221</u>	<u>352,283</u>	<u>(506,091)</u>	<u>109,331</u>	<u>869,744</u>
Total liabilities and fund balances	<u>\$ 1,547,012</u>	<u>\$ 355,326</u>	<u>\$ 33,909</u>	<u>\$ 388,062</u>	<u>\$ 2,324,309</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, 2004**

Total governmental fund balances		\$ 869,744
<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.		2,752,627
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.		127,664
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		45,189
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(4,078)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Pension obligations	\$ (60,401)	
Capital lease payable	(158,702)	
Compensated absences	(225,225)	
Total		<u>(444,328)</u>
Net assets of governmental activities		<u>\$ 3,346,818</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, 2004

	General	Income Tax	Water Source	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property and other taxes	\$ 1,864,205	\$ 745,068	\$ -	\$ 66,472	\$ 2,675,745
Charges for services	297,505	-	-	69,362	366,867
Fines, licenses, and permits	48,333	-	-	4,979	53,312
Intergovernmental	451,588	-	133,649	363,770	949,007
Investment income	46,134	-	-	1,407	47,541
Other	8,683	5	-	16,440	25,128
Total revenue	<u>2,716,448</u>	<u>745,073</u>	<u>133,649</u>	<u>522,430</u>	<u>4,117,600</u>
Expenditures:					
Current:					
General government	343,739	117,996	-	-	461,735
Safety services	1,494,705	-	-	202,428	1,697,133
Public health and welfare	-	-	-	4,645	4,645
Transportation	-	-	-	271,491	271,491
Community environment	51,808	-	-	2,870	54,678
Leisure time activities	441,865	-	-	-	441,865
Capital outlay	205,373	-	778,374	94,502	1,078,249
Debt service:					
Principal retirement	-	-	-	47,954	47,954
Interest and fiscal charges	-	-	-	10,312	10,312
Total expenditures	<u>2,537,490</u>	<u>117,996</u>	<u>778,374</u>	<u>634,202</u>	<u>4,068,062</u>
Excess of revenues over (under) expenditures	178,958	627,077	(644,725)	(111,772)	49,538
Other financing sources (uses):					
Transfers - in	-	-	100,000	141,611	241,611
Transfers - out	(241,611)	(608,000)	-	-	(849,611)
Total other financing sources (uses)	<u>(241,611)</u>	<u>(608,000)</u>	<u>100,000</u>	<u>141,611</u>	<u>(608,000)</u>
Net change in fund balance	(62,653)	19,077	(544,725)	29,839	(558,462)
Fund balances at beginning of year	976,874	333,206	38,634	79,492	1,428,206
Fund balances at end of year	<u>\$ 914,221</u>	<u>\$ 352,283</u>	<u>\$ (506,091)</u>	<u>\$ 109,331</u>	<u>\$ 869,744</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, 2004**

Net change in fund balances - Total governmental funds \$ (558,462)

*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	\$ 913,333	
Depreciation expense	<u>(265,626)</u>	
Excess of capital outlay over depreciation expense		647,707

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 (22,737)

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	\$ (49,639)	
Increase in pension obligation	14,109	
Increase in accrued interest	<u>1,233</u>	
Total additional expenditures		(34,297)

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.

(25,192)

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.

