

**Mary Taylor, CPA**  
Auditor of State



**CITY OF SYLVANIA  
LUCAS COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sylvania, Lucas County, Ohio (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Insurance claims reported in the Self-Insurance Fund (an internal service fund, included in the governmental activities and as remaining fund information) are processed by a service organization independent of the City. The service organization did not provide us with information we requested regarding the design or proper operation of its internal controls. We were, therefore, unable to satisfy ourselves as to the proper processing of health insurance claims expenses and liabilities. Those claims represent 8.7% of expenses reported with governmental activities and 23.9% of the expenses reported with the remaining fund information.

The City did not accrue liabilities for health insurance claims incurred but not reported with its governmental activities or with its remaining fund information. We are unable to estimate these amounts; however, we presume they are material liabilities reported with governmental activities and remaining fund information.

City of Sylvania  
Lucas County  
Independent Accountants' Report

In our opinion, except for the effects of such adjustments, if any as might have been necessary had we been able to examine certain information regarding health insurance claims, and except for the omission of a liability for health insurance claims, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of the City of Sylvania, Lucas County, Ohio, as of December 31, 2005, and the respective changes in financial position and where applicable, cash flows, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the business-type activities and each major fund of the City of Sylvania, Lucas County, Ohio, as of December 31, 2005, and the respective changes in financial position and where applicable, cash flows, thereof, and the respective budgetary comparisons for the General, Police Pension, and Income Tax funds 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 March 8, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



**Mary Taylor, CPA**  
Auditor of State

March 8, 2007

## **CITY OF SYLVANIA, OHIO**

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

***Unaudited***

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The discussion and analysis of the City of Sylvania's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for 2005 are as follows:

- ❑ In total, net assets decreased \$1,114,666. Net assets of governmental activities decreased \$423,693, which represents a 1% decrease from 2004. Net assets of business-type activities decreased \$690,973 or 2.9% from 2004.
- ❑ General revenues accounted for \$11.5 million in revenue or 57% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for 43% of total revenues of \$20.2 million.
- ❑ The City had \$15.3 million in expenses related to governmental activities; only \$3.1 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$11.4 million provided for these programs.
- ❑ Among major funds, the general fund had \$5.6 million in revenues and \$8.9 million in expenditures. The general fund's fund balance decreased \$84,922 to \$967,335.
- ❑ Net assets for enterprise funds decreased by \$713,393. This decrease resulted primarily from the decrease in capital expenditures for capital assets.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

These statements are as follows:

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

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

# CITY OF SYLVANIA, OHIO

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

*Unaudited*

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## **Government-wide Statements**

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

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

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

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

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

## **Fund Financial Statements**

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

Governmental Funds – Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance City activities. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

## CITY OF SYLVANIA, OHIO

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

**Unaudited**

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

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets.

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provided a comparison of the City's net assets between December 31, 2005 and 2004:

	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Current and other assets	\$33,161,898	\$35,415,700	\$3,678,969	\$3,918,489	\$36,840,867	\$39,334,189
Capital assets, Net	34,171,719	33,247,864	19,773,789	20,368,869	53,945,508	53,616,733
Total assets	67,333,617	68,663,564	23,452,758	24,287,358	90,786,375	92,950,922
Long-term debt outstanding	15,115,148	16,083,434	308,964	284,929	15,424,112	16,368,363
Other liabilities	3,155,182	3,093,150	471,770	639,432	3,626,952	3,732,582
Total liabilities	18,270,330	19,176,584	780,734	924,361	19,051,064	20,100,945
Net assets						
Invested in capital assets, net of related debt	20,539,474	18,628,526	19,773,789	20,368,869	40,313,263	38,997,395
Restricted	26,979,331	29,706,545	0	0	26,979,331	29,706,545
Unrestricted	1,544,482	1,151,909	2,898,235	2,994,128	4,442,717	4,146,037
Total net assets	\$49,063,287	\$49,486,980	\$22,672,024	\$23,362,997	\$71,735,311	\$72,849,977

## CITY OF SYLVANIA, OHIO

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

**Unaudited**

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2005 and 2004:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenues</b>						
Program Revenues:						
Charges for Services and Sales	\$1,422,273	\$1,480,379	\$5,480,036	\$5,201,478	\$6,902,309	\$6,681,857
Operating Grants and Contributions	1,591,850	1,763,138	0	0	1,591,850	1,763,138
Capital Grants and Contributions	133,474	694,134	0	0	133,474	694,134
Total Program Revenues	<u>3,147,597</u>	<u>3,937,651</u>	<u>5,480,036</u>	<u>5,201,478</u>	<u>8,627,633</u>	<u>9,139,129</u>
General Revenues:						
Property Taxes	1,948,817	1,936,271	0	0	1,948,817	1,936,271
Income Taxes	6,977,194	6,605,585	0	0	6,977,194	6,605,585
Intergovernmental Grant, Unrestricted	1,095,773	1,602,232	0	0	1,095,773	1,602,232
Investment Earnings	729,689	414,862	76,419	61,799	806,108	476,661
Miscellaneous	701,930	484,880	0	0	701,930	484,880
Total General Revenues	<u>11,453,403</u>	<u>11,043,830</u>	<u>76,419</u>	<u>61,799</u>	<u>11,529,822</u>	<u>11,105,629</u>
Total Revenues	<u>14,601,000</u>	<u>14,981,481</u>	<u>5,556,455</u>	<u>5,263,277</u>	<u>20,157,455</u>	<u>20,244,758</u>
<b>Program Expenses</b>						
Security of Persons and Property	4,907,806	4,533,009	0	0	4,907,806	4,533,009
Public Health and Welfare Services	204,318	202,286	0	0	204,318	202,286
Leisure Time Activities	1,387,713	1,813,319	0	0	1,387,713	1,813,319
Community Environment	535,222	505,953	0	0	535,222	505,953
Basic Utility Services	945,337	651,767	0	0	945,337	651,767
Transportation	2,180,704	3,789,506	0	0	2,180,704	3,789,506
General Government	4,499,080	4,909,506	0	0	4,499,080	4,909,506
Interest and Fiscal Charges	665,333	659,904	0	0	665,333	659,904
Water	0	0	3,279,141	3,465,642	3,279,141	3,465,642
Sewer	0	0	2,486,739	2,693,105	2,486,739	2,693,105
Resource Recovery	0	0	180,728	165,091	180,728	165,091
Total Expenses	<u>15,325,513</u>	<u>17,065,250</u>	<u>5,946,608</u>	<u>6,323,838</u>	<u>21,272,121</u>	<u>23,389,088</u>
Change in Net Assets before Transfers	(724,513)	(2,083,769)	(390,153)	(1,060,561)	(1,114,666)	(3,144,330)
Transfers	300,820	255,535	(300,820)	(255,535)	0	0
Total Change in Net Assets	(423,693)	(1,828,234)	(690,973)	(1,316,096)	(1,114,666)	(3,144,330)
Beginning Net Assets	<u>49,486,980</u>	<u>51,315,214</u>	<u>23,362,997</u>	<u>24,679,093</u>	<u>72,849,977</u>	<u>75,994,307</u>
Ending Net Assets	<u>\$49,063,287</u>	<u>\$49,486,980</u>	<u>\$22,672,024</u>	<u>\$23,362,997</u>	<u>\$71,735,311</u>	<u>\$72,849,977</u>

## CITY OF SYLVANIA, OHIO

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

***Unaudited***

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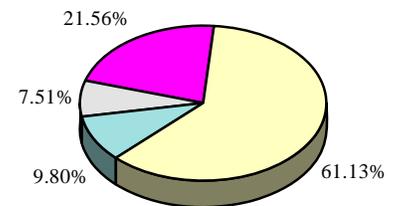
### ***Governmental Activities***

Net assets of the City's governmental activities decreased by \$423,693. This was due primarily to a decrease in capital grants received for construction projects and higher operating costs i.e., wages, health insurance, prisoner housing, utilities and fuel.

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

Property taxes and income taxes made up 13.3% and 47.8% respectively of revenues for governmental activities for the City in fiscal year 2005. The City's reliance upon tax revenues is demonstrated by the following graph indicating 61.13% of total revenues from general tax revenues:

Revenue Sources	2005	Percent of Total
Intergovernmental, Unrestricted	\$1,095,773	7.51%
Program Revenues	3,147,597	21.56%
General Tax Revenues	8,926,011	61.13%
General Other	1,431,619	9.80%
Total Revenue	<u>\$14,601,000</u>	<u>100.00%</u>



### ***Business-Type Activities***

Net assets of the business-type activities decreased by \$690,973. This decrease was a result of the decrease in capital expenditures for capital assets.

