



**Auditor of State
Betty Montgomery**

**CITY OF NEW PHILADELPHIA
TUSCARAWAS COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of New Philadelphia
Tuscarawas County
150 East High Avenue
Suite 19
New Philadelphia, Ohio 44663

To the Honorable Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of New Philadelphia, Tuscarawas 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.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of New Philadelphia, Tuscarawas 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 Fund, Street Maintenance and Repair Fund and Sanitation Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City implemented Governmental Accounting Standards Board Technical Bulletin No. 2004-2. In addition, in the prior year the liability for compensated absences was calculated incorrectly, the Ohio Public Works Fund was incorrectly classified as a capital projects governmental fund rather than an enterprise fund and income taxes receivable were incorrectly calculated which resulted in the restatement of the Major General Fund, Major Sanitation Fund, Major Water Fund, Major Sewer Fund, certain other governmental funds, Governmental Activities and Business-Type Activities beginning balances/net assets as of January 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 17, 2006

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

The discussion and analysis of the City of New Philadelphia'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 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:

- General Revenues accounted for \$7.7 million in revenue or 48% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$8.2 million or 52% of total revenues of \$15.9 million.
- Total program expenses were \$14.7 million, \$10.8 million in governmental activities and \$3.9 million in business-type activities.
- In total, net assets increased \$1.17 million. Net assets of governmental activities increased \$.25 million, which represents a 1% increase from 2003. Net assets of business-type activities increased \$.92 million or 7.3% from 2003.
- Outstanding debt increased from \$14.99 million to \$15.03 million through the issuance of new debt.

Using this Annual Financial Report

This report is designed to allow the reader to look at the financial activities of the City of New Philadelphia as a whole and is intended to allow the reader to obtain a summary view or a more detailed view of the City operations, as they prefer.

The Statement of Net Assets and the Statement of Changes in Net Assets provide information from a summary perspective showing the effects of the operations for the year 2004 and how they affected the operations of the City as a whole.

Reporting the City of New Philadelphia as a Whole

Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column. In the case of New Philadelphia, the general fund and the sanitation funds are the most significant governmental funds. The water and sewer funds are the significant enterprise funds.

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

A question typically asked about the City's finances "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the City as a whole, the *financial position* of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two distinct kinds of activities:

- ✓ Governmental Activities - Most of the City's programs and services are reported here, including general government, security of persons and property, community environment, leisure time activities and transportation.
- ✓ 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 and sewer funds are reported as business-type activities.

Reporting the City of New Philadelphia's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been safeguarded for specific activities or objectives. The City uses many funds to account for financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund, street maintenance and repair fund, and sanitation fund.

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 educational programs. 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.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, sanitation and master capital funds, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

The City adopts an annual appropriated budget for each of its funds. A budgetary comparison statement has been provided for the general fund and each major special revenue fund to demonstrate compliance with this budget.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities (water and sewer); 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 statements because the resources of those funds are not available to support the City's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds.

The City of New Philadelphia as a Whole

Recall that the Statement of Net Assets provides the perspective of the City as a whole.

Table 1 provides a summary of the City's net assets for 2004 compared to 2003:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	Restated 2003	2004	Restated 2003	2004	Restated 2003
Assets						
Current and Other Assets	\$ 8,980,300	\$ 8,912,380	\$ 3,520,478	\$ 4,195,503	\$ 12,500,778	\$ 13,107,883
Capital Assets	23,617,927	23,954,341	21,110,576	19,349,571	44,728,503	43,303,912
Total Assets	32,598,227	32,866,721	24,631,054	23,545,074	57,229,281	56,411,795
Liabilities						
Long-Term Liabilities	6,007,317	6,568,159	10,785,643	10,292,313	16,792,960	16,860,472
Other Liabilities	2,922,175	2,884,287	404,525	729,077	3,326,700	3,613,364
Total Liabilities	8,929,492	9,452,446	11,190,168	11,021,390	20,119,660	20,473,836
Net Assets						
Invested in Capital Assets Net of Debt	18,674,116	18,428,800	11,970,353	10,985,844	30,644,469	29,414,644
Restricted	2,663,878	2,128,715	0	0	2,663,878	2,128,715
Unrestricted (Deficit)	2,330,741	2,856,760	1,470,533	1,537,840	3,801,274	4,394,600
Total Net Assets	\$ 23,668,735	\$ 23,414,275	\$ 13,440,886	\$ 12,523,684	\$ 37,109,621	\$ 35,937,959

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

Total assets increased by \$.81 million with governmental assets decreasing \$.27 million and business-type assets increasing \$1.08 million. An increase of approximately \$1.4 million in total capital assets reflects improvements and additions in the Water and Sewer departments and was the majority of the increase in business-type assets. Total liabilities decreased by \$.35 million with governmental liabilities decreasing \$.52 million and business-type liabilities increasing \$.17 million. The majority of this increase was the result of loans proceeds from OWDA for projects in business-type activities.

Total net assets increased by \$1.17 million. This number reflects an increase of \$.25 million in governmental activities and an increase \$.92 million in the net assets of the business-type activities. Table 2 shows the changes in net assets for fiscal year 2004 and 2003. This will enable the reader to draw further conclusion about the City's financial status and possibly project future problems.

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	Restated		Restated		Restated	
	2004	2003	2004	2003	2004	2003
Revenues						
<i>Program Revenues:</i>						
Charges for Services	\$ 1,661,534	\$ 1,899,777	\$ 3,988,127	\$ 3,952,637	\$ 5,649,661	\$ 5,852,414
Operating Grants	1,655,273	2,108,382	354,086	85,580	2,009,359	2,193,962
Capital Grants	85,237	44,216	441,737	92,548	526,974	136,764
<i>General Revenue:</i>						
Property Taxes	2,221,574	2,230,532	0	0	2,221,574	2,230,532
Income Taxes	3,828,492	3,629,317	74	1,580	3,828,566	3,630,897
Grants and Entitlements	1,219,807	1,315,692	0	0	1,219,807	1,315,692
Investment Earnings	105,642	101,273	0	0	105,642	101,273
Other	280,878	107,893	66,801	8,378	347,679	116,271
Total Revenues	11,058,437	11,437,082	4,850,825	4,140,723	15,909,262	15,577,805
Program Expenses						
General Government	3,264,897	2,945,822	0	0	3,264,897	2,945,822
Security of Persons and Property	3,686,702	3,866,814	0	0	3,686,702	3,866,814
Transportation	1,047,542	1,424,220	0	0	1,047,542	1,424,220
Public Health Services	631,839	472,864	0	0	631,839	472,864
Community and Economic Development	221,790	329,204	0	0	221,790	329,204
Basic Utility Services	1,103,642	1,147,094	0	0	1,103,642	1,147,094
Leisure Time Activities	581,201	722,584	0	0	581,201	722,584
Interest and Fiscal Charges	266,364	266,448	0	0	266,364	266,448
<i>Enterprise Operations:</i>						
Water	0	0	2,256,586	2,100,740	2,256,586	2,100,740
Sewer	0	0	1,677,037	2,415,431	1,677,037	2,415,431
Total Program Expenses	10,803,977	11,175,050	3,933,623	4,516,171	14,737,600	15,691,221
Increase (Decrease) in Net Assets	\$ 254,460	\$ 262,032	\$ 917,202	\$ (375,448)	\$ 1,171,662	\$ (113,416)

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

Governmental Activities

The funding for the governmental activities comes from several different sources, the most significant being the municipal income tax. Other prominent sources are property taxes, grants and entitlements, and charges for services.

The City's income tax is at a rate of 1%. Both residents of the City and non-residents who work inside the City are subject to the income tax. However if residents work in a locality that has a municipal income tax, the City provides 100% credit up to 1% for those who pay income tax to another city. City Council could by Ordinance, choose to vary that income tax credit and create additional revenues for the City.

General revenues include grants and entitlements, such as local government funds. With the combination of property tax, income tax and intergovernmental funding all expenses in the governmental activities are funded. The City monitors its source of revenues very closely for fluctuations.

Police and fire represent the largest expense of the Governmental Activities. This expense of \$3,686,702 represents 34.1% of the total expenses. These two departments operate out of the General fund.

The City also maintains a cemetery (public health services) and a park (leisure time services) within the City. These areas had expenses of \$1,213,040 in 2004 equaling 11.3% of the total governmental services expenses.

Business-Type Activities

Business-type activities include water and sewer operations. The revenues are generated primarily from charges for services. In 2004, charges for services of \$3,988,127 accounted for 82% of the business-type revenues. The total expenses for the utilities were \$3,933,623, thus leaving an increase in net assets of \$917,202 for the business-type activities.

The City's Funds

Information about the City's governmental funds begins on page 13. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$10,916,572 and expenditures of \$11,043,787. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 20. These funds are accounted for on an accrual basis. All business-type funds had operating expenses of \$3,863,921 which was less than operating revenues of \$4,054,928, by \$191,007 or 4.7% of operating revenues.

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

General Fund Budgeting Highlights

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 2004, the City amended its general fund budget on various occasions. All recommendations for appropriation changes come to Council from the City Auditor. The Finance Committee of Council reviews them, and they make their recommendation to the Council as a whole.

