



**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, 2004, 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 6.8% of expenses reported with governmental activities and 23% 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.

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, 2004, 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, 2004, 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, 2004*

*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, 2004. 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 2004 are as follows:

- ❑ In total, net assets decreased \$3,144,330. Net assets of governmental activities decreased \$1.8 million, which represents a 3.6% decrease from 2003. Net assets of business-type activities decreased \$1.3 million or 5.3% from 2003.
- ❑ General revenues accounted for \$11.1 million in revenue or 55% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for 45% of total revenues of \$20.2 million.
- ❑ The City had \$17.1 million in expenses related to governmental activities; only \$3.9 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$11 million provided for these programs.
- ❑ Among major funds, the general fund had \$5.3 million in revenues and \$8.5 million in expenditures. The general fund's fund balance decreased \$282,774 to \$1,052,257 million.
- ❑ Net assets for enterprise funds decreased by \$1.3 million. This decrease resulted primarily from the higher cost of bulk water purchased from the City of Toledo and sewage treatment by Lucas County. Also, new waterline and sewerline improvements were financed with reserve funds.

## **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, 2004*

*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, 2004**

**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, 2004 and 2003:

	Governmental		Business-type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Current and other assets	\$35,415,700	\$34,830,910	\$3,918,489	\$4,231,404	\$39,334,189	\$39,062,314
Capital assets, Net	33,247,864	32,046,537	20,368,869	20,965,102	53,616,733	53,011,639
Total assets	68,663,564	66,877,447	24,287,358	25,196,506	92,950,922	92,073,953
Long-term debt outstanding	16,083,434	12,761,212	284,929	279,273	16,368,363	13,040,485
Other liabilities	3,093,150	2,801,021	639,432	238,140	3,732,582	3,039,161
Total liabilities	19,176,584	15,562,233	924,361	517,413	20,100,945	16,079,646
Net assets						
Invested in capital assets, net of related debt	18,628,526	21,939,764	20,368,869	20,965,102	38,997,395	42,904,866
Restricted	29,706,545	27,257,211	0	0	29,706,545	27,257,211
Unrestricted	1,151,909	2,118,239	2,994,128	3,713,991	4,146,037	5,832,230
Total net assets	\$49,486,980	\$51,315,214	\$23,362,997	\$24,679,093	\$72,849,977	\$75,994,307

## CITY OF SYLVANIA, OHIO

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

*Unaudited*

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2004 and 2003:

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for Services and Sales	\$1,480,379	\$1,672,214	\$5,201,478	\$5,037,891	\$6,681,857	\$6,710,105
Operating Grants and Contributions	1,763,138	1,817,575	0	0	1,763,138	1,817,575
Capital Grants and Contributions	694,134	993,090	0	7,000	694,134	1,000,090
<b>Total Program Revenues</b>	<u>3,937,651</u>	<u>4,482,879</u>	<u>5,201,478</u>	<u>5,044,891</u>	<u>9,139,129</u>	<u>9,527,770</u>
<b>General Revenues:</b>						
Property Taxes	1,936,271	1,757,205	0	0	1,936,271	1,757,205
Income Taxes	6,605,585	6,758,963	0	0	6,605,585	6,758,963
Intergovernmental Grant, Unrestricted	1,602,232	1,534,296	0	0	1,602,232	1,534,296
Investment Earnings	414,862	392,828	61,799	85,149	476,661	477,977
Miscellaneous	484,880	828,675	0	0	484,880	828,675
<b>Total General Revenues</b>	<u>11,043,830</u>	<u>11,271,967</u>	<u>61,799</u>	<u>85,149</u>	<u>11,105,629</u>	<u>11,357,116</u>
<b>Total Revenues</b>	<u>14,981,481</u>	<u>15,754,846</u>	<u>5,263,277</u>	<u>5,130,040</u>	<u>20,244,758</u>	<u>20,884,886</u>
<b>Program Expenses</b>						
Security of Persons and Property	4,533,009	4,564,758	0	0	4,533,009	4,564,758
Public Health and Welfare Services	202,286	243,999	0	0	202,286	243,999
Leisure Time Activities	1,813,319	116,570	0	0	1,813,319	116,570
Community Environment	505,953	536,842	0	0	505,953	536,842
Basic Utility Services	651,767	725,800	0	0	651,767	725,800
Transportation	3,789,506	3,063,382	0	0	3,789,506	3,063,382
General Government	4,909,506	3,617,663	0	0	4,909,506	3,617,663
Interest and Fiscal Charges	659,904	549,256	0	0	659,904	549,256
Water	0	0	3,465,642	2,494,398	3,465,642	2,494,398
Sewer	0	0	2,693,105	2,288,871	2,693,105	2,288,871
Resource Recovery	0	0	165,091	168,600	165,091	168,600
<b>Total Expenses</b>	<u>17,065,250</u>	<u>13,418,270</u>	<u>6,323,838</u>	<u>4,951,869</u>	<u>23,389,088</u>	<u>18,370,139</u>
<b>Change in Net Assets before Transfers</b>	<u>(2,083,769)</u>	<u>2,336,576</u>	<u>(1,060,561)</u>	<u>178,171</u>	<u>(3,144,330)</u>	<u>2,514,747</u>
<b>Transfers</b>	<u>255,535</u>	<u>299,093</u>	<u>(255,535)</u>	<u>(299,093)</u>	<u>0</u>	<u>0</u>
<b>Total Change in Net Assets</b>	<u>(1,828,234)</u>	<u>2,635,669</u>	<u>(1,316,096)</u>	<u>(120,922)</u>	<u>(3,144,330)</u>	<u>2,514,747</u>
<b>Beginning Net Assets</b>	<u>51,315,214</u>	<u>48,679,545</u>	<u>24,679,093</u>	<u>24,800,015</u>	<u>75,994,307</u>	<u>73,479,560</u>
<b>Ending Net Assets</b>	<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>

## CITY OF SYLVANIA, OHIO

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

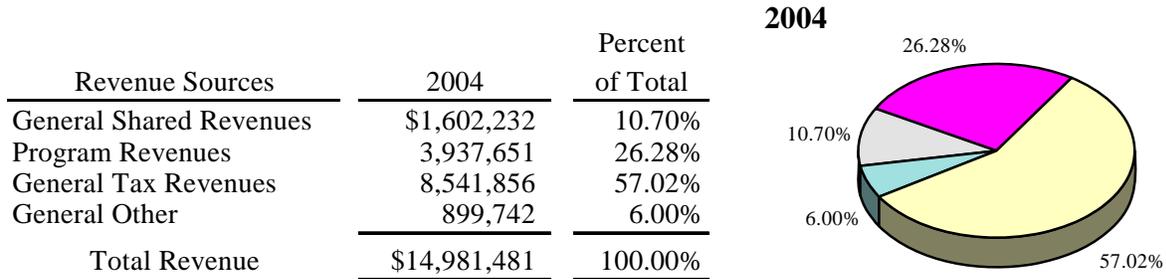
*Unaudited*

### *Governmental Activities*

Net assets of the City's governmental activities decreased by \$1,828,234. 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 12.9% and 44.1% respectively of revenues for governmental activities for the City in fiscal year 2004. The City's reliance upon tax revenues is demonstrated by the following graph indicating 57.02% of total revenues from general tax revenues:



### *Business-Type Activities*

Net assets of the business-type activities decreased by \$1,316,096. This decrease was the result of higher cost of bulk water purchased from the City of Toledo and increased sewage collection and treatment charges by Lucas County. The City used some of its fund reserves rather than increasing utility rates in 2004. Legal costs involving water and sewer annexation issues were also a factor.