47,954

Change in net assets of governmental activities

\$ 54,973

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, 2004**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property and other taxes	\$ 1,986,000	\$ 1,986,000	\$ 1,915,111	\$ (70,889)
Charges for services	252,000	252,000	295,638	43,638
Fines, licenses, and permits	54,000	54,000	49,840	(4,160)
Intergovernmental	292,000	292,000	354,648	62,648
Investment income	50,000	50,000	45,899	(4,101)
Other	7,000	7,000	8,683	1,683
Total revenue	<u>2,641,000</u>	<u>2,641,000</u>	<u>2,669,819</u>	<u>28,819</u>
<u>Expenditures:</u>				
Current:				
General government	595,199	595,199	339,439	255,760
Safety services	1,733,029	1,733,029	1,620,725	112,304
Public health and welfare	50,000	50,000	-	50,000
Community environment	55,000	55,000	51,808	3,192
Leisure time activities	457,772	457,772	449,251	8,521
Total expenditures	<u>2,891,000</u>	<u>2,891,000</u>	<u>2,461,223</u>	<u>429,777</u>
Excess of revenues over (under) expenditures	(250,000)	(250,000)	208,596	458,596
<u>Other financing sources (uses):</u>				
Advances - in	-	-	8,114	8,114
Advances - out	-	-	(540,000)	(540,000)
Transfers - out	(250,000)	(250,000)	(241,611)	8,389
Total other financing sources (uses)	<u>(250,000)</u>	<u>(250,000)</u>	<u>(773,497)</u>	<u>(523,497)</u>
Net change in fund balance	(500,000)	(500,000)	(564,901)	(64,901)
Fund balance at beginning of year	652,373	652,373	652,373	-
Prior year encumbrances appropriated	13,041	13,041	13,041	-
Fund balance at end of year	<u>\$ 165,414</u>	<u>\$ 165,414</u>	<u>\$ 100,513</u>	<u>\$ (64,901)</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, 2004**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property and other taxes	\$ 700,000	\$ 700,000	\$ 750,518	\$ 50,518
Other	-	-	5	5
Total revenue	<u>700,000</u>	<u>700,000</u>	<u>750,523</u>	<u>50,523</u>
<u>Expenditures:</u>				
Current:				
General government	<u>500,000</u>	<u>500,000</u>	<u>116,381</u>	<u>383,619</u>
Excess of revenues over (under) expenditures	200,000	200,000	634,142	434,142
<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	(200,000)	(200,000)	26,142	226,142
Fund balance at beginning of year	218,034	218,034	218,034	-
Fund balance at end of year	<u>\$ 18,034</u>	<u>\$ 18,034</u>	<u>\$ 244,176</u>	<u>\$ 226,142</u>

See accompanying notes to the basic financial statements.

City of Delphos, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2004

	Business-Type Activities			Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Water	Sewer	Garbage		
<u>Assets:</u>					
Equity in pooled cash and investments	\$ 188,655	\$ 2,053,589	\$ 76,123	\$ 2,318,367	\$ 99,811
Cash and cash equivalents:					
With fiscal agent	-	-	-	-	20,000
Receivables:					
Accounts	115,297	139,807	38,810	293,914	-
Interfund	-	150,000	-	150,000	-
Accrued interest	45	-	-	45	-
Materials and supplies inventory	687	13,888	-	14,575	-
Prepaid items	15,810	11,377	274	27,461	-
Deferred charges	-	165,152	-	165,152	-
Land	230,193	128,064	-	358,257	-
Depreciable capital assets, net	3,250,991	7,708,773	136,993	11,096,757	-
Total assets	<u>3,801,678</u>	<u>10,370,650</u>	<u>252,200</u>	<u>14,424,528</u>	<u>119,811</u>
<u>Liabilities:</u>					
Accounts payable	20,481	64,105	69,031	153,617	-
Accrued wages and benefits	9,493	17,182	-	26,675	-
Compensated absences payable	48,299	65,484	-	113,783	-
Due to other governments	1,872	3,162	-	5,034	-
Accrued interest payable	11,461	-	-	11,461	-
Notes payable	2,815,000	-	-	2,815,000	-
Claims payable	-	-	-	-	987
OPWC loans payable	154,033	-	-	154,033	-
OWDA loans payable	-	3,843,555	-	3,843,555	-
Total liabilities	<u>3,060,639</u>	<u>3,993,488</u>	<u>69,031</u>	<u>7,123,158</u>	<u>987</u>
<u>Net assets:</u>					
Invested in capital assets, net of related debt	512,151	4,158,434	136,993	4,807,578	-
Unrestricted	228,888	2,218,728	46,176	2,493,792	118,824
Total net assets	<u>\$ 741,039</u>	<u>\$ 6,377,162</u>	<u>\$ 183,169</u>	<u>\$ 7,301,370</u>	<u>\$ 118,824</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.

