

CITY OF DELPHOS

Allen County

BASIC FINANCIAL STATEMENTS

For The Year Ended December 31, 2007



Mary Taylor, CPA
Auditor of State

City Council
City of Delphos
608 N. 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, 2007 through December 31, 2007. 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

October 28, 2008

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

	<u>Page</u>
Independent Auditor’s Report	1
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) and Actual – Income Tax Fund.....	21
Statement of 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
Combining Statement of Assets and Liabilities – Agency 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>	51
Independent Auditors’ Report on Compliance with Requirements Applicable to Each Major Program on Internal Control Over Compliance in Accordance With OMB Circular A-133	53
Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2007.....	55
Notes to Schedule of Expenditures of Federal Awards.....	56
Schedule of Findings and Questioned Costs	57
Summary Schedule of Prior Audit Findings	60
Corrective Action Plan	61

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

September 15, 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, Ohio, as of and for the year ended December 31, 2007, 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 of Delphos'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, Ohio, as of December 31, 2007, and the respective changes in financial position and the cash flows where applicable thereof and the respective budgetary comparisons for the General Fund and the 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 September 15, 2008 on our consideration of the City of Delphos' 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 are not a required part of the basic financial statements but are supplementary information required by 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Delphos's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.





City of Delphos, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2007
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, 2007.

Financial Highlights

- The total net assets of the City decreased \$3,041,987. Net assets of governmental activities decreased \$4,695,420, which represents a 54.7% decrease over year 2006. Net assets of business-type activities increased \$1,653,433 or 20.5% from year 2006.
- General revenues, for governmental activities, accounted for \$3,570,398 or 65.4% of total governmental activities revenue. Program specific revenues accounted for \$1,884,907 or 34.6% of total governmental activities revenue.
- Governmental activities net capital assets decreased \$4,045,403 primarily due to construction projects for the City's water treatment plant and reservoir. These assets were completed during the year and transferred to the business-type activities capital assets and thereby increasing the business-type activities capital assets by \$10,650,631.
- The City had \$5,209,411 in expenses related to governmental activities; \$1,884,907 of these expenses was offset by program specific charges for services, grants, contributions, or interest. General revenues (primarily taxes) of \$3,570,398 were sufficient to offset these program expenses, however, a transfer of \$3,961,314 was recorded to transfer finished construction projects to the business-type activities capital assets.
- The general fund, the City's largest major governmental fund, had revenues of \$3,130,070 in 2007, or 56.5% of total governmental funds. Expenditures of the general fund were \$2,803,042, or 56.1% of total governmental funds. The general fund balance decreased \$492,316, or 38.7% in 2007.

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 Fiscal Year Ended December 31, 2007
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 18 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, for the general fund, the income tax special revenue fund, and the water source capital projects fund which are considered to be major funds. Data from the other 15 governmental funds are combined into a single, aggregated presentation.

City of Delphos, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2007
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 \$13.6 million at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (51.3%) 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 2007 compared to 2006:

City of Delphos, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2007
Unaudited

Net Assets

	Governmental Activites <u>2007</u>	Governmental Activites <u>2006</u>	Business-Type Activities <u>2007</u>	Business-Type Activities <u>2006</u>	Total <u>2007</u>	Total <u>2006</u>
Current assets	\$ 2,853,089	\$ 4,099,744	\$ 5,407,828	\$ 5,453,889	\$ 8,260,917	\$ 9,553,633
Noncurrent assets	<u>2,243,748</u>	<u>6,289,151</u>	<u>58,888,540</u>	<u>48,237,909</u>	<u>61,132,288</u>	<u>54,527,060</u>
Total assets	<u>5,096,837</u>	<u>10,388,895</u>	<u>64,296,368</u>	<u>53,691,798</u>	<u>69,393,205</u>	<u>64,080,693</u>
Current liabilities	921,213	1,043,712	262,695	286,927	1,183,908	1,330,639
Noncurrent liabilities	<u>289,594</u>	<u>315,544</u>	<u>54,320,177</u>	<u>45,344,808</u>	<u>54,609,771</u>	<u>45,660,352</u>
Total liabilities	<u>1,210,807</u>	<u>1,359,256</u>	<u>54,582,872</u>	<u>45,631,735</u>	<u>55,793,679</u>	<u>46,990,991</u>
Net assets:						
Invested in capital assets, net of related debt	2,243,748	6,233,655	4,734,772	3,040,180	6,978,520	9,273,835
Resticted	650,475	688,232	-	-	650,475	688,232
Unrestricted	<u>991,807</u>	<u>1,659,563</u>	<u>4,978,724</u>	<u>5,019,883</u>	<u>5,970,531</u>	<u>6,679,446</u>
Total net assets	<u>\$ 3,886,030</u>	<u>\$ 8,581,450</u>	<u>\$ 9,713,496</u>	<u>\$ 8,060,063</u>	<u>\$ 13,599,526</u>	<u>\$ 16,641,513</u>

As displayed in the table above, total net assets of the City as a whole, decreased \$3 million from 2006 to 2007. This was due to a decrease in construction in progress, the capitalization of finished projects and related depreciation expense and the increase in long-term liabilities.

Total net assets of the City's governmental activities decreased by \$4.7 million, and unrestricted net assets decreased \$667,756 from 2006 to 2007. The decrease in governmental net assets can be attributed to decreases in construction in progress.

The net assets of the City's business type activities increased by \$1.6 million. One of the three enterprise funds reported an operating loss during 2007. Overall, operating expenses increased from the prior year. Capital contributions for capital assets from governmental funds helped to reduce the negative impact on net assets. The City also had an increase in charges for services from 2006 to 2007. The City strives to control operation expenses for business-type activities in order to maintain stability in charges for services rates.

The following table shows the changes in net assets for the year ended December 31, 2007, and revenue and expense comparisons to 2006.

City of Delphos, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2007
Unaudited

	Changes in Net Assets					
	Governmental	Governmental	Business-Type	Business-Type	Total	Total
	Activites	Activites	Activities	Activities	Total	Total
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Program revenues:						
Charges for services	\$ 552,734	\$ 673,996	\$ 4,519,012	\$ 3,720,145	\$ 5,071,746	\$ 4,394,141
Operating grants	558,647	387,097	-	-	558,647	387,097
Capital grants	773,526	3,995,467	-	-	773,526	3,995,467
General revenues:						
Taxes	2,961,997	3,506,048	-	-	2,961,997	3,506,048
Intergovernmental	291,736	312,353	-	-	291,736	312,353
Investment earnings	244,426	199,663	10,840	7,446	255,266	207,109
Other	<u>72,239</u>	<u>4,643</u>	<u>-</u>	<u>17,685</u>	<u>72,239</u>	<u>22,328</u>
Total revenues	<u>5,455,305</u>	<u>9,079,267</u>	<u>4,529,852</u>	<u>3,745,276</u>	<u>9,985,157</u>	<u>12,824,543</u>
Expenses:						
General government	1,194,813	424,275	-	-	1,194,813	424,275
Safety services	2,445,469	2,354,136	-	-	2,445,469	2,354,136
Public health and welfare	127,459	85,525	-	-	127,459	85,525
Transportation	598,228	342,881	-	-	598,228	342,881
Community environment	243,657	45,753	-	-	243,657	45,753
Basic utility services	5,784	11,007	-	-	5,784	11,007
Leisure time activities	594,001	462,266	-	-	594,001	462,266
Water	-	-	1,712,256	863,936	1,712,256	863,936
Sewer	-	-	5,761,927	5,014,794	5,761,927	5,014,794
Garbage	-	-	343,550	325,160	343,550	325,160
Interest expense	<u>-</u>	<u>5,407</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,407</u>
Total expenses	<u>5,209,411</u>	<u>3,731,250</u>	<u>7,817,733</u>	<u>6,203,890</u>	<u>13,027,144</u>	<u>9,935,140</u>
Increase in net assets before transfers	245,894	5,348,017	(3,287,881)	(2,458,614)	(3,041,987)	2,889,403
Transfers	<u>(4,941,314)</u>	<u>(605,000)</u>	<u>4,941,314</u>	<u>605,000</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>\$ (4,695,420)</u>	<u>\$ 4,743,017</u>	<u>\$ 1,653,433</u>	<u>\$ (1,853,614)</u>	<u>\$ (3,041,987)</u>	<u>\$ 2,889,403</u>

Governmental Activities

Governmental activities decreased the City's net assets by \$4,695,420, or 54.7%, thereby accounting for 100% of the total decrease in the net assets of the City. This decrease is due to the completion of the City's water treatment plant and reservoir and the assets then being transferred to the business-type activities.