For the general fund, budget basis revenue was \$5.4 million, under the original budget estimates of \$5.8 million. Of this approximate \$400,000 shortfall, most was attributable to decreased intergovernmental revenue and revenue from fines and forfeitures.

Final appropriations of \$5.8 million, were \$100,000 lower than the \$5.9 million in the original budget.

Capital Assets and Debt Administration

Capital Assets

At the end of year 2004, the City had \$44.7 million invested in land, buildings, equipment, infrastructure and vehicles. A total of \$23.6 million of this was for governmental activities with the remainder attributable to business-type activities. Table 3 shows fiscal year 2004 balances compared with 2003.

(Table 3)
Capital Assets at December 31
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 826,576	\$ 826,576	\$ 41,899	\$ 41,899	\$ 868,475	\$ 868,475
Buildings and Building Improvements	4,746,002	4,909,732	5,670,375	5,899,353	10,416,377	10,809,085
Improvements Other Than Buildings	3,090,483	2,803,378	6,284,412	691,383	9,374,895	3,494,761
Machinery and Equipment	1,023,655	1,107,290	786,423	884,917	1,810,078	1,992,207
Furniture and Fixtures	34,949	39,787	1,028	1,028	35,977	40,815
Vehicles	971,402	1,104,592	114,325	144,307	1,085,727	1,248,899
Construction in Progress	0	0	231,339	3,859,707	231,339	3,859,707
Infrastructure	12,924,860	13,162,986	0	0	12,924,860	13,162,986
Water Lines	0	0	5,924,051	5,885,942	5,924,051	5,885,942
Sewer Lines	0	0	2,056,724	1,941,035	2,056,724	1,941,035
Totals	\$ 23,617,927	\$ 23,954,341	\$ 21,110,576	\$ 19,349,571	\$ 44,728,503	\$ 43,303,912

The \$1,424,591 increase in capital assets was attributable to additional purchases exceeding depreciation expense. Note 9 provides capital asset activity during the 2004 year.

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

Debt

The outstanding debt for the City of New Philadelphia as of December 31, 2004 was \$15,033,621 with \$1,061,079 due within one year. Table 4 summarizes outstanding debt.

(Table 4)
Outstanding Debt, at December 31

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Police and Fire Pension	\$ 164,200	\$ 166,801	\$ 0	\$ 0	\$ 164,200	\$ 166,801
General Obligation Bonds	3,918,472	4,367,811	0	0	3,918,472	4,367,811
Special Assessment Bonds	196,528	237,189	0	0	196,528	237,189
ODOT Loan	192,250	192,250	0	0	192,250	192,250
Tractor Loan	11,123	16,685	0	0	11,123	16,685
OPWC Loans	0	0	428,426	320,296	428,426	320,296
OWDA Loans	0	0	10,122,622	9,689,231	10,122,622	9,689,231
<i>Total</i>	<u>\$ 4,482,573</u>	<u>\$ 4,980,736</u>	<u>\$ 10,551,048</u>	<u>\$ 10,009,527</u>	<u>\$ 15,033,621</u>	<u>\$ 14,990,263</u>

The general obligation bonds are composed of city improvement bonds, park improvement bonds and downtown improvement bonds.

The special assessment bonds consist of various construction projects, various sidewalk improvements, and various other improvements. The principal and interest for these bonds are paid from the collection of special assessments by the County Auditor from the specific property owners who primarily benefited from the projects.

Additional information concerning the City's debt can be found in Note 15 to the basic financial statements.

Current Financial Issues

The City Council of the City of New Philadelphia rezoned more than 170 acres of residential land to industrial land in November 2003. This set the groundwork needed to develop an industrial high-tech park that will be located near the regional campus of Kent State University. Extension of the City utilities to the new area is in the planning and design stages. In 2004, the City secured funding for this project through state and federal grants.

An \$11 million project to upgrade the City's wastewater treatment plan was completed in August of 2004. This project was designed to increase plant capacity by 50% and make other improvements, including treatment efficiency and a decrease in process odors.

At the end of 2004, a clearwell, installed near the City's water treatment plant, was nearly completed. This clearwell adds an extra one million gallons of potable water to the City's water supply.

City of New Philadelphia
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

Current Financial Issues (continued)

The plans for the future are always made keeping a careful watch on the financial condition of the City. The City of New Philadelphia is financially strong. It is the goal to keep it that way and still grow and meet the needs of the future. The City showed its strength in 2004 by continuing to provide services to the citizens at its highest level.

Contacting the City's Finance Department

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 any questions about this report or need additional financial information, contact Beth Gundy, Auditor of New Philadelphia, Ohio, 150 East High Ave., Suite 19 or bgundy@newphilaoh.com.

City of New Philadelphia

Statement of Net Assets

December 31, 2004

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 3,180,507	\$ 2,590,021	\$ 5,770,528
Materials and Supplies Inventory	186,907	310,606	497,513
Accounts Receivable	227,526	619,823	847,349
Intergovernmental Receivable	1,667,804	0	1,667,804
Taxes Receivable	3,475,796	28	3,475,824
Loans Receivable	6,092	0	6,092
Special Assessments Receivable	235,668	0	235,668
Non-Depreciable Capital Assets	826,576	273,238	1,099,814
Depreciable Capital Assets, net	22,791,351	20,837,338	43,628,689
<i>Total Assets</i>	<u>32,598,227</u>	<u>24,631,054</u>	<u>57,229,281</u>
Liabilities			
Accounts Payable	87,242	51,323	138,565
Accrued Wages	189,320	50,182	239,502
Contracts Payable	70,434	206,829	277,263
Intergovernmental Payable	331,963	73,432	405,395
Accrued Interest Payable	17,000	22,759	39,759
Deferred Revenue	2,214,166	0	2,214,166
Matured Compensated Absences Payable	12,050	0	12,050
Long-Term Liabilities:			
Due Within One Year	792,345	627,268	1,419,613
Due in More Than One Year	5,214,972	10,158,375	15,373,347
<i>Total Liabilities</i>	<u>8,929,492</u>	<u>11,190,168</u>	<u>20,119,660</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	18,674,116	11,970,353	30,644,469
Restricted for Debt Service	655,376	0	655,376
Restricted for Capital Outlay	302,892	0	302,892
Restricted for Other Purposes	1,705,610	0	1,705,610
Unrestricted	2,330,741	1,470,533	3,801,274
<i>Total Net Assets</i>	<u>\$ 23,668,735</u>	<u>\$ 13,440,886</u>	<u>\$ 37,109,621</u>

See accompanying notes and accountant's report.

City of New Philadelphia
Statement of Activities
For the Year Ended December 31, 2004

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 3,264,897	\$ 925,221	\$ 61,056	\$ 60,237	\$ (2,218,383)	\$ 0	\$ (2,218,383)
Security of Persons and Property	3,686,702	263,213	57,348	0	(3,366,141)	0	(3,366,141)
Public Health	631,839	214,340	166,546	0	(250,953)	0	(250,953)
Leisure Time Services	581,201	20,424	3,851	0	(556,926)	0	(556,926)
Community and Economic Development	221,790	112,415	496,530	25,000	412,155	0	412,155
Basic Utility Services	1,103,642	45,908	94,375	0	(963,359)	0	(963,359)
Transportation	1,047,542	80,013	775,567	0	(191,962)	0	(191,962)
Interest and Fiscal Charges	266,364	0	0	0	(266,364)	0	(266,364)
<i>Total Governmental Activities</i>	<u>10,803,977</u>	<u>1,661,534</u>	<u>1,655,273</u>	<u>85,237</u>	<u>(7,401,933)</u>	<u>0</u>	<u>(7,401,933)</u>
Business-Type Activities							
Water	2,256,586	2,142,663	325,973	271,857	0	483,907	483,907
Sewer	1,677,037	1,845,464	28,113	169,880	0	366,420	366,420
<i>Total Business-Type Activities</i>	<u>3,933,623</u>	<u>3,988,127</u>	<u>354,086</u>	<u>441,737</u>	<u>0</u>	<u>850,327</u>	<u>850,327</u>
<i>Total - Primary Government</i>	<u>\$ 14,737,600</u>	<u>\$ 5,649,661</u>	<u>\$ 2,009,359</u>	<u>\$ 526,974</u>	<u>\$ (7,401,933)</u>	<u>\$ 850,327</u>	<u>\$ (6,551,606)</u>
General Revenues							
Property Taxes Levied for:							
General Purposes					1,030,610	0	1,030,610
Other Purposes					1,190,964	0	1,190,964
Income Taxes Levied for:							
General Purposes					2,536,008	0	2,536,008
Other Purposes					1,292,484	74	1,292,558
Grants and Entitlements not Restricted to Specific Programs							
Unrestricted Contributions					1,219,807	0	1,219,807
Investment Earnings					33,322	0	33,322
Miscellaneous					105,642	0	105,642
					247,556	66,801	314,357
<i>Total General Revenues</i>					<u>7,656,393</u>	<u>66,875</u>	<u>7,723,268</u>
<i>Change in Net Assets</i>					254,460	917,202	1,171,662
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>					<u>23,414,275</u>	<u>12,523,684</u>	<u>35,937,959</u>
<i>Net Assets End of Year</i>					<u>\$ 23,668,735</u>	<u>\$ 13,440,886</u>	<u>\$ 37,109,621</u>

See accompanying notes and accountant's report.

