



Dave Yost • Auditor of State

**CITY OF DELPHOS
ALLEN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis - For the Year Ended December 31, 2012	3
Basic Financial Statements – December 31, 2012	
Government-Wide Financial Statements:	
Statement of Net Position – December 31, 2012	11
Statement of Activities – For the Year Ended December 31, 2012	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds – December 31, 2012	13
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities - December 31, 2012	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds - For the Year Ended December 31, 2012	15
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities - For the Year Ended December 31, 2012	16
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund - For the Year Ended December 31, 2012	17
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – Income Tax Fund - For the Year Ended December 31, 2012	18
Statement of Fund Net Position – Proprietary Funds - December 31, 2012	19
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds - For the Year Ended December 31, 2012	20
Statement of Cash Flows – Proprietary Funds - For the Year Ended December 31, 2012	21
Notes to the Basic Financial Statements – For the Year Ended December 31, 2012	23
Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i>	51

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Delphos
Allen County
608 North Canal Street
Delphos, Ohio 45833

To the Members of Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Delphos, Allen County, Ohio (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Delphos, Allen County, Ohio, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General and Income Tax Funds thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

August 11, 2014

City of Delphos
Allen County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012 (Continued)
(Unaudited)

The discussion and analysis of the City of Delphos's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. 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 2012 are as follows:

- In total, net position decreased \$404,828, which represents a 2 percent decrease from 2011. Net position of governmental activities decreased \$104,464. Net position of business-type activities decreased \$300,364.
- Total capital assets decreased \$2,250,076 in 2012. Capital assets of governmental activities increased \$292,287 and capital assets of business-type activities decreased \$2,542,363.
- Outstanding debt decreased from \$43,651,661 to \$40,918,640 due to principal payments made during the year.

Using this Annual Financial Report

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

The Statement of Net Position and the Statement of Activities provide information from a summary perspective showing the effects of the operations for the year 2012 and how they affected the operations of the City as a whole.

Reporting the City of Delphos as a Whole

Statement of Net Position and the Statement of Activities

The *Statement of Net Position 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 the City of Delphos, the general fund is by far the most significant fund. Business-type funds consist of the water, sewer and sanitation funds.

A question typically asked about the City's finances "How did we do financially during 2012?" The Statement of Net Position 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 method used by

City of Delphos
Allen County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012 (Continued)
(Unaudited)

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 position* and *changes in net position*. This change in net position 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, and other factors.

In the Statement of Net Position 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, public health, community and economic development, 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, sewer and sanitation funds are reported as business activities.

Reporting the City of Delphos'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 and the income tax 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 future services. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match, except for the internal service fund allocations.

City of Delphos
Allen County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012 (Continued)
(Unaudited)

The City of Delphos as a Whole

Recall that the Statement of Net Position provides the perspective of the City as a whole. Table 1 provides a summary of the City's net position for 2012 compared to 2011:

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and Other Assets	\$ 2,382,258	\$ 2,669,919	\$ 3,030,467	\$ 3,456,161	\$ 5,412,725	\$ 6,126,080
Capital Assets	2,999,054	2,706,767	50,876,493	53,418,856	53,875,547	56,125,623
<i>Total Assets</i>	<u>5,381,312</u>	<u>5,376,686</u>	<u>53,906,960</u>	<u>56,875,017</u>	<u>59,288,272</u>	<u>62,251,703</u>
Liabilities						
Current and Other Liabilities	550,892	540,147	294,291	242,720	845,183	782,867
Long-Term Liabilities	565,776	467,431	41,170,475	43,889,739	41,736,251	44,357,170
<i>Total Liabilities</i>	<u>1,116,668</u>	<u>1,007,578</u>	<u>41,464,766</u>	<u>44,132,459</u>	<u>42,581,434</u>	<u>45,140,037</u>
Net Position						
Net Investment in						
Capital Assets	2,955,774	2,706,767	10,046,173	9,827,249	13,001,947	12,534,016
Restricted	662,504	719,666	0	0	662,504	719,666
Unrestricted	646,366	942,675	2,396,021	2,915,309	3,042,387	3,857,984
<i>Total Net Position</i>	<u>\$ 4,264,644</u>	<u>\$ 4,369,108</u>	<u>\$ 12,442,194</u>	<u>\$ 12,742,558</u>	<u>\$ 16,706,838</u>	<u>\$ 17,111,666</u>

At year end, capital assets represented 91 percent of total assets. Capital assets include, land, buildings, land improvements, furniture and equipment, vehicles, infrastructure and construction in progress. Net investment in capital assets were \$13,001,947 at December 31, 2012, with \$2,955,774 in governmental activities and \$10,046,173 in business-type activities. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net position, \$662,504 or 4 percent, represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net position of \$3,042,387 may be used to meet the government's ongoing obligations to citizens and creditors.

Overall, the City experienced a decrease of \$713,355 in current assets due to capital projects throughout the City.

City of Delphos
Allen County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012 (Continued)
(Unaudited)

Table 2 shows the changes in net position for fiscal year 2012 and 2011.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
<i>Program Revenues:</i>						
Charges for Services	\$ 707,938	\$ 613,826	\$ 5,134,522	\$ 4,988,831	\$ 5,842,460	\$ 5,602,657
Operating Grants	362,026	361,445	0	0	362,026	361,445
Capital Grants	466,408	69,494	259,259	224,762	725,667	294,256
<i>General Revenues:</i>						
Property Taxes	423,045	349,032	0	0	423,045	349,032
Income Taxes	2,410,192	2,391,355	0	0	2,410,192	2,391,355
Grants and Entitlements	202,002	370,993	0	0	202,002	370,993
Investment Earnings	8,602	18,555	0	0	8,602	18,555
Miscellaneous	4,616	33,476	4,428	7,242	9,044	40,718
<i>Total Revenues</i>	<u>4,584,829</u>	<u>4,208,176</u>	<u>5,398,209</u>	<u>5,220,835</u>	<u>9,983,038</u>	<u>9,429,011</u>
Program Expenses						
General Government	409,311	310,191	0	0	409,311	310,191
Security of Persons and Property	2,664,444	2,637,087	0	0	2,664,444	2,637,087
Public Health	48,106	51,652	0	0	48,106	51,652
Leisure Time Services	539,203	448,781	0	0	539,203	448,781
Transportation	318,082	343,221	0	0	318,082	343,221
Intergovernmental	3,161	0	0	0	3,161	0
Interest and Fiscal Charges	6,986	1,213	0	0	6,986	1,213
<i>Enterprise Operations:</i>						
Water	0	0	1,910,294	1,857,026	1,910,294	1,857,026
Sewer	0	0	3,965,034	4,054,488	3,965,034	4,054,488
Sanitation	0	0	523,245	487,177	523,245	487,177
<i>Total Program Expenses</i>	<u>3,989,293</u>	<u>3,792,145</u>	<u>6,398,573</u>	<u>6,398,691</u>	<u>10,387,866</u>	<u>10,190,836</u>
<i>Increase (Decrease) in Net Position</i>	595,536	416,031	(1,000,364)	(1,177,856)	(404,828)	(761,825)
Transfers	(700,000)	(760,000)	700,000	760,000	0	0
<i>Change in Net Position</i>	(104,464)	(343,969)	(300,364)	(417,856)	(404,828)	(761,825)
<i>Net Position Beginning of Year</i>	<u>4,369,108</u>	<u>4,713,077</u>	<u>12,742,558</u>	<u>13,160,414</u>	<u>17,111,666</u>	<u>17,873,491</u>
<i>Net Position End of Year</i>	<u>\$ 4,264,644</u>	<u>\$ 4,369,108</u>	<u>\$ 12,442,194</u>	<u>\$ 12,742,558</u>	<u>\$ 16,706,838</u>	<u>\$ 17,111,666</u>

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, charges for services and investment interest.

City of Delphos
Allen County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012 (Continued)
(Unaudited)

The City's income tax is at a rate of 1.5 percent. 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 .75 percent credit 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 sources of revenues very closely for fluctuations.

The increase in capital grants is due to a CDBG grant for Clearwell water line improvements.