(8,840)

Net assets of business-type activities

\$ 7,292,530

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, 2004

	Business-Type Activities			Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Water	Sewer	Garbage		
<u>Operating revenues:</u>					
Charges for services	\$ 891,924	\$ 1,823,089	\$ 309,932	\$ 3,024,945	\$ 9,198
Tap-in fees	17,934	1,800	-	19,734	-
Other	100	1,222	-	1,322	-
Total operating revenue	<u>909,958</u>	<u>1,826,111</u>	<u>309,932</u>	<u>3,046,001</u>	<u>9,198</u>
<u>Operating expenses:</u>					
Personal services	395,523	586,341	-	981,864	-
Contractual services	163,248	479,656	278,615	921,519	-
Travel transportation	1,145	11,616	-	12,761	-
Supplies and materials	99,615	160,168	13,020	272,803	-
Claims	-	-	-	-	38,340
Depreciation	162,543	270,864	17,447	450,854	-
Total operating expenses	<u>822,074</u>	<u>1,508,645</u>	<u>309,082</u>	<u>2,639,801</u>	<u>38,340</u>
Operating income (loss)	87,884	317,466	850	406,200	(29,142)
<u>Non-operating revenues (expenses):</u>					
Interest	1,548	-	-	1,548	-
Capital grants	-	-	-	-	-
Interest and fiscal charges	(134,869)	(214,377)	-	(349,246)	-
Total non-operating revenues (expenses)	<u>(133,321)</u>	<u>(214,377)</u>	<u>-</u>	<u>(347,698)</u>	<u>-</u>
Income (loss) before transfers and contributions	(45,437)	103,089	850	58,502	(29,142)
Capital contributions	-	1,533,725	-	1,533,725	-
Transfers in	100,000	708,000	-	808,000	-
Transfers out	(100,000)	(100,000)	-	(200,000)	-
Change in net assets	(45,437)	2,244,814	850	2,200,227	(29,142)
Net assets at beginning of year	<u>786,476</u>	<u>4,132,348</u>	<u>182,319</u>	<u>5,101,143</u>	<u>147,966</u>
Net assets at end of year	<u>\$ 741,039</u>	<u>\$ 6,377,162</u>	<u>\$ 183,169</u>	<u>\$ 7,301,370</u>	<u>\$ 118,824</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	\$ 2,200,227
Business-type activities share of the internal service funds loss	(8,840)
Change in net assets of business-type activities	<u>\$ 2,191,387</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, 2004

	Business-Type Activities			Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Water	Sewer	Garbage		
Cash flows from operating activities:					
Cash received from customers	\$ 897,155	\$ 1,826,309	\$ 298,968	\$ 3,022,432	\$ 9,198
Cash payments for employee services and benefits	(399,664)	(570,746)	-	(970,410)	-
Cash payments to suppliers for goods and services	(261,792)	(620,127)	(289,340)	(1,171,259)	(38,545)
Other	100	-	-	100	-
Net cash provided by (used for) operating activities	235,799	635,436	9,628	880,863	(29,347)
Cash flows from noncapital financing activities:					
Transfers from other funds	-	608,000	-	608,000	-
Net cash provided by noncapital financing activities	-	608,000	-	608,000	-
Cash flows from capital and related financing activities:					
Interest paid on debt	(135,315)	(199,402)	-	(334,717)	-
Principal retirement	(157,843)	(390,305)	-	(548,148)	-
Capital grant	-	1,533,725	-	1,533,725	-
Acquisition of capital assets	-	(1,925,268)	-	(1,925,268)	-
Net cash provided by (used for) for capital and related financing activities	(293,158)	(981,250)	-	(1,274,408)	-
Cash flows from investing activities:					
Investment income	1,672	-	-	1,672	-
Net cash provided by investing activities	1,672	-	-	1,672	-
Net increase (decrease) in cash and cash equivalents	(55,687)	262,186	9,628	216,127	(29,347)
Cash and cash equivalents at beginning of year	244,342	1,791,403	66,495	2,102,240	149,158
Cash and cash equivalents at end of year	\$ 188,655	\$ 2,053,589	\$ 76,123	\$ 2,318,367	\$ 119,811
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 87,884	\$ 317,466	\$ 850	\$ 406,200	\$ (29,142)
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	(12,703)	198	(10,964)	(23,469)	-
Materials and supplies inventory	(188)	487	-	299	-
Prepaid items	2,978	3,484	919	7,381	-
Increase (decrease) in liabilities:					
Accounts payable	8,834	44,444	1,376	54,654	-
Claims payable	-	-	-	-	(205)
Accrued wages and benefits	979	4,922	-	5,901	-
Compensated absences	(5,345)	6,230	-	885	-
Due to other governments	(9,183)	(12,659)	-	(21,842)	-
Net cash provided by (used for) operating activities	\$ 235,799	\$ 635,436	\$ 9,628	\$ 880,863	\$ (29,347)

See accompanying notes to the basic financial statements.