City of New Philadelphia

Balance Sheet

Governmental Funds

December 31, 2004

	General	Street Maintenance and Repair	Sanitation	All Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and					
Cash Equivalents	\$ 599,426	\$ 126,296	\$ 165,142	\$ 2,289,643	\$ 3,180,507
Materials and Supplies Inventory	35,842	148,656	2,409	0	186,907
Accounts Receivable	54,082	0	265	173,179	227,526
Intergovernmental Receivable	663,564	296,797	42,116	665,327	1,667,804
Taxes Receivable	1,814,260	112,134	835,668	713,734	3,475,796
Loans Receivable	0	0	0	6,092	6,092
Special Assessments Receivable	0	0	0	235,668	235,668
<i>Total Assets</i>	<u>\$ 3,167,174</u>	<u>\$ 683,883</u>	<u>\$ 1,045,600</u>	<u>\$ 4,083,643</u>	<u>\$ 8,980,300</u>
Liabilities					
Accounts Payable	12,548	26,921	29,063	18,710	87,242
Accrued Wages	144,009	23,411	16,259	5,641	189,320
Contracts Payable	4,183	0	0	66,251	70,434
Intergovernmental Payable	267,126	31,683	23,815	9,339	331,963
Deferred Revenue	1,669,600	213,141	877,784	1,330,886	4,091,411
Matured Compensated Absences Payable	10,739	1,163	148	0	12,050
<i>Total Liabilities</i>	<u>2,108,205</u>	<u>296,319</u>	<u>947,069</u>	<u>1,430,827</u>	<u>4,782,420</u>
Fund Balances					
Reserved for Encumbrances	37,023	14,859	8,869	27,233	87,984
Reserved for Inventory	35,842	148,656	2,409	0	186,907
Reserved for Unclaimed Monies	18,557	0	0	0	18,557
Reserved for Loans Receivable	0	0	0	6,092	6,092
Unreserved, Undesignated, Reported in:					
General Fund	967,547	0	0	0	967,547
Special Revenue Funds	0	224,049	87,253	1,728,848	2,040,150
Debt Service Funds	0	0	0	344,322	344,322
Capital Projects Funds	0	0	0	220,954	220,954
Permanent Funds	0	0	0	325,367	325,367
<i>Total Fund Balances</i>	<u>1,058,969</u>	<u>387,564</u>	<u>98,531</u>	<u>2,652,816</u>	<u>4,197,880</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,167,174</u>	<u>\$ 683,883</u>	<u>\$ 1,045,600</u>	<u>\$ 4,083,643</u>	<u>\$ 8,980,300</u>

See accompanying notes and accountant's report.

City of New Philadelphia
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2004*

Total Governmental Fund Balances		\$ 4,197,880
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		23,617,927
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:		
Delinquent Property Taxes	145,672	
Income Taxes	331,353	
Intergovernmental	1,126,388	
Charges for Services	38,164	
Special Assessments	<u>235,668</u>	
Total		1,877,245
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(17,000)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	(3,918,472)	
Special Assessment Bonds	(196,528)	
Tractor Loan	(11,123)	
ODOT Loan	(192,250)	
Capital Leases	(625,438)	
Police and Fire Pension	(164,200)	
Compensated Absences	<u>(899,306)</u>	
Total		<u>(6,007,317)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$ 23,668,735</u></u>

See accompanying notes and accountant's report.

City of New Philadelphia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Street Maintenance and Repair	Sanitation	All Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$ 1,030,989	\$ -	\$ 817,444	\$ 374,273	\$ 2,222,706
Income Taxes	2,537,649	450,482	0	863,438	3,851,569
Special Assessments	0	0	0	60,474	60,474
Charges for Services	54,250	47,265	45,908	445,656	593,079
Licenses and Permits	18,543	0	0	103,512	122,055
Fines and Forfeitures	382,621	0	0	520,487	903,108
Intergovernmental	1,185,869	604,720	93,894	625,319	2,509,802
Interest	88,030	1,215	0	16,397	105,642
Rent	39,114	0	0	32,748	71,862
Contributions and Donations	33,322	0	0	195,397	228,719
Other	180,356	556	265	66,379	247,556
<i>Total Revenues</i>	<u>5,550,743</u>	<u>1,104,238</u>	<u>957,511</u>	<u>3,304,080</u>	<u>10,916,572</u>
Expenditures					
General Government	1,594,130	0	0	1,054,489	2,648,619
Security of Persons and Property	2,848,803	0	0	718,084	3,566,887
Public Health	203,375	0	0	317,838	521,213
Leisure Time Services	517,441	0	0	1,037	518,478
Community and Economic Development	0	0	0	221,790	221,790
Basic Utility Services	0	0	1,035,315	0	1,035,315
Transportation	32,014	777,183	0	138,775	947,972
Capital Outlay	56,458	229,002	0	464,358	749,818
Debt Service:					
Principal Retirement	10,806	5,562	0	567,963	584,331
Interest and Fiscal Charges	9,074	0	0	240,290	249,364
<i>Total Expenditures</i>	<u>5,272,101</u>	<u>1,011,747</u>	<u>1,035,315</u>	<u>3,724,624</u>	<u>11,043,787</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>278,642</u>	<u>92,491</u>	<u>(77,804)</u>	<u>(420,544)</u>	<u>(127,215)</u>
Other Financing Sources (Uses)					
Transfers In	0	0	0	268,695	268,695
Transfers Out	(18,695)	0	0	(250,000)	(268,695)
<i>Total Other Financing Sources (Uses)</i>	<u>(18,695)</u>	<u>0</u>	<u>0</u>	<u>18,695</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	259,947	92,491	(77,804)	(401,849)	(127,215)
<i>Fund Balance Beginning of Year - Restated (See note 3)</i>	794,974	263,821	178,583	3,054,665	4,292,043
Increase (Decrease) in Reserve for Inventory	4,048	31,252	(2,248)	0	33,052
<i>Fund Balance End of Year</i>	<u>\$ 1,058,969</u>	<u>\$ 387,564</u>	<u>\$ 98,531</u>	<u>\$ 2,652,816</u>	<u>\$ 4,197,880</u>

See accompanying notes and accountant's report.

City of New Philadelphia
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
December 31, 2004*

Net Change in Fund Balances - Total Governmental Funds	\$	(127,215)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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 outlays exceeded depreciation in the current period.		
Capital Asset Additions		988,578
Current Year Depreciation		<u>(1,170,771)</u>
Total		(182,193)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(154,221)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent Property Taxes		(1,132)
Income Tax		(23,077)
Intergovernmental		255,118
Charges for Services		(29,240)
Special Assessments		<u>(60,474)</u>
Total		141,195
Repayment of bond principal, capital lease payments and loans are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		584,331
In the statement of activities, interest in accrued on outstanding bonds, whereas in governmental funds, and interest expenditure is reported when due.		
		(17,000)
Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences		(23,489)
Change in Inventory		<u>33,052</u>
Total		<u>9,563</u>
<i>Change in Net Assets of Governmental Activities</i>	\$	<u><u>254,460</u></u>

See accompanying notes and accountant's report.

City of New Philadelphia
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$ 924,613	\$ 1,060,237	\$ 1,030,989	\$ (29,248)
Income Taxes	2,482,183	2,465,000	2,445,984	(19,016)
Charges for Services	123,100	57,100	54,250	(2,850)
Licenses and Permits	13,500	20,000	18,543	(1,457)
Fines and Forfeitures	614,000	462,790	387,109	(75,681)
Intergovernmental	1,267,863	1,139,955	1,113,340	(26,615)
Interest	100,000	100,000	88,030	(11,970)
Rent	60,000	45,000	39,075	(5,925)
Contributions and Donations	39,600	34,230	33,322	(908)
Other	203,241	163,250	152,184	(11,066)
<i>Total Revenues</i>	<u>5,828,100</u>	<u>5,547,562</u>	<u>5,362,826</u>	<u>(184,736)</u>
Expenditures				
General Government	1,972,438	1,903,504	1,634,422	269,082
Security of Persons and Property	3,023,739	2,991,007	2,855,202	135,805
Public Health	228,512	230,513	206,067	24,446
Leisure Time Services	548,894	547,936	525,145	22,791
Transportation	32,600	37,460	32,342	5,118
Capital Outlay	89,050	119,050	57,839	61,211
Debt Service:				
Principal Retirements	10,806	10,806	10,806	0
Interest and Fiscal Charges	9,074	9,074	9,074	0
<i>Total Expenditures</i>	<u>5,915,113</u>	<u>5,849,350</u>	<u>5,330,897</u>	<u>518,453</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(87,013)</u>	<u>(301,788)</u>	<u>31,929</u>	<u>333,717</u>
Other Financing Sources (Uses)				
Advances In	0	46,000	46,000	0
Transfers Out	(19,000)	(25,000)	(18,695)	(6,305)
Advances Out	(16,000)	(16,000)	(16,000)	
<i>Total Other Financing Sources (Uses)</i>	<u>(35,000)</u>	<u>5,000</u>	<u>11,305</u>	<u>(6,305)</u>
<i>Net Change in Fund Balance</i>	(122,013)	(296,788)	43,234	340,022
<i>Fund Balance Beginning of Year</i>	459,336	459,336	459,336	0
<i>Prior Year Encumbrances Appropriated</i>	44,810	44,810	44,810	0
<i>Fund Balance End of Year</i>	<u>\$ 382,133</u>	<u>\$ 207,358</u>	<u>\$ 547,380</u>	<u>\$ 340,022</u>

See accompanying notes and accountant's report.