## CITY OF SYLVANIA, OHIO

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

*Unaudited*

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$27,159,596, which is a decrease from last year's balance of \$29,080,454. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2005 and 2004:

	Fund Balance December 31, 2005	Fund Balance December 31, 2004	Increase (Decrease)
General	\$967,335	\$1,052,257	(\$84,922)
Police Pension	210,205	150,726	59,479
Income Tax	1,090,688	895,018	195,670
Capital Improvement	23,326,844	24,412,948	(1,086,104)
Other Governmental	1,564,524	2,569,505	(1,004,981)
Total	<u>\$27,159,596</u>	<u>\$29,080,454</u>	<u>(\$1,920,858)</u>

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

	2005 Revenues	2004 Revenues	Increase (Decrease)
Taxes	\$2,349,509	\$2,229,336	\$120,173
Intergovernmental Revenue	1,622,821	1,502,801	120,020
Charges for Services	376,318	429,049	(52,731)
Licenses and Permits	207,527	124,716	82,811
Fines and Forfeitures	798,717	817,763	(19,046)
Investment Earnings	92,146	61,423	30,723
All Other Revenue	120,537	123,744	(3,207)
Total	<u>\$5,567,575</u>	<u>\$5,288,832</u>	<u>\$278,743</u>

General Fund revenues in 2005 increased approximately 5.3% compared to revenues in fiscal year 2004. The most significant factor contributing to this increase was an increase in estate tax revenues and some state shared revenue.

## **CITY OF SYLVANIA, OHIO**

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

***Unaudited***

	2005	2004	Increase
	<u>Expenditures</u>	<u>Expenditures</u>	<u>(Decrease)</u>
Security of Persons and Property	\$3,797,778	\$3,594,639	\$203,139
Public Health and Welfare Services	204,174	202,142	2,032
Leisure Time Activities	715,267	795,237	(79,970)
Community Environment	277,059	256,493	20,566
Basic Utility Services	580,457	444,439	136,018
Transportation	186,041	151,588	34,453
General Government	<u>3,170,956</u>	<u>3,006,907</u>	<u>164,049</u>
Total	<u><u>\$8,931,732</u></u>	<u><u>\$8,451,445</u></u>	<u><u>\$480,287</u></u>

General Fund expenditures increased by \$480,287 or 5.7% over the prior year mostly due to increases in other factors such as increased costs related to housing prisoners, refuse disposal, municipal court operations and legal services.

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

During the course of fiscal year 2005 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of \$9.2 million did not significantly change from the original budget estimates. The General Fund had a fund balance to cover expenditures.

**CITY OF SYLVANIA, OHIO**

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

*Unaudited*

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

*Capital Assets*

At the end of 2005 the City had \$55,199,018 net of accumulated depreciation invested in land, improvements, infrastructure, buildings, machinery and equipment and construction in progress. Of this total, \$34,171,719 was related to governmental activities and \$21,027,299 to the business-type activities. The following table shows fiscal year 2005 and 2004 balances:

	Governmental Activities		Increase (Decrease)
	2005	2004	
Land	\$8,664,201	\$8,582,192	\$82,009
Construction in Progress	121,438	0	121,438
Land Improvements	159,573	119,193	40,380
Buildings	17,051,358	16,895,878	155,480
Improvements Other Than Buildings	6,403	6,403	0
Machinery and Equipment	4,899,216	4,980,238	(81,022)
Infrastructure	19,263,925	18,284,089	979,836
Less: Accumulated Depreciation	(15,994,395)	(15,620,129)	(374,266)
Totals	\$34,171,719	\$33,247,864	\$923,855

	Business-Type Activities		Increase (Decrease)
	2005	2004	
Land	\$7,456	\$18,440	(\$10,984)
Buildings and Improvements	567,052	567,052	0
Improvements Other Than Buildings	34,015,439	33,895,934	119,505
Machinery and Equipment	1,513,945	1,603,383	(89,438)
Less: Accumulated Depreciation	(16,330,103)	(15,715,940)	(614,163)
Totals	\$19,773,789	\$20,368,869	(\$595,080)

As of December 31, 2005, the City has contractual commitments of \$375,794 for several road improvement projects. Additional information on the City's capital assets can be found in Note 8.

## **CITY OF SYLVANIA, OHIO**

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

***Unaudited***

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### ***Debt***

At December 31, 2005, the City had \$13.2 million in bonds outstanding, \$964,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Governmental Activities:		
General Obligation Bonds	\$13,112,530	\$14,022,420
Special Assessment Bonds	65,470	89,580
OPWC Loans Payable	53,221	86,833
Promissory Notes	362,857	388,105
Capital Lease Payable	16,200	32,400
Compensated Absences	1,504,870	1,464,096
Total Governmental Activities	<u>15,115,148</u>	<u>16,083,434</u>
Business-Type Activities:		
Compensated Absences	308,964	284,929
Total Business-Type Activities	<u>308,964</u>	<u>284,929</u>
Totals	<u>\$15,424,112</u>	<u>\$16,368,363</u>

State statutes limit the amount of unvoted general obligation debt the City may issue. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions with other political subdivisions. The actual aggregate amount of the City's unvoted debt, when added to that of other political subdivisions within the respective counties in which Sylvania lies, is limited to fifteen mills. At December 31, 2005, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 11.

### **ECONOMIC FACTORS**

The City's economic base continues to be very stable since it is based on primarily commercial and retail with little manufacturing. Medical, education and financial interests provide a relatively predictable income source.

Wage increases averaged about 3.75 percent in 2005; however, medical insurance costs rose significantly. The City has maintained a level workforce number for over five years.

City Council has the ability to increase income tax revenues by eliminating or reducing the 100% credit for taxes paid by residents to other cities in which they work.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Finance Department by calling 419-885-8934 or writing to City of Sylvania Finance Department, 6730 Monroe Street, Sylvania, Ohio 43560.

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**CITY OF SYLVANIA, OHIO**

**Statement of Net Assets**  
**December 31, 2005**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 4,213,752	\$ 208,445	\$ 4,422,197
Investments	21,900,220	2,419,800	24,320,020
Receivables:			
Taxes	3,219,138	0	3,219,138
Accounts	191,995	756,237	948,232
Intergovernmental	1,561,309	0	1,561,309
Interest	89,097	9,802	98,899
Special Assessments	379,287	0	379,287
Internal Balances	(45,422)	45,422	0
Inventory of Supplies at Cost	503,460	210,203	713,663
Prepaid Items	73,999	29,060	103,059
Investment in Joint Venture	1,074,000	0	1,074,000
Restricted Assets:			
Cash and Cash Equivalents	1,063	0	1,063
Capital Assets:			
Property, Plant and Equipment	50,166,114	36,103,892	86,270,006
Accumulated Depreciation	(15,994,395)	(16,330,103)	(32,324,498)
<b>Total Assets</b>	<u>67,333,617</u>	<u>23,452,758</u>	<u>90,786,375</u>
<b>Liabilities:</b>			
Accounts Payable	547,043	409,387	956,430
Accrued Wages and Benefits	478,140	62,383	540,523
Deferred Revenue	2,076,438	0	2,076,438
Accrued Interest Payable	53,561	0	53,561
Noncurrent liabilities:			
Due within one year	1,152,660	28,295	1,180,955
Due in more than one year	13,962,488	280,669	14,243,157
<b>Total Liabilities</b>	<u>18,270,330</u>	<u>780,734</u>	<u>19,051,064</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	20,539,474	19,773,789	40,313,263
Restricted For:			
Capital Projects	23,593,242	0	23,593,242
Debt Service	63,134	0	63,134
Other Purposes	3,322,955	0	3,322,955
Unrestricted	1,544,482	2,898,235	4,442,717
<b>Total Net Assets</b>	<u>\$ 49,063,287</u>	<u>\$ 22,672,024</u>	<u>\$ 71,735,311</u>

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

**Statement of Activities**  
**For the Year Ended December 31, 2005**

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Current:				
Security of Persons and Property	\$ 4,907,806	\$ 53,435	\$ 129,141	\$ 0
Public Health and Welfare Services	204,318	16,595	0	0
Leisure Time Activities	1,387,713	0	0	0
Community Environment	535,222	28,359	196,135	0
Basic Utility Services	945,337	318,197	195,446	0
Transportation	2,180,704	1,128	1,044,854	0
General Government	4,499,080	1,004,559	26,274	133,474
Debt Service:				
Interest and Fiscal Charges	665,333	0	0	0
<b>Total Governmental Activities</b>	<b>15,325,513</b>	<b>1,422,273</b>	<b>1,591,850</b>	<b>133,474</b>
<b>Business-Type Activities:</b>				
Water	3,279,141	3,232,099	0	0
Sewer	2,486,739	2,187,018	0	0
Resource Recovery	180,728	60,919	0	0
<b>Total Business-Type Activities</b>	<b>5,946,608</b>	<b>5,480,036</b>	<b>0</b>	<b>0</b>
<b>Totals</b>	<b>\$ 21,272,121</b>	<b>\$ 6,902,309</b>	<b>\$ 1,591,850</b>	<b>\$ 133,474</b>

