

City of Delphos, Ohio



Basic Financial Statements
For Year Ended: December 31, 2005



Mary Taylor, CPA
Auditor of State

City Council
City of Delphos
608 North Canal Street
Delphos, Ohio 45833

We have reviewed the *Independent Auditor's Report* of the City of Delphos, Allen County, prepared by Rea & Associates, Inc., for the audit period January 1, 2005 through December 31, 2005. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 17, 2008

This Page is Intentionally Left Blank.

**City of Delphos – Allen County
Basic Financial Statements
Table of Contents**

	<u>Page</u>
Independent Auditor’s Report	2
Management’s Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP) and Actual – General Fund	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – Income Tax Fund.....	21
Statement of Fund Net Assets – Proprietary Funds	22
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	23
Statement of Cash Flows – Proprietary Funds.....	24
Statement of Fiduciary Net Assets – Fiduciary Funds.....	25
Notes to the Basic Financial Statements.....	26
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	53
Schedule of Findings	55
Summary Schedule of Prior Audit Findings.....	60
Corrective Action Plan.....	61

We're Ready For Your Future

February 28, 2008

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

INDEPENDENT AUDITOR'S REPORT

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, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Delphos, Allen County, Ohio, as of December 31, 2005, 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 February 28, 2008 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

City of Delphos, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2005
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, 2005.

Financial Highlights

- The total net assets of the City increased \$4,132,232. Net assets of governmental activities increased \$1,262,378, which represents a 48.8% increase over year 2004. Net assets of business-type activities increased \$2,869,854 or 40.7% from year 2004.
- General revenues, for governmental activities, accounted for \$3,966,149 or 73.2% of total governmental activities revenue. Program specific revenues accounted for \$1,452,693 or 26.8% of total governmental activities revenue.
- Governmental activities net capital assets increased \$67,864, primarily due to construction projects going on within the City.
- The City had \$3,436,464 in expenses related to governmental activities; \$1,452,693 of these expenses was offset by program specific charges for services, grants, contributions, or interest. General revenues (primarily taxes) of \$3,966,149 were sufficient to offset these program expenses.
- The general fund, the City's largest major governmental fund, had revenues of \$2,930,113 in 2005, or 62.9% of total governmental funds. Expenditures of the general fund were \$2,586,274, or 74.7% of total governmental funds. The general fund balance increased \$204,839, or 21.7% in 2005.

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.

City of Delphos, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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.

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 17 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, the income tax special revenue fund, and the water source capital projects fund which are considered to be major funds. Data from the other 13 governmental funds are combined into a single, aggregated presentation.

City of Delphos, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2005

Unaudited

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

Proprietary Funds

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

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 \$13.7 million at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (56.9%) 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 2005 compared to 2004:

City of Delphos, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

	Net Assets					
	Governmental Governmental Activities 2005	Governmental Activities (Restated) 2004	Business-Type Activities 2005	Business-Type Activities (Restated) 2004	Governmental Activities Total 2005	Business-Type Activities Total (Restated) 2004
Current assets	\$ 2,954,626	\$ 1,894,929	\$ 4,244,458	\$ 3,394,019	\$ 7,199,084	\$ 5,288,948
Noncurrent assets	<u>1,930,103</u>	<u>1,862,239</u>	<u>26,259,444</u>	<u>12,355,737</u>	<u>28,189,547</u>	<u>14,217,976</u>
Total assets	<u>4,884,729</u>	<u>3,757,168</u>	<u>30,503,902</u>	<u>15,749,756</u>	<u>35,388,631</u>	<u>19,506,924</u>
Current liabilities	674,108	724,441	228,452	196,787	902,560	921,228
Noncurrent liabilities	<u>359,844</u>	<u>444,328</u>	<u>20,361,773</u>	<u>8,509,146</u>	<u>20,721,617</u>	<u>8,953,474</u>
Total liabilities	<u>1,033,952</u>	<u>1,168,769</u>	<u>20,590,225</u>	<u>8,705,933</u>	<u>21,624,177</u>	<u>9,874,702</u>
Net assets:						
Invested in capital assets, net of related debt	1,821,748	1,703,537	6,015,861	4,125,526	7,837,609	5,829,063
Restricted	859,009	572,835	-	-	859,009	572,835
Unrestricted	<u>1,170,020</u>	<u>312,027</u>	<u>3,897,816</u>	<u>2,918,297</u>	<u>5,067,836</u>	<u>3,230,324</u>
Total net assets	<u>\$ 3,850,777</u>	<u>\$ 2,588,399</u>	<u>\$ 9,913,677</u>	<u>\$ 7,043,823</u>	<u>\$ 13,764,454</u>	<u>\$ 9,632,222</u>

The unrestricted net assets (\$3.2 million) may be used to meet the government's ongoing obligations to citizens and creditors. The City did not have any external restrictions placed on its net assets at this year-end.

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

The government's net assets increased by \$4,132,232 during the current fiscal year. This increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses and the capitalization of many expenses due to projects being completed by the City.

Governmental Activities

Governmental activities increased the City's net assets by \$1,262,378, or 48.8%, thereby accounting for 30.5% of the total increase in the net assets of the City. Table below shows the changes in net assets of governmental and business-type activities for fiscal year 2005 compared to 2004:

City of Delphos, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Program revenues:						
Charges for services	\$ 482,259	\$ 494,423	\$ 3,591,031	\$ 3,047,549	\$ 4,073,290	\$ 3,541,972
Operating grants	460,632	12,500	-	-	460,632	12,500
Capital grants	509,802	133,649	1,671,989	1,533,725	2,181,791	1,667,374
General revenues:						
Taxes	3,343,156	2,684,298	-	-	3,343,156	2,684,298
Intergovernmental	408,521	802,858	-	-	408,521	802,858
Investment earnings	122,896	47,541	2,984	-	125,880	47,541
Other	91,576	78,440	-	-	91,576	78,440
Total revenues	<u>5,418,842</u>	<u>4,253,709</u>	<u>5,266,004</u>	<u>4,581,274</u>	<u>10,684,846</u>	<u>8,834,983</u>
Expenses:						
General government	332,902	484,522	-	-	332,902	484,522
Security of persons	2,246,628	2,044,813	-	-	2,246,628	2,044,813
Public Health	91,321	19,493	-	-	91,321	19,493
Leisure time activities	439,798	629,552	-	-	439,798	629,552
Community environment	57,710	92,772	-	-	57,710	92,772
Transportation	261,153	310,505	-	-	261,153	310,505
Water	-	-	865,099	959,787	865,099	959,787
Sewer	-	-	1,929,735	1,728,099	1,929,735	1,728,099
Garbage	-	-	321,316	310,001	321,316	310,001
Interest expense	6,952	9,079	-	-	6,952	9,079
Total expenses	<u>3,436,464</u>	<u>3,590,736</u>	<u>3,116,150</u>	<u>2,997,887</u>	<u>6,552,614</u>	<u>6,588,623</u>
Increase in net assets before transfers	1,982,378	662,973	2,149,854	1,583,387	4,132,232	2,246,360
Transfers	<u>(720,000)</u>	<u>(608,000)</u>	<u>720,000</u>	<u>608,000</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ 1,262,378</u>	<u>\$ 54,973</u>	<u>\$ 2,869,854</u>	<u>\$ 2,191,387</u>	<u>\$ 4,132,232</u>	<u>\$ 2,246,360</u>

Business-Type Activities

Business-type activities increased the City's net assets by \$2,869,854. Key elements of this increase are noted above.

City of Delphos, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Program Expenses

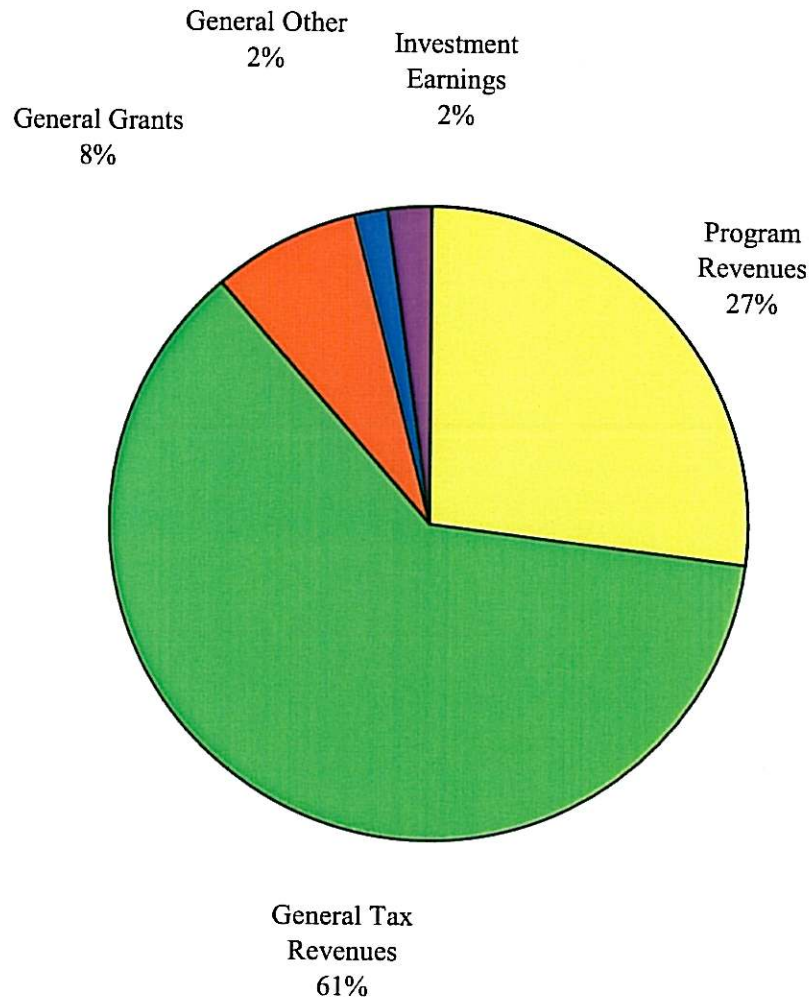
The statement of activities shows the cost of program services and the charges for services and grants associated with those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues. When applicable, the net cost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