City of Delphos, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2007
Unaudited

Business-Type Activities

Business-type activities increased the City's net assets by \$1,653,433. The key element of this increase was due to the completion of the water treatment plant and the reservoir.

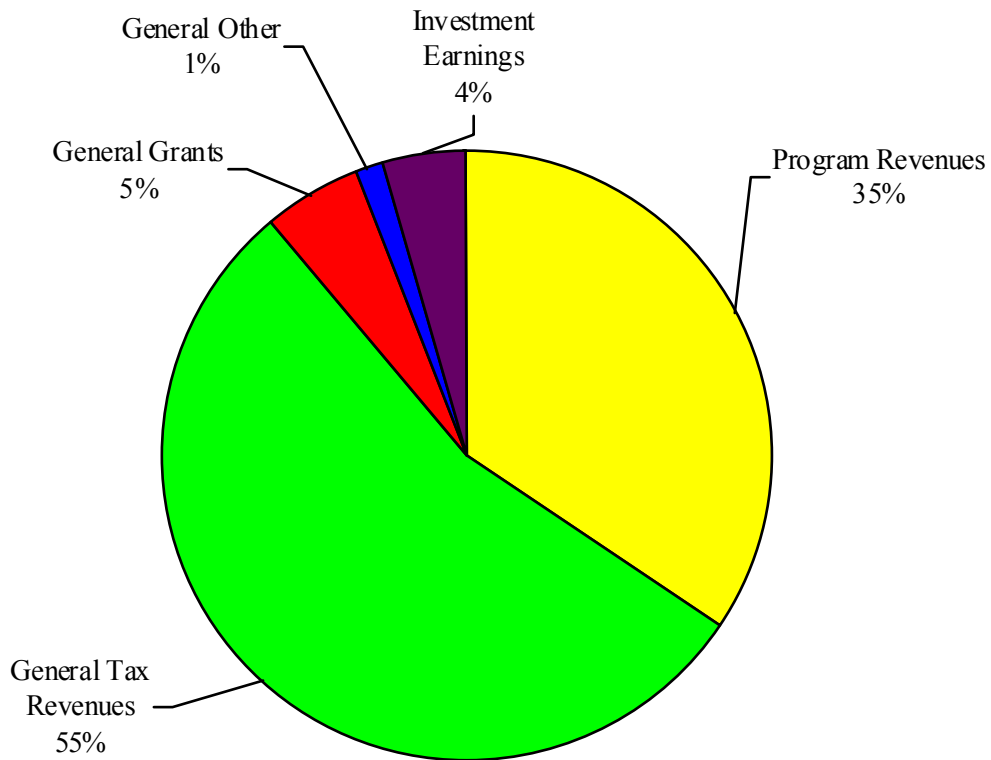
Program Expenses

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>					
	2007 Total Cost of Services	2007 Net Cost of Services	2006 Total Cost of Services	2006 Net Cost of Services	<u>Net Change</u>	
					Total Cost of Services	Net Cost of Services
Governmental Activities:						
General government	\$ 1,194,813	\$ (721,444)	\$ 424,275	\$ 3,596,632	\$ 770,538	\$ (4,318,076)
Safety services	2,445,469	(2,033,187)	2,354,136	(1,844,535)	91,333	(188,652)
Public health and welfare	127,459	(127,459)	85,525	(85,525)	41,934	(41,934)
Transportation	598,228	(18,381)	342,881	45,116	255,347	(63,497)
Community environment	243,657	(55,288)	45,753	(11,646)	197,904	(43,642)
Basic utility services	5,784	(5,784)	11,007	(11,007)	(5,223)	5,223
Leisure Time activities	594,001	(362,961)	462,266	(358,318)	131,735	(4,643)
Interest expense	-	-	5,407	(5,407)	(5,407)	5,407
Total Governmental Activities	<u>5,209,411</u>	<u>(3,324,504)</u>	<u>3,731,250</u>	<u>1,325,310</u>	<u>1,478,161</u>	<u>(4,649,814)</u>
Business-type Activities:						
Water	1,712,256	(151,801)	863,936	386,692	848,320	(538,493)
Sewer	5,761,927	(3,145,512)	5,014,794	(2,855,376)	747,133	(290,136)
Garbage	343,550	(1,408)	325,160	(15,061)	18,390	13,653
Total Business-type Activities	<u>7,817,733</u>	<u>(3,298,721)</u>	<u>6,203,890</u>	<u>(2,483,745)</u>	<u>1,613,843</u>	<u>(814,976)</u>
Grand total	<u>\$ 13,027,144</u>	<u>\$ (6,623,225)</u>	<u>\$ 9,935,140</u>	<u>\$ (1,158,435)</u>	<u>\$ 3,092,004</u>	<u>\$ (5,464,790)</u>

The City's reliance upon program revenues is demonstrated by the graph below indicating 35% of total revenues from charges for services and program grants. 55% of revenues are primarily generated locally through property taxes and income taxes. City Council relies on these taxes to furnish the quality of life to businesses and citizens to which they and previous councils have always been committed.

City of Delphos, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2007
Unaudited



Financial Analysis of the Government's Funds

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

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1.2 million, a 26.3% decrease from the prior year.

City of Delphos, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended December 31, 2007
 Unaudited

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2007 and 2006.

	Fund Balance <u>12/31/2007</u>	Fund Balance <u>12/31/2006</u>	Increase <u>(Decrease)</u>
General	\$ 780,837	\$ 1,273,153	\$ (492,316)
Income tax	153,742	315,886	(162,144)
Water source	65,206	(58,856)	124,062
Other governmental	<u>229,408</u>	<u>136,782</u>	<u>92,626</u>
Total	<u>\$ 1,229,193</u>	<u>\$ 1,666,965</u>	<u>\$ (437,772)</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 \$759,707 and \$153,127, respectively.

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 \$1,400,707. Total net assets increased \$3,821,939, from the previous year due to the completion of the water treatment plant and reservoir.

Unrestricted net assets in the sewer fund at the end of the year amounted to \$3,524,060. Total net assets decreased \$2,159,742 or 34.4%, from the previous year. This decrease is due to depreciation expense associated with the wastewater treatment plant and interest expense on associated debt.

Unrestricted net assets in the garbage fund at the end of the year amounted to \$66,156. Total net assets decreased \$1,408, or 1%, 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.

During 2007, revisions were made to the general fund budget. These revisions are reflected on the statement of revenues, expenditures and changes in fund balances for the general fund on page 20. Within each departmental function, a department head may make small line item adjustments within their budget, as long as the total operation and maintenance amount does not exceed their original budget allowance.

City of Delphos, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended December 31, 2007
 Unaudited

Original general fund budgeted revenues increased \$753,702, from \$2,890,491 to the final budgeted amount of \$3,644,193. Municipal income taxes original budget was consistent with actual income tax revenue for the prior year. At the end of the year, actual municipal income revenues were in excess of the original budget by \$569.

Original general fund expenditures increased \$346,594, from \$3,277,000 to the final budgeted amount of \$3,623,594. Actual expenditures were \$3,613,263.