**General Revenues**

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

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

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Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (4,725,230)	\$ 0	\$ (4,725,230)
(187,723)	0	(187,723)
(1,387,713)	0	(1,387,713)
(310,728)	0	(310,728)
(431,694)	0	(431,694)
(1,134,722)	0	(1,134,722)
(3,334,773)	0	(3,334,773)
<u>(665,333)</u>	<u>0</u>	<u>(665,333)</u>
<u>(12,177,916)</u>	<u>0</u>	<u>(12,177,916)</u>
0	(47,042)	(47,042)
0	(299,721)	(299,721)
<u>0</u>	<u>(119,809)</u>	<u>(119,809)</u>
<u>0</u>	<u>(466,572)</u>	<u>(466,572)</u>
<u>(12,177,916)</u>	<u>(466,572)</u>	<u>(12,644,488)</u>
1,948,817	0	1,948,817
6,977,194	0	6,977,194
1,095,773	0	1,095,773
729,689	76,419	806,108
701,930	0	701,930
<u>300,820</u>	<u>(300,820)</u>	<u>0</u>
<u>11,754,223</u>	<u>(224,401)</u>	<u>11,529,822</u>
(423,693)	(690,973)	(1,114,666)
<u>49,486,980</u>	<u>23,362,997</u>	<u>72,849,977</u>
<u>\$ 49,063,287</u>	<u>\$ 22,672,024</u>	<u>\$ 71,735,311</u>

**CITY OF SYLVANIA, OHIO**

**Balance Sheet**  
**Governmental Funds**  
**December 31, 2005**

	<u>General</u>	<u>Police Pension</u>	<u>Income Tax</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 33,343	\$ 306,821	\$ 540,643
Investments	394,108	0	0
Receivables:			
Taxes	1,485,290	480,328	664,170
Accounts	182,395	0	0
Intergovernmental	979,092	24,317	0
Interest	1,596	0	0
Special Assessments	0	0	0
Inventory of Supplies, at Cost	224,052	0	0
Prepaid Items	59,327	0	2,072
Restricted Assets:			
Cash and Cash Equivalents	0	0	0
<b>Total Assets</b>	<u><u>\$ 3,359,203</u></u>	<u><u>\$ 811,466</u></u>	<u><u>\$ 1,206,885</u></u>
<b>Liabilities:</b>			
Accounts Payable	\$ 186,268	\$ 0	\$ 5,133
Accrued Wages and Benefits Payable	317,376	96,616	13,937
Deferred Revenue	1,857,519	504,645	95,925
Compensated Absences Payable	30,705	0	1,202
<b>Total Liabilities</b>	<u><u>2,391,868</u></u>	<u><u>601,261</u></u>	<u><u>116,197</u></u>
<b>Fund Balances:</b>			
Reserved for Encumbrances	259	0	8,400
Reserved for Prepaid Items	59,327	0	2,072
Reserved for Supplies Inventory	224,052	0	0
Reserved for Endowments	0	0	0
Undesignated/Unreserved in:			
General Fund	683,697	0	0
Special Revenue Funds	0	210,205	1,080,216
Debt Service Funds	0	0	0
Capital Projects Funds	0	0	0
<b>Total Fund Balances</b>	<u><u>967,335</u></u>	<u><u>210,205</u></u>	<u><u>1,090,688</u></u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 3,359,203</u></u>	<u><u>\$ 811,466</u></u>	<u><u>\$ 1,206,885</u></u>

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

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<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,819,470	\$ 1,384,961	\$ 4,085,238
21,506,112	0	21,900,220
166,095	423,255	3,219,138
0	9,600	191,995
6,000	551,900	1,561,309
87,116	385	89,097
0	379,287	379,287
0	215,758	439,810
0	11,329	72,728
0	1,063	1,063
<u>\$ 23,584,793</u>	<u>\$ 2,977,538</u>	<u>\$ 31,939,885</u>
\$ 166,510	\$ 179,579	\$ 537,490
0	50,211	478,140
91,439	1,178,778	3,728,306
0	4,446	36,353
<u>257,949</u>	<u>1,413,014</u>	<u>4,780,289</u>
225,889	202,978	437,526
0	11,329	72,728
0	215,758	439,810
0	1,063	1,063
0	0	683,697
0	943,000	2,233,421
0	15,437	15,437
<u>23,100,955</u>	<u>174,959</u>	<u>23,275,914</u>
<u>23,326,844</u>	<u>1,564,524</u>	<u>27,159,596</u>
<u>\$ 23,584,793</u>	<u>\$ 2,977,538</u>	<u>\$ 31,939,885</u>

**CITY OF SYLVANIA, OHIO**

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***Reconciliation Of Total Governmental Fund Balances  
To Net Assets Of Governmental Activities  
December 31, 2005***

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<b>Total Governmental Fund Balances</b>	\$ 27,159,596
<b><i>Amounts reported for governmental activities in the statement of net assets are different because</i></b>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	34,149,752
The government's explicit, measurable equity interest in a joint venture is not a financial asset to the government, therefore it is not reported in the governmental funds. However, the government is required to report the equity interest as an asset in connection with governmental activities in the government-wide statement of net assets.	1,074,000
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	1,651,868
Internal service funds are used by management to charge the costs of services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	160,427
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(15,132,356)</u>
<b><i>Net Assets of Governmental Funds</i></b>	<b><u>\$ 49,063,287</u></b>

See accompanying notes to the basic financial statements

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**CITY OF SYLVANIA, OHIO**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2005**

	<u>General</u>	<u>Police Pension</u>	<u>Income Tax</u>
<b>Revenues:</b>			
Property Taxes	\$ 1,140,404	\$ 418,239	\$ 0
Municipal Income Taxes	1,209,105	0	4,656,848
Intergovernmental Revenues	1,622,821	54,808	0
Charges for Services	376,318	0	0
Licenses, Permits and Fees	207,527	0	0
Investment Earnings	92,146	0	0
Special Assessments	0	0	0
Fines and Forfeitures	798,717	0	0
All Other Revenue	120,537	0	1,241
<b>Total Revenue</b>	<u>5,567,575</u>	<u>473,047</u>	<u>4,658,089</u>
<b>Expenditures:</b>			
Current:			
Security of Persons and Property	3,797,778	413,568	0
Public Health and Welfare Services	204,174	0	0
Leisure Time Activities	715,267	0	0
Community Environment	277,059	0	0
Basic Utility Services	580,457	0	0
Transportation	186,041	0	0
General Government	3,170,956	0	567,419
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest & Fiscal Charges	0	0	0
<b>Total Expenditures</b>	<u>8,931,732</u>	<u>413,568</u>	<u>567,419</u>
Excess (Deficiency) of Revenues			
Over Expenditures	(3,364,157)	59,479	4,090,670
<b>Other Financing Sources (Uses):</b>			
Transfers In	3,599,122	0	0
Transfers Out	(317,439)	0	(3,895,000)
<b>Total Other Financing Sources (Uses)</b>	<u>3,281,683</u>	<u>0</u>	<u>(3,895,000)</u>
Net Change in Fund Balances	(82,474)	59,479	195,670
<b>Fund Balances at Beginning of Year</b>	1,052,257	150,726	895,018
Decrease in Inventory Reserve	(2,448)	0	0
<b>Fund Balances End of Year</b>	<u>\$ 967,335</u>	<u>\$ 210,205</u>	<u>\$ 1,090,688</u>