	<u>Program Expenses</u>					
	2005 Total Cost of Services	2005 Net Cost of Services	2004 Total Cost of Services	2004 Net Cost of Services	<u>Net Change</u> Total Cost of Services Net Cost of Services	
Governmental Activities:						
General government	\$ 332,902	\$ 40,207	\$ 484,522	\$ (318,094)	\$ 817,424	\$ (277,887)
Security of Persons & Property	2,246,628	(1,879,007)	2,044,813	(1,676,863)	4,291,441	(3,555,870)
Public Health	91,321	(91,321)	19,493	(19,493)	110,814	(110,814)
Leisure Time activities	439,798	314,304	629,552	(549,010)	1,069,350	(234,706)
Community Environment	57,710	(21,470)	92,772	(67,120)	150,482	(88,590)
Interest expense	6,952	(6,952)	9,079	(9,079)	16,031	(16,031)
Transportation	261,153	(339,532)	310,505	(310,505)	571,658	(650,037)
Total Governmental Activities	<u>3,436,464</u>	<u>(1,983,771)</u>	<u>3,590,736</u>	<u>(2,950,164)</u>	<u>7,027,200</u>	<u>(4,933,935)</u>
Business-type Activities:						
Water	865,099	228,563	959,787	(48,281)	1,824,886	180,282
Sewer	1,929,735	1,942,995	1,728,099	1,631,737	3,657,834	3,574,732
Garbage	321,316	(24,688)	310,001	(69)	631,317	(24,757)
Total Business-type Activities	<u>3,116,150</u>	<u>2,146,870</u>	<u>2,997,887</u>	<u>1,583,387</u>	<u>6,114,037</u>	<u>3,730,257</u>
Grand total	<u>\$ 6,552,614</u>	<u>\$ 163,099</u>	<u>\$ 6,588,623</u>	<u>\$ (1,366,777)</u>	<u>\$ 13,141,237</u>	<u>\$ (1,203,678)</u>

The City's reliance upon program revenues is demonstrated by the graph below indicating 27% of total revenues from charges for services and program grants. The reliance on general revenues is indicated by the net cost of services column on the preceding page reflecting the need for support, as well as the graph below, indicating general revenues comprise 61% of total revenues.

City of Delphos, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited



Financial Analysis of the Government's Funds

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

Governmental Funds

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

City of Delphos, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1.4 million, a 46.7% increase from the prior year.

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2005 and 2004.

	Fund Balance		
	Fund Balance	(Restated)	Increase
	<u>12/31/2005</u>	<u>12/31/2004</u>	<u>(Decrease)</u>
General	\$ 1,147,770	\$ 942,931	\$ 204,839
Income tax	250,613	352,283	(101,670)
Water source	(297,689)	(506,091)	208,402
Other governmental	<u>398,249</u>	<u>232,590</u>	<u>165,659</u>
Total	<u>\$ 1,498,943</u>	<u>\$ 1,021,713</u>	<u>\$ 477,230</u>

The general fund is the chief operating fund of the City. The income tax fund is a special revenue fund that collects municipal income taxes that are used to pay an OWDA loan for the City's sewer department. At the end of the current fiscal year, unreserved fund balance of the general and income tax funds were \$1,085,743 and \$250,394 respectively.

The fund balance of the City's general fund increased by \$204,839 during the current fiscal year. This increase represents the degree to which increases in ongoing general fund revenues have outstripped similar increases in ongoing general fund expenditures.

The income tax fund decreased by \$101,670 during the current fiscal year. This decrease represents the degree to which income tax receipts were less than the expenses associated with the income tax department and the debt service requirements for the OWDA debt.

The fund balance of the City's water source fund increased by \$208,402 during the current fiscal year. This increase represents the degree to which increases in revenues have outstripped similar increases in expenditures.

The other governmental funds had a fund balance at year of \$398,249 or a increase from year-end 2004 of \$165,659. 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.

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 \$649,510. Total net assets increased \$231,547, or 23.3%, from the previous year.

City of Delphos, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Unrestricted net assets in the sewer fund at the end of the year amounted to \$3.1 million. Total net assets increased \$2,662,995 or 45.5%, from the previous year.

Unrestricted net assets in the garbage fund at the end of the year amounted to \$68,114. Total net assets decreased \$24,688, or 12%, 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.

Capital Assets

At the end of year 2005, the City had \$28,189,547 (net of accumulated depreciation) invested in land, land improvements, buildings, equipment, vehicles, construction in progress and infrastructure. Of this total, \$1,930,103 was reported in governmental activities and \$26,259,444 was reported in business-type activities. The table below reports year 2005 balances compared to 2004:

Capital Assets, at Fiscal Year End
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	(Restated)		(Restated)		(Restated)	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 416,671	\$ 416,671	\$ 161,807	\$ 161,807	\$ 578,478	\$ 578,478
Land improvements	300,983	343,073	-	-	300,983	343,073
Buildings	138,984	146,391	1,112,515	1,224,541	1,251,499	1,370,932
Equipment	263,030	217,271	114,306	127,830	377,336	345,101
Vehicles	541,088	592,728	301,450	315,974	842,538	908,702
Infrastructure	-	146,105	7,170,155	7,360,835	7,170,155	7,506,940
Construction in progress	269,347	-	17,399,211	3,164,750	17,668,558	3,164,750
Total	<u>\$ 1,930,103</u>	<u>\$ 1,862,239</u>	<u>\$ 26,259,444</u>	<u>\$ 12,355,737</u>	<u>\$ 28,189,547</u>	<u>\$ 14,217,976</u>

Debt

At December 31, 2005 the City had total long-term debt outstanding of \$20,721,617. Of this total, \$775,386 is due within one year and \$19,946,231 is due in more than one year. The table below summarizes the bonds and loans outstanding:

City of Delphos, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Outstanding Debt, at Fical Year End

	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Capital lease	\$ 108,355	\$ 158,702	\$ -	\$ -	\$ 108,355	\$ 158,702
Compensated absences	251,489	225,225	118,190	113,783	369,679	339,008
General obligation bonds	-	-	2,665,000	2,815,000	2,665,000	2,815,000
OPWC loans	-	-	141,191	154,033	141,191	154,033
OWDA loans	-	-	17,437,392	3,843,555	17,437,392	3,843,555
Total	<u>\$ 359,844</u>	<u>\$ 383,927</u>	<u>\$ 20,361,773</u>	<u>\$ 6,926,371</u>	<u>\$ 20,721,617</u>	<u>\$ 7,310,298</u>

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, 2005

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 1,116,817	\$ 2,977,558	\$ 4,094,375
Receivables:			
Income tax	745,446	-	745,446
Property and other taxes	588,943	-	588,943
Accounts	139,667	1,079,055	1,218,722
Accrued interest	11,362	387	11,749
Due from other governments	294,142	-	294,142
Materials and supplies inventory	18,687	16,358	35,045
Prepaid items	39,562	20,962	60,524
Deferred charges	-	150,138	150,138
Nondepreciable capital assets	686,018	17,561,018	18,247,036
Depreciable capital assets, net	1,244,085	8,698,426	9,942,511
Total assets	<u>4,884,729</u>	<u>30,503,902</u>	<u>35,388,631</u>
<u>Liabilities:</u>			
Accounts payable	40,674	156,027	196,701
Contracts payable	-	20,480	20,480
Accrued wages and benefits	62,029	26,502	88,531
Due to other governments	71,004	14,644	85,648
Deferred revenue	495,908	-	495,908
Accrued interest payable	3,111	10,799	13,910
Claims payable	1,382	-	1,382
Long-term liabilities:			
Due within one year	139,159	636,227	775,386
Due in more than one year	220,685	19,725,546	19,946,231
Total liabilities	<u>1,033,952</u>	<u>20,590,225</u>	<u>21,624,177</u>
<u>Net assets:</u>			
Invested in capital assets, net of related debt	1,821,748	6,015,861	7,837,609
Restricted for:			
Other purposes	859,009	-	859,009
Unrestricted	1,170,020	3,897,816	5,067,836
Total net assets	<u>\$ 3,850,777</u>	<u>\$ 9,913,677</u>	<u>\$ 13,764,454</u>

See accompanying notes to the basic financial statements.