Capital Assets

At the end of year 2007, the City had \$61,132,288 (net of accumulated depreciation) invested in land, land improvements, buildings, equipment, vehicles, construction in progress and infrastructure. Of this total, \$2,243,748 was reported in governmental activities and \$58,888,540 was reported in business-type activities. The table below reports year 2007 balances compared to 2006:

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 476,660	\$ 491,570	\$ 90,772	\$ 161,807	\$ 567,432	\$ 653,377
Land improvements	224,428	260,527	7,894,057	4,167,071	8,118,485	4,427,598
Buildings	555,924	493,876	30,601,023	18,146,532	31,156,947	18,640,408
Equipment	261,690	252,714	12,549,333	11,823,626	12,811,023	12,076,340
Vehicles	587,446	744,792	156,814	295,433	744,260	1,040,225
Infrastructure	-	-	7,596,541	6,973,983	7,596,541	6,973,983
Construction in progress	<u>137,600</u>	<u>4,045,672</u>	<u>-</u>	<u>6,669,457</u>	<u>137,600</u>	<u>10,715,129</u>
Total	<u>\$ 2,243,748</u>	<u>\$ 6,289,151</u>	<u>\$ 58,888,540</u>	<u>\$ 48,237,909</u>	<u>\$ 61,132,288</u>	<u>\$ 54,527,060</u>

Again, the increase in capital assets was due to the completion of the City's water treatment plant and the reservoir.

Debt

At December 31, 2007, the City had total long-term debt outstanding of \$54,609,771. Of this total, \$1,848,204 is due within one year and \$52,761,567 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 Fiscal Year Ended December 31, 2007
Unaudited

Outstanding Debt, at Fical Year End

	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Capital lease	\$ -	\$ 55,496	\$ -	\$ -	\$ -	\$ 55,496
Compensated absences	289,594	260,048	166,410	147,079	456,004	407,127
General obligation bonds	-	-	2,350,000	2,510,000	2,350,000	2,510,000
OPWC loans	-	-	290,506	128,349	290,506	128,349
OWDA loans	-	-	51,513,261	42,559,380	51,513,261	42,559,380
Total	<u>\$ 289,594</u>	<u>\$ 315,544</u>	<u>\$ 54,320,177</u>	<u>\$ 45,344,808</u>	<u>\$ 54,609,771</u>	<u>\$ 45,660,352</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, 2007

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 1,020,048	\$ 3,905,615	\$ 4,925,663
Cash and cash equivalents with escrow agent	-	56,481	56,481
Receivables:			
Income tax	726,130	-	726,130
Property and other taxes	574,522	-	574,522
Accounts	155,801	1,272,073	1,427,874
Special assessments	370	5,534	5,904
Accrued interest	11,462	1,364	12,826
Due from other governments	307,698	-	307,698
Materials and supplies inventory	18,300	36,242	54,542
Prepaid items	26,559	22,608	49,167
Deferred charges	-	120,110	120,110
Internal balances	12,199	(12,199)	-
Nondepreciable capital assets	614,260	90,772	705,032
Depreciable capital assets, net	1,629,488	58,797,768	60,427,256
Total assets	<u>5,096,837</u>	<u>64,296,368</u>	<u>69,393,205</u>
<u>Liabilities:</u>			
Accounts payable	270,061	189,737	459,798
Contracts payable	1,988	-	1,988
Accrued wages and benefits	67,245	29,650	96,895
Due to other governments	89,331	33,551	122,882
Deferred revenue	490,174	-	490,174
Accrued interest payable	-	9,757	9,757
Claims payable	2,414	-	2,414
Long-term liabilities:			
Due within one year	122,763	1,725,441	1,848,204
Due in more than one year	166,831	52,594,736	52,761,567
Total liabilities	<u>1,210,807</u>	<u>54,582,872</u>	<u>55,793,679</u>
<u>Net assets:</u>			
Invested in capital assets, net of related debt	2,243,748	4,734,772	6,978,520
Restricted for:			
Other purposes	650,475	-	650,475
Unrestricted	991,807	4,978,724	5,970,531
Total net assets	<u>\$ 3,886,030</u>	<u>\$ 9,713,496</u>	<u>\$ 13,599,526</u>

See accompanying notes to the basic financial statements.

City of Delphos, Ohio

Statement of Activities

For the Year Ended December 31, 2007

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<u>Governmental Activities:</u>				
General government	\$ 1,194,813	\$ 63,081	\$ -	\$ 410,288
Safety services	2,445,469	361,382	-	50,900
Public health and welfare	127,459	-	-	-
Transportation	598,228	21,200	558,647	-
Community environment	243,657	1,031	-	187,338
Basic utility services	5,784	-	-	-
Leisure time activities	594,001	106,040	-	125,000
Total governmental activities	<u>5,209,411</u>	<u>552,734</u>	<u>558,647</u>	<u>773,526</u>
<u>Business-Type Activities:</u>				
Water	1,712,256	1,560,455	-	-
Sewer	5,761,927	2,616,415	-	-
Garbage	343,550	342,142	-	-
Total business-type activities	<u>7,817,733</u>	<u>4,519,012</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 13,027,144</u>	<u>\$ 5,071,746</u>	<u>\$ 558,647</u>	<u>\$ 773,526</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
\$ (721,444)	\$ -	\$ (721,444)
(2,033,187)	-	(2,033,187)
(127,459)	-	(127,459)
(18,381)	-	(18,381)
(55,288)	-	(55,288)
(5,784)	-	(5,784)
(362,961)	-	(362,961)
(3,324,504)	-	(3,324,504)
-	(151,801)	(151,801)
-	(3,145,512)	(3,145,512)
-	(1,408)	(1,408)
-	(3,298,721)	(3,298,721)
(3,324,504)	(3,298,721)	(6,623,225)
459,244	-	459,244
58,959	-	58,959
1,497,160	-	1,497,160
946,634	-	946,634
291,736	-	291,736
244,426	10,840	255,266
72,239	-	72,239
3,570,398	10,840	3,581,238
(4,941,314)	4,941,314	-
(4,695,420)	1,653,433	(3,041,987)
8,581,450	8,060,063	16,641,513
\$ 3,886,030	\$ 9,713,496	\$ 13,599,526

City of Delphos, Ohio

Balance Sheet

Governmental Funds

December 31, 2007

	General	Income Tax	Water Source	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>					
Equity in pooled cash and cash equivalents	\$ 462,299	\$ 72,636	\$ 65,206	\$ 379,577	\$ 979,718
Receivables:					
Income tax	518,026	208,104	-	-	726,130
Property and other taxes	446,081	-	-	128,441	574,522
Accounts	155,801	-	-	-	155,801
Special assessments	370	-	-	-	370
Accrued interest	11,051	-	-	411	11,462
Due from other governments	146,464	-	-	161,234	307,698
Materials and supplies inventory	1,483	-	-	16,817	18,300
Prepaid items	19,294	615	-	2,510	22,419
Total assets	<u>\$ 1,760,869</u>	<u>\$ 281,355</u>	<u>\$ 65,206</u>	<u>\$ 688,990</u>	<u>\$ 2,796,420</u>
Liabilities and fund balances					
<u>Liabilities:</u>					
Accounts payable	\$ 26,553	\$ 23	\$ -	\$ 243,485	\$ 270,061
Contracts payable	-	-	-	1,988	1,988
Accrued wages and benefits	60,627	1,443	-	5,175	67,245
Due to other governments	56,198	1,363	-	31,770	89,331
Deferred revenue	836,654	124,784	-	177,164	1,138,602
Total liabilities	<u>980,032</u>	<u>127,613</u>	<u>-</u>	<u>459,582</u>	<u>1,567,227</u>
<u>Fund balances:</u>					
Reserved for encumbrances	-	-	131,216	273,008	404,224
Reserved for inventory	1,483	-	-	16,817	18,300
Reserved for prepaid items	19,294	615	-	2,510	22,419
Reserved for cemetery improvements	353	-	-	-	353
Reported in:					
General fund	759,707	-	-	-	759,707
Special revenue funds	-	153,127	-	121,477	274,604
Capital projects fund	-	-	(66,010)	(184,404)	(250,414)
Total fund balances	<u>780,837</u>	<u>153,742</u>	<u>65,206</u>	<u>229,408</u>	<u>1,229,193</u>
Total liabilities and fund balances	<u>\$ 1,760,869</u>	<u>\$ 281,355</u>	<u>\$ 65,206</u>	<u>\$ 688,990</u>	<u>\$ 2,796,420</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, 2007**

Total governmental fund balances		\$ 1,229,193
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in funds.		2,243,748
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.		54,255
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property and other taxes	\$ 384,259	
Intergovernmental	196,052	
Charges for services	54,026	
Miscellaneous	14,091	
Total	<u>648,428</u>	648,428
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences	\$ (289,594)	
Total	<u>(289,594)</u>	(289,594)
Net assets of governmental activities		<u>\$ 3,886,030</u>

See accompanying notes to the basic financial statements.