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

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<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 0	\$ 380,212	\$ 1,938,855
1,164,679	0	7,030,632
5,000	1,119,875	2,802,504
0	0	376,318
0	0	207,527
612,671	2,379	707,196
0	427,237	427,237
0	147,484	946,201
133,474	354,067	609,319
<u>1,915,824</u>	<u>2,431,254</u>	<u>15,045,789</u>
0	413,279	4,624,625
0	0	204,174
0	0	715,267
0	244,641	521,700
0	364,880	945,337
0	1,173,615	1,359,656
0	40,997	3,779,372
3,154,386	122,090	3,276,476
58,860	950,200	1,009,060
25,227	643,582	668,809
<u>3,238,473</u>	<u>3,953,284</u>	<u>17,104,476</u>
(1,322,649)	(1,522,030)	(2,058,687)
3,355,002	1,500,926	8,455,050
<u>(3,118,457)</u>	<u>(967,809)</u>	<u>(8,298,705)</u>
<u>236,545</u>	<u>533,117</u>	<u>156,345</u>
(1,086,104)	(988,913)	(1,902,342)
24,412,948	2,569,505	29,080,454
0	(16,068)	(18,516)
<u>\$ 23,326,844</u>	<u>\$ 1,564,524</u>	<u>\$ 27,159,596</u>

**CITY OF SYLVANIA, OHIO**

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***Reconciliation Of The Statement Of Revenues, Expenditures  
And Changes In Fund Balances Of Governmental Funds  
To The Statement Of Activities  
For The Year Ended December 31, 2005***

---

**Net Change in Fund Balances - Total Governmental Funds** \$ (1,902,342)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. 1,042,503

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets net of proceeds received. (120,443)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (444,789)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,009,060

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 3,476

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (95,170)

The internal service funds, which are used by management to charge the costs of services to individual funds, are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities. 84,012

***Change in Net Assets of Governmental Activities*** \$ (423,693)

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
General Fund  
For the Year Ended December 31, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property Taxes	\$ 1,170,000	\$ 1,170,000	\$ 1,140,404	\$ (29,596)
Municipal Income Taxes	1,248,500	1,165,000	1,141,481	(23,519)
Intergovernmental Revenue	1,631,200	1,631,200	1,453,086	(178,114)
Charges for Services	315,600	315,600	368,532	52,932
Licenses, Permits and Fees	165,000	165,000	166,913	1,913
Investment Earnings	112,000	112,000	91,012	(20,988)
Fines and Forfeitures	850,200	850,200	799,008	(51,192)
All Other Revenues	170,000	170,000	120,259	(49,741)
Total Revenues	<u>5,662,500</u>	<u>5,579,000</u>	<u>5,280,695</u>	<u>(298,305)</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	3,759,544	3,759,545	3,743,163	16,382
Public Health and Welfare Services	201,502	201,502	200,900	602
Leisure Time Activities	707,581	707,581	705,965	1,616
Community Environment	282,855	282,855	273,840	9,015
Basic Utility Services	561,311	561,311	559,914	1,397
Transportation	184,517	184,518	183,745	773
General Government	3,220,636	3,220,637	3,125,415	95,222
Total Expenditures	<u>8,917,946</u>	<u>8,917,949</u>	<u>8,792,942</u>	<u>125,007</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,255,446)	(3,338,949)	(3,512,247)	(173,298)
<b>Other Financing Sources (Uses):</b>				
Transfers In	3,613,633	3,621,255	3,599,122	(22,133)
Transfers Out	(350,462)	(350,462)	(317,439)	33,023
Total Other Financing Sources (Uses):	<u>3,263,171</u>	<u>3,270,793</u>	<u>3,281,683</u>	<u>10,890</u>
Net Change In Fund Balance	7,725	(68,156)	(230,564)	(162,408)
Fund Balance at Beginning of Year	528,187	528,187	528,187	0
Prior Year Encumbrances	129,267	129,267	129,267	0
Fund Balance at End of Year	<u>\$ 665,179</u>	<u>\$ 589,298</u>	<u>\$ 426,890</u>	<u>\$ (162,408)</u>

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

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**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
Special Revenue Fund - Police Pension Fund  
For the Year Ended December 31, 2005**

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	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property Taxes	\$ 432,000	\$ 432,000	\$ 418,239	\$ (13,761)
Intergovernmental Revenue	63,000	63,000	54,808	(8,192)
Total Revenues	495,000	495,000	473,047	(21,953)
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	415,000	415,000	411,535	3,465
Total Expenditures	415,000	415,000	411,535	3,465
Excess (Deficiency) of Revenues Over (Under) Expenditures	80,000	80,000	61,512	(18,488)
Fund Balance at Beginning of Year	245,309	245,309	245,309	0
Fund Balance at End of Year	\$ 325,309	\$ 325,309	\$ 306,821	\$ (18,488)

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

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**Statement of Revenues, Expenditures and Changes in  
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)  
Special Revenue Fund - Income Tax Fund  
For the Year Ended December 31, 2005**

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	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Municipal Income Taxes	\$ 4,700,000	\$ 4,770,000	\$ 4,564,157	\$ (205,843)
All Other Revenues	0	0	1,241	1,241
Total Revenues	4,700,000	4,770,000	4,565,398	(204,602)
<b>Expenditures:</b>				
Current:				
General Government	591,204	591,204	572,799	18,405
Total Expenditures	591,204	591,204	572,799	18,405
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,108,796	4,178,796	3,992,599	(186,197)
<b>Other Financing Sources (Uses):</b>				
Transfers Out	(3,895,000)	(3,895,000)	(3,895,000)	0
Total Other Financing Sources (Uses):	(3,895,000)	(3,895,000)	(3,895,000)	0
Net Change In Fund Balance	213,796	283,796	97,599	(186,197)
Fund Balance at Beginning of Year	430,069	430,069	430,069	0
Prior Year Encumbrances	4,575	4,575	4,575	0
Fund Balance at End of Year	\$ 648,440	\$ 718,440	\$ 532,243	\$ (186,197)

See accompanying notes to the basic financial statements

# CITY OF SYLVANIA, OHIO

**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2005**

	Business-Type Activities				Governmental Activities - Internal Service Funds
	Enterprise Funds				
	Water	Sewer	Resource Recovery	Total	
<b>ASSETS</b>					
Current assets:					
Cash and Cash Equivalents	\$ 80,204	\$ 124,518	\$ 3,723	\$ 208,445	\$ 128,514
Investments	948,004	1,471,796	0	2,419,800	0
Accounts receivable (net of allow for uncollectibles)	474,489	281,748	0	756,237	0
Interest receivable	3,840	5,962	0	9,802	0
Inventory of Supplies at Cost	160,155	50,048	0	210,203	63,650
Prepaid Items	13,567	15,072	421	29,060	1,271
Total current assets	<u>1,680,259</u>	<u>1,949,144</u>	<u>4,144</u>	<u>3,633,547</u>	<u>193,435</u>
Noncurrent assets:					
Capital assets:					
Property, Plant and Equipment	11,244,503	24,657,370	202,019	36,103,892	89,349
Less accumulated depreciation	<u>(4,681,950)</u>	<u>(11,464,887)</u>	<u>(183,266)</u>	<u>(16,330,103)</u>	<u>(67,382)</u>
Total capital assets (net of accumulated depr)	<u>6,562,553</u>	<u>13,192,483</u>	<u>18,753</u>	<u>19,773,789</u>	<u>21,967</u>
Total noncurrent assets	<u>6,562,553</u>	<u>13,192,483</u>	<u>18,753</u>	<u>19,773,789</u>	<u>21,967</u>
Total assets	<u>8,242,812</u>	<u>15,141,627</u>	<u>22,897</u>	<u>23,407,336</u>	<u>215,402</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts Payable	145,463	262,781	1,143	409,387	9,553
Accrued Wages and Benefits	31,118	29,406	1,859	62,383	0
Total Current Liabilities	<u>176,581</u>	<u>292,187</u>	<u>3,002</u>	<u>471,770</u>	<u>9,553</u>
Noncurrent Liabilities:					
Compensated Absences Payable	207,286	101,678	0	308,964	0
Total noncurrent liabilities	<u>207,286</u>	<u>101,678</u>	<u>0</u>	<u>308,964</u>	<u>0</u>
<b>Total Liabilities</b>	<u>383,867</u>	<u>393,865</u>	<u>3,002</u>	<u>780,734</u>	<u>9,553</u>
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt	6,562,553	13,192,483	18,753	19,773,789	21,967
Unrestricted	1,296,392	1,555,279	1,142	2,852,813	183,882
Total Net Assets	<u>\$ 7,858,945</u>	<u>\$ 14,747,762</u>	<u>\$ 19,895</u>	<u>22,626,602</u>	<u>\$ 205,849</u>
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.				45,422	
Net Assets of Business-type Activities				<u>\$ 22,672,024</u>	