City of Delphos, Ohio
Statement of Activities
For the Year Ended December 31, 2005

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<u>Governmental Activities:</u>				
General government	\$ 332,902	\$ 31,282	\$ -	\$ 341,827
Safety services	2,246,628	327,621	-	40,000
Public health and welfare	91,321	-	-	-
Transportation	261,153	21,950	460,632	92,875
Community environment	57,710	1,140	-	35,100
Leisure time activities	439,798	100,266	-	-
Interest and fiscal charges	6,952	-	-	-
Total governmental activities	<u>3,436,464</u>	<u>482,259</u>	<u>460,632</u>	<u>509,802</u>
<u>Business-Type Activities:</u>				
Water	865,099	1,093,662	-	-
Sewer	1,929,735	2,200,741	-	1,671,989
Garbage	321,316	296,628	-	-
Total business-type activities	<u>3,116,150</u>	<u>3,591,031</u>	<u>-</u>	<u>1,671,989</u>
Total primary government	<u>\$ 6,552,614</u>	<u>\$ 4,073,290</u>	<u>\$ 460,632</u>	<u>\$ 2,181,791</u>

General revenues:
Property taxes levied for:
 General purposes
 Safety services
Income tax levied for:
 General purposes
 Capital improvements
Grants and entitlements not restricted to specific programs
Investment earnings
Other
Total general revenues

Transfers

Change in net assets
Net assets, beginning of year - restated
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
\$ 40,207	\$ -	\$ 40,207
(1,879,007)	-	(1,879,007)
(91,321)	-	(91,321)
314,304	-	314,304
(21,470)	-	(21,470)
(339,532)	-	(339,532)
(6,952)	-	(6,952)
<u>(1,983,771)</u>	<u>-</u>	<u>(1,983,771)</u>
-	228,563	228,563
-	1,942,995	1,942,995
-	(24,688)	(24,688)
-	<u>2,146,870</u>	<u>2,146,870</u>
<u>(1,983,771)</u>	<u>2,146,870</u>	<u>163,099</u>
559,994	-	559,994
59,035	-	59,035
1,846,741	-	1,846,741
877,386	-	877,386
408,521	-	408,521
122,896	2,984	125,880
91,576	-	91,576
<u>3,966,149</u>	<u>2,984</u>	<u>3,969,133</u>
<u>(720,000)</u>	<u>720,000</u>	<u>-</u>
1,262,378	2,869,854	4,132,232
2,588,399	7,043,823	9,632,222
<u>\$ 3,850,777</u>	<u>\$ 9,913,677</u>	<u>\$ 13,764,454</u>

City of Delphos, Ohio
Balance Sheet
Governmental Funds
December 31, 2005

	General	Income Tax	Water Source	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>					
Equity in pooled cash and cash equivalents	\$ 278,472	\$ 178,813	\$ 242,594	\$ 334,493	\$ 1,034,372
<u>Receivables:</u>					
Income tax	540,812	204,634	-	-	745,446
Property and other taxes	523,041	-	-	65,902	588,943
Accounts	139,667	-	-	-	139,667
Accrued interest	10,867	-	-	495	11,362
Due from other funds	540,000	-	-	-	540,000
Due from other governments	152,936	-	-	141,206	294,142
Materials and supplies inventory	1,068	-	-	17,619	18,687
Prepaid items	33,460	219	-	5,883	39,562
Total assets	<u>\$ 2,220,323</u>	<u>\$ 383,666</u>	<u>\$ 242,594</u>	<u>\$ 565,598</u>	<u>\$ 3,412,181</u>
<u>Liabilities and fund balances</u>					
<u>Liabilities:</u>					
Accounts payable	\$ 30,798	\$ 19	\$ 283	\$ 9,574	\$ 40,674
Accrued wages and benefits	56,819	1,319	-	3,891	62,029
Due to other funds	-	-	540,000	-	540,000
Due to other governments	69,151	451	-	1,402	71,004
Deferred revenue	915,785	131,264	-	152,482	1,199,531
Total liabilities	<u>1,072,553</u>	<u>133,053</u>	<u>540,283</u>	<u>167,349</u>	<u>1,913,238</u>
<u>Fund balances:</u>					
Reserved for encumbrances	690	-	1,148,267	19,325	1,168,282
Reserved for inventory	1,068	-	-	17,619	18,687
Reserved for prepaid items	33,460	219	-	5,883	39,562
Reserved for property taxes	3,244	-	-	560	3,804
Reserved for cemetery improvements	23,565	-	-	-	23,565
<u>Reported in:</u>					
General fund	1,085,743	-	-	-	1,085,743
Special revenue funds	-	250,394	-	373,017	623,411
Capital projects fund	-	-	(1,445,956)	(18,155)	(1,464,111)
Total fund balances	<u>1,147,770</u>	<u>250,613</u>	<u>(297,689)</u>	<u>398,249</u>	<u>1,498,943</u>
Total liabilities and fund balances	<u>\$ 2,220,323</u>	<u>\$ 383,666</u>	<u>\$ 242,594</u>	<u>\$ 565,598</u>	<u>\$ 3,412,181</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, 2005**

Total governmental fund balances \$ 1,498,943

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in funds. 1,930,103

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. 81,063

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

Property and other taxes	\$ 474,141	
Accounts	52,612	
Intergovernmental	176,870	
Total	<u>703,623</u>	703,623

Accrued interest payable is not due and payable in the current
period and therefore is not reported in the funds. (3,111)

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

Capital lease payable	\$ (108,355)	
Compensated absences	(251,489)	
Total	<u>(359,844)</u>	(359,844)

Net assets of governmental activities \$ 3,850,777

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, 2005

	General	Income Tax	Water Source	Other Governmental Funds	Total Governmental Funds
Revenues:					
Income tax	\$ 1,591,934	\$ 746,122	\$ -	\$ -	\$ 2,338,056
Property and other taxes	482,456	-	-	57,056	539,512
Charges for services	302,502	-	-	98,570	401,072
Fines, licenses, and permits	97,472	-	-	28,583	126,055
Intergovernmental	311,320	-	341,827	412,117	1,065,264
Investment income	122,896	-	-	3,947	126,843
Rentals	4,800	-	-	-	4,800
Other	16,733	-	-	40,000	56,733
Total revenue	<u>2,930,113</u>	<u>746,122</u>	<u>341,827</u>	<u>640,273</u>	<u>4,658,335</u>
Expenditures:					
Current:					
General government	171,462	127,792	10,183	-	309,437
Safety services	1,852,964	-	-	244,896	2,097,860
Public health and welfare	91,321	-	-	-	91,321
Transportation	-	-	-	232,292	232,292
Community environment	-	-	-	57,710	57,710
Leisure time activities	393,571	-	-	-	393,571
Capital outlay	76,956	-	123,242	20,450	220,648
Debt service:					
Principal retirement	-	-	-	50,347	50,347
Interest and fiscal charges	-	-	-	7,919	7,919
Total expenditures	<u>2,586,274</u>	<u>127,792</u>	<u>133,425</u>	<u>613,614</u>	<u>3,461,105</u>
Excess of revenues over (under) expenditures	<u>343,839</u>	<u>618,330</u>	<u>208,402</u>	<u>26,659</u>	<u>1,197,230</u>
Other financing sources (uses):					
Transfers - in	-	-	-	139,000	139,000
Transfers - out	(139,000)	(720,000)	-	-	(859,000)
Total other financing sources (uses)	<u>(139,000)</u>	<u>(720,000)</u>	<u>-</u>	<u>139,000</u>	<u>(720,000)</u>
Net change in fund balance	204,839	(101,670)	208,402	165,659	477,230
Fund balances at					
beginning of year - restated	942,931	352,283	(506,091)	232,590	1,021,713
Fund balances at end of year	<u>\$ 1,147,770</u>	<u>\$ 250,613</u>	<u>\$ (297,689)</u>	<u>\$ 398,249</u>	<u>\$ 1,498,943</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, 2005**

Net change in fund balances - Total governmental funds \$ 477,230

*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	\$ 313,523	
Depreciation expense	<u>(245,659)</u>	
Excess of depreciation expense over capital asset additions		67,864

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

Property and other taxes	\$ 465,588	
Intergovernmental	176,870	
Charges for services	<u>15,976</u>	
Net change in deferred revenues during the year		658,434

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:

Decrease in compensated absences	\$ 34,137	
Decrease in accrued interest	<u>967</u>	
Total additional expenditures		35,104

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.