## CITY OF SYLVANIA, OHIO

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

*Unaudited*

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$29,080,454, which is an increase from last year's balance of \$28,504,609. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2004 and 2003:

	Fund Balance December 31, 2004	Fund Balance December 31, 2003	Increase (Decrease)
General	\$1,052,257	\$1,319,361	(\$267,104)
General Obligation Debt Service	(1,568)	142,512	(144,080)
Police Pension	150,726	87,538	63,188
Income Tax	895,018	1,198,139	(303,121)
Capital Improvement	24,412,948	22,841,339	1,571,609
Other Governmental	2,571,073	2,915,720	(344,647)
Total	<u>\$29,080,454</u>	<u>\$28,504,609</u>	<u>\$575,845</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:

	2004 Revenues	2003 Revenues	Increase (Decrease)
Taxes	\$2,229,336	\$2,160,042	\$69,294
Intergovernmental Revenue	1,502,801	1,685,915	(183,114)
Charges for Services	429,049	355,903	73,146
Licenses and Permits	124,716	271,849	(147,133)
Fines and Forfeitures	817,763	879,052	(61,289)
Investment Earnings	61,423	75,267	(13,844)
All Other Revenue	123,744	367,195	(243,451)
Total	<u>\$5,288,832</u>	<u>\$5,795,223</u>	<u>(\$506,391)</u>

## **CITY OF SYLVANIA, OHIO**

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

***Unaudited***

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General Fund revenues in 2004 decreased approximately 8.7% compared to revenues in fiscal year 2003. The most significant factor contributing to this decrease was a reduction in estate tax revenues and some state shared revenue.

	2004	2003	Increase
	<u>Expenditures</u>	<u>Expenditures</u>	<u>(Decrease)</u>
Security of Persons and Property	\$3,594,639	\$3,373,464	\$221,175
Public Health and Welfare Services	202,142	243,708	(41,566)
Leisure Time Activities	795,237	742,015	53,222
Community Environment	256,493	313,746	(57,253)
Basic Utility Services	444,439	474,729	(30,290)
Transportation	151,588	215,655	(64,067)
General Government	<u>3,006,907</u>	<u>2,885,830</u>	<u>121,077</u>
Total	<u>\$8,451,445</u>	<u>\$8,249,147</u>	<u>\$202,298</u>

General Fund expenditures increased by \$202,298 or 2.5% 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 2004 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of \$5.7 million did not significantly change from the original budget estimates of \$5.8 million. 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, 2004**

**Unaudited**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal 2004 the City had \$53,616,733 net of accumulated depreciation invested in land, improvements, infrastructure, buildings, machinery and equipment and construction in progress. Of this total, \$33,247,864 was related to governmental activities and \$20,368,869 to the business-type activities. The following table shows fiscal year 2004 and 2003 balances:

	Governmental Activities		Increase (Decrease)
	2004	2003	
Land	\$8,582,192	\$8,375,404	\$206,788
Land Improvements	119,193	83,953	35,240
Buildings	16,895,878	16,543,048	352,830
Improvements Other Than Buildings	6,403	0	6,403
Machinery and Equipment	4,980,238	4,297,895	682,343
Infrastructure	18,284,089	17,354,472	929,617
Less: Accumulated Depreciation	(15,620,129)	(14,608,235)	(1,011,894)
Totals	<u>\$33,247,864</u>	<u>\$32,046,537</u>	<u>\$1,201,327</u>

	Business-Type Activities		Increase (Decrease)
	2004	2003	
Land	\$18,440	\$18,440	\$0
Buildings and Improvements	567,052	567,052	0
Improvements Other Than Buildings	33,895,934	33,288,474	607,460
Machinery and Equipment	1,603,383	1,513,853	89,530
Construction in Progress	0	226,022	(226,022)
Less: Accumulated Depreciation	(15,715,940)	(14,924,739)	(791,201)
Totals	<u>\$20,368,869</u>	<u>\$20,689,102</u>	<u>(\$320,233)</u>

As of December 31, 2004, the City has contractual commitments of \$542,836 for several road improvement projects. Additional information on the City's capital assets can be found in Note 9.

# CITY OF SYLVANIA, OHIO

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

Unaudited

### Debt

At December 31, 2004, the City had \$14.1 million in bonds outstanding, \$934,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2004 and 2003:

	2004	2003
Governmental Activities:		
General Obligation Bonds	\$14,022,420	\$9,449,110
Special Assessment Bonds	89,580	126,890
OPWC Loans Payable	86,833	120,445
Promissory Notes	388,105	411,812
Long-Term Note Payable	0	1,250,000
Capital Lease Payable	32,400	0
Compensated Absences	1,464,096	1,402,955
Total Governmental Activities	<u>16,083,434</u>	<u>12,761,212</u>
Business-Type Activities:		
Compensated Absences	284,929	279,273
Total Business-Type Activities	<u>284,929</u>	<u>279,273</u>
Totals	<u>\$16,368,363</u>	<u>\$13,040,485</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, 2004, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 12.

### 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 2004, 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, 2004**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 7,963,267	\$ 573,526	\$ 8,536,793
Investments	20,482,044	2,409,747	22,891,791
Receivables:			
Taxes	2,968,863	0	2,968,863
Accounts	146,504	678,937	825,441
Intergovernmental	1,876,865	0	1,876,865
Interest	41,619	4,859	46,478
Special Assessments	294,334	0	294,334
Internal Balances	(23,002)	23,002	0
Inventory of Supplies at Cost	513,316	189,680	702,996
Prepaid Items	76,827	38,738	115,565
Investment in Joint Venture	1,074,000	0	1,074,000
Restricted Assets:			
Cash and Cash Equivalents	1,063	0	1,063
Capital Assets(net of Accum Depr):			
Property, Plant and Equipment	48,867,993	36,084,809	84,952,802
Accumulated Depreciation	(15,620,129)	(15,715,940)	(31,336,069)
<b>Total Assets</b>	<u>68,663,564</u>	<u>24,287,358</u>	<u>92,950,922</u>
<b>Liabilities:</b>			
Accounts Payable	707,330	590,417	1,297,747
Accrued Wages and Benefits	364,908	49,015	413,923
Deferred Revenue	1,963,875	0	1,963,875
Accrued Interest Payable	57,037	0	57,037
Noncurrent liabilities:			
Due within one year	1,132,030	24,240	1,156,270
Due in more than one year	14,951,404	260,689	15,212,093
<b>Total Liabilities</b>	<u>19,176,584</u>	<u>924,361</u>	<u>20,100,945</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	18,628,526	20,368,869	38,997,395
Restricted For:			
Capital Projects	25,915,560	0	25,915,560
Debt Service	95,023	0	95,023
Other Purposes	3,695,962	0	3,695,962
Unrestricted	1,151,909	2,994,128	4,146,037
<b>Total Net Assets</b>	<u>\$ 49,486,980</u>	<u>\$ 23,362,997</u>	<u>\$ 72,849,977</u>