City of Delphos, Ohio
Statement of Fiduciary Net Asset
Fiduciary Funds
December 31, 2004

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and investments	<u>\$ 2,115</u>
Total assets	<u><u>2,115</u></u>
<u>Liabilities:</u>	
Accounts payable	<u>2,115</u>
Total liabilities	<u><u>\$ 2,115</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, 2004

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, 2004

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, 2004

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.

Water Source Fund This fund received a loan from the General Fund for various improvements to the City’s water infrastructure.

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, 2004

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
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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, 2004, but which were levied to finance year 2005 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
For the Year Ended December 31, 2004

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 resolution 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 2004.

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, 2004

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 Investments. 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 2004 amount to \$47,541.

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, 2004 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
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 2004, 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
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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, 2004. 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 judgements, 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
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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
For the Year Ended December 31, 2004

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 2004.

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 general and income tax funds.

<i>Net Change in Fund Balance</i>		
	<u>General</u>	<u>Income Tax</u>
<i>GAAP Basis</i>	\$ (62,653)	\$ 19,077
<i>Revenue accruals</i>	(38,515)	5,450
<i>Expenditure accruals</i>	(513,125)	1,615
<i>Encumbrances (Budget Basis) outstanding at year end</i>	<u>49,392</u>	<u>-</u>
<i>Budget Basis</i>	<u>\$ (564,901)</u>	<u>\$ 26,142</u>

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 4 – 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;
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

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 \$3,124,089 and the bank balance was \$3,234,494. Of the bank balance, only \$100,000 was covered by federal depository insurance and \$3,134,494 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>	\$ 1,124,420	\$ 2,000,000
<i>Cash on hand</i>	(331)	-
<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>\$ 3,124,089</u>	<u>\$ -</u>

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 5 – 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.

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. Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility, and tangible personal property taxes which became measurable as of December 31, 2004. However, since these tax collections will not be received during the available period nor are they intended to finance 2004 operations, the receivable is offset by a credit to deferred revenue.

The full tax rate applied to real property for both counties for the fiscal year ended December 31, 2003, was \$6.75 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 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>	\$ 55,417,900	\$ 24,221,460
<i>Public utility personal property</i>	1,506,500	1,088,090
<i>Tangible personal property</i>	<u>13,043,425</u>	<u>4,106,660</u>
<i>Total assessed value</i>	<u>\$ 69,967,825</u>	<u>\$ 29,416,210</u>

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 \$2,271,459 in 2004. 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 6 – Capital Assets

Governmental activities capital asset activity for the year-end December 31, 2004 was as follows:

<u>Governmental activities</u>	<u>Balance</u> <u>12/31/2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2004</u>
<i>Capital assets, not being depreciated:</i>				
<i>Land</i>	\$ 398,895	\$ -	\$ -	\$ 398,895
<i>Construction in progress</i>	<u>208,300</u>	<u>778,378</u>	<u>-</u>	<u>986,678</u>
<i>Total capital assets, not being depreciated</i>	<u>607,195</u>	<u>778,378</u>	<u>-</u>	<u>1,385,573</u>
<i>Capital assets, being depreciated:</i>				
<i>Buildings</i>	860,229	-	-	860,229
<i>Equipment and furniture</i>	1,047,699	53,022	-	1,100,721
<i>Land improvement</i>	743,938	-	-	743,938
<i>Vehicles</i>	<u>1,706,960</u>	<u>81,933</u>	<u>-</u>	<u>1,788,893</u>
<i>Total capital assets, being depreciated</i>	<u>4,358,826</u>	<u>134,955</u>	<u>-</u>	<u>4,493,781</u>
<i>Less accumulated depreciation:</i>	<u>(2,861,101)</u>	<u>(265,626)</u>	<u>-</u>	<u>(3,126,727)</u>
<i>Total capital assets being depreciated, net</i>	<u>1,497,725</u>	<u>(130,671)</u>	<u>-</u>	<u>1,367,054</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 2,104,920</u>	<u>\$ 647,707</u>	<u>\$ -</u>	<u>\$ 2,752,627</u>