City of Delphos, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2007

	General	Income Tax	Water Source	Other Governmental Funds	Total Governmental Funds
Revenues:					
Income tax	\$ 1,572,668	\$ 985,531	\$ -	\$ -	\$ 2,558,199
Property and other taxes	497,388	-	-	60,964	558,352
Charges for services	379,918	-	-	63,676	443,594
Fines, licenses, and permits	135,530	-	-	56,398	191,928
Intergovernmental	284,738	-	410,288	740,287	1,435,313
Investment income	244,426	-	-	9,023	253,449
Contributions and donations	-	-	-	37,900	37,900
Rentals	4,800	-	-	-	4,800
Other	10,602	60	-	48,782	59,444
Total revenue	<u>3,130,070</u>	<u>985,591</u>	<u>410,288</u>	<u>1,017,030</u>	<u>5,542,979</u>
Expenditures:					
Current:					
General government	218,268	147,735	786,226	-	1,152,229
Safety services	1,985,401	-	-	267,274	2,252,675
Public health and welfare	127,459	-	-	-	127,459
Transportation	-	-	-	561,661	561,661
Community environment	-	-	-	243,657	243,657
Basic utility services	-	-	-	5,784	5,784
Leisure time activities	435,952	-	-	-	435,952
Capital outlay	35,962	-	40,000	87,107	163,069
Debt service:					
Principal retirement	-	-	-	55,496	55,496
Interest and fiscal charges	-	-	-	2,769	2,769
Total expenditures	<u>2,803,042</u>	<u>147,735</u>	<u>826,226</u>	<u>1,223,748</u>	<u>5,000,751</u>
Excess of revenues over (under) expenditures	<u>327,028</u>	<u>837,856</u>	<u>(415,938)</u>	<u>(206,718)</u>	<u>542,228</u>
Other financing sources (uses):					
Transfers - in	-	-	540,000	309,344	849,344
Transfers - out	<u>(819,344)</u>	<u>(1,000,000)</u>	<u>-</u>	<u>(10,000)</u>	<u>(1,829,344)</u>
Total other financing sources (uses)	<u>(819,344)</u>	<u>(1,000,000)</u>	<u>540,000</u>	<u>299,344</u>	<u>(980,000)</u>
Net change in fund balance	(492,316)	(162,144)	124,062	92,626	(437,772)
Fund balances at beginning of year	<u>1,273,153</u>	<u>315,886</u>	<u>(58,856)</u>	<u>136,782</u>	<u>1,666,965</u>
Fund balances at end of year	<u>\$ 780,837</u>	<u>\$ 153,742</u>	<u>\$ 65,206</u>	<u>\$ 229,408</u>	<u>\$ 1,229,193</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, 2007

Net change in fund balances - Total governmental funds \$ (437,772)

*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	\$ 163,069	
Capital contributions	138,000	
Capital asset disposals	(80,518)	
Capital assets purchased for proprietary funds	(3,961,314)	
Depreciation expense	<u>(304,640)</u>	
Excess of depreciation expense over capital asset additions		(4,045,403)

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	\$ (40,151)	
Income taxes	(114,405)	
Intergovernmental	3,673	
Fines, licenses and permits	(41,621)	
Charges for services	(46,694)	
Other	<u>13,524</u>	
Net change in deferred revenues during the year		(225,674)

Some items reported in the statement of activities do not require the use of current financial
resources and therefore are not reported as expenditures in governmental funds. These
activities consist of:

Increase in compensated absences	\$ (29,546)	
Decrease in accrued interest	<u>3,111</u>	
Total additional expenditures		(26,435)

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. (15,632)

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. 55,496

Change in net assets of governmental activities \$ (4,695,420)

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, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Income tax	\$ 1,585,000	\$ 1,585,569	\$ 1,585,569	\$ -
Property and other taxes	464,651	528,198	528,198	-
Charges for services	300,000	379,379	379,379	-
Fines, licenses, and permits	91,000	92,712	92,712	-
Intergovernmental	240,000	266,197	266,197	-
Investment income	200,000	242,164	242,164	-
Rentals	4,800	4,800	4,800	-
Other	5,040	5,174	5,174	-
Total revenue	<u>2,890,491</u>	<u>3,104,193</u>	<u>3,104,193</u>	<u>-</u>
<u>Expenditures:</u>				
Current:				
General government	180,000	179,503	169,172	10,331
Safety services	2,500,000	2,078,972	2,078,972	-
Public health and welfare	147,000	127,459	127,459	-
Leisure time activities	450,000	418,316	418,316	-
Total expenditures	<u>3,277,000</u>	<u>2,804,250</u>	<u>2,793,919</u>	<u>10,331</u>
Excess of revenues over (under) expenditures	<u>(386,509)</u>	<u>299,943</u>	<u>310,274</u>	<u>10,331</u>
<u>Other financing sources (uses):</u>				
Advances - in		540,000	540,000	-
Transfers - out	-	(819,344)	(819,344)	-
Total other financing sources (uses)	<u>-</u>	<u>(279,344)</u>	<u>(279,344)</u>	<u>-</u>
Net change in fund balance	(386,509)	20,599	30,930	10,331
Fund balance at beginning of year	330,130	330,130	330,130	-
Prior year encumbrances appropriated	<u>71,110</u>	<u>71,110</u>	<u>71,110</u>	<u>-</u>
Fund balance at end of year	<u>\$ 14,731</u>	<u>\$ 421,839</u>	<u>\$ 432,170</u>	<u>\$ 10,331</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, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Income tax	\$ 984,370	\$ 974,824	\$ 974,824	\$ -
Other	-	60	60	-
Total revenue	<u>984,370</u>	<u>974,884</u>	<u>974,884</u>	<u>-</u>
<u>Expenditures:</u>				
Current:				
General government	<u>230,000</u>	<u>148,494</u>	<u>147,914</u>	<u>580</u>
Excess of revenues over (under) expenditures	<u>754,370</u>	<u>826,390</u>	<u>826,970</u>	<u>580</u>
Other financing sources (uses):				
Transfers - out	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>-</u>
Net change in fund balance	(245,630)	(173,610)	(173,030)	580
Fund balance at beginning of year	244,649	244,649	244,649	-
Prior year encumbrances appropriated	<u>994</u>	<u>994</u>	<u>994</u>	<u>-</u>
Fund balance at end of year	<u>\$ 13</u>	<u>\$ 72,033</u>	<u>\$ 72,613</u>	<u>\$ 580</u>

See accompanying notes to the basic financial statements.

City of Delphos, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2007

	Business-Type Activities - Enterprise Funds				Governmental
	Water	Sewer	Garbage	Total	Activities - Internal Service Fund
<u>Assets:</u>					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 995,685	\$ 2,861,872	\$ 48,058	\$ 3,905,615	\$ 40,330
Cash and cash equivalents:					
With escrow agent	56,481	-	-	56,481	-
Receivables:					
Accounts	465,582	702,624	103,867	1,272,073	-
Special assessments	2,269	2,435	830	5,534	-
Accrued interest	1,364	-	-	1,364	-
Materials and supplies inventory	14,503	21,739	-	36,242	-
Prepaid items	3,158	18,696	754	22,608	4,140
Deferred charges	-	120,110	-	120,110	-
Total current assets	1,539,042	3,727,476	153,509	5,420,027	44,470
Capital assets:					
Land	12,658	78,114	-	90,772	-
Depreciable capital assets, net	23,329,860	35,353,169	114,739	58,797,768	-
Total non-current assets	23,342,518	35,431,283	114,739	58,888,540	-
Total assets	24,881,560	39,158,759	268,248	64,308,567	44,470
<u>Liabilities:</u>					
Current liabilities:					
Accounts payable	29,643	72,741	87,353	189,737	-
Accrued wages and benefits	13,370	16,280	-	29,650	-
Compensated absences payable	33,600	44,677	-	78,277	-
Due to other governments	15,094	18,457	-	33,551	-
Accrued interest payable	9,757	-	-	9,757	-
Claims and judgments payable	-	-	-	-	2,414
OPWC loans payable	12,843	-	-	12,843	-
OWDA loans payable	349,422	1,114,899	-	1,464,321	-
General obligation bonds payable	170,000	-	-	170,000	-
Total current liabilities	633,729	1,267,054	87,353	1,988,136	2,414
Long-term liabilities:					
Compensated absences payable	36,872	51,261	-	88,133	-
OPWC loans payable, net of current portion	277,663	-	-	277,663	-
OWDA loans payable, net of current portion	16,311,476	33,737,464	-	50,048,940	-
General obligation bonds payable, net of current portion	2,180,000	-	-	2,180,000	-
Total long-term liabilities	18,806,011	33,788,725	-	52,594,736	-
Total liabilities	19,439,740	35,055,779	87,353	54,582,872	2,414
<u>Net assets:</u>					
Invested in capital assets, net of related debt	4,041,113	578,920	114,739	4,734,772	-
Unrestricted	1,400,707	3,524,060	66,156	4,990,923	42,056
Total net assets	\$ 5,441,820	\$ 4,102,980	\$ 180,895	\$ 9,725,695	\$ 42,056

Net assets reported for business-type activities in the statement of net assets is different because they include a proportionate share of the balance of the internal service fund.