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

**Statement of Activities**  
**For the Year Ended December 31, 2004**

	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	\$ 4,533,009	\$ 37,048	\$ 0	\$ 0
Public Health and Welfare Services	202,286	14,786	0	0
Leisure Time Activities	1,813,319	0	0	0
Community Environment	505,953	26,546	196,167	0
Basic Utility Services	651,767	314,691	195,987	0
Transportation	3,789,506	3,933	1,370,984	603,000
General Government	4,909,506	1,083,375	0	91,134
Debt Service:				
Interest and Fiscal Charges	659,904	0	0	0
<b>Total Governmental Activities</b>	<b>17,065,250</b>	<b>1,480,379</b>	<b>1,763,138</b>	<b>694,134</b>
<b>Business-Type Activities:</b>				
Water	3,465,642	3,027,883	0	0
Sewer	2,693,105	2,159,485	0	0
Resource Recovery	165,091	14,110	0	0
<b>Total Business-Type Activities</b>	<b>6,323,838</b>	<b>5,201,478</b>	<b>0</b>	<b>0</b>
<b>Totals</b>	<b>\$ 23,389,088</b>	<b>\$ 6,681,857</b>	<b>\$ 1,763,138</b>	<b>\$ 694,134</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
\$ (4,495,961)	\$ 0	\$ (4,495,961)
(187,500)	0	(187,500)
(1,813,319)	0	(1,813,319)
(283,240)	0	(283,240)
(141,089)	0	(141,089)
(1,811,589)	0	(1,811,589)
(3,734,997)	0	(3,734,997)
<u>(659,904)</u>	<u>0</u>	<u>(659,904)</u>
<u>(13,127,599)</u>	<u>0</u>	<u>(13,127,599)</u>
0	(437,759)	(437,759)
0	(533,620)	(533,620)
<u>0</u>	<u>(150,981)</u>	<u>(150,981)</u>
<u>0</u>	<u>(1,122,360)</u>	<u>(1,122,360)</u>
<u>(13,127,599)</u>	<u>(1,122,360)</u>	<u>(14,249,959)</u>
1,936,271	0	1,936,271
6,605,585	0	6,605,585
1,602,232	0	1,602,232
414,862	61,799	476,661
484,880	0	484,880
<u>255,535</u>	<u>(255,535)</u>	<u>0</u>
<u>11,299,365</u>	<u>(193,736)</u>	<u>11,105,629</u>
(1,828,234)	(1,316,096)	(3,144,330)
<u>51,315,214</u>	<u>24,679,093</u>	<u>75,994,307</u>
<u>\$ 49,486,980</u>	<u>\$ 23,362,997</u>	<u>\$ 72,849,977</u>

**CITY OF SYLVANIA, OHIO**

**Balance Sheet**  
**Governmental Funds**  
**December 31, 2004**

	General	General Obligation Debt Service	Police Pension
	<u>General</u>	<u>Service</u>	<u>Police Pension</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 125,409	\$ 177	\$ 245,309
Investments	531,618	0	0
Receivables:			
Taxes	1,387,638	415,280	457,023
Accounts	134,008	0	0
Intergovernmental	713,385	24,971	27,469
Interest	1,072	0	0
Special Assessments	0	0	0
Inventory of Supplies, at Cost	226,500	0	0
Prepaid Items	56,952	0	0
Restricted Assets:			
Cash and Cash Equivalents	0	0	0
<b>Total Assets</b>	<u><u>\$ 3,176,582</u></u>	<u><u>\$ 440,428</u></u>	<u><u>\$ 729,801</u></u>
<b>Liabilities:</b>			
Accounts Payable	\$ 147,094	\$ 1,745	\$ 0
Accrued Wages and Benefits Payable	217,208	0	94,583
Deferred Revenue	1,731,433	440,251	484,492
Compensated Absences Payable	28,590	0	0
<b>Total Liabilities</b>	<u><u>2,124,325</u></u>	<u><u>441,996</u></u>	<u><u>579,075</u></u>
<b>Fund Balances:</b>			
Reserved for Encumbrances	99,820	0	0
Reserved for Prepaid Items	56,952	0	0
Reserved for Supplies Inventory	226,500	0	0
Reserved for Endowments	0	0	0
Undesignated/Unreserved in:			
General Fund	668,985	0	0
Special Revenue Funds	0	0	150,726
Debt Service Funds	0	(1,568)	0
Capital Projects Funds	0	0	0
<b>Total Fund Balances</b>	<u><u>1,052,257</u></u>	<u><u>(1,568)</u></u>	<u><u>150,726</u></u>
<b>Total Liabilities and Funds Balances</b>	<u><u>\$ 3,176,582</u></u>	<u><u>\$ 440,428</u></u>	<u><u>\$ 729,801</u></u>

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

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Income Tax	Capital Improvement	Other Governmental Funds	Total Governmental Funds
\$ 434,644	\$ 4,706,316	\$ 2,381,213	\$ 7,893,068
0	19,950,426	0	20,482,044
567,121	141,801	0	2,968,863
0	0	12,174	146,182
0	615,000	496,040	1,876,865
0	40,227	320	41,619
0	0	294,334	294,334
0	0	231,826	458,326
2,371	0	15,970	75,293
0	0	1,063	1,063
<u>\$ 1,004,136</u>	<u>\$ 25,453,770</u>	<u>\$ 3,432,940</u>	<u>\$ 34,237,657</u>
\$ 6,550	\$ 363,886	\$ 181,407	\$ 700,682
9,929	0	38,370	360,090
91,567	676,936	635,853	4,060,532
1,072	0	6,237	35,899
<u>109,118</u>	<u>1,040,822</u>	<u>861,867</u>	<u>5,157,203</u>
3,352	113,375	311,091	527,638
2,371	0	15,970	75,293
0	0	231,826	458,326
0	0	1,063	1,063
0	0	0	668,985
889,295	0	1,471,550	2,511,571
0	0	17,578	16,010
0	24,299,573	521,995	24,821,568
<u>895,018</u>	<u>24,412,948</u>	<u>2,571,073</u>	<u>29,080,454</u>
<u>\$ 1,004,136</u>	<u>\$ 25,453,770</u>	<u>\$ 3,432,940</u>	<u>\$ 34,237,657</u>

**CITY OF SYLVANIA, OHIO**

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***Reconciliation Of Total Governmental Fund Balances  
To Net Assets Of Governmental Activities  
December 31, 2004***

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<b>Total Governmental Fund Balances</b>	\$ 29,080,454
<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.	33,227,692
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.	2,096,657
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.	76,415
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(16,068,238)</u>
<b><i>Net Assets of Governmental Funds</i></b>	<b><u>\$ 49,486,980</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, 2004**