(26,601)

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.

50,347

Change in net assets of governmental activities

\$ 1,262,378

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, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>Revenues:</u>				
Income tax	\$ 1,604,096	\$ 1,500,000	\$ 1,520,706	\$ 20,706
Property and other taxes	586,000	486,000	518,757	32,757
Charges for services	352,000	252,000	352,843	100,843
Fines, licenses, and permits	75,000	75,000	58,302	(16,698)
Intergovernmental	376,000	276,000	264,022	(11,978)
Investment income	45,000	45,000	115,382	70,382
Rentals	5,000	5,000	4,800	(200)
Other	2,000	2,000	16,733	14,733
Total revenue	<u>3,045,096</u>	<u>2,641,000</u>	<u>2,851,545</u>	<u>210,545</u>
<u>Expenditures:</u>				
Current:				
General government	181,175	181,175	170,598	10,577
Safety services	1,954,711	1,954,711	1,929,828	24,883
Public health and welfare	106,000	106,000	91,321	14,679
Leisure time activities	384,200	384,200	422,685	(38,485)
Total expenditures	<u>2,626,086</u>	<u>2,626,086</u>	<u>2,614,432</u>	<u>11,654</u>
Excess of revenues over (under) expenditures	<u>419,010</u>	<u>14,914</u>	<u>237,113</u>	<u>222,199</u>
<u>Other financing sources (uses):</u>				
Transfers - out	<u>(534,914)</u>	<u>(534,914)</u>	<u>(139,000)</u>	<u>395,914</u>
Net change in fund balance	(115,904)	(520,000)	98,113	618,113
Fund balance at beginning of year, (Restated)	129,222	129,222	129,222	-
Prior year encumbrances appropriated	<u>28,262</u>	<u>28,262</u>	<u>28,262</u>	<u>-</u>
Fund balance at end of year	<u>\$ 41,580</u>	<u>\$ (362,516)</u>	<u>\$ 255,597</u>	<u>\$ 618,113</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, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Income tax	\$ 807,523	\$ 750,000	\$ 783,395	\$ 33,395
<u>Expenditures:</u>				
Current:				
General government	570,000	570,000	128,837	441,163
Excess of revenues over (under) expenditures	237,523	180,000	654,558	474,558
Other financing sources (uses):				
Transfers - out	(480,000)	(480,000)	(720,000)	(240,000)
Net change in fund balance	(242,477)	(300,000)	(65,442)	234,558
Fund balance at beginning of year	244,166	244,166	244,166	-
Fund balance at end of year	\$ 1,689	\$ (55,834)	\$ 178,724	\$ 234,558

See accompanying notes to the basic financial statements.

City of Delphos, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2005

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Garbage	Total	
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 347,932	\$ 2,571,555	\$ 58,071	\$ 2,977,558	\$ 82,445
Receivables:					
Accounts	376,645	623,537	78,873	1,079,055	-
Accrued interest	387	-	-	387	-
Materials and supplies inventory	5,921	10,437	-	16,358	-
Prepaid items	6,288	14,026	648	20,962	-
Deferred charges	-	150,138	-	150,138	-
Total current assets	737,173	3,369,693	137,592	4,244,458	82,445
Capital assets:					
Land	83,693	78,114	-	161,807	-
Construction in progress	1,200,712	16,198,499	-	17,399,211	-
Depreciable capital assets, net	3,296,983	5,289,878	111,565	8,698,426	-
Total non-current assets	4,581,388	21,566,491	111,565	26,259,444	-
Total assets	5,318,561	24,936,184	249,157	30,503,902	82,445
Liabilities:					
Current liabilities:					
Accounts payable	11,695	74,854	69,478	156,027	-
Contracts payable	-	20,480	-	20,480	-
Accrued wages and benefits	10,167	16,335	-	26,502	-
Compensated absences payable	12,929	13,450	-	26,379	-
Due to other governments	6,010	8,634	-	14,644	-
Accrued interest payable	10,799	-	-	10,799	-
Claims and judgments payable	-	-	-	-	1,382
OPWC loans payable	12,842	-	-	12,842	-
OWDA loans payable	-	442,006	-	442,006	-
General obligation bonds payable	155,000	-	-	155,000	-
Total current liabilities	219,442	575,759	69,478	864,679	1,382
Long-term liabilities:					
Compensated absences payable	36,063	55,748	-	91,811	-
OPWC loans payable, net of current portion	128,349	-	-	128,349	-
OWDA loans payable, net of current portion	1,200,712	15,794,674	-	16,995,386	-
General obligation bonds payable, net of current portion	2,510,000	-	-	2,510,000	-
Total long-term liabilities	3,875,124	15,850,422	-	19,725,546	-
Total liabilities	4,094,566	16,426,181	69,478	20,590,225	1,382
Net assets:					
Invested in capital assets, net of related debt	574,485	5,329,811	111,565	6,015,861	-
Unrestricted	649,510	3,180,192	68,114	3,897,816	81,063
Total net assets	\$ 1,223,995	\$ 8,510,003	\$ 179,679	\$ 9,913,677	\$ 81,063

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, 2005

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Garbage	Total	
<u>Operating revenues:</u>					
Charges for services	\$ 1,073,669	\$ 2,199,491	\$ 296,628	\$ 3,569,788	\$ 21,933
Tap-in fees	14,661	1,250	-	15,911	-
Other	5,332	-	-	5,332	-
Total operating revenue	<u>1,093,662</u>	<u>2,200,741</u>	<u>296,628</u>	<u>3,591,031</u>	<u>21,933</u>
<u>Operating expenses:</u>					
Personal services	344,077	593,101	-	937,178	-
Contractual services	175,417	623,247	286,022	1,084,686	4,682
Supplies and materials	75,908	236,383	7,685	319,976	-
Claims	-	-	-	-	35,012
Other operating costs	-	27,450	-	27,450	-
Depreciation	140,770	235,772	27,609	404,151	-
Total operating expenses	<u>736,172</u>	<u>1,715,953</u>	<u>321,316</u>	<u>2,773,441</u>	<u>39,694</u>
Operating income (loss)	<u>357,490</u>	<u>484,788</u>	<u>(24,688)</u>	<u>817,590</u>	<u>(17,761)</u>
<u>Non-operating revenues (expenses):</u>					
Interest	2,984	-	-	2,984	-
Interest and fiscal charges	(128,927)	(213,782)	-	(342,709)	-
Total non-operating revenues (expenses)	<u>(125,943)</u>	<u>(213,782)</u>	<u>-</u>	<u>(339,725)</u>	<u>-</u>
Income (loss) before capital contributions and transfers	<u>231,547</u>	<u>271,006</u>	<u>(24,688)</u>	<u>477,865</u>	<u>(17,761)</u>
Capital contributions	-	1,671,989	-	1,671,989	-
Transfers - in	-	720,000	-	720,000	-
Total capital contributions and transfers	<u>-</u>	<u>2,391,989</u>	<u>-</u>	<u>2,391,989</u>	<u>-</u>
Change in net assets	231,547	2,662,995	(24,688)	2,869,854	(17,761)
Net assets at beginning of year - restated	<u>992,448</u>	<u>5,847,008</u>	<u>204,367</u>	<u>7,043,823</u>	<u>98,824</u>
Net assets at end of year	<u>\$ 1,223,995</u>	<u>\$ 8,510,003</u>	<u>\$ 179,679</u>	<u>\$ 9,913,677</u>	<u>\$ 81,063</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, 2005