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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

<u>Depreciation Expense:</u>	
General government	\$ 11,279
Safety services	144,506
Leisure time activities	77,606
Transportation	<u>32,235</u>
Total depreciation expense	<u>\$ 265,626</u>

The business-type activities capital asset activity for the year-end December 31, 2004 was as follows:

<u>Business-type activities</u>	<u>Balance</u> <u>12/31/2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2004</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 358,257	\$ -	\$ -	\$ 358,257
<i>Capital assets, being depreciated:</i>				
Buildings	116,340	-	-	116,340
Vehicles	652,860	-	-	652,860
Equipment and furniture	1,021,262	85,912	-	1,107,174
Infrastructure	<u>21,861,018</u>	<u>1,839,356</u>	-	<u>23,700,374</u>
Total capital assets, being depreciated	23,651,480	1,925,268	-	25,576,748
Less accumulated depreciation:	<u>(14,029,137)</u>	<u>(450,854)</u>	-	<u>(14,479,991)</u>
Total capital assets being depreciated, net	<u>9,622,343</u>	<u>1,474,414</u>	-	<u>11,096,757</u>
Business-type activities capital assets, net	<u>\$ 9,980,600</u>	<u>\$ 1,474,414</u>	<u>\$ -</u>	<u>\$ 11,455,014</u>

Note 7 - Receivables

Receivables at December 31, 2004 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:

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

<u>Revenue description</u>	<u>Amount</u>
Gasoline tax	\$ 19,362
Estate tax	56,614
Court fines	95
Motor vehicle tax	4,085
Permissive sales tax	554
Total	\$ 80,710

Note 8 - 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.

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. The self insurance program was terminated in April 2003 and the City now uses a premium based insurance coverage. Below is the residual activity of the fund through December 31, 2004:

<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>
2003	\$ 32,884	174,178	(205,870)	\$ 1,192
2004	\$ 1,192	38,340	(38,545)	\$ 987

B. Other Insurance Coverage

During 2004, 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

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.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 9 - 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, 2004:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2005	\$ 58,266
2006	58,266
2007	58,266
<i>Total minimum lease payments</i>	<u>174,798</u>
<i>Less: amount representing interest</i>	<u>(16,096)</u>
<i>Present value of minimum lease payments</i>	<u>\$ 158,702</u>

Note 10 - Long-Term Obligations

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

	<u>Balance</u> <u>1/1/2004</u>	<u>Additions</u>	<u>Deletion</u>	<u>Balance</u> <u>12/31/2004</u>	<u>Due within</u> <u>One Year</u>
<u>Governmental activities:</u>					
<i>Capital lease obligation</i>	\$ 206,656	\$ -	\$ (47,954)	\$ 158,702	\$ 50,354
<i>Pension obligation</i>	74,510	60,401	(74,510)	60,401	60,401
<i>Compensated absences</i>	<u>175,586</u>	<u>67,523</u>	<u>(17,884)</u>	<u>225,225</u>	<u>4,883</u>
<i>Total governmental activities</i>					
<i>long-term liabilities</i>	<u>\$ 456,752</u>	<u>\$ 127,924</u>	<u>\$ (140,348)</u>	<u>\$ 444,328</u>	<u>\$ 115,638</u>
<u>Business-type activities:</u>					
<i>Water plant improvement notes, 3.25%</i>	\$ 2,960,000	\$ -	\$ (145,000)	\$ 2,815,000	\$ 150,000
<i>OWDA loan, 9.72%</i>	673,953	-	(145,866)	528,087	160,002
<i>OWDA loan, 4.35%</i>	3,559,946	-	(244,478)	3,315,468	255,228
<i>1992 OPWC loan, 0%</i>	44,571	-	(4,952)	39,619	4,952
<i>2000 OPWC loan, 0%</i>	122,305	-	(7,891)	114,414	7,890
<i>Compensated absences</i>	<u>112,898</u>	<u>41,126</u>	<u>(40,241)</u>	<u>113,783</u>	<u>18,221</u>
<i>Total business-type activities</i>					
<i>long-term liabilities</i>	<u>\$ 7,473,673</u>	<u>\$ 41,126</u>	<u>\$ (588,428)</u>	<u>\$ 6,926,371</u>	<u>\$ 596,293</u>

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 a deduction from OWDA loans payable, is being charged to operations through the year 2015 using the straight line method. At December 31, 2004 the remaining balance to be amortized is \$165,153.