	General	General Obligation Debt Service	Police Pension
<b>Revenues:</b>			
Property Taxes	\$ 1,132,809	\$ 375,895	\$ 415,244
Municipal Income Taxes	1,096,527	0	0
Intergovernmental Revenues	1,502,801	51,220	52,886
Charges for Services	429,049	0	0
Licenses, Permits and Fees	124,716	0	0
Investment Earnings	61,423	0	0
Special Assessments	0	0	0
Fines and Forfeitures	817,763	0	0
All Other Revenue	123,744	203,318	0
<b>Total Revenue</b>	<b>5,288,832</b>	<b>630,433</b>	<b>468,130</b>
<b>Expenditures:</b>			
Current:			
Security of Persons and Property	3,594,639	0	404,942
Public Health and Welfare Services	202,142	0	0
Leisure Time Activities	795,237	0	0
Community Environment	256,493	0	0
Basic Utility Services	444,439	0	0
Transportation	151,588	0	0
General Government	3,006,907	103,132	0
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	1,976,690	0
Interest & Fiscal Charges	0	600,916	0
<b>Total Expenditures</b>	<b>8,451,445</b>	<b>2,680,738</b>	<b>404,942</b>
Excess (Deficiency) of Revenues Over Expenditures	(3,162,613)	(2,050,305)	63,188
<b>Other Financing Sources (Uses):</b>			
General Obligation Bonds Issued	0	1,250,000	0
Transfers In	3,199,956	656,225	0
Transfers Out	(320,117)	0	0
Other Financing Sources - Capital Leases	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>2,879,839</b>	<b>1,906,225</b>	<b>0</b>
Net Change in Fund Balances	(282,774)	(144,080)	63,188
<b>Fund Balances at Beginning of Year</b>	<b>1,319,361</b>	<b>142,512</b>	<b>87,538</b>
Increase in Inventory Reserve	15,670	0	0
<b>Fund Balances (Deficit) End of Year</b>	<b>\$ 1,052,257</b>	<b>\$ (1,568)</b>	<b>\$ 150,726</b>

See accompanying notes to the basic financial statements

**CITY OF SYLVANIA, OHIO**

Income Tax	Capital Improvement	Other Governmental Funds	Total Governmental Funds
\$ 0	\$ 0	\$ 0	\$ 1,923,948
4,378,961	1,095,507	0	6,570,995
0	430,238	1,865,049	3,902,194
0	0	0	429,049
0	0	0	124,716
0	341,188	3,659	406,270
0	0	445,841	445,841
0	0	144,854	962,617
1,096	151,134	61,076	540,368
<u>4,380,057</u>	<u>2,018,067</u>	<u>2,520,479</u>	<u>15,305,998</u>
0	0	369,526	4,369,107
0	0	0	202,142
0	0	0	795,237
0	0	235,760	492,253
0	0	232,442	676,881
0	0	1,150,131	1,301,719
574,178	0	28,719	3,712,936
0	4,500,285	1,404,763	5,905,048
0	57,319	53,510	2,087,519
0	26,768	7,732	635,416
<u>574,178</u>	<u>4,584,372</u>	<u>3,482,583</u>	<u>20,178,258</u>
3,805,879	(2,566,305)	(962,104)	(4,872,260)
0	4,050,000	0	5,300,000
0	3,000,007	915,067	7,771,255
(4,109,000)	(2,912,093)	(364,175)	(7,705,385)
0	0	48,600	48,600
<u>(4,109,000)</u>	<u>4,137,914</u>	<u>599,492</u>	<u>5,414,470</u>
(303,121)	1,571,609	(362,612)	542,210
1,198,139	22,841,339	2,915,720	28,504,609
0	0	17,965	33,635
<u>\$ 895,018</u>	<u>\$ 24,412,948</u>	<u>\$ 2,571,073</u>	<u>\$ 29,080,454</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, 2004***

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**Net Change in Fund Balances - Total Governmental Funds** \$ 542,210

***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. 1,263,461

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. (60,468)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (324,517)

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. (3,261,081)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (24,488)

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. (20,878)

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. 57,527

***Change in Net Assets of Governmental Activities*** \$ (1,828,234)

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, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property Taxes	\$ 1,140,000	\$ 1,140,000	\$ 1,132,809	\$ (7,191)
Municipal Income Taxes	1,200,000	1,120,000	1,127,937	7,937
Intergovernmental Revenue	1,586,900	1,640,760	1,726,616	85,856
Charges for Services	317,100	312,100	365,717	53,617
Licenses, Permits and Fees	176,750	176,750	160,987	(15,763)
Investment Earnings	187,000	137,000	61,484	(75,516)
Fines and Forfeitures	967,000	967,000	820,620	(146,380)
All Other Revenues	291,800	256,800	152,342	(104,458)
Total Revenues	<u>5,866,550</u>	<u>5,750,410</u>	<u>5,548,512</u>	<u>(201,898)</u>
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	3,629,347	3,645,351	3,613,709	31,642
Public Health and Welfare Services	206,019	206,019	198,533	7,486
Leisure Time Activities	780,290	802,883	796,530	6,353
Community Environment	210,615	260,708	262,290	(1,582)
Basic Utility Services	520,675	520,709	518,918	1,791
Transportation	194,465	195,755	181,458	14,297
General Government	3,062,513	3,075,821	3,043,419	32,402
Total Expenditures	<u>8,603,924</u>	<u>8,707,246</u>	<u>8,614,857</u>	<u>92,389</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,737,374)	(2,956,836)	(3,066,345)	(109,509)
<b>Other Financing Sources (Uses):</b>				
Transfers In	3,099,956	3,199,956	3,199,956	0
Transfers Out	(320,357)	(320,357)	(320,117)	240
Total Other Financing Sources (Uses):	<u>2,779,599</u>	<u>2,879,599</u>	<u>2,879,839</u>	<u>240</u>
Net Change In Fund Balance	42,225	(77,237)	(186,506)	(109,269)
Fund Balance at Beginning of Year	641,653	641,653	641,653	0
Prior Year Encumbrances	73,040	73,040	73,040	0
Fund Balance at End of Year	<u>\$ 756,918</u>	<u>\$ 637,456</u>	<u>\$ 528,187</u>	<u>\$ (109,269)</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, 2004**

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	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Property Taxes	\$ 414,500	\$ 414,500	\$ 415,244	\$ 744
Intergovernmental Revenue	60,000	60,000	54,396	(5,604)
Total Revenues	474,500	474,500	469,640	(4,860)
<b>Expenditures:</b>				
Current:				
Security of Persons and Property	400,000	400,000	399,501	499
Total Expenditures	400,000	400,000	399,501	499
Excess (Deficiency) of Revenues Over (Under) Expenditures	74,500	74,500	70,139	(4,361)
Fund Balance at Beginning of Year	175,170	175,170	175,170	0
Fund Balance at End of Year	\$ 249,670	\$ 249,670	\$ 245,309	\$ (4,361)