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

**Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2005**

	Business-Type Activities				Governmental Activities - Internal Service Funds
	Enterprise Funds				
	Water	Sewer	Resource Recovery	Total	
<b>Operating Revenues:</b>					
Charges for Services	\$ 3,173,983	\$ 2,165,873	\$ 60,919	\$ 5,400,775	\$ 1,389,253
Other Operating Revenues	58,116	21,145	0	79,261	0
<b>Total Operating Revenues</b>	<u>3,232,099</u>	<u>2,187,018</u>	<u>60,919</u>	<u>5,480,036</u>	<u>1,389,253</u>
<b>Operating Expenses:</b>					
Personal Services	745,876	734,813	71,766	1,552,455	1,156,924
Materials and Supplies	98,459	51,930	17,906	168,295	24,121
Contractual Services	2,184,443	1,167,760	68,750	3,420,953	267,125
Depreciation	261,556	543,463	22,306	827,325	4,063
<b>Total Operating Expenses</b>	<u>3,290,334</u>	<u>2,497,966</u>	<u>180,728</u>	<u>5,969,028</u>	<u>1,452,233</u>
<b>Operating Loss</b>	(58,235)	(310,948)	(119,809)	(488,992)	(62,980)
<b>Non-Operating Revenue (Expenses):</b>					
Interest Income	25,902	50,517	0	76,419	0
Other Nonoperating Revenue	0	0	0	0	24,937
<b>Total Non-Operating Revenues (Expenses)</b>	<u>25,902</u>	<u>50,517</u>	<u>0</u>	<u>76,419</u>	<u>24,937</u>
<b>Loss Before Transfers</b>	(32,333)	(260,431)	(119,809)	(412,573)	(38,043)
<b>Transfers:</b>					
Transfers In	21,448	21,448	97,760	140,656	144,475
Transfers Out	(141,963)	(299,513)	0	(441,476)	0
<b>Total Transfers</b>	<u>(120,515)</u>	<u>(278,065)</u>	<u>97,760</u>	<u>(300,820)</u>	<u>144,475</u>
<b>Change in Net Assets</b>	(152,848)	(538,496)	(22,049)	(713,393)	106,432
Net Assets Beginning of Year	8,011,793	15,286,258	41,944	23,339,995	99,417
<b>Net Assets End of Year</b>	<u>\$ 7,858,945</u>	<u>\$ 14,747,762</u>	<u>\$ 19,895</u>	<u>22,626,602</u>	<u>\$ 205,849</u>
Change in Net Assets - Total Enterprise Funds				(713,393)	
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.				22,420	
Change in Net Assets - Business-type Activities				<u>\$ (690,973)</u>	

See accompanying notes to the basic financial statements

# CITY OF SYLVANIA, OHIO

## Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2005

	Business-Type Activities Enterprise Funds			Totals	Governmental Activities
	Water	Sewer	Resource Recovery		Internal Service Funds
<b><u>Cash Flows from Operating Activities:</u></b>					
Cash Received from Customers	\$3,183,477	\$2,158,340	\$60,919	\$5,402,736	\$1,389,575
Cash Payments for Goods and Services	(2,304,299)	(1,339,974)	(88,628)	(3,732,901)	(306,291)
Cash Payments to Employees	(720,812)	(722,283)	(71,393)	(1,514,488)	(1,188,523)
Net Cash Provided (Used) by Operating Activities	158,366	96,083	(99,102)	155,347	(105,239)
<b><u>Cash Flows from Noncapital Financing Activities:</u></b>					
Transfers In from Other Funds	21,448	21,448	97,760	140,656	144,475
Transfers Out to Other Funds	(141,963)	(299,513)	0	(441,476)	0
Miscellaneous Nonoperating Revenue	0	0	0	0	24,937
Net Cash Provided (Used) by Noncapital Financing Activities	(120,515)	(278,065)	97,760	(300,820)	169,412
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>					
Acquisition and Construction of Assets	(137,447)	(143,584)	0	(281,031)	(5,858)
Net Cash Used for Capital and Related Financing Activities	(137,447)	(143,584)	0	(281,031)	(5,858)
<b><u>Cash Flows from Investing Activities:</u></b>					
Sale of Investments	0	46,946	0	46,946	0
Purchase of Investments	(53,412)	0	0	(53,412)	0
Receipts of Interest	22,499	45,390	0	67,889	0
Net Cash Provided (Used) by Investing Activities	(30,913)	92,336	0	61,423	0
Net Increase (Decrease) in Cash and Cash Equivalents	(130,509)	(233,230)	(1,342)	(365,081)	58,315
Cash and Cash Equivalents at Beginning of Year	210,713	357,748	5,065	573,526	70,199
Cash and Cash Equivalents at End of Year	\$80,204	\$124,518	\$3,723	\$208,445	\$128,514
<b><u>Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities:</u></b>					
Operating Loss	(\$58,235)	(\$310,948)	(\$119,809)	(\$488,992)	(\$62,980)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	261,556	543,463	22,306	827,325	4,063
Changes in Assets and Liabilities:					
Decrease (Increase) in Accounts Receivable	(48,622)	(28,678)	0	(77,300)	322
Decrease (Increase) in Inventory	(26,211)	5,688	0	(20,523)	(8,660)
Decrease in Prepaid Items	4,840	4,630	208	9,678	263
Increase (Decrease) in Accounts Payable	56	(130,120)	(2,180)	(132,244)	2,905
Increase (Decrease) in Accrued Wages and Benefits	6,768	6,227	373	13,368	(4,818)
Increase (Decrease) in Compensated Absences	18,214	5,821	0	24,035	(36,334)
Total Adjustments	216,601	407,031	20,707	644,339	(42,259)
Net Cash Provided (Used) by Operating Activities	\$158,366	\$96,083	(\$99,102)	\$155,347	(\$105,239)
<b><u>Schedule of Noncash Investing, Capital and Financing Activities:</u></b>					
As of December 31, 2005, the Sewer Fund had outstanding liabilities of \$8,018 for the purchase of certain capital assets.					
During 2005 the fair value of investments increased by \$646 and \$1,004 in the Water and Sewer Funds respectively.					

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

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***Statement of Assets and Liabilities  
Fiduciary Fund  
December 31, 2005***

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	<u>Agency</u>
<b>Assets:</b>	
Cash and Cash Equivalents	\$ 99,610
<b>Total Assets</b>	<u>99,610</u>
<b>Liabilities:</b>	
Due to Others	<u>99,610</u>
<b>Total Liabilities</b>	<u>99,610</u>

See accompanying notes to the basic financial statements

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying basic financial statements of the City present the financial position of the various fund types, the results of operations of the various fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 2005 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

##### **A. Reporting Entity**

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

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

##### **1. Joint Venture with Equity Interest**

###### ***Community Center:***

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

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **A. Reporting Entity** (Continued)

##### **2. Jointly Governed Organization**

###### ***Sylvania Area Joint Recreation District:***

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

The SAJRD operates the City-owned Tam O'Shanter ice skating complex under an agreement with the City. The terms of the agreement require the SAJRD to pay the City an annual amount equal to the City's debt service on the ice skating complex and reimbursement of any building improvements made to the facility by the City. The total amount received by the City in 2005 from the SAJRD was \$290,194 for debt service.

##### **B. Basis of Presentation - Fund Accounting**

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

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

###### ***Governmental Funds***

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

## *CITY OF SYLVANIA, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2005*

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **B. Basis of Presentation - Fund Accounting** (Continued)

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

Police Pension Fund - This fund is used to account for taxes levied toward partial payment of current and accrued liability for police disability and pension.

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

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

##### ***Proprietary Funds***

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

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

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

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

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

## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **B. Basis of Presentation - Fund Accounting** (Continued)

###### ***Fiduciary Funds***

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations or other governments and therefore not available to support the City's own programs. The agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operation. These funds operate on a full accrual basis of accounting.

##### **C. Basis of Presentation – Financial Statements**

**Government-wide Financial Statements** – The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The internal service funds are eliminated to avoid “doubling up” revenues and expenses; however, the interfund services provided and used are not eliminated in the process of consolidation.

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

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

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

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **C. Basis of Presentation – Financial Statements (Continued)**

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

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

Fiduciary funds are reported using the economic resources measurement focus.

##### **D. Basis of Accounting**

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

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

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

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **D. Basis of Accounting** (Continued)

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

Special assessment installments which are measurable, but not available at December 31, are recorded as deferred revenue. Property taxes measurable as of December 31, 2005, but which are not intended to finance 2005 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 5.

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

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

##### **E. Budgetary Process**

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

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

##### **1. Tax Budget**

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

## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **E. Budgetary Process** (Continued)

###### 2. Estimated Resources

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

On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the previous year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2005.