Police and fire represent the largest expense of the Governmental Activities. This expense of \$2,664,444 represents 67 percent of the total governmental activities expenses. The police and fire departments operate primarily out of the General fund.

The City's Street Maintenance and Repair Department provides the City and its citizens many services that include public road salting, leaf and debris pickup, paint striping and alley profiling. These expenses totaled \$318,082, or 8 percent of total governmental activities expenses, during 2012.

The City also maintains a cemetery (public health services) and a park (leisure time activities) within the City. These areas had expenses of \$587,309 in 2012 equaling 15 percent of the total governmental services expenses.

Business-Type Activities

Business-type activities include water, sewer and sanitation operations. The revenues are generated primarily from charges for services. In 2012, charges for services of \$5,134,522 accounted for 95 percent of the business type revenues. The total expenses for the utilities were \$6,398,573, thus leaving a decrease in net position of \$300,364 for the business-type activities (after a transfer of \$700,000 from the income tax fund).

Capital grants in the business-type activities increased due to CDBG grant received for the Clearwell water line improvement project.

The City's Funds

Governmental 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 \$4,215,065 and expenditures of \$4,004,617. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

The general fund's net change in fund balance for fiscal year 2012 was a decrease of \$370,120. This decrease is due to a reduction in local government funding by the State of Ohio and an increase in

City of Delphos
Allen County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012 (Continued)
(Unaudited)

expenditures for the addition of a police cruiser, a dump truck and other capital projects throughout the City.

The fund balance of the income tax fund increased by \$17,426.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for the business-type activities, but in more detail.

Unrestricted net position of the water fund, sewer fund and the sanitation fund at the end of the year amounted to \$822,931, \$1,523,571 and \$27,864 respectively. The total growth in net position for the water fund was \$377,830 while the sewer and sanitation funds saw declines of \$630,236 and \$52,098, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the business-type activities.

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 2012, 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, the actual budget basis revenue was \$2,840,533, representing a decrease of \$34,275 under the final budget estimate of \$2,874,808. There were no significant variances.

Final expenditure appropriations were \$181,312 more than actual expenditures of \$3,007,466 as the City recognized cost savings in 2012.

Capital Assets and Debt Administration

Capital Assets

At the end of year 2012, the City had \$53,875,547 invested in capital assets. A total of \$2,999,054 of this was for governmental activities and \$50,876,493 being attributable to business-type activities. Table 3 shows fiscal year 2012 balances compared with 2011.

City of Delphos
Allen County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012 (Continued)
(Unaudited)

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 476,660	\$ 476,660	\$ 889,207	\$ 889,207	\$ 1,365,867	\$ 1,365,867
Infrastructure	0	0	9,085,997	9,296,326	9,085,997	9,296,326
Land Improvements	1,325,755	929,516	3,828,799	3,930,881	5,154,554	4,860,397
Buildings	673,492	725,421	30,676,828	31,399,760	31,350,320	32,125,181
Furniture and Equipment	179,714	217,746	6,329,255	7,806,837	6,508,969	8,024,583
Vehicles	333,133	357,424	66,407	95,845	399,540	453,269
Construction in Progress	10,300	0	0	0	10,300	0
<i>Total</i>	<u>\$ 2,999,054</u>	<u>\$ 2,706,767</u>	<u>\$ 50,876,493</u>	<u>\$ 53,418,856</u>	<u>\$ 53,875,547</u>	<u>\$ 56,125,623</u>

The \$292,287 increase in capital assets of governmental activities was attributable to additional purchases exceeding current year depreciation and disposals. The \$2,542,363 decrease in capital assets of business-type activities is due to current year depreciation exceeding additional purchases. See Note 6 for additional information about the capital assets of the City.

Debt

The outstanding debt for the City as of December 31, 2012 was \$40,918,640. See Notes 9 & 10 for additional details. Table 4 summarizes outstanding debt.

Table 4
Outstanding Debt, at December 31

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Capital Lease	\$ 43,280	\$ 0	\$ 0	\$ 0	\$ 43,280	\$ 0
General Obligation Bonds	0	0	1,669,699	1,764,469	1,669,699	1,764,469
OPWC Loans	0	0	187,667	209,309	187,667	209,309
OWDA Loans	0	0	39,017,994	41,677,883	39,017,994	41,677,883
<i>Total</i>	<u>\$ 43,280</u>	<u>\$ 0</u>	<u>\$ 40,875,360</u>	<u>\$ 43,651,661</u>	<u>\$ 40,918,640</u>	<u>\$ 43,651,661</u>

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 Tom Jettinghoff, Auditor of City of Delphos, 608 North Canal Street, Delphos, Ohio 45833-2401 or call (419) 695-4010.

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City of Delphos
Allen County, Ohio
Statement of Net Position
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 608,609	\$ 1,394,892	\$ 2,003,501
Accounts Receivable	127,755	1,305,803	1,433,558
Intergovernmental Receivable	361,660	194,500	556,160
Property Taxes Receivable	389,036	0	389,036
Income Taxes Receivable	873,195	0	873,195
Internal Balances	(21,655)	21,655	0
Prepaid Items	26,588	28,041	54,629
Materials and Supplies Inventory	17,070	40,536	57,606
Deferred Charges	0	45,040	45,040
Non-Depreciable Capital Assets	486,960	889,207	1,376,167
Depreciable Capital Assets, Net	2,512,094	49,987,286	52,499,380
<i>Total Assets</i>	<u>5,381,312</u>	<u>53,906,960</u>	<u>59,288,272</u>
Liabilities			
Accounts Payable	27,928	205,045	232,973
Accrued Wages	30,713	13,694	44,407
Contracts Payable	2,483	3,711	6,194
Intergovernmental Payable	119,357	39,088	158,445
Accrued Interest Payable	6,296	32,753	39,049
Claims Payable	8,265	0	8,265
Deferred Revenue	355,850	0	355,850
Long-Term Liabilities:			
Due Within One Year	178,980	3,017,103	3,196,083
Due in More Than One Year	386,796	38,153,372	38,540,168
<i>Total Liabilities</i>	<u>1,116,668</u>	<u>41,464,766</u>	<u>42,581,434</u>
Net Position			
Net Investment in Capital Assets	2,955,774	10,046,173	13,001,947
Restricted for Other Purposes	662,504	0	662,504
Unrestricted	646,366	2,396,021	3,042,387
<i>Total Net Position</i>	<u>\$ 4,264,644</u>	<u>\$ 12,442,194</u>	<u>\$ 16,706,838</u>

See accompanying notes to the basic financial statements.

City of Delphos
Allen County, Ohio
Statement of Activities
For the Year Ended December 31, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 409,311	\$ 219,490	\$ 0	\$ 0	\$ (189,821)	\$ 0	\$ (189,821)
Security of Persons and Property	2,664,444	357,514	26	39,689	(2,267,215)	0	(2,267,215)
Public Health	48,106	0	0	0	(48,106)	0	(48,106)
Leisure Time Services	539,203	130,934	0	260,059	(148,210)	0	(148,210)
Transportation	318,082	0	362,000	166,660	210,578	0	210,578
Intergovernmental	3,161	0	0	0	(3,161)	0	(3,161)
Interest and Fiscal Charges	6,986	0	0	0	(6,986)	0	(6,986)
<i>Total Governmental Activities</i>	<u>3,989,293</u>	<u>707,938</u>	<u>362,026</u>	<u>466,408</u>	<u>(2,452,921)</u>	<u>0</u>	<u>(2,452,921)</u>
Business-Type Activities							
Water	1,910,294	2,093,040	0	194,500	0	377,246	377,246
Sewer	3,965,034	2,570,335	0	64,759	0	(1,329,940)	(1,329,940)
Sanitation	523,245	471,147	0	0	0	(52,098)	(52,098)
<i>Total Business-Type Activities</i>	<u>6,398,573</u>	<u>5,134,522</u>	<u>0</u>	<u>259,259</u>	<u>0</u>	<u>(1,004,792)</u>	<u>(1,004,792)</u>
<i>Total Primary Government</i>	<u>\$ 10,387,866</u>	<u>\$ 5,842,460</u>	<u>\$ 362,026</u>	<u>\$ 725,667</u>	<u>(2,452,921)</u>	<u>(1,004,792)</u>	<u>(3,457,713)</u>
General Revenues:							
Property Taxes Levied for:							
General Purposes					357,406	0	357,406
Safety Services					65,639	0	65,639
Income Taxes Levied for:							
General Purposes					1,614,903	0	1,614,903
Capital Projects					795,289	0	795,289
Grants and Entitlements not Restricted to Specific Programs					202,002	0	202,002
Investment Earnings					8,602	0	8,602
Miscellaneous					4,616	4,428	9,044
<i>Total General Revenues</i>					<u>3,048,457</u>	<u>4,428</u>	<u>3,052,885</u>
Transfers					(700,000)	700,000	0
<i>Change in Net Position</i>					(104,464)	(300,364)	(404,828)
<i>Net Position Beginning of Year</i>					<u>4,369,108</u>	<u>12,742,558</u>	<u>17,111,666</u>
<i>Net Position End of Year</i>					<u>\$ 4,264,644</u>	<u>\$ 12,442,194</u>	<u>\$ 16,706,838</u>

See accompanying notes to the basic financial statements.