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)  
Special Revenue Fund - Income Tax Fund  
For the Year Ended December 31, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Municipal Income Taxes	\$ 4,750,000	\$ 4,750,000	\$ 4,511,943	\$ (238,057)
All Other Revenues	0	0	1,096	1,096
Total Revenues	4,750,000	4,750,000	4,513,039	(236,961)
<b>Expenditures:</b>				
Current:				
General Government	564,861	567,121	574,062	(6,941)
Total Expenditures	564,861	567,121	574,062	(6,941)
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,185,139	4,182,879	3,938,977	(243,902)
<b>Other Financing Sources (Uses):</b>				
Transfers Out	(4,109,000)	(4,109,000)	(4,109,000)	0
Total Other Financing Sources (Uses):	(4,109,000)	(4,109,000)	(4,109,000)	0
Net Change In Fund Balance	76,139	73,879	(170,023)	(243,902)
Fund Balance at Beginning of Year	597,058	597,058	597,058	0
Prior Year Encumbrances	3,034	3,034	3,034	0
Fund Balance at End of Year	\$ 676,231	\$ 673,971	\$ 430,069	\$ (243,902)

See accompanying notes to the basic financial statements

## CITY OF SYLVANIA, OHIO

### Statement of Net Assets Proprietary Funds December 31, 2004

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Resource Recovery	Total	
<b>ASSETS</b>					
Current assets:					
Cash and Cash Equivalents	\$ 210,713	\$ 357,748	\$ 5,065	\$ 573,526	\$ 70,199
Investments	893,228	1,516,519	0	2,409,747	0
Accounts receivable (net of allow for uncollectibles)	425,867	253,070	0	678,937	322
Interest receivable	1,801	3,058	0	4,859	0
Inventory of Supplies at Cost	133,944	55,736	0	189,680	54,990
Prepaid Items	18,407	19,702	629	38,738	1,534
Total current assets	<u>1,683,960</u>	<u>2,205,833</u>	<u>5,694</u>	<u>3,895,487</u>	<u>127,045</u>
Noncurrent assets:					
Capital assets:					
Property, Plant and Equipment	11,179,217	24,580,589	325,003	36,084,809	83,491
Less accumulated depreciation	(4,479,471)	(10,952,525)	(283,944)	(15,715,940)	(63,319)
Total capital assets (net of accumulated depr)	<u>6,699,746</u>	<u>13,628,064</u>	<u>41,059</u>	<u>20,368,869</u>	<u>20,172</u>
Total noncurrent assets	<u>6,699,746</u>	<u>13,628,064</u>	<u>41,059</u>	<u>20,368,869</u>	<u>20,172</u>
Total assets	<u>8,383,706</u>	<u>15,833,897</u>	<u>46,753</u>	<u>24,264,356</u>	<u>147,217</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts Payable	158,491	428,603	3,323	590,417	6,648
Accrued Wages and Benefits	24,350	23,179	1,486	49,015	4,818
Total Current Liabilities	<u>182,841</u>	<u>451,782</u>	<u>4,809</u>	<u>639,432</u>	<u>11,466</u>
Noncurrent Liabilities:					
Compensated Absences Payable	189,072	95,857	0	284,929	36,334
Total noncurrent liabilities	<u>189,072</u>	<u>95,857</u>	<u>0</u>	<u>284,929</u>	<u>36,334</u>
<b>Total Liabilities</b>	<u>371,913</u>	<u>547,639</u>	<u>4,809</u>	<u>924,361</u>	<u>47,800</u>
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt	6,699,746	13,628,064	41,059	20,368,869	20,172
Unrestricted	1,312,047	1,658,194	885	2,971,126	79,245
Total Net Assets	<u>\$ 8,011,793</u>	<u>\$ 15,286,258</u>	<u>\$ 41,944</u>	<u>23,339,995</u>	<u>\$ 99,417</u>
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.				23,002	
Net Assets of Business-type Activities				<u>\$ 23,362,997</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, 2004

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Resource Recovery	Total	
<b>Operating Revenues:</b>					
Charges for Services	\$ 2,944,248	\$ 2,079,273	\$ 14,110	\$ 5,037,631	\$ 1,246,719
Other Operating Revenues	83,635	80,212	0	163,847	0
<b>Total Operating Revenues</b>	<u>3,027,883</u>	<u>2,159,485</u>	<u>14,110</u>	<u>5,201,478</u>	<u>1,246,719</u>
<b>Operating Expenses:</b>					
Personal Services	701,739	737,224	70,690	1,509,653	1,054,371
Materials and Supplies	112,813	88,950	27,774	229,537	45,927
Contractual Services	2,396,535	1,368,106	40,824	3,805,465	260,199
Depreciation	262,792	507,739	25,803	796,334	5,887
<b>Total Operating Expenses</b>	<u>3,473,879</u>	<u>2,702,019</u>	<u>165,091</u>	<u>6,340,989</u>	<u>1,366,384</u>
<b>Operating Loss</b>	(445,996)	(542,534)	(150,981)	(1,139,511)	(119,665)
<b>Non-Operating Revenue (Expenses):</b>					
Interest Income	20,904	40,895	0	61,799	0
Other Nonoperating Revenue	0	0	0	0	4,678
<b>Total Non-Operating Revenues (Expenses)</b>	<u>20,904</u>	<u>40,895</u>	<u>0</u>	<u>61,799</u>	<u>4,678</u>
<b>Loss Before Transfers</b>	(425,092)	(501,639)	(150,981)	(1,077,712)	(114,987)
<b>Transfers:</b>					
Transfers In	0	0	69,775	69,775	189,665
Transfers Out	(148,655)	(176,655)	0	(325,310)	0
<b>Total Transfers</b>	<u>(148,655)</u>	<u>(176,655)</u>	<u>69,775</u>	<u>(255,535)</u>	<u>189,665</u>
<b>Change in Net Assets</b>	(573,747)	(678,294)	(81,206)	(1,333,247)	74,678
Net Assets Beginning of Year	8,585,540	15,964,552	123,150	24,673,242	24,739
<b>Net Assets End of Year</b>	<u>\$ 8,011,793</u>	<u>\$ 15,286,258</u>	<u>\$ 41,944</u>	<u>23,339,995</u>	<u>\$ 99,417</u>
Change in Net Assets - Total Enterprise Funds				(1,333,247)	
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.				17,151	
Change in Net Assets - Business-type Activities				<u>\$ (1,316,096)</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, 2004