###### 3. Appropriations

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

## *CITY OF SYLVANIA, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2005*

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **E. Budgetary Process** (Continued)

##### 4. Encumbrances

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

##### 5. Lapsing of Appropriations

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

##### 6. Budgetary Basis of Accounting

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

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**CITY OF SYLVANIA, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process (Continued)**

**6. Budgetary Basis of Accounting (Continued)**

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

	Net Change In Fund Balance		
	General Fund	Police Pension Fund	Income Tax Fund
GAAP Basis (as reported)	(\$82,474)	\$59,479	\$195,670
Increase (Decrease):			
Accrued Revenues at December 31, 2005 received during 2006	(791,123)	0	(568,245)
Accrued Revenues at December 31, 2004 received during 2005	504,243	0	475,554
Accrued Expenditures at December 31, 2005 paid during 2006	534,349	96,616	20,272
Accrued Expenditures at December 31, 2004 paid during 2005	(392,892)	(94,583)	(17,551)
2004 Prepays for 2005	56,952	0	2,371
2005 Prepays for 2006	(59,327)	0	(2,072)
Outstanding Encumbrances	(292)	0	(8,400)
Budget Basis	(\$230,564)	\$61,512	\$97,599

**F. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits, the State Treasury Asset Reserve (STAR Ohio), and investments with original maturities of less than three months. The STAR Ohio is reported as a cash equivalent in the basic financial statements because it is a highly liquid instrument which is readily convertible to cash. The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' share of equity in pooled certificates of deposit are considered to be cash equivalents. See Note 4, "Cash, Cash Equivalents and Investments."

## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **G. Investments**

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. The City allocates interest among certain funds based upon the fund's cash balance at the date of investment. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit) which are reported at cost, which approximates fair value. All investment income, including changes in the fair value of investments, are recognized as revenue in the operating statements. Fair value is determined by quoted market prices. During fiscal year 2005, investments were limited to Certificates of Deposit, STAR Ohio, United States Treasury Notes, Sylvania Township Notes and the Toledo Community Foundation, Inc. Mutual Funds. See Note 4, "Cash, Cash Equivalents and Investments."

The City has invested funds in the STAR Ohio during 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2005.

##### **H. Inventory**

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

##### **I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

##### **J. Capital Assets and Depreciation**

Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000, except for computer software which is capitalized if the purchase price, including license fees and installation, exceed \$50,000.

###### **1. Property, Plant and Equipment - Governmental Activities**

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements. All infrastructure acquired prior to the implementation of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", has been reported.

**CITY OF SYLVANIA, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Capital Assets and Depreciation** (Continued)

2. Property, Plant and Equipment – Business Type Activities

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

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

3. Depreciation

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

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

**CITY OF SYLVANIA, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Long-Term Obligations**

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

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

**L. Compensated Absences**

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

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

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

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **L. Compensated Absences** (Continued)

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

##### **M. Net Assets**

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

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

##### **N. Pensions**

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

##### **O. Interfund Activity**

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

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. In addition, interfund transfers between governmental funds are eliminated for reporting on the government-wide financial statements. Only transfers between governmental activities and business-type activities are reported on the statement of activities.

##### **P. Reservations of Fund Balance**

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

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Q. Estimates**

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

##### **R. Operating Revenues and Expenses**

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

##### **S. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

#### **NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2005, the City has implemented GASB Statement No. 40, “*Deposit and Investment Risk Disclosures*” and GASB Statement No. 42, “*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.”

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks, credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. This statement also clarifies and establishes accounting revenues for insurance recoveries.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the City, however additional note disclosure can be found in Note 5, "Cash, Cash Equivalents and Investments." The implementation of GASB Statement No. 42 did not have an effect on the financial statements of the City.

**CITY OF SYLVANIA, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005***

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

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

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

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

Delinquent Income Tax Revenue	\$143,907
Delinquent Property Tax Revenue	90,596
Shared Revenues	964,186
Interest Revenues	62,574
Special Assessment Revenue	390,605
	<hr/>
	\$1,651,868

*Long-Term liabilities not reported in the funds:*

General Obligation Bonds Payable	(\$13,112,530)
Special Assessment Bonds Payable	(65,470)
OPWC Loans Payable	(53,221)
Promissory Notes Payable	(362,857)
Capital Lease	(16,200)
Accrued Interest on Long-Term Debt	(53,561)
Compensated Absences Payable	(1,468,517)
	<hr/>
	(\$15,132,356)

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**CITY OF SYLVANIA, OHIO**

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*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005*

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

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

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

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

Capital Outlay	\$2,131,685
Depreciation Expense	(1,089,182)
	<u>\$1,042,503</u>

*Governmental revenues not reported in the funds:*

Decrease in Delinquent Income Tax Revenue	(\$53,438)
Increase in Delinquent Property Tax	9,962
Decrease in Shared Revenue	(506,434)
Increase in Interest Revenue	22,493
Increase in Special Assessment Revenue	82,628
	<u>(\$444,789)</u>

*Expenses not requiring the use of current financial resources:*

Increase in Compensated Absences Payable	(\$76,654)
Decrease in supplies inventory	(18,516)
	<u>(\$95,170)</u>

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## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

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

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

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

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

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

**CITY OF SYLVANIA, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005***

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**NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**A. Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105% of the deposits being secured.

At year end the carrying amount of the City's deposits was \$8,748,215 and the bank balance was \$8,974,720. Federal depository insurance covered \$500,000 of the bank balance and \$8,474,720 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	<u>\$8,474,720</u>
Total Balance	<u><u>\$8,474,720</u></u>

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**CITY OF SYLVANIA, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005**

**NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**B. Investments**

The City's investments at December 31, 2005 are summarized below:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
Toledo Community Foundation, Inc. (mutual fund)	\$35,046	N/A	\$35,046	\$0	\$0
STAR Ohio	3,237,447	AAA <sup>m1</sup>	3,237,447	0	0
Sylvania Township Notes	1,015,000	N/A	1,015,000	0	0
FNMA	3,749,349	AAA <sup>1</sup> / Aaa <sup>2</sup>	0	3,518,703	230,646
FHLMC	2,139,382	AAA <sup>1</sup> / Aaa <sup>2</sup>	995,327	1,144,055	0
FHLB	5,366,441	AAA <sup>1</sup> / Aaa <sup>2</sup>	519,271	4,587,006	260,164
Freddie MAC	3,052,479	AAA <sup>1</sup> / Aaa <sup>2</sup>	0	2,772,466	280,013
U.S. Treasury Notes	1,497,369	N/A	0	911,514	585,855
<b>Total Investments</b>	<b>\$20,092,513</b>		<b>\$5,802,091</b>	<b>\$12,933,744</b>	<b>\$1,356,678</b>

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

<sup>1</sup> Standard & Poor's

<sup>2</sup> Moody's Investor Service

*Interest Rate Risk* – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

*Credit Risk* – The City's investments in Freddie MAC, FNMA, FHLMC and FHLB securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard and Poor's has assigned Star Ohio an AAA money market rating.

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that in the event of the failure of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments in Freddie MAC, FNMA, FHLMC and FHLB securities in the amount of \$3,052,479, \$3,749,349, \$2,139,382 and \$5,366,441, respectively, are uninsured and unregistered with securities held by the counterparty's trust department or agent in the City's name. The City has no investment policy dealing with investments' custodial risk beyond the requirement in State statute that prohibits payments for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*Concentration of Credit Risk* – The City places no limit on the amount the City may invest in one issuer. Of the City's total investments, 18.6% are FNMA, 10.6% are FHLMC, 26.7% are FHLB and 15% are Freddie MAC.

## *CITY OF SYLVANIA, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2005*

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#### **NOTE 5 - TAXES**

##### **A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2005 were levied after October 1, 2004 on assessed values as of January 1, 2004, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be reappraised every six years, and equalization adjustments are made in the third year following reappraisal. The last revaluation was completed in 2001 and the equalization adjustment was completed in 2004. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Sylvania. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2005 was \$5.10 per \$1,000 of assessed value. The assessed value upon which the 2005 receipts were based was \$431,950,119. This amount constitutes \$410,544,200 in real property assessed value, \$5,698,910 in public utility assessed value and \$15,707,009 in tangible personal property assessed value.

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

## *CITY OF SYLVANIA, OHIO*

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### *Notes to the Basic Financial Statements For the Year Ended December 31, 2005*

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#### **NOTE 5 - TAXES (Continued)**

##### **B. Income Tax**

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

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

#### **NOTE 6 - RECEIVABLES**

Receivables at December 31, 2005 consisted of taxes, intergovernmental receivables, special assessments, accounts receivable and interest.