City of New Philadelphia
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Street Maintenance and Repair Fund
For the Year Ended December 31, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Income Taxes	\$ 496,000	\$ 455,000	\$ 454,842	\$ (158)
Charges for Services	54,000	47,000	47,265	265
Licenses and Permits	46,259	6,259	0	(6,259)
Intergovernmental	493,741	626,741	629,557	2,816
Interest	0	0	1,215	1,215
Other	0	0	556	556
<i>Total Revenues</i>	<u>1,090,000</u>	<u>1,135,000</u>	<u>1,133,435</u>	<u>(1,565)</u>
Expenditures				
General Government	0	0	0	0
Security of Persons and Property	0	0	0	0
Public Health	0	0	0	0
Leisure Time Services	0	0	0	0
Transportation	1,114,555	1,114,555	1,035,386	79,169
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirements	5,000	5,000	5,562	(562)
Interest and Fiscal Charges	0	0	0	0
<i>Total Expenditures</i>	<u>1,119,555</u>	<u>1,119,555</u>	<u>1,040,948</u>	<u>78,607</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(29,555)</u>	<u>15,445</u>	<u>92,487</u>	<u>77,042</u>
Other Financing Sources (Uses)				
Transfers In	10,000	0	0	0
Transfers Out	0	0	0	0
Advances Out	0	(15,000)	(15,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>10,000</u>	<u>(15,000)</u>	<u>(15,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(19,555)	445	77,487	77,042
<i>Fund Balance Beginning of Year</i>	3,532	3,532	3,532	0
<i>Prior Year Encumbrances Appropriated</i>	<u>5,517</u>	<u>5,517</u>	<u>5,517</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ (10,506)</u>	<u>\$ 9,494</u>	<u>\$ 86,536</u>	<u>\$ 77,042</u>

See accompanying notes and accountant's report.

City of New Philadelphia
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Sanitation Fund
For the Year Ended December 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property Taxes	\$ 876,106	\$ 876,106	\$ 817,444	\$ (58,662)
Charges for Services	45,000	45,000	45,908	908
Intergovernmental	103,894	103,894	103,894	0
<i>Total Revenues</i>	<u>1,025,000</u>	<u>1,025,000</u>	<u>967,246</u>	<u>(57,754)</u>
Expenditures				
Basic Utility Services	1,091,798	1,116,880	1,083,534	33,346
<i>Total Expenditures</i>	<u>1,091,798</u>	<u>1,116,880</u>	<u>1,083,534</u>	<u>33,346</u>
<i>Net Change in Fund Balance</i>	(66,798)	(91,880)	(116,288)	(24,408)
<i>Fund Balance Beginning of Year</i>	217,922	217,922	217,922	0
<i>Prior Year Encumbrances Appropriated</i>	25,991	25,991	25,991	0
<i>Fund Balance End of Year</i>	<u>\$ 177,115</u>	<u>\$ 152,033</u>	<u>\$ 127,625</u>	<u>\$ (24,408)</u>

See accompanying notes and accountant's report.

City of New Philadelphia
Statement of Fund Net Assets
Proprietary Funds
December 31, 2004

	Enterprise Funds		
	Water	Sewer	Totals
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,233,388	\$ 1,356,633	\$ 2,590,021
Accounts Receivable	334,146	285,677	619,823
Taxes Receivable	28	0	28
Materials and Supplies Inventory	273,447	37,159	310,606
<i>Total Current Assets</i>	<u>1,841,009</u>	<u>1,679,469</u>	<u>3,520,478</u>
<i>Non-Current Assets:</i>			
Non-Depreciable Capital Assets	177,449	95,789	273,238
Depreciable Capital Assets, Net	9,158,257	11,679,081	20,837,338
<i>Total Non-Current Assets</i>	<u>9,335,706</u>	<u>11,774,870</u>	<u>21,110,576</u>
<i>Total Assets</i>	<u>11,176,715</u>	<u>13,454,339</u>	<u>24,631,054</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	31,677	19,646	51,323
Accrued Wages	28,123	22,059	50,182
Contracts Payable	54,144	152,685	206,829
Intergovernmental Payable	42,001	31,431	73,432
Accrued Interest Payable	0	22,759	22,759
Compensated Absences Payable	43,842	30,622	74,464
OPWC Loans Payable	5,000	27,500	32,500
OWDA Loans Payable	0	520,304	520,304
<i>Total Current Liabilities</i>	<u>204,787</u>	<u>827,006</u>	<u>1,031,793</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable - Net of Current Portion	100,334	59,797	160,131
OPWC Loans Payable - Net of Current Portion	20,926	375,000	395,926
OWDA Loans Payable - Net of Current Portion	0	9,602,318	9,602,318
<i>Total Long-Term Liabilities</i>	<u>121,260</u>	<u>10,037,115</u>	<u>10,158,375</u>
<i>Total Liabilities</i>	<u>326,047</u>	<u>10,864,121</u>	<u>11,190,168</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	9,309,780	2,660,573	11,970,353
Unrestricted	1,540,888	(70,355)	1,470,533
<i>Total Net Assets</i>	<u>\$ 10,850,668</u>	<u>\$ 2,590,218</u>	<u>\$ 13,440,886</u>

See accompanying notes and accountant's report.

City of New Philadelphia
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2004

	Enterprise Funds		
	Water	Sewer	Totals
Operating Revenues			
Charges for Services	\$ 2,142,663	\$ 1,845,464	\$ 3,988,127
Other	56,463	10,338	66,801
<i>Total Operating Revenues</i>	<u>2,199,126</u>	<u>1,855,802</u>	<u>4,054,928</u>
Operating Expenses			
Salaries and Wages	766,825	565,167	1,331,992
Fringe Benefits	257,356	184,067	441,423
Contractual Services	350,209	285,422	635,631
Materials and Supplies	483,508	219,800	703,308
Depreciation	398,688	352,879	751,567
<i>Total Operating Expenses</i>	<u>2,256,586</u>	<u>1,607,335</u>	<u>3,863,921</u>
<i>Operating Income (Loss)</i>	<u>(57,460)</u>	<u>248,467</u>	<u>191,007</u>
Non-Operating Revenues (Expenses)			
Intergovernmental	325,973	28,113	354,086
Municipal Income Taxes	74	0	74
Interest and Fiscal Charges	0	(69,702)	(69,702)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>326,047</u>	<u>(41,589)</u>	<u>284,458</u>
<i>Income Before Contributions</i>	268,587	206,878	475,465
Capital Contributions	271,857	169,880	441,737
<i>Change in Net Assets</i>	540,444	376,758	917,202
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<u>10,310,224</u>	<u>2,213,460</u>	<u>12,523,684</u>
<i>Net Assets End of Year</i>	<u>\$ 10,850,668</u>	<u>\$ 2,590,218</u>	<u>\$ 13,440,886</u>

See accompanying notes and accountant's report.

City of New Philadelphia
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

	Enterprise Funds		
	Water	Sewer	Totals
<i>Decrease in Cash and Cash Equivalents</i>			
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 2,122,246	\$ 1,835,900	\$ 3,958,146
Other Operating Receipts	39,556	10,338	49,894
Cash Payments to Suppliers for Goods and Services	(503,187)	(147,644)	(650,831)
Cash Payments to Employees	(1,035,219)	(751,451)	(1,786,670)
Cash Payments for Contractual Services	(341,550)	(657,600)	(999,150)
<i>Net Cash Provided by Operating Activities</i>	<u>281,846</u>	<u>289,543</u>	<u>571,389</u>
Cash Flows from Noncapital Financing Activities			
Tax Receipts	99	0	99
Intergovernmental Receipts	325,973	28,113	354,086
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>326,072</u>	<u>28,113</u>	<u>354,185</u>
Cash Flows from Capital and Related Financing Activities			
Proceeds from Loans	25,926	1,061,493	1,087,419
Acquisition of Capital Assets	(1,231,577)	(839,258)	(2,070,835)
Principal Payments on Debt	0	(545,898)	(545,898)
Interest Payments	0	(46,943)	(46,943)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(1,205,651)</u>	<u>(370,606)</u>	<u>(1,576,257)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(597,733)	(52,950)	(650,683)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>1,831,121</u>	<u>1,409,583</u>	<u>3,240,704</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 1,233,388</u>	<u>\$ 1,356,633</u>	<u>\$ 2,590,021</u>

(continued)

City of New Philadelphia
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

	Enterprise Funds		
	Water	Sewer	Totals
Reconciliation of Operating loss to Net Cash Provided by (Used for) Operating Activities			
Operating Income (Loss)	\$ (57,460)	\$ 248,467	191,007
Adjustments:			
Depreciation	398,688	352,879	751,567
(Increase) Decrease in Assets:			
Accounts Receivable	(37,324)	(9,564)	(46,888)
Materials and Supplies Inventory	55,333	15,872	71,205
Increase (Decrease) in Liabilities:			
Accounts Payable	(94,164)	(75,815)	(169,979)
Contracts Payable	27,811	(240,079)	(212,268)
Accrued Wages	3,569	5,603	9,172
Compensated Absences Payable	(639)	167	(472)
Intergovernmental Payable	(13,968)	(7,987)	(21,955)
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 281,846</u>	<u>\$ 289,543</u>	<u>\$ 571,389</u>

Noncash Capital Financing Activities:

During 2004, capital assets were donated by developers to the water and sewer enterprise funds in the amount of \$271,857 and \$169,880 respectively.