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Water	Sewer	Resource Recovery	Totals	Internal Service Funds
<u>Cash Flows from Operating Activities:</u>					
Cash Received from Customers	\$2,918,404	\$2,091,240	\$65,490	\$5,075,134	\$1,246,397
Cash Payments for Goods and Services	(2,502,668)	(1,111,449)	(68,414)	(3,682,531)	(315,613)
Cash Payments to Employees	(716,673)	(710,479)	(70,771)	(1,497,923)	(1,054,385)
Net Cash Provided (Used) by Operating Activities	<u>(300,937)</u>	<u>269,312</u>	<u>(73,695)</u>	<u>(105,320)</u>	<u>(123,601)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>					
Transfers In from Other Funds	0	0	69,775	69,775	189,665
Transfers Out to Other Funds	(148,655)	(176,655)	0	(325,310)	0
Miscellaneous Nonoperating Income	0	0	0	0	4,678
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(148,655)</u>	<u>(176,655)</u>	<u>69,775</u>	<u>(255,535)</u>	<u>194,343</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Acquisition and Construction of Assets	(19,860)	(424,709)	0	(444,569)	(4,221)
Net Cash Used for Capital and Related Financing Activities	<u>(19,860)</u>	<u>(424,709)</u>	<u>0</u>	<u>(444,569)</u>	<u>(4,221)</u>
<u>Cash Flows from Investing Activities:</u>					
Sale of Investments	296,751	143,475	0	440,226	0
Receipts of Interest	21,016	40,723	0	61,739	0
Net Cash Provided by Investing Activities	<u>317,767</u>	<u>184,198</u>	<u>0</u>	<u>501,965</u>	<u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(151,685)	(147,854)	(3,920)	(303,459)	66,521
Cash and Cash Equivalents at Beginning of Year	362,398	505,602	8,985	876,985	3,678
Cash and Cash Equivalents at End of Year	<u>\$210,713</u>	<u>\$357,748</u>	<u>\$5,065</u>	<u>\$573,526</u>	<u>\$70,199</u>
<u>Reconciliation of Operating Loss to Net Cash</u>					
<u>Provided (Used) by Operating Activities:</u>					
Operating Loss	(\$445,996)	(\$542,534)	(\$150,981)	(\$1,139,511)	(\$119,665)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	262,792	507,739	25,803	796,334	5,887
Changes in Assets and Liabilities:					
Decrease (Increase) in Accounts Receivable	(109,479)	(68,245)	51,380	(126,344)	(322)
Decrease (Increase) in Inventory	5,023	(7,424)	0	(2,401)	(8,931)
Increase in Prepaid Items	(3,661)	(4,524)	(629)	(8,814)	(1,534)
Increase in Accounts Payable	4,672	356,922	813	362,407	850
Increase (Decrease) in Accrued Wages and Benefits	4,272	3,162	(81)	7,353	520
Increase (Decrease) in Compensated Absences	(18,560)	24,216	0	5,656	(406)
Total Adjustments	<u>145,059</u>	<u>811,846</u>	<u>77,286</u>	<u>1,034,191</u>	<u>(3,936)</u>
Net Cash Provided (Used) by Operating Activities	<u>(\$300,937)</u>	<u>\$269,312</u>	<u>(\$73,695)</u>	<u>(\$105,320)</u>	<u>(123,601)</u>

Schedule of Noncash Investing, Capital and Financing Activities:

As of December 31, 2004, the Water and Sewer Funds had outstanding liabilities of \$13,084 and \$343,797, respectively, for the purchase of certain capital assets.  
During 2004 the fair value of investments decreased by \$718 and \$1,219 in the Water and Sewer Funds respectively.

**CITY OF SYLVANIA, OHIO**

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***Statement of Net Assets  
Fiduciary Fund  
December 31, 2004***

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	<u>Agency</u>
<b>Assets:</b>	
Cash and Cash Equivalents	\$ 75,486
<b>Total Assets</b>	<u>75,486</u>
<b>Liabilities:</b>	
Due to Others	<u>75,486</u>
<b>Total Liabilities</b>	<u>75,486</u>
<b>Net Assets:</b>	
Unrestricted	<u>0</u>
<b>Total Net Assets</b>	<u><u>\$ 0</u></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, 2004***

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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, 2004 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, 2004***

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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 2004 from the SAJRD was \$203,318 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, 2004*

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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.

General Obligation Debt Service Fund - This fund is used to account for the accumulation of resources for the payment of general obligation long-term debt of the City including self-supporting obligations not otherwise paid from proprietary funds.

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, 2004***

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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 an 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, 2004***

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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, 2004***

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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, 2004, but which are not intended to finance 2004 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, 2004*

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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 2004.

##### 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 supplemental appropriations increased year-end appropriations by approximately 1.2% over the appropriation ordinance approved in December, 2003. 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, 2004*

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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.

**CITY OF SYLVANIA, OHIO**

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

**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 funds:

	Net Change In Fund Balance		
	General Fund	Police Pension Fund	Income Tax Fund
GAAP Basis (as reported)	(\$282,774)	\$63,188	(\$303,121)
Increase (Decrease):			
Accrued Revenues at December 31, 2004 received during 2005	(504,243)	0	(475,554)
Accrued Revenues at December 31, 2003 received during 2004	763,923	1,510	608,536
Accrued Expenditures at December 31, 2004 paid during 2005	392,892	94,583	17,551
Accrued Expenditures at December 31, 2003 paid during 2004	(422,305)	(89,142)	(10,489)
2003 Prepays for 2004	52,220	0	0
2004 Prepays for 2005	(56,952)	0	(2,371)
Outstanding Encumbrances	(129,267)	0	(4,575)
Budget Basis	(\$186,506)	\$70,139	(\$170,023)

**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 considered an investment for purposes of GASB Statement No. 3, but it 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, 2004***

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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 2004, investments were limited to 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 2004. 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, 2004.

##### **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.

# CITY OF SYLVANIA, OHIO

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

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

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

##### 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.

##### 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, 2004***

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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, 2004***

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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 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 or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or 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.

##### **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, 2004***

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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 2004.

#### **NOTE 2 – RESTATEMENT OF FUND BALANCES**

***Prior Period Adjustments*** - During 2004, the City increased the capitalization level for its capital assets. As a result, the proprietary funds' beginning balances were restated as well as the beginning balance for the governmental activities' capital assets. This change in the capitalization level had the following effect on fund balances:

	Water Fund	Sewer Fund	Resource Recovery Fund	Total
Net Assets at December 31, 2003 as reported	\$8,155,506	\$15,840,323	\$123,150	\$24,118,979
Restate Capital Assets	430,034	124,229	0	554,263
Net Assets at December 31, 2003 as restated	<u>\$8,585,540</u>	<u>\$15,964,552</u>	<u>\$123,150</u>	<u>\$24,673,242</u>

**CITY OF SYLVANIA, OHIO**

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

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**NOTE 2 – RESTATEMENT OF FUND BALANCES (Continued)**

The changes to the beginning fund balances had the following effect on the governmental activities and the business-type activities beginning net assets:

	Governmental Activities	Business Type Activities
Net Assets December 31, 2003 as reported	\$51,886,577	\$24,126,314
Adjustments:		
Effect change had on internal service fund distribution	1,484	(1,484)
Restate Capital Assets	(572,847)	554,263
Net Assets December 31, 2003 as restated	<u>\$51,315,214</u>	<u>\$24,679,093</u>

**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	\$197,345
Delinquent Property Tax Revenue	80,634
Shared Revenues	1,470,620
Interest Revenues	40,081
Special Assessment Revenue	307,977
	<u>\$2,096,657</u>

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

General Obligation Bonds Payable	(\$14,022,420)
Special Assessment Bonds Payable	(89,580)
OPWC Loans Payable	(86,833)
Promissory Notes Payable	(388,105)
Capital Leases	(32,400)
Accrued Interest on Long-Term Debt	(57,037)
Compensated Absences Payable	(1,391,863)
	<u>(\$16,068,238)</u>

**CITY OF SYLVANIA, OHIO**

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

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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	\$2,433,172
Depreciation Expense	(1,169,711)
	<u>\$1,263,461</u>

*Governmental revenues not reported in the funds:*

Increase in Delinquent Income Tax Revenue	\$34,590
Increase in Delinquent Property Tax	12,323
Decrease in Shared Revenue	(325,978)
Increase in Interest Revenue	8,592
Decrease in Special Assessment Revenue	(54,044)
	<u>(\$324,517)</u>

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

Increase in Compensated Absences Payable	(\$54,513)
Increase in supplies inventory	33,635
	<u>(\$20,878)</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, 2004***

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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, 2004*

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

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial institution collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

##### *Deposits:*

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

##### *Investments:*

- Category 1 Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the City's name.