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.

Principal and interest requirements to retire long term debt obligations outstanding at December 31, 2004 are as follows:

	<i>Notes</i>	<i>OPWC loans</i>	<i>OWDA loans</i>	<i>Total</i>
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	279,588	12,842	396,705	689,135
2010-2014	1,397,940	54,309	1,983,527	3,435,776
2015-2018	1,118,117	35,514	198,355	1,351,986
	<u>\$ 3,913,997</u>	<u>\$ 154,033</u>	<u>\$ 4,799,400</u>	<u>\$ 8,867,430</u>

Note 11 - 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, 2004, the liability for unpaid compensated absences was \$225,225 for the entire City.

Note 12 - 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 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).

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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, 2004, 2003, and 2002 were \$186,739, \$177,819, and \$168,903 respectively. The full amount has been contributed for 2003 and 2002, and 90% has been contributed for 2004. \$17,789 representing the unpaid contribution for 2004 is recorded as a liability within 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 \$192,729 for the year ended December 31, 2004, \$185,679 for 2003 and \$178,636 for 2002. The full amount has been contributed for 2003 and 2002 and 78% has been contributed for 2004. \$42,612 representing the unpaid contribution for 2004 is reported as a liability within the government-wide statements.

Note 13 - 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 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.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 2004 employer contribution rate for local government employer units was 13.55% of covered payroll, of which 4% 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, 2004. 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 2004 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 2004, the number of active contributing participants in the Traditional and Combined Plans totaled 369,885. 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 \$55,126.

\$10.5 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2004. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 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 2003 and 2004. 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 2004 that were used to fund postemployment benefits were \$59,973 for police and firefighters. The number of participants eligible to receive health care benefits as of December 31, 2003 (the latest information available) was 13,662 for police and 10,474 for firefighters. The fund's total health care expenses for the year ending December 31, 2003 (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506.

Note 15 – Transfers

Interfund transfers for the year ended December 31, 2004 consisted of the following, as reported on the fund financial statements:

	Transfer In	Transfer Out
Major Governmental Funds:		
General	\$0	\$241,611
Income Tax	\$0	\$608,000
Water Source	\$100,000	\$0
Nonmajor Governmental Funds	\$141,611	\$0
Major Proprietary Funds:		
Water Fund	\$100,000	\$100,000
Sewer Fund	\$708,000	\$100,000

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 16 – Interfund Payables/Receivables

The interfund receivables/payables consisted of the following at December 31, 2004, as reported on the fund financial statements:

	Interfund Receivable	Interfund Payable
Major Governmental Fund:		
General	\$540,000	\$0
Non-major Governmental Funds	\$0	\$690,000
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.

Note 17 – Accountability and Compliance

The following funds had expenditures plus encumbrances in excess of appropriations at the legal of level of control contrary to Ohio Rev. Code Section 5705.41 (B):

- Special Revenue Funds:
 - Law Enforcement Man. Drug Fine
 - Police Pension
 - Fire Pension
 - Economic Development
- Enterprise Fund:
 - Sewer Replacement/Improvement

Note 18 – 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.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 19 – Subsequent Events

On March 31, 2005, the City issued \$5,000,000 of bond anticipation notes. The notes have an interest rate of 2.64% and mature on October 11, 2005.

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, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 5, 2006. 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 2004-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, 2004

SCHEDULE OF FINDINGS

FINDING NUMBER 2004-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, 2004, the following funds' expenditures plus encumbrances exceeded total appropriations:

Special Revenue Funds:

Law Enforcement Man. Drug Fine Fund (\$9,800)

Police Pension Fund (\$4,863)

Fire Pension Fund (\$906)

Economic Development Fund (\$870)

Enterprise Fund

Sewer Replacement/Improvement Fund (\$1,198,661)

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

**CITY OF DELPHOS
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2004**

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2003-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 2004- CDAC-01



**Auditor of State
Betty Montgomery**

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800-282-0370

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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**