(12,199)

Net assets of business-type activities

\$ 9,713,496

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, 2007

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Garbage	Total	
<u>Operating revenues:</u>					
Charges for services	\$ 1,544,231	\$ 2,614,058	\$ 342,142	\$ 4,500,431	\$ 84,000
Tap-in fees	16,009	1,500	-	17,509	-
Other	215	857	-	1,072	-
Total operating revenue	1,560,455	2,616,415	342,142	4,519,012	84,000
<u>Operating expenses:</u>					
Personal services	401,144	724,162	-	1,125,306	-
Contractual services	156,425	1,125,257	300,927	1,582,609	2,069
Supplies and materials	277,334	530,307	1,495	809,136	-
Claims	-	-	-	-	104,919
Other operating costs	-	21,440	-	21,440	-
Depreciation	599,472	2,658,696	29,744	3,287,912	-
Total operating expenses	1,434,375	5,059,862	332,166	6,826,403	106,988
Operating income (loss)	126,080	(2,443,447)	9,976	(2,307,391)	(22,988)
<u>Non-operating revenues (expenses):</u>					
Interest	10,840	-	-	10,840	-
Interest and fiscal charges	(124,573)	(447,999)	-	(572,572)	-
Loss on disposal of capital assets	(151,722)	(248,296)	(11,384)	(411,402)	-
Total non-operating revenues (expenses)	(265,455)	(696,295)	(11,384)	(973,134)	-
Income (loss) before capital contributions and transfers	(139,375)	(3,139,742)	(1,408)	(3,280,525)	(22,988)
Capital contributions	3,961,314	-	-	3,961,314	-
Transfers - in	-	1,000,000	-	1,000,000	-
Transfers - out	-	(20,000)	-	(20,000)	-
Total capital contributions and transfers	3,961,314	980,000	-	4,941,314	-
Change in net assets	3,821,939	(2,159,742)	(1,408)	1,660,789	(22,988)
Net assets at beginning of year	1,619,881	6,262,722	182,303		65,044
Net assets at end of year	\$ 5,441,820	\$ 4,102,980	\$ 180,895		\$ 42,056

Some amounts reported for the business-type activities in the statement of activities are different because a proportionate share of the net expense of the internal service fund is reported with the business-type activities. (7,356)

Change in net assets of business-type activities \$ 1,653,433

See accompanying notes to the basic financial statements.

City of Delphos, Ohio

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2007

	Business-Type Activities - Enterprise Funds				Governmental
	Water	Sewer	Garbage	Total	Activities - Internal Service Fund
Cash flows from operating activities:					
Cash received from customers	\$ 1,476,479	\$ 2,501,315	\$ 321,987	\$ 4,299,781	\$ -
Cash received from interfund services provided	-	-	-	-	84,000
Cash payments for employee services and benefits	(380,128)	(718,958)	-	(1,099,086)	-
Cash payments to suppliers for goods and services	(431,224)	(1,718,198)	(287,114)	(2,436,536)	(6,209)
Cash payments for claims	-	-	-	-	(103,265)
Net cash provided by (used for) operating activities	665,127	64,159	34,873	764,159	(25,474)
Cash flows from noncapital financing activities:					
Transfers from other funds	-	1,000,000	-	1,000,000	-
Transfers to other funds	-	(20,000)	-	(20,000)	-
Net cash provided by (used for) noncapital financing activities	-	980,000	-	980,000	-
Cash flows from capital and related financing activities:					
Proceeds of loan	10,182,864	253,741	-	10,436,605	-
Interest paid on debt	(125,109)	(432,984)	-	(558,093)	-
Principal payment on bonds	(189,266)	(1,291,302)	-	(1,480,568)	-
Proceeds from sale of capital assets	-	-	-	-	-
Acquisition of capital assets	(10,176,541)	(170,433)	(41,657)	(10,388,631)	-
Net cash provided by (used for) for capital and related financing activities	(308,052)	(1,640,978)	(41,657)	(1,990,687)	-
Cash flows from investing activities:					
Investment income	10,238	-	-	10,238	-
Net cash provided by (used for) investing activities	10,238	-	-	10,238	-
Net increase (decrease) in cash and cash equivalents	367,313	(596,819)	(6,784)	(236,290)	(25,474)
Cash and cash equivalents at beginning of year	684,853	3,458,691	54,842	4,198,386	65,804
Cash and cash equivalents at end of year	\$ 1,052,166	\$ 2,861,872	\$ 48,058	\$ 3,962,096	\$ 40,330
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 126,080	\$ (2,443,447)	\$ 9,976	\$ (2,307,391)	\$ (22,988)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	599,472	2,658,696	29,744	3,287,912	-
Change in assets and liabilities:					
(Increase) decrease in assets:					
Accounts receivable	(72,154)	(112,662)	(19,325)	(204,141)	-
Materials and supplies inventory	(8,544)	(11,327)	-	(19,871)	-
Prepaid items	19,589	(1,971)	(69)	17,549	(4,140)
Special assessment receivable	(2,269)	(2,435)	(830)	(5,534)	-
Increase (decrease) in liabilities:					
Accounts payable	(18,859)	(28,268)	15,377	(31,750)	-
Claims payable	-	-	-	-	1,654
Accrued wages and benefits	1,942	(2,692)	-	(750)	-
Compensated absences	14,861	4,470	-	19,331	-
Due to other governments	5,009	3,795	-	8,804	-
Net cash provided by (used for) operating activities	\$ 665,127	\$ 64,159	\$ 34,873	\$ 764,159	\$ (25,474)

Schedule of non-cash capital financing activities

As of December 31, 2007, the Water fund received capital assets from the Water Source fund, a governmental fund-type, in the amount of \$3,961,314. This amount is included in capital contributions.

See accompanying notes to the financial statements.

City of Delphos, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2007

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 2,053
Total assets	<u>\$ 2,053</u>

<u>Liabilities:</u>	
Deposits held and due to others	<u>2,053</u>
Total liabilities	<u>\$ 2,053</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, 2007

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of Delphos (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and to its enterprise funds. The most significant of the City's accounting policies are described below.

A. Reporting Entity

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.

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, 2007

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, 2007

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 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.

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 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 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, 2007

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, 2007

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 5). 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, 2007, but which were levied to finance year 2008 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, 2007

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 2007.

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, 2007

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.

The City has an escrow bank account for monies held separate from the City's central bank account for a construction project. This interest-bearing depository account is presented on the statement of net assets as "cash and cash equivalents with escrow agent" since they are not required to be deposited into the City's treasury.

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 4, "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, 2007 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, 2007

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 2007, interest costs incurred on construction projects were material and where capitalized as part of the construction projects.

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

<u>Asset Class</u>	<u>Governmental and Business-Type Activities Estimated Useful Life</u>
Land improvements	15 years
Buildings	20 years
Vehicles	5-10 years
Equipment	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, 2007

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, 2007. 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, and special termination benefits 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, 2007

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, inventory, prepaid items, and cemetery improvements 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. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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, 2007

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 2007.