#### **A. Deposits**

At year end the carrying amount of the City's deposits was \$8,996,564 and the bank balance was \$9,237,073. The Federal Deposit Insurance Corporation (FDIC) covered \$500,000 of the bank balance. All remaining deposits were classified as Category 2. In addition, the City had \$2,150 cash on hand.

**CITY OF SYLVANIA, OHIO**

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

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

**B. Investments**

The City's investments at December 31, 2004 are summarized below:

<u>Categorized Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
United States Treasury Notes	\$0	\$15,355,190	\$0	\$15,336,791	\$15,336,791
Sylvania Township Notes	1,055,000	0	0	1,055,000	1,055,000
<b>Total Categorized Investments</b>	<b>1,055,000</b>	<b>15,355,190</b>	<b>0</b>	<b>16,391,791</b>	<b>16,391,791</b>
<u>Non-Categorized Investments</u>					
STAR Ohio	0	0	6,084,045	6,084,045	6,084,045
Toledo Community Foundation, Inc. (mutual fund)	0	0	19,447	32,733	32,733
<b>Total Non-Categorized Investments</b>	<b>0</b>	<b>0</b>	<b>6,103,492</b>	<b>6,116,778</b>	<b>6,116,778</b>
<b>Total Investments</b>	<b>\$1,055,000</b>	<b>\$15,355,190</b>	<b>\$6,103,492</b>	<b>\$22,508,569</b>	<b>\$22,508,569</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.

**C. Reconciliation of Cash, Cash Equivalents and Investments**

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Combined Balance Sheet	\$8,613,342	\$22,891,791
Certificates of Deposit (with maturities of more than 3 months)	6,500,000	(6,500,000)
Investments:		
STAR Ohio	(6,084,045)	6,084,045
Toledo Community Foundation, Inc.	(32,733)	32,733
Per GASB Statement No. 3	<u>\$8,996,564</u>	<u>\$22,508,569</u>

\* Includes Restricted Cash and Cash Equivalents and Petty Cash

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

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

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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 2004 were levied after October 1, 2003 on assessed values as of January 1, 2003, 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 2000 and the equalization adjustment was completed in 2003. 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, 2004 was \$5.10 per \$1,000 of assessed value. The assessed value upon which the 2004 receipts were based was \$428,836,728. This amount constitutes \$406,028,410 in real property assessed value, \$5,957,640 in public utility assessed value and \$16,850,678 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, 2004**

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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, 2004 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 2004:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Activities:		
General Fund	\$3,199,956	\$320,117
Income Tax Fund	0	4,109,000
Capital Improvement Fund	3,000,007	2,912,093
Other Governmental Funds	1,571,292	364,175
Total Governmental Transfers	<u>7,771,255</u>	<u>7,705,385</u>
Business Type Activities:		
Water Fund	0	148,655
Sewer Fund	0	176,655
Resource Recovery Fund	69,775	0
Governmental Activities -		
Internal Service Fund	189,665	0
Total Business Type Transfers	<u>259,440</u>	<u>325,310</u>
Totals	<u><u>\$8,030,695</u></u>	<u><u>\$8,030,695</u></u>

**CITY OF SYLVANIA, OHIO**

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

**NOTE 8 - CAPITAL ASSETS**

**A. Governmental Activities Capital Assets**

Summary by category of changes in governmental activities capital assets at December 31, 2004:

<i>Historical Cost:</i>	Restated December 31, 2003	Additions	Deletions	December 31, 2004
Class				
<i>Capital assets not being depreciated:</i>				
Land	\$8,375,404	\$206,788	\$0	\$8,582,192
<i>Capital assets being depreciated:</i>				
Land Improvements	83,953	35,240	0	119,193
Buildings	16,543,048	352,830	0	16,895,878
Improvements Other than Buildings	0	6,403	0	6,403
Machinery and Equipment	4,297,895	692,889	(10,546)	4,980,238
Infrastructure	17,354,472	1,144,260	(214,643)	18,284,089
Total Cost	<u>\$46,654,772</u>	<u>\$2,438,410</u>	<u>(\$225,189)</u>	<u>\$48,867,993</u>
 <i>Accumulated Depreciation:</i>				
Class	Restated December 31, 2003	Additions	Deletions	December 31, 2004
Land Improvements	(\$26,781)	(\$6,178)	\$0	(\$32,959)
Buildings	(4,466,973)	(382,740)	0	(4,849,713)
Improvements Other than Buildings	0	(160)	0	(160)
Machinery and Equipment	(2,594,872)	(423,858)	7,644	(3,011,086)
Infrastructure	(7,519,609)	(362,662)	156,060	(7,726,211)
Total Depreciation	<u>(\$14,608,235)</u>	<u>(\$1,175,598) *</u>	<u>\$163,704</u>	<u>(\$15,620,129)</u>
<i>Net Value:</i>	<u>\$32,046,537</u>			<u>\$33,247,864</u>

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

Security of Persons and Property	\$107,875
Public Health and Welfare Services	144
Leisure Time Activities	320,579
Community Environment	6,890
Transportation	548,775
General Government	191,335
Total Depreciation Expense	<u>\$1,175,598</u>

**CITY OF SYLVANIA, OHIO**

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

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

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

Summary by Category at December 31, 2004:

<i>Historical Cost:</i>	Restated December 31, 2003	Additions	Deletions	December 31, 2004
Class				
<i>Capital assets not being depreciated:</i>				
Land	\$18,440	\$0	\$0	\$18,440
Construction in Progress	226,022	0	(226,022)	0
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	567,052	0	0	567,052
Improvements Other Than Buildings	33,288,474	607,460	0	33,895,934
Machinery and Equipment	1,513,853	95,184	(5,654)	1,603,383
Total Cost	<u>\$35,613,841</u>	<u>\$702,644</u>	<u>(\$231,676)</u>	<u>\$36,084,809</u>
 <i>Accumulated Depreciation:</i>				
Class	Restated December 31, 2003	Additions	Deletions	December 31, 2004
Buildings and Improvements	(\$377,351)	(\$12,235)	\$0	(\$389,586)
Improvements Other Than Buildings	(13,401,616)	(664,215)	0	(14,065,831)
Machinery and Equipment	(1,145,772)	(119,884)	5,133	(1,260,523)
Total Depreciation	<u>(\$14,924,739)</u>	<u>(\$796,334)</u>	<u>\$5,133</u>	<u>(\$15,715,940)</u>
 <i>Net Value:</i>	 <u>\$20,689,102</u>			 <u>\$20,368,869</u>

**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 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

## **CITY OF SYLVANIA, OHIO**

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

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

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

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. 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 2004, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2004 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, 2004, 2003 and 2002 were \$612,976, \$597,104, and \$568,570, 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 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 2004 employer contribution rate (identified above) that was used to fund health care for the year 2004 was 4.0% of covered payroll which amounted to \$180,952.