City of Delphos
Allen County, Ohio
Balance Sheet
Governmental Funds
December 31, 2012

	<u>General</u>	<u>Income Tax</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 183,569	\$ 107,447	\$ 244,617	\$ 535,633
Accounts Receivable	127,755	0	0	127,755
Intergovernmental Receivable	156,350	0	205,310	361,660
Property Taxes Receivable	333,724	0	55,312	389,036
Income Taxes Receivable	645,106	228,089	0	873,195
Prepaid Items	22,087	334	2,095	24,516
Materials and Supplies Inventory	1,307	0	15,763	17,070
Due from Other Funds	39,689	0	0	39,689
<i>Total Assets</i>	<u>\$ 1,509,587</u>	<u>\$ 335,870</u>	<u>\$ 523,097</u>	<u>\$ 2,368,554</u>
Liabilities				
Accounts Payable	\$ 21,630	\$ 282	\$ 6,016	\$ 27,928
Accrued Wages	27,571	647	2,495	30,713
Contracts Payable	0	0	2,483	2,483
Intergovernmental Payable	89,323	1,959	28,075	119,357
Due to Other Funds	0	0	39,689	39,689
Deferred Revenue	943,169	115,880	167,116	1,226,165
<i>Total Liabilities</i>	<u>1,081,693</u>	<u>118,768</u>	<u>245,874</u>	<u>1,446,335</u>
Fund Balances				
Nonspendable	26,071	334	17,858	44,263
Restricted	0	0	237,321	237,321
Committed	0	216,768	22,044	238,812
Assigned	150,474	0	0	150,474
Unassigned	251,349	0	0	251,349
<i>Total Fund Balances</i>	<u>427,894</u>	<u>217,102</u>	<u>277,223</u>	<u>922,219</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,509,587</u>	<u>\$ 335,870</u>	<u>\$ 523,097</u>	<u>\$ 2,368,554</u>

See accompanying notes to the basic financial statements.

City of Delphos
Allen County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2012

Total Governmental Fund Balances		\$ 922,219
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,999,054
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	\$ 33,186	
Income Tax	516,985	
Intergovernmental	245,169	
Charges for Services	74,975	
Total		870,315
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		45,128
Accrued interest payable is not due and payable in the current period and therefore not reported in the funds.		(6,296)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Capital Leases	(43,280)	
Compensated Absences	(522,496)	
Total		(565,776)
<i>Net Position of Governmental Activities</i>		\$ 4,264,644

See accompanying notes to the basic financial statements.

City of Delphos
Allen County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

	General	Income Tax	All Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$ 352,616	\$ 0	\$ 59,578	\$ 412,194
Income Taxes	1,564,956	787,505	0	2,352,461
Charges for Services	567,160	0	0	567,160
Licenses and Permits	80,326	0	600	80,926
Fines and Forfeitures	0	0	3,421	3,421
Intergovernmental	169,484	0	585,141	754,625
Interest	8,602	0	0	8,602
Rent	18,005	0	0	18,005
Contributions and Donations	13,060	0	0	13,060
Other	4,611	0	0	4,611
<i>Total Revenues</i>	<u>2,778,820</u>	<u>787,505</u>	<u>648,740</u>	<u>4,215,065</u>
Expenditures				
Current:				
General Government	247,138	70,079	65,266	382,483
Security of Persons and Property	2,310,262	0	237,108	2,547,370
Public Health	48,106	0	0	48,106
Leisure Time Services	429,767	0	0	429,767
Transportation	0	0	560,142	560,142
Intergovernmental	0	0	3,161	3,161
Capital Outlay	0	0	10,300	10,300
Debt Service:				
Principal Retirement	9,999	0	12,599	22,598
Interest and Fiscal Charges	0	0	690	690
<i>Total Expenditures</i>	<u>3,045,272</u>	<u>70,079</u>	<u>889,266</u>	<u>4,004,617</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(266,452)</u>	<u>717,426</u>	<u>(240,526)</u>	<u>210,448</u>
Other Financing Sources (Uses)				
Inception of Capital Lease	28,332	0	37,546	65,878
Transfers In	0	0	157,577	157,577
Transfers Out	(132,000)	(700,000)	(25,577)	(857,577)
<i>Total Other Financing Sources (Uses)</i>	<u>(103,668)</u>	<u>(700,000)</u>	<u>169,546</u>	<u>(634,122)</u>
<i>Net Change in Fund Balance</i>	<u>(370,120)</u>	<u>17,426</u>	<u>(70,980)</u>	<u>(423,674)</u>
<i>Fund Balance Beginning of Year</i>	<u>798,014</u>	<u>199,676</u>	<u>348,203</u>	<u>1,345,893</u>
<i>Fund Balance End of Year</i>	<u>\$ 427,894</u>	<u>\$ 217,102</u>	<u>\$ 277,223</u>	<u>\$ 922,219</u>

See accompanying notes to the basic financial statements.

City of Delphos
Allen County, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2012*

Net Change in Fund Balances - Total Governmental Funds	\$	(423,674)
 <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 additions exceeded depreciation in the current period.		
Capital Asset Additions	\$ 565,822	
Current Year Depreciation	<u>(273,535)</u>	292,287
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	5,548	
Income Tax	57,731	
Intergovernmental	22,589	
Charges for Services	38,427	
Special Assessments	<u>(1,530)</u>	122,765
 Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Capital Leases		22,598
 In the statement of activities, interest is accrued on outstanding bonds, and bond premium and bond issuance costs and the gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when paid.		
Accrued Interest Payable		(6,296)
 Inception of capital lease in the governmental funds that increase long-term liabilities in the statement of net position are not reported as revenues.		
		(65,878)
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		8,799
 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		<u>(55,065)</u>
 <i>Change in Net Position of Governmental Activities</i>	 \$	 <u>(104,464)</u>

See accompanying notes to the basic financial statements.

City of Delphos
Allen County, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2012

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 356,871	\$ 356,871	\$ 352,616	\$ (4,255)
Income Taxes	1,621,406	1,621,406	1,602,075	(19,331)
Charges for Services	582,382	582,382	575,439	(6,943)
Licenses and Permits	80,743	80,743	79,780	(963)
Intergovernmental	188,666	188,666	186,417	(2,249)
Interest	8,706	8,706	8,602	(104)
Rent	18,222	18,222	18,005	(217)
Contributions and Donations	13,218	13,218	13,060	(158)
Other	4,594	4,594	4,539	(55)
<i>Total Revenues</i>	<u>2,874,808</u>	<u>2,874,808</u>	<u>2,840,533</u>	<u>(34,275)</u>
Expenditures				
Current:				
General Government	310,967	304,747	287,419	17,328
Security of Persons and Property	2,367,660	2,371,288	2,236,458	134,830
Public Health	52,957	51,006	48,106	2,900
Leisure Time Services	457,195	461,737	435,483	26,254
<i>Total Expenditures</i>	<u>3,188,779</u>	<u>3,188,778</u>	<u>3,007,466</u>	<u>181,312</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(313,971)</u>	<u>(313,970)</u>	<u>(166,933)</u>	<u>147,037</u>
Other Financing Sources (Uses)				
Advances In	50,000	50,000	50,000	0
Transfers Out	(132,000)	(132,000)	(132,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(82,000)</u>	<u>(82,000)</u>	<u>(82,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(395,971)</u>	<u>(395,970)</u>	<u>(248,933)</u>	<u>147,037</u>
<i>Fund Balance Beginning of Year</i>	<u>429,825</u>	<u>429,825</u>	<u>429,825</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 33,854</u>	<u>\$ 33,855</u>	<u>\$ 180,892</u>	<u>\$ 147,037</u>

See accompanying notes to the basic financial statements.