Note 2 - 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.

Net Change in Fund Balance		Income
	<u>General</u>	<u>Tax</u>
GAAP Basis	\$ (492,316)	\$ (162,144)
Revenue accruals	514,123	(10,707)
Expenditure accruals	(17,804)	(202)
Encumbrances (Budget Basis) outstanding at year end	26,927	23
Budget Basis	\$ 30,930	\$ (173,030)

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 3 - Restatement of Prior Year Net Assets

Net assets at December 31, 2006 have been restated for corrections to the City's capital assets. Adjustments were made to land, buildings, equipment and furniture, vehicles, and related depreciation expense.

The restatement of net assets is presented below:

	Governmental Activities
Net assets	
at December 31, 2006	\$ 8,145,605
Restatement of capital assets	435,845
Net assets at January 1, 2007	\$ 8,581,450

Note 4 – 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

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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 \$4,984,197 and the bank balances totaled \$5,137,422. Of the bank balances, \$2,437,422 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, 2007

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 2007 amounted to \$244,426, which includes \$212,312 assigned from other City funds.

Note 5 – Taxes

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 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. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75% and 12.5% for 2007. This will be reduced to 6.25% for 2008 and 0% for 2009. 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, 2007 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 2006 property tax receipts were based are as follows:

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

	Assessed Value <u>Allen County</u>	Assessed Value <u>Van Wert County</u>	
Real property	\$ 94,654,070	\$ 29,649,484	
Public utility personal property	2,883,720	1,257,920	
Tangible personal property	<u>9,249,210</u>	<u>3,612,380</u>	
Total assessed value	<u>\$ 106,787,000</u>	<u>\$ 34,519,784</u>	

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 \$2,443,794 in 2007. The income tax is to be divided 66% to the general fund and 34% to the income tax fund with any expenses of the income tax process to be charged to the income tax fund and the remainder to be transferred to the sewer fund for sewer system improvements.

Note 6 – Capital Assets

The capital asset balances of the governmental activities have been restated due corrections made by the City during the year. The restatement is presented below:

	Balance <u>12/31/2006</u>	Adjustments	Restated Balance <u>1/1/2007</u>
<u>Governmental activities</u>			
Land	\$ 436,570	\$ 55,000	\$ 491,570
Construction in progress	4,045,672	-	4,045,672
Land improvements	682,114	-	682,114
Buildings	862,225	497,105	1,359,330
Vehicles	2,006,074	122,418	2,128,492
Equipment and furniture	846,519	37,820	884,339
Accumulated depreciation	<u>(3,025,868)</u>	<u>(276,498)</u>	<u>(3,302,366)</u>
Total	<u>\$ 5,853,306</u>	<u>\$ 435,845</u>	<u>\$ 6,289,151</u>

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Governmental activities capital asset activity for the fiscal year end December 31, 2007 was as follows:

<u>Governmental activities</u>	Restated Balance 1/1/2007	<u>Increases</u>	<u>Decreases</u>	Balance 12/31/2007
Capital assets, not being depreciated:				
Land	\$ 491,570	\$ -	\$ (14,910)	\$ 476,660
Construction in progress	<u>4,045,672</u>	<u>53,242</u>	<u>(3,961,314)</u>	<u>137,600</u>
Total capital assets, not being depreciated	<u>4,537,242</u>	<u>53,242</u>	<u>(3,976,224)</u>	<u>614,260</u>
Capital assets, being depreciated:				
Land improvements	682,114	-	-	682,114
Buildings	1,359,330	171,100	(182,382)	1,348,048
Vehicles	2,128,492	42,802	(259,405)	1,911,889
Equipment	<u>884,339</u>	<u>33,925</u>	<u>(97,751)</u>	<u>820,513</u>
Total capital assets, being depreciated	<u>5,054,275</u>	<u>247,827</u>	<u>(539,538)</u>	<u>4,762,564</u>
Less accumulated depreciation:				
Land improvements	(421,587)	(36,099)	-	(457,686)
Buildings	(865,454)	(43,444)	116,774	(792,124)
Vehicles	(1,383,700)	(200,148)	259,405	(1,324,443)
Equipment	<u>(631,625)</u>	<u>(24,949)</u>	<u>97,751</u>	<u>(558,823)</u>
Total accumulated depreciation	<u>(3,302,366)</u>	<u>(304,640)</u>	<u>473,930</u>	<u>(3,133,076)</u>
Total capital assets being depreciated, net	<u>1,751,909</u>	<u>(56,813)</u>	<u>(65,608)</u>	<u>1,629,488</u>
Governmental activities capital assets, net	<u>\$ 6,289,151</u>	<u>\$ (3,571)</u>	<u>\$ (4,041,832)</u>	<u>\$ 2,243,748</u>

During the year, the City transferred \$3,961,314 from construction in progress of the governmental activities to the business-type activities. The transfer is recorded as contributed capital in the business-type activities.

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

<u>Depreciation expense:</u>	
General government	\$ 12,574
Safety services	174,968
Leisure time activities	86,154
Transportation	<u>30,944</u>
Total depreciation expense	<u>\$ 304,640</u>

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

The business-type activities capital asset activity for the fiscal year end December 31, 2007 was as follows:

<u>Business-Type activities</u>	<u>Balance</u> <u>12/31/2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2007</u>
Capital assets, not being depreciated:				
Land	\$ 161,807	\$ -	\$ (71,035)	\$ 90,772
Construction in progress	<u>6,669,457</u>	<u>-</u>	<u>(6,669,457)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>6,831,264</u>	<u>-</u>	<u>(6,740,492)</u>	<u>90,772</u>
Capital assets, being depreciated:				
Buildings	20,449,171	13,854,741	(345,294)	33,958,618
Land improvements	4,386,391	4,026,843	-	8,413,234
Vehicles	861,489	18,921	(151,427)	728,983
Equipment	13,343,782	2,152,701	(34,925)	15,461,558
Infrastructure	<u>10,619,914</u>	<u>966,195</u>	<u>(124,500)</u>	<u>11,461,609</u>
Total capital assets, being depreciated	<u>49,660,747</u>	<u>21,019,401</u>	<u>(656,146)</u>	<u>70,024,002</u>
Less accumulated depreciation:				
Buildings	(2,302,639)	(1,247,179)	192,223	(3,357,595)
Land improvements	(219,320)	(299,857)	-	(519,177)
Vehicles	(566,056)	(79,450)	73,337	(572,169)
Equipment	(1,520,156)	(1,422,369)	30,300	(2,912,225)
Infrastructure	<u>(3,645,931)</u>	<u>(239,057)</u>	<u>19,920</u>	<u>(3,865,068)</u>
Total accumulated depreciation	<u>(8,254,102)</u>	<u>(3,287,912)</u>	<u>315,780</u>	<u>(11,226,234)</u>
Total capital assets being depreciated, net	<u>41,406,645</u>	<u>17,731,489</u>	<u>(340,366)</u>	<u>58,797,768</u>
Business-Type activities capital assets, net	<u>\$ 48,237,909</u>	<u>\$ 17,731,489</u>	<u>\$ (7,080,858)</u>	<u>\$ 58,888,540</u>

Note 7 - Receivables

Receivables at December 31, 2007 primarily consisted of taxes, accounts (billings for user charged services), intergovernmental receivables, entitlement or shared revenues, interest and special assessments. 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	\$ 143,438
Rollback, homestead and tangible exemptions	24,570
Local government	125,706
Motor vehicle tax	13,424
Permissive sales tax	<u>560</u>
Total	<u>\$ 307,698</u>

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 8 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; 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 is partially self-insured. The insurance fund (an internal service fund) is used to account for employee premium contributions and for dental and vision premium payments. The City maintains comprehensive insurance coverage with an independent party for employee benefits. The City also contributes an amount determined by Council for each full-time employee to this fund. This amount pays for the medical out-of-pocket expenses for the employee up to the contribution of the City.

Note 9 - 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.