## *CITY OF SYLVANIA, OHIO*

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

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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, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of 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 2003 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 was 369,885. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2003 is \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

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

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

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

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

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

##### **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.

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, 2004, 2003 and 2002 were \$404,942, \$379,106, and \$373,543, 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 2004 covered payroll that was used to fund postemployment health care benefits was \$160,938 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, 2003, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,662 for police and 10,474 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, 2003 were \$150,853,148, which was net of member contributions of \$17,207,506.

***CITY OF SYLVANIA, OHIO***

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

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**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, 2004, the City's accumulated, unpaid compensated absences amounted to \$1,749,025, of which \$1,464,096 is recorded as a liability of the Governmental Activities and \$284,929 is recorded as a liability of the Business-Type Activities.

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# CITY OF SYLVANIA, OHIO

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

### NOTE 11 - LONG-TERM DEBT

Long-term debt and other long-term obligations of the City at December 31, 2004 were as follows:

		Balance December 31, 2003	Additions	(Reductions)	Balance December 31, 2004	Amount Due Within One Year
<b>Governmental Activities:</b>						
Ohio Public Works Commission Loans:						
0.000% Monroe/Erie Street Improvements	1996	\$42,000	\$0	(\$14,000)	\$28,000	\$14,000
0.000% Brint Road Extension	1997	78,445	0	(19,612)	58,833	19,612
Total Ohio Public Works Commission Loans		120,445	0	(33,612)	86,833	33,612
General Obligation Bonds:						
7.000% Maintenance Building Bonds	1986	280,000	0	(35,000)	245,000	35,000
7.000% Recreational Facilities	1986	200,000	0	(25,000)	175,000	25,000
6.400% Capital Improvement	1987	28,560	0	(7,140)	21,420	7,140
6.375% Harroun Road Improvement	1987	160,000	0	(40,000)	120,000	40,000
5.304% Recreational Facility	1993	1,250,000	0	(95,000)	1,155,000	100,000
6.850% Street Improvement	1994	46,800	0	(46,800)	0	0
3.8-4.0% Municipal Building Improvement Recreational Facilities	1997	1,485,000	0	(200,000)	1,285,000	210,000
4.25-5.0% Street Improvement	1998	2,028,750	0	(132,750)	1,896,000	137,750
3.0-5.05% Senior Center/Field House	2002	3,970,000	0	(145,000)	3,825,000	150,000
3.5-4.55% Street Improvement	2004	0	5,300,000	0	5,300,000	205,000
Total General Obligation Bonds		9,449,110	5,300,000	(726,690)	14,022,420	909,890
Special Assessment Bonds:						
(with governmental commitment)						
6.400% Capital Improvement	1987	27,440	0	(6,860)	20,580	6,860
6.850% Street Improvement	1994	13,200	0	(13,200)	0	0
4.25-5.0% Street Improvement	1998	86,250	0	(17,250)	69,000	17,250
Total Special Assessment Bonds (with governmental commitment)		126,890	0	(37,310)	89,580	24,110
Long-Term Note:						
1.400% Street Improvement		1,250,000	0	(1,250,000)	0	0
Promissory Notes Payable:						
6.500% Howard Property	1995	411,812	0	(23,707)	388,105	25,248
Compensated Absences		1,402,955	1,464,096	(1,402,955)	1,464,096	122,970
Capital Lease		0	48,600	(16,200)	32,400	16,200
Total Governmental Activities Long-Term Debt		\$12,761,212	\$6,812,696	(\$3,490,474)	\$16,083,434	\$1,132,030
<b>Business-Type Activities:</b>						
Compensated Absences		\$279,273	\$284,929	(\$279,273)	\$284,929	\$24,240
Total Business-Type Long-Term Debt		\$279,273	\$284,929	(\$279,273)	\$284,929	\$24,240

The principal amount of the City's special assessment debt outstanding at December 31, 2004, \$89,580, 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 \$17,578 in the Special Assessment Debt Service Fund at December 31, 2004 is reserved for the retirement of outstanding special assessment bonds. Delinquent special assessments at year-end were \$17,715.

**CITY OF SYLVANIA, OHIO**

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

**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, 2004, follows:

Years	General Obligation Bonds		Special Assessment Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$909,890	\$639,651	\$24,110	\$4,288	\$16,200	\$903
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
2010-2014	3,660,000	1,780,180	0	0	0	0
2015-2019	3,185,000	1,024,865	0	0	0	0
2020-2024	2,560,000	322,751	0	0	0	0
Totals	<u>\$14,022,420</u>	<u>\$5,910,094</u>	<u>\$89,580</u>	<u>\$10,102</u>	<u>\$32,400</u>	<u>\$1,806</u>

Years	OPWC Loans Payable		Promissory Notes Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$33,612	\$0	\$25,248	\$25,227	\$1,009,060	\$670,069
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
2010-2014	0	0	196,956	55,419	3,856,956	1,835,599
2015-2019	0	0	47,395	3,081	3,232,395	1,027,946
2020-2024	0	0	0	0	2,560,000	322,751
Totals	<u>\$86,833</u>	<u>\$0</u>	<u>\$388,105</u>	<u>\$167,121</u>	<u>\$14,619,338</u>	<u>\$6,089,123</u>

**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, 2004 was \$725,000. 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, 2004*

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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 \$1,125,000 at December 31, 2004 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, 2004:

<u>Year Ending December 31,</u>	<u>Capital Lease</u>
2005	\$17,103
2006	17,103
Minimum Lease Payments	34,206
Less amount representing interest at the City's incremental borrowing rate of interest	<u>(1,806)</u>
Present value of minimum lease payments	<u><u>\$32,400</u></u>

**CITY OF SYLVANIA, OHIO**

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

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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 did not exceed the commercial coverage limits during 2004.

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 \$1,217,531. The claims liability of \$0 reported in the Self Insurance Fund at December 31, 2004 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 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year End</u>
2004	\$0	\$1,155,649	(\$1,155,649)	\$0

## **CITY OF SYLVANIA, OHIO**

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

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

As of December 31, 2004, 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>
Erie Street Improvements	\$1,713	January 2005
Storm Water Management Program	9,047	December 2005
Long / Franklin Street Improvements	6,687	January 2005
South Main Street Bridge	97,467	June 2006
Sleepy Hollow Improvement	42,274	February 2005
Pavement Replacement Project	90,420	April 2005
Silica Drive Project	1,542	March 2005
Monroe Corridor Traffic Signals	293,686	June 2005
Total	<u><u>\$542,836</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.

#### **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, 2004, 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 2004-001.

One Government Center / Room 1420 / Toledo, OH 43604-2246  
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[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 2004-001, 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, 2004

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

<b>Finding Number</b>	2004-001
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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, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Ohio Revised Code § 5705.41(D)(1)	Yes	Fully corrected and removed.