City of Delphos
Allen County, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
Income Tax Fund
For the Year Ended December 31, 2012

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Income Taxes	\$ 885,317	\$ 895,317	\$ 791,786	(103,531)
<i>Total Revenues</i>	<u>885,317</u>	<u>895,317</u>	<u>791,786</u>	<u>(103,531)</u>
Expenditures				
Current:				
General Government	270,000	270,000	69,478	200,522
<i>Total Expenditures</i>	<u>270,000</u>	<u>270,000</u>	<u>69,478</u>	<u>200,522</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>615,317</u>	<u>625,317</u>	<u>722,308</u>	<u>96,991</u>
Other Financing Sources (Uses)				
Transfers Out	(700,000)	(700,000)	(700,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(700,000)</u>	<u>(700,000)</u>	<u>(700,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(84,683)	(74,683)	22,308	96,991
<i>Fund Balance Beginning of Year</i>	<u>85,139</u>	<u>85,139</u>	<u>85,139</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 456</u>	<u>\$ 10,456</u>	<u>\$ 107,447</u>	<u>\$ 96,991</u>

See accompanying notes to the basic financial statements.

City of Delphos
Allen County, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2012

	Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	Total	
Assets					
<i>Current Assets:</i>					
Equity in Pooled Cash and Cash Equivalents	\$ 258,568	\$ 1,118,918	\$ 17,406	\$ 1,394,892	\$ 72,976
Accounts Receivable	540,698	628,479	136,626	1,305,803	0
Intergovernmental Receivable	194,500	0	0	194,500	0
Prepaid Items	6,416	21,625	0	28,041	2,072
Materials and Supplies Inventory	32,596	7,940	0	40,536	0
<i>Total Current Assets</i>	<u>1,032,778</u>	<u>1,776,962</u>	<u>154,032</u>	<u>2,963,772</u>	<u>75,048</u>
<i>Non-Current Assets:</i>					
Deferred Charges	0	45,040	0	45,040	0
Non-Depreciable Capital Assets	12,658	876,549	0	889,207	0
Depreciable Capital Assets, Net	21,245,453	28,679,670	62,163	49,987,286	0
<i>Total Non-Current Assets</i>	<u>21,258,111</u>	<u>29,601,259</u>	<u>62,163</u>	<u>50,921,533</u>	<u>0</u>
<i>Total Assets</i>	<u>22,290,889</u>	<u>31,378,221</u>	<u>216,195</u>	<u>53,885,305</u>	<u>75,048</u>
Liabilities					
<i>Current Liabilities:</i>					
Accounts Payable	27,005	65,990	112,050	205,045	0
Accrued Wages	5,400	7,896	398	13,694	0
Contracts Payable	3,711	0	0	3,711	0
Intergovernmental Payable	16,960	21,013	1,115	39,088	0
Accrued Interest Payable	32,753	0	0	32,753	0
Claims Payable	0	0	0	0	8,265
Compensated Absences Payable	44,003	51,963	4,132	100,098	0
OPWC Loans Payable	16,687	0	0	16,687	0
OWDA Loans Payable	751,341	1,953,929	0	2,705,270	0
General Obligation Bonds Payable	195,048	0	0	195,048	0
<i>Total Current Liabilities</i>	<u>1,092,908</u>	<u>2,100,791</u>	<u>117,695</u>	<u>3,311,394</u>	<u>8,265</u>
<i>Long-Term Liabilities:</i>					
Compensated Absences Payable - Net of Current Portion	80,015	106,529	8,473	195,017	0
OPWC Loans Payable - Net of Current Portion	170,980	0	0	170,980	0
OWDA Loans Payable - Net of Current Portion	12,680,138	23,632,586	0	36,312,724	0
General Obligation Bonds Payable - Net of Current Portion	1,474,651	0	0	1,474,651	0
<i>Total Long-Term Liabilities</i>	<u>14,405,784</u>	<u>23,739,115</u>	<u>8,473</u>	<u>38,153,372</u>	<u>0</u>
<i>Total Liabilities</i>	<u>15,498,692</u>	<u>25,839,906</u>	<u>126,168</u>	<u>41,464,766</u>	<u>8,265</u>
Net Position					
Net Investment in Capital Assets	5,969,266	4,014,744	62,163	10,046,173	0
Unrestricted	822,931	1,523,571	27,864	2,374,366	66,783
<i>Total Net Position</i>	<u>\$ 6,792,197</u>	<u>\$ 5,538,315</u>	<u>\$ 90,027</u>		<u>\$ 66,783</u>

Some amounts reported for business-type activities in the statement of net position are different because internal service fund assets and liabilities are included with business-type activities

Net Position of business-type activities

21,655

\$ 12,442,194

See accompanying notes to the basic financial statements.

City of Delphos
Allen County, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2012

	Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	Totals	
Operating Revenues					
Charges for Services	\$ 2,083,733	\$ 2,569,735	\$ 471,147	\$ 5,124,615	\$ 109,045
Tap-In Fees	9,307	600	0	9,907	0
Other	1,477	2,951	0	4,428	0
<i>Total Operating Revenues</i>	<u>2,094,517</u>	<u>2,573,286</u>	<u>471,147</u>	<u>5,138,950</u>	<u>109,045</u>
Operating Expenses					
Personal Services	550,948	633,724	46,779	1,231,451	0
Contractual Services	229,883	828,820	458,543	1,517,246	2,770
Materials and Supplies	203,683	177,008	2,100	382,791	0
Claims	0	0	0	0	93,336
Depreciation	561,554	2,016,466	15,823	2,593,843	0
<i>Total Operating Expenses</i>	<u>1,546,068</u>	<u>3,656,018</u>	<u>523,245</u>	<u>5,725,331</u>	<u>96,106</u>
<i>Operating Income (Loss)</i>	<u>548,449</u>	<u>(1,082,732)</u>	<u>(52,098)</u>	<u>(586,381)</u>	<u>12,939</u>
Non-Operating Revenues (Expense)					
Intergovernmental	194,500	64,759	0	259,259	0
Interest and Fiscal Charges	(365,119)	(312,263)	0	(677,382)	0
<i>Total Non-Operating Revenues (Expense)</i>	<u>(170,619)</u>	<u>(247,504)</u>	<u>0</u>	<u>(418,123)</u>	<u>0</u>
<i>Income (Loss) Before Transfers</i>	377,830	(1,330,236)	(52,098)	(1,004,504)	12,939
Transfers In	0	700,000	0	700,000	0
<i>Change in Net Position</i>	377,830	(630,236)	(52,098)	(304,504)	12,939
<i>Net Position Beginning of Year</i>	<u>6,414,367</u>	<u>6,168,551</u>	<u>142,125</u>		<u>53,844</u>
<i>Net Position End of Year</i>	<u>\$ 6,792,197</u>	<u>\$ 5,538,315</u>	<u>\$ 90,027</u>		<u>\$ 66,783</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				<u>4,140</u>	
Changes in Net Position of Business-Type Activities				<u>\$ (300,364)</u>	

See accompanying notes to the basic financial statements.