During the year, the City made its final payment of \$58,265 on this lease. \$55,496 was for the principal and \$2,769 was interest.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 10 - Long-Term Obligations

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

	Balance			Balance	Due within
	<u>1/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2007</u>	<u>One Year</u>
<u>Governmental activities:</u>					
Capital lease obligation	\$ 55,496	\$ -	\$ (55,496)	\$ -	\$ -
Compensated absences	<u>260,048</u>	<u>143,564</u>	<u>(114,018)</u>	<u>289,594</u>	<u>122,763</u>
Total governmental activities long-term liabilities	<u>\$ 315,544</u>	<u>\$ 143,564</u>	<u>\$ (169,514)</u>	<u>\$ 289,594</u>	<u>\$ 122,763</u>
<u>Business-Type activities:</u>					
<u>General obligation bonds</u>					
Water plant improvement, 3.25% - 4.875%	\$ 2,510,000	\$ -	\$ (160,000)	\$ 2,350,000	\$ 170,000
<u>Other long term obligations</u>					
1986 OWDA loan, 9.72%	192,532	-	(192,532)	-	-
1996 OWDA loan, 4.35%	2,793,788	-	(278,168)	2,515,620	290,400
2003 OWDA loan, .95%	32,903,603	253,741	(820,601)	32,336,743	824,499
2006 OWDA loan, 4.59%	405	18	-	423	-
2006 OWDA loan, 2.00%	6,669,052	8,556,740	-	15,225,792	325,979
2007 OWDA loan, 4.32%	-	815,970	-	815,970	6,856
2007 OWDA loan, 2.00%	-	635,136	(16,423)	618,713	16,587
1992 OPWC loan, 0%	29,715	-	(4,952)	24,763	4,952
1999 OPWC loan, 0%	98,634	-	(7,891)	90,743	7,891
2007 OPWC loan, 0%	-	175,000	-	175,000	-
Compensated absences	<u>147,079</u>	<u>103,186</u>	<u>(83,855)</u>	<u>166,410</u>	<u>78,277</u>
Total business-type activities long-term liabilities	<u>\$ 45,344,808</u>	<u>\$ 10,539,791</u>	<u>\$ (1,564,422)</u>	<u>\$ 54,320,177</u>	<u>\$ 1,725,441</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.

The 2003 Ohio Water Development Authority (O.W.D.A.) loan was for construction of a new wastewater treatment plant. The 2006 and 2007 Ohio Water Development Authority (O.W.D.A.) loans were for construction of a new water treatment plant and reservoir. The wastewater treatment plant was completed and up and running by December 31, 2006. The water treatment plant was up and running in October, 2007. These five loans are not yet complete, however, principal payments are scheduled to be due in 2008. Property taxes and revenue of the facilities will be pledged to repay the debt.

The 1992 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.

City of Delphos, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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 2007 Ohio Public Works Commission (O.P.W.C.) loan is for the construction of an upground waterline. Construction was started and completed in 2007. The full amount of the loan was \$175,000. The City water system revenue will be used for the principal repayment.

The \$3,585,000 Water Plant improvement general obligation bonds mature 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 the 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, 2007 the remaining balance to be amortized is \$120,110.

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.

The annual requirements to amortize all bonded debt and loans as of December 31, 2007, are as follows:

	General		OWDA		OPWC	Total
	Obligaton Bonds		Loans			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Loans</u>	
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	190,000	87,290	330,419	66,287	12,843	686,839
2012	200,000	78,645	344,948	51,757	12,843	688,193
2013-2017	1,160,000	240,701	930,182	61,582	39,453	2,431,918
2018-2022	<u>270,000</u>	<u>13,162</u>	<u>-</u>	<u>-</u>	<u>11,838</u>	<u>295,000</u>
	<u>\$ 2,350,000</u>	<u>\$ 728,816</u>	<u>\$ 2,515,620</u>	<u>\$ 459,671</u>	<u>\$ 115,506</u>	<u>\$ 6,169,613</u>

Several of the OWDA loans and the 2007 OPWC loan amortization schedules were not finalized at December 31, 2007 therefore, not reported in the above table.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

Note 11 - Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave liabilities are derived from negotiated agreements and State laws. Employees earn vacation and sick leave at different rates which are also affected by length of service. Vacation can be carried over at different rates depending on the department and only with the Mayor's approval. 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. 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, 2007, the liability for unpaid compensated absences was \$456,004 for the entire City.

Note 12 - 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. 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.

City of Delphos, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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 2007, 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 2007 member contribution rates were 9.5% for members in classifications other than law enforcement and public safety. For 2007, the employer pension contribution rate for the City was 13.85% of covered payroll, with 8.85% to fund pension obligations from January 1, 2007 to June 30, 2007 and 7.85% from July 1, 2007 to December 31, 2007. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ending December 31, 2007, 2006, and 2005 were \$148,945, \$137,349 and \$132,207, respectively. The full amount has been contributed for 2006 and 2005. Approximately 88% had been contributed for 2007 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 12.75% and 17.25% 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, 2007, 2006, and 2005 were \$146,278, \$136,650 and \$89,807, respectively. The full amount has been contributed for 2007 and 2006. Approximately 80.6% has been contributed for 2007 with the remainder being reported as a liability within the respective funds.

Note 13 - 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 12. 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.

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 2007 employer contribution rate for local government employers was 13.85% of covered payroll and 5% was the portion that was used to fund health care from January 1 through June 30, 2007 and 6% from July 1 through December 31, 2007.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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 \$60,485.

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2006. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment assumption rate for was 6.5%. 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% base increase, were assumed to range from .50% to 6.3%.

Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 5% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4.00% (the projected wage inflation rate).

OPEBs are advanced-funded on an actuarial determined basis. The number of active contributing participants in the TP and CP was 374,979 for 2007. The actual contribution and the actuarially required contribution amounts are the same.

OPERS's net assets available for payment of benefits at December 31, 2006, (the latest available information) were \$12 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, 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.

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.

City of Delphos, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2007

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 6.75% of covered payroll was applied to the post-employment health care program in 2007. 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 2007 that were used to fund post-employment benefits were \$68,582. The OP&F's total health care expense for the year ended December 31, 2006, (the latest information available) was \$120,373,722, which was net of member contributions of \$58,532,848. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006, was 14,120 for police and 10,563 for firefighters.

Note 14 – 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 15 – Fund Deficits

As of December 31, 2007, the police pension, the fire pension and the fire/rescue equipment special revenue funds had a deficit of \$2,431 \$296 and \$151,094, respectively. These deficits were 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, 2007

Note 16 – Interfund Transfers

Transfers at December 31, 2007 consisted of the following:

<u>Transfer to</u>	<u>Transfer from</u>			
	General	Income tax	Sewer	Nonmajor governmental fund
Water Source fund	\$ 540,000	\$ -	\$ -	\$ -
Nonmajor governmental funds	279,344	-	20,000	10,000
Sewer enterprise fund	-	1,000,000	-	-

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.

Income tax revenue is transferred to the sewer fund, per City Ordinance, for repayment of debt. Revenue is transferred from the sewer fund to the Jackson street non-major capital project fund. This fund is a sewer construction project fund and accounts for the City's estimated costs of the project.

Note 17 – Compliance

The City experienced significant negative fund balances throughout the year in the police pension, fireman pension, state highway special revenue funds, the streetscape and issue II Jackson street capital project funds and the OWDA loan sewer fund, which is a violation of Ohio Revised Code Section 5705.10(H).

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



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

September 15, 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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 15, 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 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'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 deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 2007-001 through 2007-003.

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 the 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 the 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 significant deficiencies we describe above, we consider findings 2007-001 and 2007-003 to be material weaknesses.

City of Delphos, Ohio
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
Page 2 of 2

We also noted certain internal control matters that we reported to the management of the City of Delphos in a separate letter dated September 15, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Delphos' 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 2007-004 and 2007-005.

We noted certain matters of noncompliance that we reported to management of the City in a separate letter dated September 15, 2008.

The City of Delphos' responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. 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 City's management, the Ohio Auditor of State and 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.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

September 15, 2008

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the City of Delphos, Ohio (the City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards¹, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007. The results of our tests disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control.