See accompanying notes and accountant's report.

City of New Philadelphia
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2004

	<u>Agency Fund</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 113,140
Cash and Cash Equivalents in Segregated Accounts	171,628
Accounts Receivable	<u>3,935</u>
<i>Total Assets</i>	<u><u>288,703</u></u>
Liabilities	
Undistributed Monies	<u><u>\$ 288,703</u></u>

See accompanying notes and accountant's report.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1: REPORTING ENTITY

The City of New Philadelphia (the “City”) is a municipal corporation, established under the laws of the State of Ohio. The City operates under a Council-Mayor form of government. The Mayor, Council, Auditor, Treasurer and Law Director are elected.

In evaluating how to define the City for financial reporting purposes, management has considered all agencies, departments, and organizations making up the City (the primary government) and its potential component units consistent with Government Accounting Standards Board Statements No. 14, “The Financial Reporting Entity” and No. 39, “Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14”.

The City provides various services including police and fire protection, emergency medical, water and sewer services, parks and recreation, planning, zoning, street maintenance and repair, refuse collection and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the levying of taxes or the issuance of debt. The City does not have any component units.

New Philadelphia Airport and New Philadelphia City School District have been excluded from the accompanying basic financial statements. Both are legally separate from the City. Neither imposes a financial burden nor provides a financial benefit to the City. The City cannot significantly influence the operations of these entities.

The City is associated with certain organizations which are defined as Jointly Governed Organizations. These organizations are presented in the notes to the basic financial statements (See Note 17). These organizations are:

Community Improvement Corporation of Tuscarawas County
Tuscarawas County Regional Planning Commission
Southeastern Ohio Narcotics Team (S.E.N.T.)
Ohio Mid-Eastern Governments Association (OMEGA)
Tax Incentive Review Council (TIRC)

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limitations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Street Maintenance and Repair Fund The street maintenance and repair special revenue fund is required by the Ohio Revised Code to account for state gasoline tax and motor vehicle registration fees designated for maintenance of streets within the City.

Sanitation Special Revenue Fund The sanitation special revenue fund is used to account for revenues generated from charges for sanitation services, provided to residential and commercial users of the City.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position, and cash flows. The following is the City's proprietary fund type:

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The sewer and water funds are the City's major enterprise funds.

Sewer Fund – The sewer fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Water Fund – The water fund accounts for the provision of water service to the residents and commercial users located within the City.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund 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 are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for court collections that are distributed to various other City funds.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses and 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 fund activities. Private purpose trust funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6.) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and entitlements, and rentals.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Pooled Cash and Cash Equivalents

To improve cash management, all cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents."

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating certificates of deposit and repurchase agreements, which are reported at cost.

During 2004, investments were limited to overnight repurchase agreements and interest in STAROhio, (the State Treasury Asset Reserve of Ohio).

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2004.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2004 amounted to \$88,030, which includes \$80,898 assigned from other City funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City's treasury. See Note 5, Deposits and Investments.

F. Materials and Supplies Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

All reported capital assets, except for land and construction-in-progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land	N/A	N/A
Buildings and Improvements	30-40 Years	30-40 Years
Improvements Other Than Buildings	10-50 Years	10-50 Years
Equipment and Machinery	10-30 Years	10-30 Years
Infrastructure	42-50 Years	42-50 Years
Furniture and Fixtures	10-30 Years	20 Years
Vehicles	10 Years	10 Years

The City's infrastructure consists of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, sewer systems, and water systems.

H. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. These amounts are eliminated in the governmental columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On fund financial statements, long-term interfund loans reported as “due to/from other funds,” are equally offset by a fund balance reserve account which indicate that they do not constitute “available expendable financial resources” even though it is a component of net current assets. Repayment is expected to be made within a reasonable time.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-Term Obligations

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

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

K. 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 constitutional provisions, enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

L. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, materials and supplies inventory, long-term loans receivable and unclaimed monies.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sewer services. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

N. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, of grants or outside contributions of resources restricted to capital acquisition and construction.

O. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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. 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 Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 2: 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. Budgetary Data

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each department in the general fund and at the object level for all other funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time the final appropriations were enacted by Council.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

NOTE 3: RESTATEMENT OF NET ASSETS / FUND BALANCES

In the prior year, the liability for compensated absences was calculated incorrectly, resulting in an understatement of \$272,881. The OPWC (Ohio Public Works Commission) fund was incorrectly classified as a capital projects governmental fund, rather than an enterprise fund. Also, in the prior year, income taxes receivable were incorrectly recorded, resulting in an overstatement of \$483,081. In addition, transfers in the amount of \$36,000 between the General fund and the Cemetery fund were incorrectly classified as advances, resulting in the overstatement of interfund receivable and payable balances.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 3: RESTATEMENT OF NET ASSETS / FUND BALANCES (Continued)

For fiscal year 2004, the City has implemented GASB Technical Bulletin 2004-02, “*Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*”. GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple employer pension and other post-employment benefit (OPEB) plans.

To correct these, the beginning net assets and fund balances have been restated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Previously Stated Net Assets at 12/31/03	\$ 24,079,017	\$ 12,614,904
Compensated Absences Liability	(229,380)	(43,501)
OPWC Fund Reclassification	47,719	(47,719)
Income Taxes Receivable	(483,081)	0
Restated Net Assets at 01/01/04	<u>\$ 23,414,275</u>	<u>\$ 12,523,684</u>

	<u>General</u>	<u>Street Maintenance and Repair</u>	<u>Sanitation</u>	<u>All Other Governmental</u>
Previously Stated Fund Balances at 12/31/03	\$ 1,179,937	\$ 313,697	\$ 208,737	\$ 2,996,314
OPWC Fund Reclassification	0		0	47,719
Interfund Activity	(36,000)		0	36,000
Income Taxes Receivable	(28,712)	(6,930)	0	(13,861)
Intergovernmental Payable	(320,251)	(42,946)	(30,154)	(11,507)
Restated Fund Balances at 01/01/04	<u>\$ 794,974</u>	<u>\$ 263,821</u>	<u>\$ 178,583</u>	<u>\$ 3,054,665</u>

	<u>Water</u>	<u>Sewer</u>
Previously Stated Net Assets at 12/31/03	\$ 10,335,872	\$ 2,279,032
Compensated Absences Liability	(25,648)	(17,853)
OPWC Fund Reclassification	0	(47,719)
Restated Net Assets at 01/01/04	<u>\$ 10,310,224</u>	<u>\$ 2,213,460</u>

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 4: BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund, street maintenance and repair major special revenue fund and the sanitation major special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditure/expenses (budget) rather than as a reservation of fund balance (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund, street maintenance and repair major special revenue fund and the sanitation major special revenue fund.

Net Change in Fund Balance

	<u>General</u>	<u>Street Maintenance and Repair</u>	<u>Sanitation</u>
GAAP Basis	\$ 259,947	\$ 92,491	\$ (77,804)
Revenue accruals	(141,917)	29,197	9,735
Expenditure accruals	(126,841)	(83,961)	(85,736)
Encumbrances	<u>52,045</u>	<u>39,760</u>	<u>37,517</u>
Budget Basis	<u>\$ 43,234</u>	<u>\$ 77,487</u>	<u>\$ (116,288)</u>

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim monies may be invested in the following obligations provided they mature or are redeemable within two years from the date of purchase:

1. United States Treasury Notes, Bills, Bonds, Notes, or any other obligation or security issued by the United States or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and;
6. The State Treasury Asset Reserve (STAR Ohio).

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institutions as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited within the institution.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

Cash on hand: At year-end, the carrying amount of the City's cash on hand was \$300.