	Business-Type Activities - Enterprise Funds				Governmental
	Water	Sewer	Garbage	Total	Activities - Internal Service Fund
Cash flows from operating activities:					
Cash received from customers	\$ 1,022,978	\$ 2,062,861	\$ 294,556	\$ 3,380,395	\$ 21,933
Cash payments for employee services and benefits	(350,938)	(605,011)	-	(955,949)	(34,617)
Cash payments to suppliers for goods and services	(243,457)	(834,800)	(293,634)	(1,371,891)	(4,682)
Net cash provided by (used for) operating activities	428,583	623,050	922	1,052,555	(17,366)
Cash flows from noncapital financing activities:					
Transfers from other funds	-	720,000	-	720,000	-
Net cash provided by (used for) noncapital financing activities	-	720,000	-	720,000	-
Cash flows from capital and related financing activities:					
Proceeds of bonds	-	5,000,000	-	5,000,000	-
Interest paid on debt	(129,588)	(198,768)	-	(328,356)	-
Principal payment on debt	(162,843)	(5,415,229)	-	(5,578,072)	-
Capital grant	-	1,671,989	-	1,671,989	-
Proceeds of OWDA loans	-	12,467,257	-	12,467,257	-
Acquisition of capital assets	20,483	(14,350,333)	(18,974)	(14,348,824)	-
Net cash provided by (used for) for capital and related financing activities	(271,948)	(825,084)	(18,974)	(1,116,006)	-
Cash flows from investing activities:					
Investment income	2,642	-	-	2,642	-
Net cash provided by (used for) investing activities	2,642	-	-	2,642	-
Net increase (decrease) in cash and cash equivalents	159,277	517,966	(18,052)	659,191	(17,366)
Cash and cash equivalents at beginning of year	188,655	2,053,589	76,123	2,318,367	99,811
Cash and cash equivalents at end of year	\$ 347,932	\$ 2,571,555	\$ 58,071	\$ 2,977,558	\$ 82,445
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 357,490	\$ 484,788	\$ (24,688)	\$ 817,590	\$ (17,761)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	140,770	235,772	27,609	404,151	-
Change in assets and liabilities:					
(Increase) decrease in assets:					
Accounts receivable	(70,684)	(137,880)	(2,072)	(210,636)	-
Materials and supplies inventory	(5,234)	3,451	-	(1,783)	-
Prepaid items	9,522	(2,649)	(374)	6,499	-
Increase (decrease) in liabilities:					
Accounts payable	(8,786)	31,229	447	22,890	-
Claims payable	-	-	-	-	395
Accrued wages and benefits	674	(847)	-	(173)	-
Compensated absences	693	3,714	-	4,407	-
Due to other governments	4,138	5,472	-	9,610	-
Net cash provided by (used for) operating activities	\$ 428,583	\$ 623,050	\$ 922	\$ 1,052,555	\$ (17,366)

See accompanying notes to the financial statements.

City of Delphos, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2005

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 1,623
Total assets	<u>\$ 1,623</u>
<u>Liabilities:</u>	
Deposits held and due to others	1,623
Total liabilities	<u>\$ 1,623</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, 2005

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 City has elected not to follow FASB guidance for business-type activities and enterprise funds issued after November 30, 1989. For the current year 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment risk Disclosures" and GASB 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." At December 31, 2005, there was no effect on fund balance as a result of implementing GASB Statement 40 and 42. The more 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 sewer, 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, 2005

B. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets, 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, 2005

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 is used to account for the construction of the City's new waste water treatment plant.

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 as 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.

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

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.

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, 2005

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 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 sixty days of year end.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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, 2005, but which were levied to finance year 2006 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, 2005

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 2005.

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, 2005

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

G. Cash and Cash Equivalents

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

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

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, 2005 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, 2005

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. The City maintains a capitalization threshold of five thousand dollars. 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 2005, interest costs incurred on construction projects were material and recorded as part of construction in progress.

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>	Governmental and Business-Type Activities <u>Estimated Useful Life</u>
Land improvements	15 years
Buildings	20 years
Vehicles	5-10 years
Equipment and furniture	5-15 years
Infrastructure	50 years

K. Deferred Charges

Bond issuance costs are recorded as expenditures when incurred on the governmental fund statements. Bond issuance costs are recorded as deferred charges and amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest method, on the government-wide and proprietary fund financial statements.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

L. 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.

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, 2005. 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 "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.

M. Accrued Liabilities and Long-Term Obligations

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

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

N. 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, 2005

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.

O. 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, property taxes, cemetery improvements, inventory and prepaid items in the governmental funds.

P. 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.

Q. 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.

R. 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.

S. 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, 2005

T. 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 2005.

Note 3 - Restatement of Prior Year Fund Balances/Net Assets

Fund balances and net assets at December 31, 2004 have been restated for various reasons during 2005. The City increased their capitalization threshold for the current year therefore adjustments were made to land, land improvements, furniture, fixtures, and equipment, vehicles, infrastructure and related depreciation expense. The City also had several items being reported on the balance sheet in error and lastly the cemetery fund was combined with the general fund for reporting purposes in the current year.

The restatement of fund balance/net assets is presented below:

	<u>General Fund</u>	<u>Income tax Fund</u>	<u>Water Source Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund balances					
at December 31, 2004	\$ 914,221	\$ 352,283	\$ (506,091)	\$ 109,331	\$ 869,744
Reclassification of funds	28,710	-	-	(28,710)	-
Restatement of cash	-	-	-	1,969	1,969
Interfund payable	-	-	-	150,000	150,000
Restated fund balances, at January 1, 2005	<u>\$ 942,931</u>	<u>\$ 352,283</u>	<u>\$ (506,091)</u>	<u>\$ 232,590</u>	<u>\$ 1,021,713</u>

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total Business-Type Funds</u>	<u>Internal Service Fund</u>
Net Assets					
at December 31, 2004	\$ 741,039	\$ 6,377,162	\$ 183,169	\$ 7,301,370	\$ 118,824
Restatement of capital assets	60,745	856,771	(16,793)	900,723	-
Restatement of cash	-	-	-	-	(20,000)
Restatement of receivables	190,664	345,850	37,991	574,505	-
Restatement of long term debt	-	(1,582,775)	-	(1,582,775)	-
Interfund receivable	-	(150,000)	-	(150,000)	-
Net Assets at January 1, 2005	<u>\$ 992,448</u>	<u>\$ 5,847,008</u>	<u>\$ 204,367</u>	<u>\$ 7,043,823</u>	<u>\$ 98,824</u>

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

	Governmental Activities	Business- Type Activities	Total
Net Assets			
at December 31, 2004	\$ 3,346,818	\$ 7,292,530	\$ 10,639,348
Restatement of capital assets	(890,388)	900,723	10,335
Restatement of cash	(18,031)	-	(18,031)
Restatement of receivables		574,505	574,505
Restatement of long term debt		(1,582,775)	(1,582,775)
Interfund receivable/payable	150,000	(141,160)	8,840
Net Assets			
at January 1, 2005	\$ 2,588,399	\$ 7,043,823	\$ 9,632,222

Note 4 - Budgetary Basis of Accounting

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

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

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

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

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Net Change in Fund Balance

	<u>General</u>	Income <u>Tax</u>
GAAP Basis	\$ 204,839	\$ (101,670)
Revenue accruals	(78,568)	37,273
Expenditure accruals	(50,817)	(1,064)
Encumbrances (Budget Basis) outstanding at year end	22,659	19
Budget Basis	\$ 98,113	\$ (65,442)

Note 5 – Deposits and Investments

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

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

Inactive deposits are public deposits that City 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 obligations provided they are redeemable within five years of the date of settlement:

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 or interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

3. Written repurchase agreements in securities listed 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,
6. The State Treasurer's investment pool (Star Ohio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and,
3. Obligations of the City.

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.

Deposits:

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The City's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

At year-end, the carrying amount of the City's deposits and petty cash was \$4,095,998 and the bank balances totaled \$4,197,840. Of the bank balances, \$3,997,840 was exposed to custodial credit risk. This amount was uninsured and collateral is held by the pledging financial institution's trust department, and not in the City's name.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Interest earnings are distributed to the street maintenance and repair, state highway and permissive tax special revenue funds and the water enterprise fund based on daily cash balances and the remainder is reported in the general fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$122,896, which includes \$111,413 assigned from other City funds.

Note 6 – Taxes

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2003. Real property taxes are payable annually or semi annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before April 30 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30; with the remainder payable by September 20. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2005 was \$6.75 per \$1,000 of assessed valuation.

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

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

The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

	Assessed Value <u>Allen County</u>	Assessed Value <u>Van Wert County</u>
Real property	\$ 48,012,687	\$ 27,587,430
Public utility personal property	1,561,850	1,315,130
Tangible personal property	<u>20,232,336</u>	<u>5,625,094</u>
Total assessed value	<u>\$ 69,806,873</u>	<u>\$ 34,527,654</u>

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

B. Income Taxes

The City levies an income tax of 1.5% 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 \$2,724,127 in 2005. The income tax is to be divided 68% to the general fund and 32% to the income tax fund with any expenses of the income tax process to be charged to the income tax fund and the remainder to be transferred to the sewer fund for sewer system improvements.