#### **NOTE 7 - TRANSFERS**

Following is a summary of transfers in and out for all funds for 2005:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Activities:		
General Fund	\$3,599,122	\$317,439
Income Tax Fund	0	3,895,000
Capital Improvement Fund	3,355,002	3,118,457
Other Governmental Funds	1,500,926	967,809
Total Governmental Transfers	<u>8,455,050</u>	<u>8,298,705</u>
Business Type Activities:		
Water Fund	21,448	141,963
Sewer Fund	21,448	299,513
Resource Recovery Fund	97,760	0
Governmental Activities -		
Internal Service Fund	144,475	0
Total Business Type Transfers	<u>285,131</u>	<u>441,476</u>
Totals	<u><u>\$8,740,181</u></u>	<u><u>\$8,740,181</u></u>

**CITY OF SYLVANIA, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005**

**NOTE 8 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2005:

**Historical Cost:**

Class	December 31, 2004	Additions	Deletions	December 31, 2005
<b>Capital assets not being depreciated:</b>				
Land	\$8,582,192	\$82,009	\$0	\$8,664,201
Construction in Progress	0	121,438	0	121,438
<b>Capital assets being depreciated:</b>				
Land Improvements	119,193	40,380	0	159,573
Buildings	16,895,878	155,480	0	17,051,358
Improvements Other than Buildings	6,403	0	0	6,403
Machinery and Equipment	4,980,238	520,314	(601,336)	4,899,216
Infrastructure	18,284,089	1,217,922	(238,086)	19,263,925
Total Cost	<u>\$48,867,993</u>	<u>\$2,137,543</u>	<u>(\$839,422)</u>	<u>\$50,166,114</u>

**Accumulated Depreciation:**

Class	December 31, 2004	Additions	Deletions	December 31, 2005
Land Improvements	(\$32,959)	(\$8,106)	\$0	(\$41,065)
Buildings	(4,849,713)	(366,541)	0	(5,216,254)
Improvements Other than Buildings	(160)	(320)	0	(480)
Machinery and Equipment	(3,011,086)	(429,027)	505,101	(2,935,012)
Infrastructure	(7,726,211)	(289,251)	213,878	(7,801,584)
Total Depreciation	<u>(\$15,620,129)</u>	<u>(\$1,093,245) *</u>	<u>\$718,979</u>	<u>(\$15,994,395)</u>
<b>Net Value:</b>	<u>\$33,247,864</u>			<u>\$34,171,719</u>

\* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$105,882
Public Health and Welfare Services	144
Leisure Time Activities	320,367
Community Environment	8,282
Transportation	459,049
General Government	199,521
Total Depreciation Expense	<u>\$1,093,245</u>

**CITY OF SYLVANIA, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005**

**NOTE 8 - CAPITAL ASSETS (continued)**

**B. Business-Type Activities Capital Assets**

Summary by Category at December 31, 2005:

*Historical Cost:*

Class	December 31, 2004	Additions	Deletions	December 31, 2005
<i>Capital assets not being depreciated:</i>				
Land	\$18,440	\$0	(\$10,984)	\$7,456
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	567,052	0	0	567,052
Improvements Other Than Buildings	33,895,934	219,505	(100,000)	34,015,439
Machinery and Equipment	1,603,383	129,009	(218,447)	1,513,945
Total Cost	<u>\$36,084,809</u>	<u>\$348,514</u>	<u>(\$329,431)</u>	<u>\$36,103,892</u>

*Accumulated Depreciation:*

Class	December 31, 2004	Additions	Deletions	December 31, 2005
Buildings and Improvements	(\$389,586)	(\$12,235)	\$0	(\$401,821)
Improvements Other Than Buildings	(14,065,831)	(652,652)	0	(14,718,483)
Machinery and Equipment	(1,260,523)	(163,598)	214,322	(1,209,799)
Total Depreciation	<u>(\$15,715,940)</u>	<u>(\$828,485)</u>	<u>\$214,322</u>	<u>(\$16,330,103)</u>

*Net Value:*

Total	<u>\$20,368,869</u>			<u>\$19,773,789</u>
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**NOTE 9 – DEFINED BENEFIT PENSION PLANS**

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

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

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

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2005, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2005 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.55% to fund the pension and 4.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2005, 2004, and 2003 were \$631,420, \$612,976 and \$597,104, respectively, which were equal to the required contributions for each year.

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit under the TP and CO plans and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2005 employer contribution rate (identified above) that was used to fund health care for the year 2005 was 4.0% of covered payroll which amounted to \$186,397.

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System’s latest actuarial review performed as of December 31, 2004. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2004 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants for the TP and CO Plans was 376,109. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2004 is \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

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

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

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

## ***CITY OF SYLVANIA, OHIO***

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**

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

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% for police officers. The City's contributions to the OP&F Fund for the years ending December 31, 2005, 2004, and 2003 were \$413,568, \$404,942 and \$379,106 for police, which were equal to the required contributions for each year.

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

The portion of the 2005 covered payroll that was used to fund postemployment health care benefits was \$164,367 representing 7.75% of covered payroll for police. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2004, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,812 for police and 10,528 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2004 were \$102,173,796, which was net of member contributions of \$55,665,341.

#### **NOTE 10 – COMPENSATED ABSENCES**

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

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

At December 31, 2005, the City's accumulated, unpaid compensated absences amounted to \$1,813,834, of which \$1,504,870 is recorded as a liability of the Governmental Activities and \$308,964 is recorded as a liability of the Business-Type Activities.

## CITY OF SYLVANIA, OHIO

### *Notes to the Basic Financial Statements For the Year Ended December 31, 2005*

#### NOTE 11 - LONG-TERM DEBT

Long-term debt and other long-term obligations of the City at December 31, 2005 were as follows:

		Balance December 31, 2004	Additions	(Reductions)	Balance December 31, 2005	Amount Due Within One Year
<b>Governmental Activities:</b>						
Ohio Public Works Commission Loans:						
0.000%	Monroe/Erie Street Improvements	1996	\$28,000	\$0	(\$14,000)	\$14,000
0.000%	Brint Road Extension	1997	58,833	0	(19,612)	39,221
	<b>Total Ohio Public Works Commission Loans</b>		<b>86,833</b>	<b>0</b>	<b>(33,612)</b>	<b>53,221</b>
General Obligation Bonds:						
7.000%	Maintenance Building Bonds	1986	245,000	0	(35,000)	210,000
7.000%	Recreational Facilities	1986	175,000	0	(25,000)	150,000
6.400%	Capital Improvement	1987	21,420	0	(7,140)	14,280
6.375%	Harroun Road Improvement	1987	120,000	0	(40,000)	80,000
5.304%	Recreational Facility	1993	1,155,000	0	(100,000)	1,055,000
3.8-4.99%	Municipal Building Improvement	1997				
	Recreational Facilities		1,285,000	0	(210,000)	1,075,000
4.25-5.0%	Street Improvement	1998	1,896,000	0	(137,750)	1,758,250
3.0-5.05%	Senior Center/Field House	2002	3,825,000	0	(150,000)	3,675,000
3.5-4.55%	Street Improvement	2004	5,300,000	0	(205,000)	5,095,000
	<b>Total General Obligation Bonds</b>		<b>14,022,420</b>	<b>0</b>	<b>(909,890)</b>	<b>13,112,530</b>
Special Assessment Bonds:						
(with governmental commitment)						
6.400%	Capital Improvement	1987	20,580	0	(6,860)	13,720
4.25-5.0%	Street Improvement	1998	69,000	0	(17,250)	51,750
	<b>Total Special Assessment Bonds</b>		<b>89,580</b>	<b>0</b>	<b>(24,110)</b>	<b>65,470</b>
(with governmental commitment)						
Promissory Notes Payable:						
6.500%	Howard Property	1995	388,105	0	(25,248)	362,857
Compensated Absences			1,464,096	1,504,870	(1,464,096)	1,504,870
Capital Lease			32,400	0	(16,200)	16,200
	<b>Total Governmental Activities Long-Term Debt</b>		<b>\$16,083,434</b>	<b>\$1,504,870</b>	<b>(\$2,473,156)</b>	<b>\$15,115,148</b>
<b>Business-Type Activities:</b>						
Compensated Absences			\$284,929	\$308,964	(\$284,929)	\$308,964
	<b>Total Business-Type Long-Term Debt</b>		<b>\$284,929</b>	<b>\$308,964</b>	<b>(\$284,929)</b>	<b>\$308,964</b>

The principal amount of the City's special assessment debt outstanding at December 31, 2005, \$65,470, is general obligation debt (backed by the full faith and credit of the City) that is being retired with the proceeds from special assessments levied against benefited property owners. The City is obligated to repay the debt irrespective of the amount of special assessments collected from property owners. The fund balance of \$21,588 in the Special Assessment Debt Service Fund at December 31, 2005 is reserved for the retirement of outstanding special assessment bonds. Delinquent special assessments at year-end were \$15,220.