Deposits. At year-end, the carrying amount of the City's deposits was \$4,948,016, and the bank balance was \$5,320,325. Of the bank balance:

1. \$220,094 was covered by federal depository insurance.
2. \$4,689,784 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
3. \$410,447 was uncollateralized and uninsured. Although the pledging bank has an investment and securities pool used to collateralize all public deposits which are held in the financial institutions name, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

Investments. GASB Statement No. 3, "Deposits with Financial Institutions (including Repurchase Agreements), and Revenue Repurchase Agreements," requires the City to categorize investments to give an indication of the level of custodial credit risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

	Carrying Value	Fair Value
STAR Ohio	\$ 1,107,280	\$ 1,107,280

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Cash equivalents are defined as investments with original maturities of three months or less.

A reconciliation between the classification of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 6,055,296	\$ 0
Investments which are part of a cash management pool:		
STAR Ohio	(1,107,280)	1,107,280
GASB Statement No. 3	\$ 4,948,016	\$ 1,107,280

NOTE 6: PROPERTY TAXES

Property taxes include amounts levied against all real and public property, and tangible personal (used in business) property located in the City. Real property taxes were levied after October 1, 2003, on the assessed value as of January 1, 2003, the lien date, and were collected in 2004. Assessed values are established by the State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes received in 2004 attached as a lien on December 31, 2003, were levied after October 1, 2003, and are collected with real property taxes. Public utility property taxes were assessed on tangible personal property at 88% of the true value. 2004 tangible personal property taxes were levied after October 1, 2003, on the value listed as of December 31, 2003, and were collected in 2004. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2004 taxes were collected was \$325,659,840. Real estate represented 83% (\$272,189,150) of this total, public utility tangible personal property represented 3% (\$8,664,090) and general tangible personal property represented 14% (\$44,806,600). The full tax rate for all City operations applied to taxable property for the year ended December 31, 2004, was \$9.57 per \$1,000 assessed valuation.

Real and public utility property taxes are payable annually or semi-annually. If paid annually, payment is due December 31. If paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits earlier or later payment dates to be established.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 6: PROPERTY TAXES (Continued)

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility, and tangible personal property taxes which became measurable as of December 31, 2004 and for which there is an enforceable legal claim. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and a revenue, while on a modified accrual basis the revenue is deferred.

NOTE 7: RECEIVABLES

Receivables at December 31, 2004 consisted of taxes, accounts (billed and unbilled user charged services), special assessments, loans (community development block grant monies loaned to local businesses) and intergovernmental receivables arising from grants, entitlements and shared revenues. Taxes, accounts, special assessments, loans and intergovernmental receivables are deemed collectible in full.

Special assessments expected to be collected in more than one year amount to \$235,668 in the downtown improvement bond retirement fund. At December 31, 2004 the amount of the delinquent special assessments was \$2,217.

NOTE 8: INCOME TAX

The City levies a municipal income tax of 1.0% on gross salaries, wages and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. Residents of the City are granted a credit up to 1.0% for taxes paid to other municipalities.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. The street lighting special revenue fund, fire truck equipment fund, and the debt service fund receive an allocation from the income tax that is established annually by Council. The balance is allocated 58% to the general fund and 18% to the master capital improvement capital projects fund, 14% to the street maintenance and repair special revenue fund, 8% to the police and fire pension special revenue fund, and 2% to the cemetery special revenue fund.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2004 follows:

	<u>12/31/2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2004</u>
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 826,576	\$ 0	\$ 0	\$ 826,576
<i>Total Capital Assets Not Being Depreciated</i>	826,576	0	0	826,576
<i>Capital Assets, Being Depreciated:</i>				
Buildings and building improvements	7,234,940	4,183	0	7,239,123
Improvements other than buildings	3,871,048	409,339	0	4,280,387
Machinery and equipment	2,936,069	183,897	(127,298)	2,992,668
Furniture and fixtures	110,091	0	0	110,091
Vehicles	3,376,119	80,650	(97,844)	3,358,925
Infrastructure	20,493,039	310,509	0	20,803,548
<i>Total Capital Assets, Being Depreciated</i>	38,021,306	988,578	(225,142)	38,784,742
<i>Less Accumulated Depreciation:</i>				
Buildings and building improvements	(2,325,208)	(167,913)	0	(2,493,121)
Improvements other than buildings	(1,067,670)	(122,234)	0	(1,189,904)
Machinery and equipment	(1,828,779)	(169,209)	28,975	(1,969,013)
Furniture and fixtures	(70,304)	(4,838)	0	(75,142)
Vehicles	(2,271,527)	(157,942)	41,946	(2,387,523)
Infrastructure	(7,330,053)	(548,635)	0	(7,878,688)
<i>Total Accumulated Depreciation</i>	(14,893,541)	(1,170,771) *	70,921	(15,993,391)
<i>Total Capital Assets Being Depreciated, Net</i>	23,127,765	(182,193)	(154,221)	22,791,351
<i>Total Governmental Activity Capital Assets, Net</i>	\$ 23,954,341	\$ (182,193)	\$ (154,221)	\$ 23,617,927

*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 637,321
Basic Utility Services	62,427
Leisure Time Services	193,772
Public Health	7,663
Security of Persons and Property	137,446
Transportation	132,142
Total	\$ 1,170,771

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 9: CAPITAL ASSETS (Continued)

	Balance 12/31/2003	Additions	Deletions	Balance 12/31/2004
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 41,899	\$ 0	\$ 0	\$ 41,899
Construction in progress	3,859,707	1,009,862	(4,638,230)	231,339
<i>Total Capital Assets Not Being Depreciated</i>	3,901,606	1,009,862	(4,638,230)	273,238
<i>Capital Assets, Being Depreciated:</i>				
Buildings	8,822,478	0	0	8,822,478
Improvements other than buildings	843,886	5,682,453	0	6,526,339
Machinery and equipment	3,946,201	16,750	0	3,962,951
Furniture and fixtures	20,554	0	0	20,554
Vehicles	704,484	0	0	704,484
Water lines	3,879,098	169,880	0	4,048,978
Sewer lines	11,045,359	271,857	0	11,317,216
<i>Total Capital Assets, Being Depreciated</i>	29,262,060	6,140,940	0	35,403,000
<i>Less Accumulated Depreciation:</i>				
Buildings	(2,923,125)	(228,978)	0	(3,152,103)
Improvements other than buildings	(152,503)	(89,424)	0	(241,927)
Machinery and equipment	(3,061,284)	(115,244)	0	(3,176,528)
Furniture and fixtures	(19,526)	0	0	(19,526)
Vehicles	(560,177)	(29,982)	0	(590,159)
Water lines	(1,938,063)	(54,191)	0	(1,992,254)
Sewer lines	(5,159,417)	(233,748)	0	(5,393,165)
<i>Total Accumulated Depreciation</i>	(13,814,095)	(751,567)	0	(14,565,662)
<i>Total Capital Assets Being Depreciated, Net</i>	15,447,965	5,389,373	0	20,837,338
<i>Total Business-Type Capital Assets, Net</i>	<u>\$ 19,349,571</u>	<u>\$ 6,399,235</u>	<u>\$ (4,638,230)</u>	<u>\$ 21,110,576</u>

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 10: 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. During 2004, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Scottsdale Indemnity Co.	Public Officials Liability	\$ 5,000
	Law Enforcement Liability	5,000
	Building and personal property	1,000
	Boiler and machinery	1,000
	Commercial inland marine	1,000
Westfield	Commercial auto	\$250 comprehensive \$1,000 collision
Scottsdale Indemnity Co.	General Liability	None

There has been no reduction in coverage from the prior year. Settled claims did not exceed coverage in any of the last three years.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs to provide coverage to employees for job related injuries.

NOTE 11: DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5% of their annual covered salary to fund pension obligations. The City pays 4.5% of the 8.5% employee contribution as an additional benefit to certain employees in the AFSCME Union and Municipal Court. The City is required to contribute 13.55%. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2004, 2003 and 2002 were \$623,060, \$617,099 and \$587,216, respectively. The full amount has been contributed for 2003 and 2002. 77.4% has been contributed for 2004 with the remainder being presented as "intergovernmental payable" in the governmental activities column of the statement of net assets.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee retirement system administered by the OP&F's Board of Trustees. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215.

Police and firefighters are required to contribute 10% of their annual covered salary to fund pension obligations and the City is required to contribute 19.5% for police and 24.0% for firefighters. Contributions are authorized by state statute. The City's contributions to the OP&F for police and firefighters were \$189,038 and \$257,326 for the year ended December 31, 2004, \$191,995 and \$254,414 for 2003, and \$174,831 and \$238,626 for 2002. The full amount has been contributed for 2003 and 2002 and 77.4% and 76.9%, respectively, has been contributed for 2004 with the remainder being presented as "intergovernmental payable" in the government activities column of the statement of net assets.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 2004, the unfunded liability of the City was \$164,200, payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is included in "Long-Term Liabilities" in the governmental activities column of the statement of net assets.