Note 7 – Capital Assets

The capital asset balances of the governmental activities have been restated due to a change in capitalization thresholds. The restatement is presented below:

<u>Governmental activities</u>	<u>Balance</u> <u>12/31/2004</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>12/31/2004</u>
Land	\$ 398,895	\$ 17,776	\$ 416,671
Construction in progress	986,678	(840,573)	146,105
Land improvements	743,938	(61,824)	682,114
Buildings	860,229	(18,914)	841,315
Vehicles	1,788,893	(17,855)	1,771,038
Equipment and furniture	1,100,721	(350,827)	749,894
Accumulated depreciation	<u>(3,126,727)</u>	<u>381,829</u>	<u>(2,744,898)</u>
Total	<u>\$ 2,752,627</u>	<u>\$ (890,388)</u>	<u>\$ 1,862,239</u>

Governmental activities capital asset activity for the fiscal year end December 31, 2005 was as follows:

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

<u>Governmental activities</u>	Restated Balance <u>12/31/2004</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/2005</u>
Capital assets, not being depreciated:				
Land	\$ 416,671	\$ -	\$ -	\$ 416,671
Construction in progress	<u>146,105</u>	<u>123,242</u>	<u>-</u>	<u>269,347</u>
Total capital assets, not being depreciated	<u>562,776</u>	<u>123,242</u>	<u>-</u>	<u>686,018</u>
Capital assets, being depreciated:				
Land improvements	682,114	-	-	682,114
Buildings	841,315	5,000	-	846,315
Vehicles	1,771,038	85,307	(13,718)	1,842,627
Equipment and furniture	<u>749,894</u>	<u>99,974</u>	<u>-</u>	<u>849,868</u>
Total capital assets, being depreciated	<u>4,044,361</u>	<u>190,281</u>	<u>(13,718)</u>	<u>4,220,924</u>
Less accumulated depreciation:	(2,744,898)	(245,659)	13,718	(2,976,839)
Total capital assets being depreciated, net	<u>1,299,463</u>	<u>(55,378)</u>	<u>-</u>	<u>1,244,085</u>
Governmental activities capital assets, net	<u>\$ 1,862,239</u>	<u>\$ 67,864</u>	<u>\$ -</u>	<u>\$ 1,930,103</u>

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

<u>Depreciation Expense:</u>	
General government	\$ 9,936
Safety services	141,809
Leisure time activities	58,939
Transportation	<u>34,975</u>
Total depreciation expense	<u>\$ 245,659</u>

The capital asset balances of the business-type activities were also restated due to a change in capitalization thresholds. The restatement is presented below:

<u>Business-Type activities</u>	Balance <u>12/31/2004</u>	<u>Adjustments</u>	Restated Balance <u>12/31/2004</u>
Land	\$ 358,257	\$ (196,450)	\$ 161,807
Construction in progress	-	3,164,750	3,164,750
Buildings	116,340	2,845,563	2,961,903
Vehicles	652,860	184,887	837,747
Equipment and furniture	1,107,174	(209,074)	898,100
Infrastructure	23,700,374	(13,087,188)	10,613,186
Accumulated depreciation	<u>(14,479,991)</u>	<u>8,198,235</u>	<u>(6,281,756)</u>
Total	<u>\$ 11,455,014</u>	<u>\$ 900,723</u>	<u>\$ 12,355,737</u>

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

The business-type activities capital asset activity for the fiscal year end December 31, 2005 was as follows:

<u>Business-Type activities</u>	Restated Balance 12/31/2004	<u>Increases</u>	<u>Decreases</u>	Balance 12/31/2005
Capital assets, not being depreciated:				
Land	\$ 161,807	\$ -	\$ -	\$ 161,807
Construction in progress	<u>3,164,750</u>	<u>14,234,461</u>	<u>-</u>	<u>17,399,211</u>
Total capital assets, not being depreciated	<u>3,326,557</u>	<u>14,234,461</u>	<u>-</u>	<u>17,561,018</u>
Capital assets, being depreciated:				
Buildings	2,961,903	-	-	2,961,903
Vehicles	837,747	103,459	(58,522)	882,684
Equipment and furniture	898,100	10,904	-	909,004
Infrastructure	<u>10,613,186</u>	<u>-</u>	<u>-</u>	<u>10,613,186</u>
Total capital assets, being depreciated	<u>15,310,936</u>	<u>114,363</u>	<u>(58,522)</u>	<u>15,366,777</u>
Less accumulated depreciation:	(6,281,756)	(404,151)	17,556	(6,668,351)
Total capital assets being depreciated, net	<u>9,029,180</u>	<u>(289,788)</u>	<u>(40,966)</u>	<u>8,698,426</u>
Business-Type activities capital assets, net	<u>\$ 12,355,737</u>	<u>\$ 13,944,673</u>	<u>\$ (40,966)</u>	<u>\$ 26,259,444</u>

Note 8 - Receivables

Receivables at December 31, 2005 primarily consisted of taxes, accounts (billings for user charged services), accrued interest, intergovernmental receivables, entitlement or shared revenues. All receivables are considered fully collectible.

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

<u>Revenue description</u>	<u>Amount</u>
Cents per gallon and excise tax	\$ 134,613
Rollback, homestead and tangible exepmtions	7,260
Local government	146,790
Motor vehicle tax	4,913
Permissive sales tax	<u>566</u>
Total	<u>\$ 294,142</u>

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 9 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters.

The City maintains comprehensive insurance coverage with independent third parties for real property, building, vehicle, general liability and professional liability insurance. There were no settled claims from these risks that have exceeded commercial insurance coverage for the past three years nor has insurance coverage been significantly reduced in the past three years.

Workers Compensation coverage is provided by the State of Ohio and is based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

The City established a medical self-insurance fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the medical self-insurance fund provided coverage for up to a maximum of \$22,500 for each individual, with a \$1,000,000 aggregate over the employee's life. The City purchased commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Excess costs are paid by stop-loss insurance coverage. The City does not anticipate to be responsible for any costs that exceed the stop-loss insurance coverage. Settlement claims have not exceeded coverage in the aggregate for the past three years. The self insurance program was terminated in April 2003.

The claims liability of \$1,382 reported in the fund at December 31, 2005 is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The claims liability is based on an estimate supplied by the City's third party administrator. Changes in the fund's claims liability amount in 2005 and 2004 were:

	Balance at beginning of year	Current year claims	Claim payments	Balance at end of year
2004	\$ 1,192	\$ 38,340	\$ (38,545)	\$ 987
2005	987	35,012	(34,617)	1,382

Note 10 - Capital Lease

In a prior year, the City entered into a capital lease for the acquisition of rescue equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers all benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service payments in the basic financial statements for the governmental funds. These expenditures are reflected as function expenditures on a budgetary basis.

Governmental activities capital assets consisting of machinery, equipment, and vehicles have been capitalized in the amount of \$252,331. The capitalized amount is equal to the present value of the future minimum lease payments and the down payment respectively, at the time of acquisition.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2005:

Year Ending December 31.	Amount
2006	\$ 58,266
2007	58,266
Total minimum lease payments	116,532
Less: amount representing interest	8,177
Present value of minimum lease payments	<u>\$ 108,355</u>

Note 11 - Long-Term Obligations

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

	Restated Balance 1/1/2005	Additions	Deletions	Balance 12/31/2005	Due within One Year
<u>Governmental activities:</u>					
Capital lease obligation	\$ 158,702	\$ -	\$ (50,347)	\$ 108,355	\$ 52,859
Compensated absences	<u>225,225</u>	<u>92,907</u>	<u>(66,643)</u>	<u>251,489</u>	<u>86,300</u>
Total governmental activities long-term liabilities	<u>\$ 383,927</u>	<u>\$ 92,907</u>	<u>\$ (116,990)</u>	<u>\$ 359,844</u>	<u>\$ 139,159</u>
<u>Business-Type activities:</u>					
<u>General obligation bonds</u>					
Water plant improvement 3.25% - 4.875%	\$ 2,815,000	\$ -	\$ (150,000)	\$ 2,665,000	\$ 155,000
<u>Bond anticipation notes</u>					
Wastewater treatment plant, 2.71%	-	5,000,000	(5,000,000)	-	-
<u>Other long term obligations</u>					
OWDA loan, 9.72%	528,087	-	(160,001)	368,086	175,554
OWDA loan, 4.35%	3,315,468	-	(255,228)	3,060,240	266,452
OWDA loan, 4.85%	-	1,200,712	-	1,200,712	-
OWDA loan, 5.510%	1,582,775	79,208	(1,661,983)	-	-
OWDA loan, 0.95%	-	12,808,354	-	12,808,354	-
1999 OPWC loan, 0%	114,414	-	(7,890)	106,524	7,890
1992 OPWC loan, 0%	39,619	-	(4,952)	34,667	4,952
Compensated absences	<u>113,783</u>	<u>36,019</u>	<u>(31,612)</u>	<u>118,190</u>	<u>26,379</u>
Total business-type activities long-term liabilities	<u>\$ 8,509,146</u>	<u>\$ 19,124,293</u>	<u>\$ (7,271,666)</u>	<u>\$ 20,361,773</u>	<u>\$ 636,227</u>

The 1986 and 1996 Ohio Water Development Authority (O.W.D.A.) loans were for mandated wastewater construction and sewer improvement projects. Property taxes and revenue of the facilities have been pledged to repay the debt.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

The 2003 and 2005 Ohio Water Development Authority (O.W.D.A.) loans were for construction of a new wastewater treatment plant and for the construction of a water treatment plant and reservoir. The wastewater treatment plant is scheduled to be completed and up and running by December 31, 2006. The estimated completion date for the water treatment plant is September, 2007. These two loans are not yet complete and the first principal payments are scheduled to be due in 2008. Property taxes and revenue of the facilities will be 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 1999 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 \$3,585,000 general obligation bonds matures in 2018 and bears an interest rate ranging from 3.25% to 4.875%. The bonds represent general obligations of the City and have been used to fund various improvements being made to the south water plant. These bonds will be paid from revenues generated by water system.