**CITY OF SYLVANIA, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005**

**NOTE 11 - LONG-TERM DEBT (Continued)**

**A. Principal and Interest Requirements**

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2005, follows:

Years	General Obligation Bonds		Special Assessment Bonds		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$939,890	\$599,464	\$24,110	\$3,117	\$16,200	\$903
2007	964,890	557,367	24,110	1,938	0	0
2008	917,750	513,624	17,250	759	0	0
2009	885,000	472,193	0	0	0	0
2010	920,000	430,955	0	0	0	0
2011-2015	3,355,000	1,611,336	0	0	0	0
2016-2020	3,155,000	881,513	0	0	0	0
2021-2024	1,975,000	203,994	0	0	0	0
<b>Totals</b>	<b>\$13,112,530</b>	<b>\$5,270,445</b>	<b>\$65,470</b>	<b>\$5,814</b>	<b>\$16,200</b>	<b>\$903</b>

Years	OPWC Loans Payable		Promissory Notes Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$33,612	\$0	\$26,889	\$23,586	\$1,040,701	\$627,070
2007	19,609	0	28,637	21,838	1,037,246	581,143
2008	0	0	30,499	19,976	965,499	534,359
2009	0	0	32,481	17,994	917,481	490,187
2010	0	0	34,592	15,883	954,592	446,838
2011-2015	0	0	209,759	42,617	3,564,759	1,653,953
2016-2020	0	0	0	0	3,155,000	881,513
2021-2024	0	0	0	0	1,975,000	203,994
<b>Totals</b>	<b>\$53,221</b>	<b>\$0</b>	<b>\$362,857</b>	<b>\$141,894</b>	<b>\$13,610,278</b>	<b>\$5,419,056</b>

**B. Defeasance of General Obligation Debt**

On May 25, 1995, the City sold Sylvania Pacesetter Park for \$1,465,710 to the Sylvania Area Joint Recreation District (SAJRD) to defease \$1,350,000 of outstanding bonds with an interest rate of 6.705%. The principal amount outstanding on the defeased bonds at December 31, 2005 was \$640,000. The entire amount of proceeds from the sale of Pacesetter Park was transferred to an irrevocable trust. The trustee was directed to hold \$44,410 in cash in the escrow fund and to use the remaining \$1,421,300 to purchase United States Treasury Securities - State and Local Government Series (SLGS). The cash deposit combined with anticipated earnings from the SLGS were determined to be sufficient to pay, when due, the remaining debt service payments. As a result, the old bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net assets.

**CITY OF SYLVANIA, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005**

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**NOTE 11 - LONG-TERM OBLIGATIONS (Continued)**

**B. Defeasance of General Obligation Debt (Continued)**

In December 1997, the City defeased \$1,965,000 of General Obligation Bonds for Municipal Building Improvements dated May 1, 1990 (the "1990 Bonds") through the issuance of \$2,205,000 of General Obligation Bonds for Municipal Building Improvements (the "1997 Bonds"). The net proceeds of the 1997 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$970,000 at December 31, 2005 are not included in the City's outstanding debt since the City has in-substance satisfied its obligations through the advance refunding.

**NOTE 12 - CAPITAL LEASE**

The City leases two Ford Explorers under a capital lease. The original cost of the vehicles and the related liability are reported in the Government-Wide Statement of Net Assets. The City has an option to purchase the vehicles at the end of the lease for \$1.

The following is a schedule of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of December 31, 2005:

<u>Year Ending December 31,</u>	<u>Capital Lease</u>
2006	<u>\$17,103</u>
Minimum Lease Payments	17,103
Less amount representing interest at the City's incremental borrowing rate of interest	<u>(903)</u>
Present value of minimum lease payments	<u><u>\$16,200</u></u>

**CITY OF SYLVANIA, OHIO**

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**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005**

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**NOTE 13 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City has contracted with various private carriers for the provision of property damage, general liability, automotive damage, public officials liability, police liability, boiler and machinery damage/loss, umbrella liability, and crime and employee dishonesty. Deductible levels for the various policies have been selected so as not to expose the City to excessive "first dollars" loss in the case of a claim. Deductibles range between \$250 and \$500 per loss for property damage. In the professional liability areas, no deductible exceeds \$10,000.

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

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

The City maintains a self-funded health insurance program with claims processed by Paramount Care, Inc. A separate Self Insurance Fund (an internal service fund) was created in 2004 to account for and finance the health insurance program. As an integral part of the health insurance program, a reinsurance policy has been purchased covering claims in excess of \$50,000 per individual per year up to a maximum of \$5,000,000 per individual per lifetime. Settled claims have not exceeded the commercial coverage limits in either of the past two fiscal years.

All funds of the City from which employee salaries are paid participate in the health insurance program and make payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. Total contributions to the program during the year were \$1,355,138. The claims liability of \$9,553 reported in the Self Insurance Fund at December 31, 2005 is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," as amended by GASB Statement No. 30 "Risk Management Omnibus," which requires that a liability for claims be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and if the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amount in fiscal 2004 and 2005 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2004	\$0	\$1,155,649	(\$1,155,649)	\$0
2005	0	1,330,341	(1,320,788)	9,553

## **CITY OF SYLVANIA, OHIO**

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### ***Notes to the Basic Financial Statements For the Year Ended December 31, 2005***

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#### **NOTE 14 - CONSTRUCTION COMMITMENTS**

As of December 31, 2005, the City had the following commitments with respect to capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Sylvan Square Improvement Project	\$2,125	January 2006
Brinthaven Improvement Project	85,214	January 2006
Summit Street Improvement	16,174	January 2005
Traffic Signals	55,150	February 2006
GSI System Mapping	50,218	September 2006
Monroe Street Improvement	56,608	December 2006
Ten Mile Creek Bridge	63,900	January 2007
Pavement Replacement Project	46,405	March 2006
Total	<u><u>\$375,794</u></u>	

#### **NOTE 15 - CONTINGENCIES**

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

#### **NOTE 16 - JOINT VENTURE**

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

***CITY OF SYLVANIA, OHIO***

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2005***

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**NOTE 17 – SUBSEQUENT EVENT**

The City issued bond anticipation notes in the amount of \$4,500,000, dated April 19, 2006, bearing an interest rate of 4.5% per annum, payable at maturity and maturing on April 18, 2007, to pay costs of certain street improvements.

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To City Council:

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 Sylvania, Lucas County (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 8, 2007, which was qualified since certain information related to the Self-Insurance Internal Service Fund expenses and liabilities reported with governmental activities and with remaining fund information was not available for audit. Also, the City did not record a liability for health insurance claims which we believe accounting principles generally accepted in the United States requires in the statements for governmental activities and remaining fund information. Except for the restriction on the scope of our audit of health insurance claims expenses, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-001.

One Government Center / Room 1420 / Toledo, OH 43604-2246  
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2005-001, listed above to be a material weakness. In a separate letter to the City's management dated March 8, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the City's management dated March 8, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and City Council. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

March 8, 2007

CITY OF SYLVANIA  
LUCAS COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2005

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

<b>Finding Number</b>	2005-001
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**Material Weakness**

The City has delegated employees' health insurance claims processing, which is a significant accounting function, to a third-party administrator. The City has not established procedures to determine whether this service organization has sufficient controls in place and operating effectively to reduce the risk that health insurance claims have not been completely and accurately processed in accordance with the health insurance contract.

We recommend the City help assure the completeness and accuracy (including eligibility and allowability) of health insurance claims processed by its third-party administrator. Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Type Two *Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness* in accordance with SAS No. 70 should provide the City with reasonable assurance that health insurance claim transactions conform to the contract.

We recommend the City require a Type Two SAS 70 report in its contract with the third-party administrator. The City should review the SAS 70- report timely. The report should follow American Institute of Certified Public Accountants standards and be performed by a firm registered and considered in good standing with the Accountancy Board of the respective state. If the third-party administrator refuses to furnish the City with a Type Two SAS 70 report, we recommend the City contract with a third-party administrator that will provide such a report.

**Officials' Response**

Management is working with its third-party administrator to obtain a Type Two SAS 70 report for future periods.

**CITY OF SYLVANIA  
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Material weakness over health insurance claims processing	No	Not corrected. Repeated as Finding #2005-001.



**Mary Taylor, CPA**  
Auditor of State

CITY OF SYLVANIA

LUCAS COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 29, 2007