NOTE 12: POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by state statute. The 2004 employer contribution rate was 13.55% of covered payroll; 5.00% was the portion that was used to fund health care for 2004.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 12: POSTEMPLOYMENT BENEFITS (Continued)

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 369,885. The City's actual contributions for 2004, which were used to fund postemployment benefits were \$623,060. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

B. Ohio Police and Fire Pension Fund

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

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

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$189,038 for police and \$257,326 for fire. The OP&F's total health care expenses for the year ended December 31, 2003 (the latest information available) were \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003 was 13,662 for police and 10,474 for firefighters.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 13: OTHER EMPLOYEE BENEFITS

A. Additional Insurance

The City contracts with AultCare for major medical insurance for all full-time employees, Vision Service Plan for vision insurance for all full-time employees, and AFSCME Care Plan for full-time AFSCME union employees. The City pays total monthly premiums of \$208.20 single major medical, \$478.25 family major medical, \$2.07 single eye care, \$4.67 family eye care, and \$26 dental insurance premiums. Effective March 1, 2004, City employees are required to pay \$20 single and \$30 family per month for major medical insurance, with the remainder being paid by the City. These premiums are paid from the same funds that pay the employees' salaries.

The City provides life insurance and accidental death and dismemberment insurance to all full-time employees through American United Life.

B. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Employees earn two to six weeks of vacation per year, depending upon length of service. Vacation accumulation is limited to one year. All accumulated unused vacation time is paid upon termination of employment.

Employees earn sick leave at the rate of 4.6 hours for every 80 hours worked for city employees and police officers, and at a rate of 6.44 hours for every 112 hours of service for firefighters. Sick leave accumulation is limited based on years of service and is paid upon retirement. As of December 31, 2004, the total liability for unpaid compensated absences was \$1,133,901.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 14: CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years the City entered into capitalized leases for the acquisition of two copy machines, a fire truck, and three generators. All leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The assets acquired by the leases have been capitalized in the governmental activities in the amounts of \$510,745 and \$378,000, respectively, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded and is reduced for each required principal payment.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2004:

	Fire Equipment	Income Tax Copier	Generators	Municipal Court Copier	Auditor's Office Copier	Total
2005	\$ 53,328	\$ 1,507	\$ 56,452	\$ 6,371	\$ 2,340	\$ 119,998
2006	53,328	1,506	56,453	6,372	2,340	119,999
2007	53,329	0	56,452	0	2,340	112,121
2008	53,329	0	56,453	0	195	109,977
2009	53,328	0	56,453	0	0	109,781
2010	53,328	0	934	0	0	54,262
2011	53,328	0	0	0	0	53,328
2012	53,328	0	0	0	0	53,328
	<u>426,626</u>	<u>3,013</u>	<u>283,197</u>	<u>12,743</u>	<u>7,215</u>	<u>732,794</u>
Less: amount representing interest	<u>(72,278)</u>	<u>(252)</u>	<u>(33,626)</u>	<u>(945)</u>	<u>(255)</u>	<u>(107,356)</u>
Present value of minimum lease payments	<u>\$ 354,348</u>	<u>\$ 2,761</u>	<u>\$ 249,571</u>	<u>\$ 11,798</u>	<u>\$ 6,960</u>	<u>\$ 625,438</u>

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 15: LONG-TERM OBLIGATIONS

Changes in the long-term obligations of the City during 2004 were as follows:

Business-Type Activity:	Restated Outstanding Balance 01/01/04	Additions	(Reductions)	Outstanding Balance 12/31/04	Amounts Due in One Year
Obligations:					
1991 Ohio Public Works Commission (OPWC) loan - sewer repair - 0%	\$ 80,000	\$ 0	\$ (10,000)	\$ 70,000	\$ 10,000
2001 Ohio Water Development Authority (OWDA) loan - sewer plant expansion and upgrade - 3.2%	7,613,580	569,900	(405,361)	7,778,119	406,172
2003 Ohio Public Works Commission (OPWC) loan - waste water treatment plant improvements - 0%	240,296	109,704	(17,500)	332,500	17,500
2003 Ohio Water Development Authority (OWDA) loan - waste water treatment plant improvements - 3.53%	429,851	381,889	(30,747)	780,993	31,842
2002 Ohio Water Development Authority (OWDA) loan - bass lake project - 0%	1,645,800	0	(82,290)	1,563,510	82,290
2004 Ohio Public works Commission (OPWC) loan - Clearwell project - 0%	0	25,926	0	25,926	5,000
Compensated absences	235,067	0	(472)	234,595	74,464
Total business-type activity obligations	<u>\$ 10,244,594</u>	<u>\$ 1,087,419</u>	<u>\$ (546,370)</u>	<u>\$ 10,785,643</u>	<u>\$ 627,268</u>
Governmental Activities:					
General long-term obligations:					
General Obligation Bonds:					
2002 City Improvement Bonds - 2.30%-5.00%	3,310,000	0	(255,000)	3,055,000	255,000
2002 Park Improvements Bonds - 3.60%-5.50%	945,000	0	(175,000)	770,000	180,000
1990 Downtown Improvement Bonds - 6.1%-7.25%	112,811	0	(19,339)	93,472	20,951
Total General Obligation Bonds	4,367,811	0	(449,339)	3,918,472	455,951
Special Assessment Bond - 6.1%-7.25%	237,189	0	(40,661)	196,528	44,049
State Infrastructure Bank (ODOT) loan - street resurfacing - 0%-3%	192,250	0	0	192,250	0
Tractor loan	16,685	0	(5,562)	11,123	5,562
Capital leases:					
2000 Generators	291,088	0	(41,517)	249,571	43,878
2001 Copier lease	17,067	0	(5,269)	11,798	5,678
2002 Fire equipment	390,794	0	(36,446)	354,348	38,020
2002 Copier lease	3,976	0	(1,215)	2,761	1,322
2003 Copier lease	8,681	0	(1,721)	6,960	1,874
Compensated absences	875,817	23,489	0	899,306	193,298
Police and Fire Pension payable	166,801	0	(2,601)	164,200	2,713
Total General Long-Term Obligations	<u>\$ 6,568,159</u>	<u>\$ 23,489</u>	<u>\$ (584,331)</u>	<u>\$ 6,007,317</u>	<u>\$ 792,345</u>

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 15: LONG-TERM OBLIGATIONS (Continued)

The Ohio Public Works Commission (OPWC) loan and the Ohio Water Development Authority (OWDA) loan will be paid from charges for services revenue in the sewer fund. The general obligation bonds are being paid from property taxes and income tax. The special assessment bond will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The City is acting in an agent capacity for the property owners. The note payable will be paid from cable franchise fee revenue. Compensated absences reported in the "compensated absences payable" account and pension contribution reported in the "intergovernmental payable" account will both be paid from general operating revenues of the fund from which the employees' salaries are paid. Capital leases are paid from revenues of the general fund. The police and fire pension liability will be paid from taxes received in the police and fire pension special revenue fund.

The City's overall legal debt margin was \$14,275,765 at December 31, 2004.

In 2003, the City entered into an agreement with the Ohio Water Development Authority (OWDA) for a large sewer plant expansion and upgrade project. The total amount authorized for this loan was \$8,263,204, and as of December 31, 2004, the City had drawn \$8,183,480. The City began repaying the loan in 2004. The loan is not fully drawn down, therefore a final amortization schedule is not available.

In 2003, the City was awarded a new loan from the Ohio Water Development Authority (OWDA) in the amount of \$1,645,800. The proceeds of this loan are being used to purchase and protect wetlands for a Bass Lake project in Geauga County. The City entered into this loan agreement in exchange for a drastically reduced interest rate on other OWDA debt.

The City was awarded a new loan from the Ohio Public Works Commission (OPWC) in the amount of \$350,000. The proceeds of this loan are being used for improvements to the waste water treatment plant.

The City was awarded a new loan from the Ohio Water Development Authority (OWDA) in the amount of \$875,008. The proceeds of this loan are being used for improvements to the waste water treatment plant. As of December 31, 2004, the City had drawn down \$811,740. Until the loan is fully drawn down, a final amortization schedule is not available.

The City was awarded a new loan from the Ohio Public Works Commission (OPWC) in the amount of \$100,000. The proceeds of this loan are being used for improvements to the waste water treatment plant. As of December 31, 2004, the City had drawn down \$25,926. Until the loan is fully drawn down, a final amortization schedule is not available.

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from both voted and unvoted general property taxes levied on all taxable property located within the City. Tax monies will be received in and the debt will be retired from the debt service funds.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 15: LONG-TERM OBLIGATIONS (Continued)

Special assessment bonds are payable from the proceeds of assessments against the specific property owners who primarily benefited from the project. Special assessment monies will be received in and the debt will be retired from the downtown improvement debt service fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

The City was awarded a new loan from the State Infrastructure Bank, Ohio Department of Transportation (ODOT) in the amount of \$192,250. The proceeds of this loan are being used for street resurfacing. The loan has a 0% interest rate for 2004. In 2005 and future years, the interest rate is 3%. In 2005, interest in the amount of \$5,811 is accrued. The debt schedule reflects this accrued interest.

The City entered into a loan for \$16,685 for a tractor to be used by the street department. This liability will be paid from the street maintenance and repair fund.

The police and fire pension liability will be paid from taxes received in the police and fire pension special revenue fund.