Our consideration of internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City's management, the Ohio Auditor of State and 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 Expenditures of Federal Awards
Year ended December 31, 2007*

Federal Grantor/ Program Title	CFDA Number	Agency or Pass-Through Number	Federal Disbursements
U. S. Department of Housing and Urban Development			
Pass through Programs from Ohio Department of Development:			
CDBG Tier 1 - Downtown Revitalization Formula Allocation Grant	14.228		\$ 33,000
CDBG Tier 2 - Downtown Revitalization Formula Allocation Grant	14.228		<u>198,620</u>
Total U.S. Department of Housing and Urban Development			<u>231,620</u>
Environmental Protection Agency			
Direct Programs:			
Surveys - Studies - Investigations and Special Purposes Grants	66.610	XP-96579101-0	<u>513,560</u>
Total Environmental Protection Agency			<u>513,560</u>
Total Expenditures of Federal Awards			<u><u>\$ 745,180</u></u>

See accompanying independent auditors' report.

See accompanying notes to schedule of expenditures of federal awards.

CITY OF DELPHOS – ALLEN COUNTY

*Notes to Schedule of Expenditures of Federal Awards
Year ended December 31, 2007*

(1) General

The accompanying schedule of expenditures of federal awards (the Schedule) presents activity of all federal financial assistance programs of the City of Delphos, Ohio (the City). The City's reporting entity is defined in note 1 to the City's basic financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included on the schedule.

(2) Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the cash basis of accounting. Accordingly, revenues are recognized when received and expenditures are recognized when paid (disbursed).

**CITY OF DELPHOS
ALLEN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, Section .505
DECEMBER 31, 2007**

1. SUMMARY OF AUDITOR'S RESULTS
--

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	CFDA #66.610 Surveys, Studies, Investigations and Special Purposes
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2007-001

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 audit adjustments were required to be posted to the City's financial statements.

The City Auditor should review the compilation and all adjustments made by an outside consultant to prevent similar errors in the compilation of the financial statements in subsequent audit periods.

FINDING NUMBER 2007-002

Significant Deficiency

A necessary step in the internal control over financial reporting is to assure all transactions made on behalf of the City are recorded in the accounting records. 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.

Without complete and accurate posting of receipts and disbursements of OWDA awards, the City's internal control over financial reporting is weakened, which could result in the inaccurate presentation of the financial statement.

We recommend that the City take all steps necessary to ensure the City Auditor office is appraised timely from the City's Administrative Assistant of OWDA on-behalf-of payments so they may be budgeted for and posted as required.

FINDING NUMBER 2007-003

Significant Deficiency/Material Weakness

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

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.

During audit testing it was also noted that the City has not performed an inventory of capital assets, or assessment of infrastructure impairment, in several years. Periodic inventories of capital assets – at minimum, annually – should be taken making each department aware of their responsibility to identify disposals and notify the City's accounting staff. We also recommend the City implement procedures to physically identify government assets with tags or other identifying marks if possible.

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

FINDING NUMBER 2007-004

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 the following negative fund balances during ten of the twelve months under the audit period: OWDA Loan Fund – \$254,492 over five months; Police Pension Fund – amounts ranging from \$9,501 to \$82,715 over eight months; Firemen Pension Fund – amounts ranging from \$3,885 to \$59,997 over nine months; Water Source Fund – amounts ranging from \$40,716 to \$493,001 over four months; Streetscape Fund -- \$81,721 over three months; Issue II Jackson Street Fund – amounts ranging from \$1,317 to \$11,211 over five months. However, we noted there were no negative fund balances as of December 31, 2007.

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 2007-005

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, it was noted the City expended money without an accompanying purchase order for over forty percent of the fifty-four expenditures tested. Through further inquiry with management, purchase orders are not generated for recurring payments such as utilities, contractual services, memberships, tax refunds, small purchases at local hardware vendors and payroll related expenditures. We recommend the City encumber all obligations prior to incurring expenditures. We also recommend the City amend their use of “Blanket” and/or “Super Blanket” purchase orders, so as only to use them for recurring and reasonably predictable expenditures.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.

CITY OF DELPHOS, OHIO – ALLEN COUNTY

*Schedule of Prior Audit Findings
Year ended December 31, 2007*

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-001	Filing of financial statements, free of significant audit adjustments	No	Partially corrected. 2007 Financial Statements were filed prior to the required date; audit adjustments were required. Repeat as 2007-001
2006-002	Appropriate controls over the recording of on-behalf-of payments.	No	Not corrected; repeat as 2007-002
2006-003	Adequate control environment over the expenditure of monies	Yes	Finding corrected.
2006-004	Establishment of a formal policy governing the accounting procedures for the capitalization of government-owned assets.	No	Not corrected; repeat as 2007-003
2006-005	Ohio Revised Code Section ;5705.39 states that the total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources certified with the proper authority.	Yes	Finding corrected.
2006-006	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.	Yes	Finding corrected.
2006-007	Ohio Revised Code Section 9.10 and Section 9.11 do not authorize the use of a rubber stamp signature on any check, warrant, voucher or other instrument for the payment of money.	Yes	Finding corrected.
2006-008	Ohio Revised Code Section 5705.10(H) requires money that is paid into a fund to be used only for purposes for which such fund was established.	No	Not corrected; repeat as 2007-004
2006-009	Ohio Revised Code Section 5705.41(D) states that no expenditure of money shall be made without proper appropriation evidenced by a purchase order.	No	Not corrected; repeat as 2007-005

CITY OF DELPHOS – ALLEN COUNTY

Corrective Action Plan
Year Ended December 31, 2007

FINDING NUMBER 2007-001

Finding: 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 audit adjustments were required to be posted to the City's financial statements.

Corrective Actions Taken or Planned:

The City will contract with the accounting firm that is currently auditing the city's financial records to compile the information needed for the conversion.

Responsible Contact Person: Tom Jettinghoff, City Auditor

FINDING NUMBER 2007-002

Finding: A necessary step in the internal control over financial reporting is to assure all transactions made on behalf of the City are recorded in the accounting records. 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.

Without complete and accurate posting of receipts and disbursements of OWDA awards, the City's internal control over financial reporting is weakened, which could result in the inaccurate presentation of the financial statement.

Corrective Actions Taken or Planned:

The City will post a receivable from the grant/loan agency and post a payment to the project contractor for direct payment projects.

Responsible Contact Person: Tom Jettinghoff, City Auditor

FINDING NUMBER 2007-003

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

During audit testing it was also noted that the City has not performed an inventory of capital assets, or assessment of infrastructure impairment, in several years. Periodic inventories of capital assets – at minimum, annually – should be taken making each department aware of their responsibility to identify disposals and notify the City's accounting staff. We also recommend the City implement procedures to physically identify government assets with tags or other identifying marks if possible.

Corrective Actions Taken or Planned:

The City will write a procedure for capitalizing city owned assets.

Responsible Contact Person: Tom Jettinghoff, City Auditor

CITY OF DELPHOS – ALLEN COUNTY

Corrective Action Plan
Year Ended December 31, 2007

FINDING NUMBER 2007-004

Finding: 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 the following negative fund balances during ten of the twelve months under the audit period: OWDA Loan Fund – \$254,492 over five months; Police Pension Fund – amounts ranging from \$9,501 to \$82,715 over eight months; Firemen Pension Fund – amounts ranging from \$3,885 to \$59,997 over nine months; Water Source Fund – amounts ranging from \$40,716 to \$493,001 over four months; Streetscape Fund -- \$81,721 over three months; Issue II Jackson Street Fund – amounts ranging from \$1,317 to \$11,211 over five months. However, we noted there were no negative fund balances as of December 31, 2007.

Corrective Actions Taken or Planned:

The City will revise the appropriation ordinance and certificate of estimated resources more frequently to keep from exceeding fund totals.

Responsible Contact Person: Tom Jettinghoff, City Auditor

FINDING NUMBER 2007-005

Finding: 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, it was noted the City expended money without an accompanying purchase order for over forty percent of the fifty-four expenditures tested. Through further inquiry with management, purchase orders are not generated for recurring payments such as utilities, contractual services, memberships, tax refunds, small purchases at local hardware vendors and payroll related expenditures.

Corrective Actions Taken or Planned:

The City will use super blanket purchase orders only for recurring or reasonably predictable expenditures.

Responsible Contact Person: Tom Jettinghoff, City Auditor



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
NOVEMBER 13, 2008**