City of Delphos
Allen County, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012

	Enterprise Funds			Totals	Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation		
Cash Flows from Operating Activities					
Cash Received from Customers	\$ 2,097,682	\$ 2,608,668	\$ 472,534	\$ 5,178,884	\$ 109,045
Tap-In Fees	9,307	600	0	9,907	0
Cash Received from Other Operating Receipts	2,094	2,951	0	5,045	0
Cash Payments to Suppliers for Goods and Services	(187,113)	(115,670)	(2,100)	(304,883)	0
Cash Payments to Employees for Services and Benefits	(521,775)	(618,960)	(34,262)	(1,174,997)	0
Cash Payments for Contractual Services	(235,786)	(869,635)	(456,989)	(1,562,410)	(2,770)
Cash Payments for Claims	0	0	0	0	(89,709)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>1,164,409</u>	<u>1,007,954</u>	<u>(20,817)</u>	<u>2,151,546</u>	<u>16,566</u>
Cash Flows from Noncapital Financing Activities					
Transfers In	0	700,000	0	700,000	0
Cash Flows from Capital and Related Financing Activities					
Intergovernmental Revenue	0	70,011	0	70,011	0
Proceeds of OWDA Loans - ARRA	0	55,109	0	55,109	0
Acquisition of Capital Assets	0	(51,480)	0	(51,480)	0
Principal Payments on Debt	(852,574)	(1,978,836)	0	(2,831,410)	0
Interest Payments on Debt	(332,365)	(297,250)	0	(629,615)	0
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(1,184,939)</u>	<u>(2,202,446)</u>	<u>0</u>	<u>(3,387,385)</u>	<u>0</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(20,530)	(494,492)	(20,817)	(535,839)	16,566
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>279,098</u>	<u>1,613,410</u>	<u>38,223</u>	<u>1,930,731</u>	<u>56,410</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 258,568</u>	<u>\$ 1,118,918</u>	<u>\$ 17,406</u>	<u>\$ 1,394,892</u>	<u>\$ 72,976</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities					
Operating Income (Loss)	\$ 548,449	\$ (1,082,732)	\$ (52,098)	\$ (586,381)	\$ 12,939
Adjustments:					
Depreciation	561,554	2,016,466	15,823	2,593,843	0
(Increase) Decrease in Assets:					
Accounts Receivable	14,566	38,933	1,387	54,886	0
Prepaid Items	2,288	3,930	911	7,129	0
Materials and Supplies Inventory	(5,910)	12,124	0	6,214	0
Increase (Decrease) in Liabilities:					
Accounts Payable	10,578	4,469	643	15,690	0
Accrued Wages	212	597	34	843	0
Contracts Payable	3,711	0	(122)	3,589	0
Claims Payable	0	0	0	0	3,627
Compensated Absences Payable	28,866	15,566	12,605	57,037	0
Intergovernmental Payable	95	(1,399)	0	(1,304)	0
<i>Net Cash Provided by (Used For) Operating Activities</i>	<u>\$ 1,164,409</u>	<u>\$ 1,007,954</u>	<u>\$ (20,817)</u>	<u>\$ 2,151,546</u>	<u>\$ 16,566</u>

See accompanying notes to the basic financial statements.

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City of Delphos
Allen County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 1 – 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.

A. Reporting Entity

The City is a home rule municipal corporation established under the laws of the State of Ohio, which operates under the laws of the State of Ohio. The City operates under a part-time Mayor/Council and full-time City Safety/Service Director form of government. The Mayor and Council are elected.

In evaluating how to define the City for financial reporting purposes, management has considered all agencies, departments and organizations making up the City and its potential component units consistent with Governmental Accounting Standards Board Statement No. 14, “*The Financial Reporting Entity*.”

The primary government comprises all activities and services which are not legally separate for the City. The City provides various services, including public safety (police and fire), highways and streets, parks and recreation, public improvements, community development (planning and zoning), water and sewer, sanitation, and general administrative and legislative services. The operation of each of these activities is directly controlled by Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and either the City is able to significantly influence the programs or services performed or provided by the organization; or the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. Currently, the City has no component units.

B. Basis of Presentation

The City’s basic financial statements consist of government-wide financial statements, including a statement of net position, 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 position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The activity of the internal service fund is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

City of Delphos
Allen County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

The statement of net position 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. The policy of the City is to not allocate indirect expenses to the functions in the statement of activities. Program revenues include charges paid by recipients of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenue are presented as general revenues of the City with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

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

C. Fund Accounting

The City accounting system is organized and operated on the basis of funds. The operation of each fund is accounted for within a set of self-balancing accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Funds are classified into two categories: governmental and proprietary.

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The following are the City's major governmental funds:

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

Income Tax Fund – This fund is used to account for the City's municipal income tax collections.

The other governmental funds of the City account for grants and other resources to which the City is bound to observe constraints imposed upon the use of the resources.

City of Delphos
Allen County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

Proprietary Funds - Proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those found in the private sector. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this approach, the focus is upon the determination of net income, financial position and cash flows. Proprietary funds are classified either as enterprise or internal service.

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

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

Sewer Fund - This fund accounts for the receipt of funds from sewer service to the residents of the City and to customers outside the City, and to account for expenditures in regard to sewer service and capital improvement of these services.

Sanitation Fund - The garbage fund accounts for the provision of refuse pickup service to its residential and commercial users located within and outside of the City.

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund accounts for revenues of the healthcare premium and the expenditures to cover health insurance claims incurred by employees of the City.

D. Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operations of the City are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in the total net position.

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increase (i.e., revenues) and decrease (i.e., expenses) in net total assets. The statement of cash flows provides information about the City's finances and meets the cash flow needs of its proprietary activities.

City of Delphos
Allen County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

E. Basis of Accounting

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

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

Non-exchange transactions are transactions in which the City receives value without directly giving equal value in return, including income taxes, estate taxes, motel-hotel taxes, property taxes, estate taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes, estate taxes, and motel-hotel taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from the non-exchange transactions must also be available before it can be recognized.

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

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

Delinquent property taxes and property taxes for which there is an enforcement legal claim as of December 31, 2012, but which were levied to finance 2013 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 been reported as deferred revenue.

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

City of Delphos
Allen County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

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

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year with the legal restriction that the appropriations cannot exceed estimated resources as certified. All funds are legally required to be budgeted and appropriated. Even though annual budgets are legally adopted, proprietary budgetary statements have not been presented since they are not required under GAAP.

Tax Budget – During the first Council meeting in June, the City Finance Director presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources – The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized property taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the first and final amended official certificate of estimated resources issued during 2012.

Appropriations – A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the legal level of control established by Council at the object level (personal services and other) within each department in the general fund and at the object level (personal services and other) for all funds. The appropriation ordinance may be amended during the year as new information becomes available. Total fund appropriations may not exceed current estimated resources as certified. The allocation of appropriations among departments within a fund, with the exception of the general fund, may be modified during the year by management. Appropriations among departments within the general fund may be modified during the year only by ordinance of Council. During the year, several supplemental appropriation measures were passed. However, none were significant in amount. The budget figures which appear in the statement of budgetary comparisons represent the first and final appropriation amounts, including all amendments and modifications.

City of Delphos
Allen County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

Encumbrances – Encumbrances outstanding at year end represent the estimated amount of expenditures that will ultimately result if unperformed contracts in process (for example, purchase orders and contracted services) are completed. On a GAAP basis, encumbrances outstanding at year end are reported as restrictions, commitments, or assignments of fund balances for subsequent year expenditures in the governmental funds.

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

G. Pooled Cash and Cash Equivalents

To improve cash management, 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. 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 fiscal year 2012, the City's investments were limited to a money market deposit account.

Investment procedures are restricted by the provisions of the Ohio Revised Code and the City's investment policy. Interest revenue credited to the general fund during 2012 amounted to \$8,602 which includes \$7,273 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.

H. Materials and Supplies Inventory

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories consist of expendable supplies.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012 are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which the services are consumed.

City of Delphos
Allen County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position 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 position and in the respective funds.

All capital assets are capitalized at 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 five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the assets or materially extend an asset's life are not capitalized.

Interest incurred during the construction of capital assets is capitalized for business-type activities. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the useful life of the asset.