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, 2005 the remaining balance to be amortized is \$150,138.

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.

On March 31, 2005 the City issued \$5,000,000 in bond anticipation notes to mature on October 11, 2005, These notes we issued for improvements being made to the wastewater treatment plant.

The annual requirements to amortize all bonded debt and loans as of December 31, 2005, are as follows:

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

	General		OWDA		OPWC	Total
	Obligation Bonds		Loans			
	Principal	Interest	Principal	Interest		
2006	\$ 155,000	\$ 123,512	\$ 442,005	\$ 166,032	\$ 12,843	\$ 899,392
2007	160,000	117,080	470,701	137,335	12,843	897,959
2008	170,000	110,360	290,400	106,305	12,843	689,908
2009	175,000	103,136	303,170	93,536	12,843	687,685
2010	185,000	95,522	316,501	80,204	12,843	690,070
2011-2015	1,050,000	343,502	1,605,549	179,626	49,357	3,228,034
2016-2019	770,000	76,294	-	-	27,619	873,913
	<u>\$ 2,665,000</u>	<u>\$ 969,406</u>	<u>\$ 3,428,326</u>	<u>\$ 763,038</u>	<u>\$ 141,191</u>	<u>\$ 7,966,961</u>

Note 12 - Other Employee Benefits

Compensated Absences

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

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

As of December 31, 2005, the liability for unpaid compensated absences was \$369,679 for the entire City.

Note 13 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

All full-time employees of the City, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan (TP), a cost sharing, multiple-employer defined benefit pension plan and the Member-Directed Plan (MD), which is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The third plan is the Combined Plan (CO), cost-sharing, multiple-employer defined benefit pension plan. Under the CO Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP benefit. Member contributions, the investment which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

All full-time uniformed City police participate in the Ohio Police and Fire Pension Fund (OP&F), also a cost-sharing, multiple-employer defined benefit pension plan. All members of these pension plans except those of the Member-Directed Plan are provided basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Authority to establish and amend benefits for OPERS and OP&F is provided by the Ohio State Legislature and are codified in the Ohio Revised Code, Chapters 145 and 742 respectively.

Each retirement system prepares a stand-alone financial report that includes financial information and required supplementary information for the plans. These reports can be obtained by writing to OPERS at 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (800)222-7377 and OP&F at 140 East Town Street, Columbus, Ohio 43215-5164.

OPERS: The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. The 2005 member contribution rates were 8.5% for members in classifications other than law enforcement and public safety. Members in the law enforcement classification, which consists generally of sheriffs and township police, contributed at a rate of 10.1%. Public safety division contributed at 9%. For 2005, the employer pension contribution rate for the City was 13.55% of covered payroll, with 9.55% to fund pension obligations. The 2005 employer contribution rate for both the law enforcement and public safety divisions was 16.70% of covered payroll, with 12.70% to fund pension obligations. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ending December 31, 2005, 2004, and 2003 were \$132,207, \$186,739 and \$177,819, respectively. The full amount has been contributed for 2004 and 2003. Approximately 97% had been contributed for 2005 with the remainder being reported as a liability within the respective funds.

OP&F: Plan members are required to contribute 10% of their covered salary to fund pension obligations, while employers are required to contribute 19.5% and 24% respectively for police officers and firefighters. The portion used to fund pension obligations were 11.75% and 16.25% respectively for police officers and firefighters. Contributions are authorized by state statute. The City's required contributions to OP&F for the years ending December 31, 2005, 2004, and 2003 were \$89,807, \$192,729 and \$185,679, respectively. The full amount has been contributed for 2004 and 2003. Approximately 63% has been contributed for 2005 with the remainder being reported as a liability within the respective funds.

Note 14 - Postemployment Benefits

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans, the Traditional Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO), all of which are described in Note 13. OPERS provide retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the TP and MD Plans; however, health care benefits are not statutorily guaranteed. Members of the MD Plan do not qualify for ancillary benefits, including post-employment health care coverage.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

In order to qualify for post-retirement health care coverage, age and service retirees must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2005 employer contribution rate for local government employers was 13.55% of covered payroll and 4.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2005 employer rate was 16.70% of covered payroll and 4.00% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund post employment benefits was \$55,375.

OPEB are advanced-funded on an actuarially determined basis. 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 actual 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 (latest information available) was 8.00%. An annual increase of 4.00%, 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 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase 4.00% annually.

At year-end 2005, the number of active contributing participants in the TP and CO Plans totaled 376,109. As of December 31, 2004, the actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2004 (latest information available) was \$10.8 billion.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In addition to HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

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, 2005

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

The health care coverage provided by the OP&F is considered an OPEB as described in GASB Statement No.12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that the health care costs are paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go-basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the post-employment health care program in 2004 and in 2005. In addition, since July 1, 1992, most retirees and survivors were required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund post-employment benefits were \$59,235. The OP&F total health care expense for the year ended December 31, 2004, the last actuarial valuation available, was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

Note 15 – Contingencies

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

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, City management believes such disallowance, if any, will be immaterial.

Note 16 – Fund deficits

As of December 31, 2005, the water source capital projects fund had a deficit of \$297,689. This deficit was the result of the application of generally accepted accounting principles. The general fund provides transfers to cover deficits in other funds; however, this is done when cash is needed rather than when accruals occur.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 17 – Interfund receivables, payables and transfers

A. Interfund balances at December 31, 2005 consisted of the following:

Interfund payable to general fund from:	
Water source capital projects fund	\$ 540,000

Interfund receivables and payables result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of December 31, 2005, all interfund loans outstanding are anticipated to be repaid in 2006.

B. Transfers at December 31, 2005 consisted of the following:

<u>Transfer to</u>	<u>Transfer from</u>	
	<u>General</u>	<u>Income tax</u>
Nonmajor governmental funds	\$ 139,000	\$ -
Sewer enterprise fund	-	720,000

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 18 – Construction Commitments

The City had several outstanding construction projects as of December 31, 2005. These projects are evidenced by contractual commitments with contractors and include:

<u>Project</u>	<u>Spent to Date</u>	<u>Commitment Remaining</u>
Waste water treatment plant	\$ 10,568,741	\$ 20,815,108
Downtown Tier	10,675	19,325
Reservoir	<u>1,358,323</u>	<u>1,123,767</u>
Total	<u>\$ 11,937,739</u>	<u>\$ 21,958,200</u>

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 19 – Compliance

The City was in violation of Ohio Revised Code Section 5705.39 by appropriating in excess of estimated resources within the general and hospitalization insurance funds.

The City was in violation of Ohio Revised Code Section 5705.41(B) by spending public monies in excess of appropriations in the street and maintenance, water source, downtown development, OWDA loan, and sewer improvement funds.

The city was in violation of Ohio Revised Code Section 9.11 by the use of a rubber signature stamp to endorse payroll and non-payroll expenditures.

The City experienced significant negative fund balances throughout the year in the sewer improvement, OWDA loan, and police pension funds, which is a violation of Ohio Revised Code Section 5705.10(H).

The City does not generate purchase orders for certain recurring expenditures, which is a violation of Ohio Revised Code Section 5705.41(D).

We're Ready For Your Future

February 28, 2008

To the Honorable Mayor and City Council
City of Delphos
608 N Canal Street
Delphos, Ohio 45833

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Delphos, Ohio (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 28, 2008. 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 Control Over Financial Reporting

In planning and performing our audit, we considered the City of Delphos's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Delphos's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2005-001 through 2005-004.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding 2005-001 and 2005-002 to be a material weakness.

We also noted certain internal control matters that we reported to the management of the City of Delphos in a separate letter dated February 28, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Delphos's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and responses as items 2005-005 through 2005-009.

We also noted certain matters that we reported to management of City of Delphos in a separate letter dated February 28, 2008.

The City of Delphos's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

Hea & Associates, Inc.

**CITY OF DELPHOS
ALLEN COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2005-001

Significant Deficiency/Material Weakness

Sound financial reporting is the responsibility of the City Auditor and is essential to ensure that the information presented to the readers of the financial statements is complete and accurate. The City contracts with an outside consultant to compile the City's financial statements in accordance with generally accepted accounting principles. However, we noted that several audit adjustments were required to be posted to the City's financial statements as recapped below:

December 31, 2004 financial statement balances were adjusted to reflect understated receivables, debt liabilities, and capital asset additions in the enterprise funds.

December 31, 2005 entity wide statements and fund financial statement's balances were adjusted to reflect unrecorded tax receivables in several funds, unrecorded accounts payables in the General Fund, and to adjust debt liability from governmental type to business type funds.