The annual requirements to retire governmental activities debt are as follows:

	General Obligation Bonds		Special Assessment Bonds		Police and Fire Pension	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 455,951	\$ 175,789	\$ 44,049	\$ 14,248	\$ 2,713	\$ 6,950
2006	472,562	158,708	47,438	11,055	2,830	6,832
2007	494,174	139,697	50,826	7,616	2,951	6,712
2008	510,785	118,479	54,215	3,931	3,078	6,585
2009	110,000	92,258	0	0	3,210	6,453
2010-2014	660,000	349,116	0	0	18,242	30,074
2015-2019	830,000	223,215	0	0	22,511	25,805
2020-2024	385,000	29,000	0	0	27,779	20,537
2025-2029	0	0	0	0	34,279	14,037
2030-2034	0	0	0	0	42,301	6,015
2035-2038	0	0	0	0	4,306	91
	<u>\$ 3,918,472</u>	<u>\$ 1,286,262</u>	<u>\$ 196,528</u>	<u>\$ 36,850</u>	<u>\$ 164,200</u>	<u>\$ 130,091</u>

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 15: LONG-TERM OBLIGATIONS (Continued)

	Ohio Department of Transportation		Tractor Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 0	\$ 5,811	\$ 5,562	\$ 0	\$ 508,275	\$ 199,798
2006	47,326	5,590	5,561	0	575,717	185,185
2007	48,756	4,159	0	0	596,707	158,184
2008	50,230	2,685	0	0	618,308	131,680
2009	45,938	1,167	0	0	159,148	99,878
2010-2014	0	0	0	0	678,242	379,190
2015-2019	0	0	0	0	852,511	249,020
2020-2024	0	0	0	0	412,779	49,537
2025-2029	0	0	0	0	34,279	14,037
2030-2034	0	0	0	0	42,301	6,015
2035-2038	0	0	0	0	4,306	91
	<u>\$ 192,250</u>	<u>\$ 19,412</u>	<u>\$ 11,123</u>	<u>\$ 0</u>	<u>\$ 4,482,573</u>	<u>\$ 1,472,615</u>

The annual requirements to retire business-type activities debt are as follows:

	Ohio Public Works Commission		Ohio Water Development Authority		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 27,500	\$ 0	\$ 82,290	\$ 0	\$ 109,790	\$ 0
2006	27,500	0	82,290	0	109,790	0
2007	27,500	0	82,290	0	109,790	0
2008	27,500	0	82,290	0	109,790	0
2009	27,500	0	82,290	0	109,790	0
2010-2014	107,500	0	411,450	0	518,950	0
2015-2019	87,500	0	411,450	0	498,950	0
2020-2024	70,000	0	329,160	0	399,160	0
2025-2029	0	0	0	0	0	0
2030-2034	0	0	0	0	0	0
2035-2038	0	0	0	0	0	0
	<u>\$ 402,500</u>	<u>\$ 0</u>	<u>\$ 1,563,510</u>	<u>\$ 0</u>	<u>\$ 1,966,010</u>	<u>\$ 0</u>

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 16: CONTRACTUAL COMMITMENTS

As of December 31, 2004, the City had contractual commitments for the following projects:

	<u>Contractual Commitment</u>	<u>Expended</u>	<u>Balance 12/31/2004</u>
Tuscon, Inc. - Airport habilitation surfacing	\$ 146,329	\$ 7,472	\$ 138,857
R. A. Watson Excavating - 2003 CDBG			
Storm sewer improvements	63,223	46,956	16,267
WE Quicksall - FY2004 Grant Administration	10,000	6,500	3,500
WE Quicksall - WWTP engineering	33,000	7,051	25,949
RD Zande - FY2003 airport improvements	110,430	84,253	26,177
RD Zande - FY2004 airport improvements	30,500	3,409	27,091
Civil Design Assoc. - CR21 Sewer engineering	97,500	57,000	40,500
Civil Design Assoc. - High-tech park engineering	432,055	170,604	261,451
Municipal Services - CHIP grant administration	105,500	875	104,625
Natgun Corp - Clearwell project	937,281	916,825	20,456
	<u>\$ 1,965,818</u>	<u>\$ 1,300,945</u>	<u>\$ 664,873</u>
Totals	<u>\$ 1,965,818</u>	<u>\$ 1,300,945</u>	<u>\$ 664,873</u>

NOTE 17: JOINTLY GOVERNED ORGANIZATIONS

A. Community Improvement Corporation of Tuscarawas County

The City is associated with the Community Improvement Corporation (“Corporation”) of Tuscarawas County as a Jointly Governed Organization. The Corporation is operated by Tuscarawas County, New Philadelphia, Dover, Uhrichsville, Dennison, Strasburg, Sugarcreek and Gnadenuhnten. It is controlled by 30 trustees consisting of the three County Commissioners, the mayor of each participating city or village and eighteen self-elected trustees. The board exercises total control over the operation of the corporation including budgeting, appropriating, contracting and designating management. Each participant’s degree of control is limited to its representation on the board. In 2004, no monies were paid by the City.

B. Tuscarawas County Regional Planning Commission

The City is also associated with the Tuscarawas County Regional Planning Commission (“Commission”) as a Jointly Governed Organization. The Commission is a statutorily created political subdivision of the State. The Commission is jointly governed among Tuscarawas County, municipalities and townships. Of the 63 members, the City appoints one. Each member’s control over the operation of the Commission is limited to its representation on the board. The Commission makes studies, maps, plans, recommendations and reports concerning the physical, environmental, social, economic, and governmental characteristics, functions and social, economic and governmental characteristics, functions and services of the county. In 2004, the City contributed \$1,499, which represents 17.81% of total contributions.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 17: JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. Southeastern Ohio Narcotics Team (S.E.N.T.)

The City is also associated with the Southeastern Ohio Narcotics Team (S.E.N.T.), as a Jointly Governed Organization. S.E.N.T. is a multi-jurisdictional drug task force with the primary goal of combating major narcotic traffickers in Belmont, Carroll, Guernsey, Harrison, Monroe and Tuscarawas counties. It is jointly governed among the participating counties and cities. A grant is received from the State of Ohio of which the participating entities must match 25%. Of the 17 members, the City appoints one. Each member's control over the operation of S.E.N.T. is limited to its representation on the board. In 2004, the City contributed \$5,117, which represents 10.65% of total contributions.

D. Ohio Mid-Eastern Governments Association (OMEGA)

The Ohio-Mid Eastern Governments Association (OMEGA) is a ten county regional council of governments comprised of Belmont, Carroll, Coshocton, Columbiana, Guernsey, Harrison, Holmes, Jefferson, Muskingum and Tuscarawas counties. OMEGA was formed to aid and assist the participating counties and political subdivisions within the counties in the application for Appalachian Regional Commission and Economic Development grant monies. OMEGA is governed by a sixteen member executive board comprised of members appointed from each participating county and cities within each county. City membership is voluntary. The mayor of the City of New Philadelphia serves as the City's representative on the board. The board has total control over budgeting, personnel, and financial matters. Each member currently pays a per capita membership fee based upon the most recent United States census. During 2004, OMEGA received \$2,387 from the City of New Philadelphia for an annual fee. The continued existence of OMEGA is not dependent on the City's continued participation and no equity interest exists. OMEGA has no outstanding debts.

E. Tax Incentive Revenue Council (TIRC)

The Tax Incentive Revenue Council (TIRC) is an inter-jurisdictional body created to review and evaluate the performance of each Enterprise Zone Agreement. This body is advisory in nature only and cannot directly impact an existing Enterprise Zone Agreement. The TIRC is charged to annually review each Enterprise Zone Agreement and determine whether or not the business(es) has/have complied with the terms and conditions of the agreement. Upon review, the TIRC is to make a formal recommendation to the local government(s) in party to the Enterprise Zone Agreement. ORC Section 5709.85 sets forth the composition of TIRC. The council is jointly governed among Tuscarawas County, municipalities, townships and school districts within the county-designated Enterprise Zone. In 2004, no monies were paid by the City.

CITY OF NEW PHILADELPHIA, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

NOTE 18: CONTINGENCIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2004.

B. Litigation

The City is a party to several legal proceedings. City management is of the opinion that ultimate disposition of these proceedings will not have a material effect, if any, on the financial condition of the City.



Auditor of State Betty Montgomery

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

City of New Philadelphia
Tuscarawas County
150 East High Avenue
Suite 19
New Philadelphia, Ohio 44663

To the City Council:

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of New Philadelphia, Tuscarawas County, Ohio, (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 July 17, 2006 wherein the City's balances/net assets at January 1, 2004 were restated due to prior year errors and implementation of Governmental Accounting Standards Board Technical Bulletin 2004-2. 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 in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

In a separate letter to the City's management dated July 17, 2006, we reported other matters involving internal control over financial reporting 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 July 17, 2006, we reported other matters related to noncompliance we deemed immaterial.

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City of New Philadelphia
Tuscarawas County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 17, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

CITY OF NEW PHILADELPHIA

TUSCARAWAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 31, 2006**