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

<u>Asset Class</u>	<u>Governmental and Business-Type Activities Estimated Useful Life</u>
Land Improvements	15-30 years
Buildings	10-50 years
Vehicles	5-15 years
Equipment and Furniture	5-20 years
Infrastructure	50 years

K. Deferred Charges

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

L. Due To/Due From Other Funds

During 2012, the general fund paid expenditures resulting from storm damage to city property. Claims were submitted to FEMA to obtain reimbursement for these expenditures and the reimbursement has been received in 2013. The FEMA fund will be reimbursing the general fund in 2013.

City of Delphos
Allen County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

M. Compensated Absences

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In accordance with the provisions of GASB Statement No. 16, “*Accounting for Compensated Absences*,” a liability for vacation leave is accrued if, employees’ rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. A liability for vacation leave is based on the vacation leave accumulated at December 31, 2012. Sick leave benefits are accrued as a liability using the termination payments method. An accrual for sick leave is made when it is expected to be liquidated with available financial resources and is recorded as an expenditure and fund liability of the governmental fund that will pay it.

The entire compensated absences liability is reported on the government-wide statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

N. Accrued Liabilities and Long-Term Obligations

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

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

O. Interfund Transactions

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

During the normal course of operations, the City has numerous transactions between funds. Transfers represent movement of resources and from a fund receiving revenue to a fund through which those resources will be expended and are recorded as other financing resources (uses) in the governmental funds and as transfers in proprietary funds. Interfund transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the City are treated similarly when involving other funds of the City.

City of Delphos
Allen County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund receivable/interfund payable” for the current portion of interfund loans or advances to/from other funds for the non-current portion of interfund loans. These amounts are eliminated in the Statement of net position, except for any residual balances outstanding between the governmental activities and business-type activities, which are reported in the government-wide financial statements as “internal balances.”

P. Operating Revenues and Expenses

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

Q. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include parks and recreation, hospital levy, and law enforcement and fire department operations.

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

R. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*,” the City classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or is imposed by law through constitutional provisions.

City of Delphos
Allen County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of City Council. Those committed amounts cannot be used for any other purpose unless Council removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the City. The City Council has by resolution authorized the City Auditor to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

S. *Estimates*

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

T. *Extraordinary and Special Items*

Extraordinary items are transactions and events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2012.

Note 2 – Budgetary Basis of Accounting

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

City of Delphos
Allen County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

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 restricted, committed or assigned fund balance (GAAP).
4. Some funds are included in the general fund, (GAAP basis), but have separate legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and income tax funds:

Net Change in Fund Balance		
	<u>General</u>	<u>Income Tax</u>
GAAP Basis	\$ (370,120)	\$ 17,426
Revenue Accruals	83,453	4,281
Expenditure Accruals	4,991	601
Funds Budgeted Elsewhere	<u>32,743</u>	<u>0</u>
Budget Basis	<u>\$ (248,933)</u>	<u>\$ 22,308</u>

** As part of Governmental Accounting Standards Board Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*,” certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes fire/rescue equipment and unclaimed funds.

Note 3 – Implementation of New Accounting Policies

For the year ended December 31, 2012, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements”, GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”, GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”, and GASB Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions – an Amendment of GASB Statement No. 53.”

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the City.

City of Delphos
Allen County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

GASB Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the City.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It also amends the net asset reporting requirements of GASB Statement No. 34 by incorporating deferred outflows and inflows into the definitions and renaming the residual measure as net position, rather than net assets.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the City.

Note 4 – Deposits and Investments

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies to be deposited or invested in the following securities:

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

City of Delphos
Allen County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

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 two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days.;
4. Bonds and any 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;
6. The State Treasurer's investment pool (STAROhio).
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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.

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.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the City's name. During 2012, the City and public depositories complied with the provisions of these statutes.

City of Delphos
Allen County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

Deposits with Financial Institutions

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

At year-end, the carrying amount of the City's deposits was \$2,003,501. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures" as of December 31, 2012, \$1,749,254 of the City's bank balance of \$2,112,212 was exposed to custodial risk as discussed above, while \$362,958 was covered by Federal Deposit Insurance Corporation.

Deposits in interest-bearing accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a coverage limit of \$250,000 per financial institution through December 31, 2012. Insurance on deposits in noninterest-bearing accounts is unlimited through December 31, 2012. The City has both interest-bearing and noninterest-bearing accounts.

Beginning January 1, 2013, noninterest-bearing accounts will no longer be insured separately from the City's other accounts at the same financial institution. Instead, noninterest-bearing and interest-bearing accounts will collectively be insured up to a coverage limit of \$250,000, at each separate financial institution.

Note 5 – Taxes

A. Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of the 2011 taxes.

2012 real property taxes were levied after October 1, 2012 on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes which became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

City of Delphos
Allen County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2010. The tax was phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements are being phased out. On June 30, 2011, House Bill No. 153 was signed into law, which further reduced the amounts of these reimbursements.

The full tax rate for all City operations for the year ended December 31, 2012, was \$6.75 per \$1,000 of assessed valuation. The assessed values of real property upon which 2012 property tax receipts were based are as follows:

	<u>Allen County</u>	<u>Van Wert County</u>
Real Property	\$ 65,581,040	\$ 33,666,300
Public Utilities - Real	1,810	1,320
Public Utilities - Personal	1,596,570	1,263,400
Total Assessed Value	\$ 67,179,420	\$ 34,931,020

Real 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 later payment dates to be established.

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 taxes on behalf of all taxing districts within the County, including the City of Delphos. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility real and tangible personal property taxes, and outstanding delinquencies which became measurable as of December 31, 2012, and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2012 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. Income Taxes

The City levies an income tax of 1.5 percent on all income earned within the City as well as incomes of City residents earned outside the City. Residents are granted a 0.75 percent credit on income earned and taxed by another Ohio municipality. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

City of Delphos
Allen County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

The City allocates income tax revenues to the general and income tax funds. Tax receipts amounted to \$2,352,461 (modified accrual) in 2012. The income tax is to be divided 67 percent to the general fund and 33 percent to the income tax fund with any expenses of the income tax process to be charged to the income tax fund and the remainder to be transferred to the sewer fund for sewer system improvements. The .5 percent of the income tax was voter approved for safety services.

Note 6 – Capital Assets

Governmental activities capital asset activity for the fiscal year ended December 31, 2012 was as follows:

	Balance 1/1/2012	Additions	Deletions	Balance 12/31/2012
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 476,660	\$ 0	\$ 0	\$ 476,660
Construction in progress	0	10,300	0	10,300
<i>Total Capital Assets Not Being Depreciated</i>	476,660	10,300	0	486,960
 <i>Capital Assets, Being Depreciated:</i>				
Buildings	1,461,580	0	0	1,461,580
Land improvements	1,578,015	489,644	0	2,067,659
Vehicles	1,771,554	65,878	0	1,837,432
Furniture and Equipment	898,311	0	0	898,311
<i>Total Capital Assets, Being Depreciated</i>	5,709,460	555,522	0	6,264,982
 <i>Less Accumulated Depreciation:</i>				
Buildings	(736,159)	(51,929)	0	(788,088)
Land improvements	(648,499)	(93,405)	0	(741,904)
Vehicles	(1,414,130)	(90,169)	0	(1,504,299)
Furniture and Equipment	(680,565)	(38,032)	0	(718,597)
<i>Total Accumulated Depreciation</i>	(3,479,353)	(273,535)	0	(3,752,888)
 <i>Total Capital Assets Being Depreciated, Net</i>	 2,230,107	 281,987	 0	 2,512,094
 <i>Total Governmental Activities Capital Assets, Net</i>	 \$ 2,706,767	 \$ 292,287	 \$ 0	 \$ 2,999,054

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

General Government	\$ 13,887
Security of Persons and Property	109,551
Leisure Time Services	122,992
Transportation	27,105
Total	\$ 273,535

City of Delphos
Allen County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

The business-type activities capital asset activity for the fiscal year ended December 31, 2012 was as follows:

	Balance 1/1/2012	Additions	Deletions	Balance 12/31/2012
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 889,207	\$ 0	\$ 0	\$ 889,207
<i>Total Capital Assets Not Being Depreciated</i>	<u>889,207</u>	<u>0</u>	<u>0</u>	<u>889,207</u>
<i>Capital Assets, Being Depreciated:</i>				
Buildings	36,334,982	0	0	36,334,982
Land improvements	4,462,441	0	0	4,462,441
Vehicles	728,983	0	0	728,983
Furniture and Equipment	16,486,972	0	(6,370)	16,480,602
Infrastructure	14,044,397	51,480	0	14,095,877
<i>Total Capital Assets, Being Depreciated</i>	<u>72,057,775</u>	<u>51,480</u>	<u>(6,370)</u>	<u>72,102,885</u>
<i>Less Accumulated Depreciation:</i>				
Buildings	(4,935,222)	(722,932)	0	(5,658,154)
Land improvements	(531,560)	(102,082)	0	(633,642)
Vehicles	(633,138)	(29,438)	0	(662,576)
Furniture and Equipment	(8,680,135)	(1,477,582)	6,370	(10,151,347)
Infrastructure	(4,748,071)	(261,809)	0	(5,009,880)
<i>Total Accumulated Depreciation</i>	<u>(19,528,126)</u>	<u>(2,593,843)</u>	<u>6,370</u>	<u>(22,115,599)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>52,529,649</u>	<u>(2,542,363)</u>	<u>0</u>	<u>49,987,286</u>
<i>Total Governmental Activities Capital Assets, Net</i>	<u>\$ 53,418,856</u>	<u>\$ (2,542,363)</u>	<u>\$ 0</u>	<u>\$ 50,876,493</u>

Note 7 – Receivables

Receivables at December 31, 2012 consisted of taxes, accounts (billings for user charged services), interfund and intergovernmental receivables arising from grants and shared revenues. All receivables are deemed collectible in full.

Note 8 – Risk Management

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

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

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

City of Delphos
Allen County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

The City is partially self-insured. The insurance fund (an internal service fund) is used to account for employee premium contributions and for dental and vision premium payments. The City maintains comprehensive insurance coverage with an independent party for employee benefits. The City also contributes an amount determined by Council for each full-time employee to this fund. This amount pays for the medical out-of-pocket expenses for the employee up to the contribution of the City.

Changes in the fund's claims liability for the years 2012 and 2011 are as follows:

		<u>Balance</u> <u>Beginning of Year</u>		<u>Current</u> <u>Year Claims</u>		<u>Claims</u> <u>Payments</u>		<u>Balance</u> <u>End of Year</u>
2011	\$	3,214	\$	112,090	\$	110,666	\$	4,638
2012		4,638		93,336		89,709		8,265

Note 9 – Capital Lease

In 2012, the City entered into two capitalized leases for the acquisition of a dump truck and a police cruiser. These leases meet the criteria of a capital lease as they transfer benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service payments in the basic financial statements for the governmental funds. These expenditures are reflected as function expenditures on a budgetary basis.

The dump truck acquired by the lease has been capitalized in the governmental activities in the amount of \$37,546, 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 police cruiser acquired by the lease has been capitalized in the governmental activities in the amount of \$28,332, 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, 2012:

			<u>Governmental</u> <u>Activities</u> <u>Capital Lease</u>
Year ending December 31,	2013	\$	23,288
	2014		23,288
Minimum lease payments			<u>46,576</u>
Less: amount representing interest at the City's incremental borrowing rate of interest			<u>(3,296)</u>
Present value of net minimum lease payments		\$	<u>43,280</u>

City of Delphos
Allen County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

Note 10 – Long-Term Obligations

Changes in the long-term obligations of the City during 2012 were as follows:

	Outstanding 1/1/2012	Additions	Deletions	Outstanding 12/31/2012	Amounts Due In One Year
Governmental activities:					
Capital lease obligation	\$ 0	\$ 65,878	\$ (22,598)	\$ 43,280	\$ 21,109
Compensated Absences	467,431	217,882	(162,817)	522,496	157,871
<i>Total Governmental Activities long-term liabilities</i>	<u>\$ 467,431</u>	<u>\$ 283,760</u>	<u>\$ (185,415)</u>	<u>\$ 565,776</u>	<u>\$ 178,980</u>
Business-Type activities:					
General Obligation Bonds:					
Water plant improvement, 3.25%-4.875%	1,764,469	0	(94,770)	1,669,699	195,048
<i>Total General Obligation Bonds</i>	<u>1,764,469</u>	<u>0</u>	<u>(94,770)</u>	<u>1,669,699</u>	<u>195,048</u>
OWDA loans:					
1995 OWDA loan, 4.35%	1,275,130	0	(344,949)	930,181	360,116
2005 OWDA loan, .95%	26,235,113	0	(1,578,779)	24,656,334	1,593,813
2006 OWDA loan, 2.00%	12,896,660	0	(691,370)	12,205,290	705,267
2007 OWDA loan, 4.32%	757,560	0	(16,231)	741,329	16,939
2007 OWDA loan, 2.00%	513,420	0	(28,560)	484,860	29,135
2012 OWDA - ARRA	0	51,700	(51,700)	0	0
2012 OWDA - ARRA	0	3,409	(3,409)	0	0
<i>Total OWDA Loans</i>	<u>41,677,883</u>	<u>55,109</u>	<u>(2,714,998)</u>	<u>39,017,994</u>	<u>2,705,270</u>
OPWC Loans:					
1992 OPWC loan, 0%	4,954	0	(4,954)	0	0
1999 OPWC loan, 0%	59,182	0	(7,890)	51,292	7,890
2007 OPWC loan, 0%	145,173	0	(8,798)	136,375	8,797
<i>Total OPWC Loans</i>	<u>209,309</u>	<u>0</u>	<u>(21,642)</u>	<u>187,667</u>	<u>16,687</u>
Compensated absences	238,078	137,539	(80,502)	295,115	100,098
<i>Total business-type activities, long-term liabilities</i>	<u>\$ 43,889,739</u>	<u>\$ 192,648</u>	<u>\$ (2,911,912)</u>	<u>\$ 41,170,475</u>	<u>\$ 3,017,103</u>

The 2005 Ohio Water Development Authority (OWDA) loan was for construction of a new wastewater treatment plant. The 2006 and 2007 Ohio Water Development Authority (OWDA) loans were for construction of a new water treatment plant and reservoir. The wastewater treatment plant was up and running in October 2007. Income taxes and revenue of the facilities will be pledged to repay the debt.

The 1992 Ohio Public Works Commission (OPWC) loan is for the repairs of the elevated water standpipe. The work began in 1992 and was completed in 1993. The full amount of loan was \$99,045. The City water system revenue will be used for the principal repayment.

The 1999 Ohio Public Works Commission (OPWC) loan is for the construction of an elevated water tank. Construction started and completed in 2000. The full amount of the loan was \$157,813. The City water system revenue will be used for the principal repayment.

City of Delphos
Allen County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

The 2007 Ohio Public Works Commission (OPWC) loan is for the construction of an upground waterline. Construction was started and completed in 2007. The full amount of the loan was \$175,968. The City water system revenue will be used for the principal repayment.

The \$3,585,000 water plant improvement general obligation bonds mature in 2018 and bear interest rates ranging from 3.25 percent to 4.875 percent. The bonds represent general obligations of the City and have been used to fund various improvements being made to the South Water Plant. These bonds will be paid from revenues generated by the water system. These were paid off by the issuance of the January 5, 2010 refunding bonds described in the paragraph below.

On January 5, 2010, the City issued \$2,125,000 Water System Improvements Refunding Bonds , Series 2010, for the purpose of paying part of the cost of refunding the Water System Improvement Bonds, Series 1999, dated April 1, 1999. These bonds were issued for the purpose of financing the part of the costs of acquiring, constructing, renovating and remodeling improvements to the water supply and waterworks system of the Issuer, including upgrading the water treatment plant, clearwell, nano filters, and aerators. This bond is subject to redemption at the option of the Issuer in whole or in part at any time in inverse order of maturity at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption. These bonds will mature in 2020 and bear a fixed interest rate of 4 percent.

On August 31, 1995, the City defeased sewer system mortgage revenue bonds by placing the proceeds of OWDA Water Pollution Control Loan Fund Refinancing Agreement in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$300,278. This difference, reported in the accompanying financial statements as a deduction from OWDA loans payable, is being charged to operations through the year 2015 using the straight line method. The amortization of the issuance costs for fiscal year 2012 was \$15,014. At December 31, 2012, the remaining balance to be amortized is \$45,040 and is presented as deferred charges on the balance sheet.