The City Auditor should review the restatements, adjustments and reclassifications identified above and discuss said error with the outside consultant mentioned above to prevent similar errors in the compilation of the financial statements in subsequent audit periods.

FINDING NUMBER 2005-002

Significant Deficiency/Material Weakness

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. Through inquiry with management, we identified where the City entered into an agreement with the OWDA, whereby the OWDA would make on-behalf-of payments to vendors for various construction projects. These items should have been posted to the City's accounting records, both as a receipt to show that the OWDA issued payment to a vendor, as well as an expenditure to balance the effect of recording the receipted award. In further review of the general ledger, proceeds from loans were recorded as "Grants Income".

Without complete and accurate posting of receipts and disbursements of OWDA awards, the City's internal control is weakened, which could result in the inaccurate presentation of the financial statement. In addition, the lack of monitoring may lead to errors, irregularities or misappropriation of City assets, and untimely audit reports.

We recommend that the City take all steps necessary to ensure the City Auditor is apprised timely of OWDA on-behalf-of payments so they may be budgeted for and posted as required.

FINDING NUMBER 2005-003

Significant Deficiency

An adequate control environment over the expenditure of monies reduces the risk that public monies are misappropriated. In addition to this, it can also strengthen the assurance that the risk of fraudulent activities has been mitigated. In performing a test of controls over the expenditure of public monies, we identified areas that lacked an adequate level of control.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)**

The City has indicated that the Safety Service Director is to review all purchase requisitions and sign each to verify that his approval was granted to initiate the purchase. We noted three instances, of sixty, where the purchase requisition was not signed, therefore, we were unable to verify that his approval was granted to initiate the purchase. The City has also indicated that the Safety Service Director is to review and sign all invoices to determine that the actual charges were in accordance with the funds originally appropriated for the purchase. We identified eight instances, of sixty, where the invoice was not signed, therefore, we were unable to determine that the Safety Service Director actually reviewed the invoice to verify that it was ok to pay. Although the City has established an adequate control design, we recommend the City take the necessary steps in seeing that all expenditures of public monies are subjected to the control design.

FINDING NUMBER 2005-004

Significant Deficiency

The City does not have a formal policy instituting the procedures to account for the capitalization of government-owned assets. This created some difficulty when verifying that the City's capital assets are presented in accordance with GASB 34 requirements.

We recommend the City establish a formal policy governing the accounting procedures for the capitalization of government-owned assets. This policy should, at a minimum, identify information such as the dollar amount of the capitalization threshold, the established useful lives of asset classes, procedures to follow when transferring assets between locations, procedures to follow when disposing of assets, infrastructure policies, and other significant details.

FINDING NUMBER 2005-005

Material Noncompliance

Ohio Rev. Code Section 5705.39 indicates that the total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation. Section 5705.36(A)(3) requires obtaining an increased amended certificate from the budget commission if the legislative authority intends to appropriate and expend excess revenue. The City did not obtain an official Certificate of Estimated Resources throughout the audit period.

The City had appropriations that materially exceeded the certified estimated resources in the following funds as of December 31, 2005:

	<u>Final Estimated Resources plus Beginning Balances</u>	<u>Final Appropriations</u>	<u>Excess</u>
General Fund	\$ 2,947,449	\$ 3,161,000	\$ 193,551
Hospitalization Insurance Fund	121,745	500,000	378,255
Income Tax Fund	1,025,872	1,050,000	24,128

Appropriating less than or equal to estimated resources is required by statute and is a key control in the budgetary and disbursement process to assure that revenues are expected to be received prior to budgeting expenditures will exceed appropriations. To improve controls over budgeting and disbursements and to help reduce the possibility of the City committing funds to be spent which are not available to spend, we recommend the City monitor appropriations versus estimated resources on a monthly basis to help avoid overspending. The City should also seek a Certificate of Estimated Resources from the County throughout the year when there are updates to any sources of revenues. This will ensure that the City remains in compliance with state statutes.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)

FINDING NUMBER 2005-006

Material Noncompliance

Ohio Rev. Code Sections 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The following funds had expenditures materially exceeding appropriations at December 31, 2005:

	<u>Final Appropriation</u>	<u>Expenditures plus Outstanding Encumbrances</u>	<u>Excess</u>
Street and Maintenance Fund	\$ 288,827	\$ 311,429	\$ 22,602
Water Source Fund	481,582	2,449,107	1,967,525
Downtown Development Fund	10,000	33,259	23,259
OWDA Loan Fund	628,000	719,868	91,868
Sewer Improvement Fund	1,500,000	27,819,215	26,319,215

The City should implement monitoring procedures to help sustain budgetary compliance with state statute. The City should identify those funds that may incur additional expenditures above the amounts previously appropriated, and take the necessary action to appropriate the funds and certify the same with the County Auditor.

FINDING NUMBER 2005-007

Material Noncompliance

Ohio Rev. Code Section 9.11 states that “any elected or appointed public official... or any member, agent, or employee of any board, commission, bureau, or other public body established by law, who is permitted or required in the performance of his duties to affix his signature on any check, draft, warrant, voucher, or other instrument for the payment of money, may adopt a facsimile thereof, in lieu of such manual signature, and affix such facsimile to any such instrument”. However, according to ORC section 9.10 a “facsimile signature” includes, but is not limited to, the reproduction of any authorized signature by a copper plate or by a photographic, photostatic, or mechanical device, but does not authorize the use of a rubber stamp signature by the official or authorized employee referred to in section 9.11 of the Revised Code on the face of any instrument mentioned in such section. The City currently uses a rubber stamp to sign payroll and non-payroll checks. In addition to this, we noted that the City only has one signatory over the payroll checking account. This could also create difficulty if changes are necessary to be made to the account.

We feel an opportunity exists for the City to enhance its control design over the expenditure of public monies. The risk that fraudulent activities could occur is heightened by the use of rubber stamps. We recommend the City cease the use of the rubber stamp and implement other procedures that are compliant with the aforementioned revised code section. We also recommend that the City assign a second signatory to the payroll account, so as to reduce the risk of error or fraud occurring and not being detected timely. This would ensure compliance with state statute and strengthen the control environment within the City.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)

FINDING NUMBER 2005-008

Material Noncompliance

Ohio Rev. Code Section 5705.10(H) requires money that is paid into a fund must be used only for purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenditures of another fund. Through budgetary testing, we noted of funds with material negative balances throughout the audit period.

The following material negative fund balances were identified throughout the audit period in the following funds:

		<u>Negative Fund Balance</u>
March 2005: Sewer Replacement/Improvement Fund		\$ 339,723
June 2005:	OWDA Loan Fund	388,235
	Police Pension Fund	28,138
September 2005:	OWDA Loan Fund	388,235
	Police Pension Fund	42,215

Maintaining positive cash balances is not only required by statute but is a key control in the revenue and disbursement process to assure that revenue is available to pay purchase commitments from the funds intended to pay the commitment. To improve controls over financial monitoring and to help reduce the possibility of the City's funds being in a deficit balance, we recommend the City monitor fund activity to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code and Auditor of State Bulletin 97-003.

FINDING NUMBER 2005-009

Material Noncompliance

Ohio Rev. Code Section 5705.41(D) provides in part that no subdivision or taxing unit shall make any contractor order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund, free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon. In addition to this, **Ohio Rev. Code Section 5705.41 (D)** states that a subdivision's fiscal officer may also issue so-called "super blanket" certificates for any amount for expenditures and contracts from a specific line-item appropriation account in a specified fund for most professional services, fuel, oil, food items and any other specific recurring and reasonably predictable operating expense.

In our testing of the expenditure of public monies, several instances were noted where the City expended money without an accompanying purchase order. Through further inquiry with management, purchase orders are not generated for recurring payments such as utilities, contractual services, memberships, tax refunds, and payroll related expenditures. In addition to this, our testing showed that over eight-one percent of expenditures, of sixty tested, were made against a "Super Blanket"

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)**

purchase order. This appears to indicate a misuse of "Super Blank" purchase orders due to the fact that not all expenditures were specifically recurring or reasonably predictable. We recommend the City encumber all obligations prior to incurring expenditures. We also recommend the City amend their use of "Super Blanket" purchase orders, so as only to use them for recurring and reasonably predictable expenditures.

CITY OF DELPHOS, OHIO – ALLEN COUNTY

*Schedule of Prior Audit Findings
Year ended December 31, 2005*

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
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.	No	Not corrected; repeat as 2005-006.

**CITY OF DELPHOS
ALLEN COUNTY**

**CORRECTIVE ACTION PLAN
DECEMBER 31, 2005**

Responsible Contact Person: Thomas Jettinghoff, Auditor

The City of Delphos intends to work towards implementation and modification of procedures in effort to correct the Findings, beginning 2008.



Mary Taylor, CPA
Auditor of State

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
JULY 29, 2008**