The OWDA Water Pollution Control Loan Fund Refinancing Agreement pledges wastewater fund income to pay debt service. In addition, special provisions exist regarding redemptions of principal, maintenance, operation, insurance and condemnation of the project facilities.

During 2012, the Ohio Water Development Authority (OWDA) approved loans to the City in the amounts of \$51,700 for the Solar Panel Project and \$3,409 for the Turbo Blower-WWTP project. The entire amount of each loan was forgiven through assistance from funding through the American Recovery and Reinvestment Act of 2009 (ARRA).

The City has pledged future water revenue and sewer revenue, net of specified operating expenses to repay \$39,205,661 of Ohio Public Works Commission (OPWC) loans and Ohio Water Development Authority (OWDA) loans. Annual principal and interest payments, as a percentage of net customer revenues, on the loans are expected to be similar over the term of the loans as in the current year, which were 160.29 percent. The total principal and interest remaining to be paid on the loans is \$43,599,875. Principal and interest paid for the current year and total net revenues were \$3,275,953 and \$2,043,737, respectively.

City of Delphos
Allen County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

The annual requirements to amortize all bonded debt and loans as of December 31, 2012 are as follows:

	General Obligation Bonds		OWDA Loans		OPWC Loans	Totals	
	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2013	\$ 195,048	\$ 64,878	\$ 2,705,270	\$ 549,041	\$ 16,687	\$ 2,917,005	\$ 613,919
2014	202,928	56,998	2,751,784	502,528	16,689	2,971,401	559,526
2015	211,127	48,799	2,601,099	454,862	16,689	2,828,915	503,661
2016	219,552	40,374	2,438,618	418,988	16,689	2,674,859	459,362
2017	228,526	31,400	2,470,743	386,862	16,689	2,715,958	418,262
2018-2022	612,518	37,299	12,853,443	1,434,590	55,832	13,521,793	1,471,889
2023-2027	0	0	12,804,285	552,259	43,992	12,848,277	552,259
2028-2032	0	0	175,473	68,445	4,400	179,873	68,445
2033-2037	0	0	217,279	26,639	0	217,279	26,639
Totals	<u>\$ 1,669,699</u>	<u>\$ 279,748</u>	<u>\$ 39,017,994</u>	<u>\$ 4,394,214</u>	<u>\$ 187,667</u>	<u>\$ 40,875,360</u>	<u>\$ 4,673,962</u>

Note 11 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave liabilities are derived from negotiated agreements and State laws. All full time employees shall be required to accumulate a total of 1040 hours sick leave, after which an employee may elect one of the following options for current sick leave at the end of each calendar year: 1) Carry forward the balance. 2) Receive a cash benefit which equals one (1) hour base rate of pay for every two (2) hours of unused current sick leave. The cash benefit is not subject to contributions to any of the retirement systems. Employees earn vacation at different rates which are also affected by length of service. Vacation can be carried over at different rates depending on the department and only with the Mayor’s approval. Overtime worked is always paid to employees on the paycheck for the period in which it was worked.

Upon retirement, an employee can be paid for one half of their accumulated hours of sick leave. Upon retirement, termination, or death of the employee, accrued vacation is paid for time the employees have earned but not used.

As of December 31, 2012, the liability for unpaid compensated absences was \$817,611 for the entire City.

City of Delphos
Allen County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

Note 12 – Defined Benefit Pension Plan

Ohio Public Employees Retirement System

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 1-800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

For the year ended December 31, 2012, members in state and local classifications contributed 10.0 percent of covered payroll while public safety and law enforcement members contributed 11.5 percent and 12.1 percent, respectively.

The City's 2012 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.1 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.0 percent during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent during calendar year 2012.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010, were \$155,722, \$167,864 and \$97,878 respectively. For 2012, 91 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Contributions to the member-directed plan for 2012 were \$430 made by the City and \$307 made by the plan members.

City of Delphos
Allen County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability pension 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 for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. The City's contributions to OP&F for police and firefighters were \$142,533 for the year ended December 31, 2012, \$173,813 for the year ended December 31, 2011, and \$145,806 for the year ended December 31, 2010, respectively. 90 percent for police and 89 percent for firefighters has been contributed for 2012. The full amount has been contributed for 2011 and 2010.

Note 13 – Postemployment Benefits

A. Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan – a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan, which includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and Combined Plans. Members of the Member-Directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 1-800-222-7377.

City of Delphos
Allen County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution OPERS is set aside for the funding of post-retirement health care coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Postemployment Health Care plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent during calendar year 2012.

The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and coverage selected.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$62,289, \$67,145 and \$72,324, respectively. For 2012, 91 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Contributions to fund post-employment health care benefits for the member-directed plan for 2012 were \$307. 91 percent has been contributed for 2012 and 100 percent for 2011 and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

B. Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium reimbursement and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement 45.

City of Delphos
Allen County, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is 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 for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$65,962 for the year ended December 31, 2012, \$80,739 for the year ended December 31, 2011, and \$67,221 for the year ended December 31, 2010. 90 percent has been contributed for police and 89 percent has been contributed for firefighters for 2012. The full amount has been contributed for 2011 and 2010.

Note 14 – Contingencies

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

City of Delphos
Allen County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

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

Note 15 – Interfund Activity

A. Interfund Transfers

Transfers at December 31, 2012 consisted of the following:

Transfer To	Transfer From			Total
	General	Income Tax	Nonmajor Governmental	
Nonmajor Governmental	\$ 132,000	\$ 0	\$ 25,577	\$ 157,577
Sewer	0	700,000	0	700,000
<i>Total</i>	\$ 132,000	\$ 700,000	\$ 25,577	\$ 857,577

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

Income tax revenue is transferred to the sewer fund, per City Ordinance, for repayment of debt. The Elida sidewalk fund, the street maintenance fund and the CDBG DT Paving funds transferred \$25,577 to the Elida widening fund to close out capital projects.

The general fund transferred \$132,000 to various non-major governmental funds to provide additional resources for current operations.

Note 16 – Fund Balance

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in governmental funds.

City of Delphos
Allen County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012
(Continued)

The constraints placed on fund balance for the major governmental funds and all other funds are presented as follows:

	<u>General Fund</u>	<u>Income Tax Fund</u>	<u>Other Governmental</u>	<u>Total</u>
Nonspendable for:				
Inventory	\$ 1,307	\$ 0	\$ 15,763	\$ 17,070
Prepays	22,087	334	2,095	24,516
Unclaimed Monies	<u>2,677</u>	<u>0</u>	<u>0</u>	<u>2,677</u>
Total Nonspendable	<u>26,071</u>	<u>334</u>	<u>17,858</u>	<u>44,263</u>
Restricted for:				
Street Maintenance	0	0	228,424	228,424
Public Safety	0	0	7,752	7,752
Economic Development	<u>0</u>	<u>0</u>	<u>1,145</u>	<u>1,145</u>
Total Restricted	<u>0</u>	<u>0</u>	<u>237,321</u>	<u>237,321</u>
Committed for:				
Guaranteed Street Bond	0	0	22,044	22,044
Income Tax	<u>0</u>	<u>216,768</u>	<u>0</u>	<u>216,768</u>
Total Committed	<u>0</u>	<u>216,768</u>	<u>22,044</u>	<u>238,812</u>
Assigned:				
Subsequent Year Appropriations	150,474	0	0	150,474
Unassigned	<u>251,349</u>	<u>0</u>	<u>0</u>	<u>251,349</u>
Total Fund Balance	<u>\$ 427,894</u>	<u>\$ 217,102</u>	<u>\$ 277,223</u>	<u>\$ 922,219</u>

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Dave Yost • Auditor of State

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

City of Delphos
Allen County
608 North Canal Street
Delphos, Ohio 45833

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Delphos, Allen County, (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 11, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

August 11, 2014



Dave Yost • Auditor of State

CITY OF DELPHOS

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 9, 2014**